Report

Norway – China

Free Trade Agreement – Joint Feasibility Study

NORWEGIAN MINISTRY
OF TRADE AND INDUSTRY

Report

Norway – China

Free Trade Agreement – Joint Feasibility Study

NORWEGIAN MINISTRY
OF TRADE AND INDUSTRY

This study has been prepared by the Ministry of Trade and Industry, Norway and the Ministry of Commerce, China.

Contents

Executive summary

Since the establishment of the two countries' diplomatic relations in 1954, which is based on the "One China" principle, China and Norway's political, economic and trade relationship has enjoyed robust health.

On 26 March 2007 the Chinese Prime Minister Wen Jiabao and the Norwegian Prime Minister Jens Stoltenberg met in Beijing and exchanged views on strengthening the bilateral trade and economic relations between the two countries.

As an expression of the will of China and Norway to build an even stronger economic and trade relationship, the two countries committed to undertake a feasibility study of a possible future Free Trade Agreement (FTA) as a basis for a decision as to whether to enter into FTA negotiations.

The feasibility study shows that, while bilateral trade has grown strongly over recent years, existing barriers to trade currently inhibit the full potential for further growth in trade. The study demonstrates that these barriers take various forms such as tariff- and non-tariff barriers on goods and regulatory measures on services in certain sectors.

A possible FTA between China and Norway would be expected to eliminate tariffs on substantially all the trade between the two countries and addressing non-tariff measures, while taking into account sensitivities on both sides. As a minimum, an FTA should reduce tariffs beyond each country's commitments in the World Trade Organization (WTO).

The study has demonstrated that services are not only important in the economies of Norway and China, but also an important component of total bilateral trade. Further liberalisation of trade in services between the two countries should be aimed at creating mutual beneficial and tailor made solutions for China and Norway.

In relation to investment, the future FTA between China and Norway would result in greater transparency of regulations and laws that affect both direct and portfolio foreign investments, more liberalised regimes which will facilitate investments in each country, and a more stable policy frameworks for investors.

An FTA would be expected to intensify further bilateral trade and economic cooperation, including in the areas of trade facilitation, electronic commerce, sanitary and phytosanitary measures, technical regulations and standards, intellectual property rights, small and medium size business cooperation, temporary entry, trade and investment cooperation, environment and technology cooperation and development cooperation.

While recognising that nothing in the study pre-judges how particular issues might be addressed in the scope of a possible FTA, both parties share the aim of creating a Sino-Norwegian economic and trade framework with the objectives of accelerating sustainable economic growth and development, creating jobs and raising living standards in China and Norway.

Chapter one:
Introduction

1.1 Overview of bilateral economic relations

Norway and China enjoy a strong and excellent bilateral relationship.

The frequent exchanges of high-level visits contribute greatly to the expansion of our relationship. More than 70 official Chinese delegations visited Norway in 2006. Some of the most illustrious visitors were Politbureau member Li Changchun, Vice Premier Zeng Peiyan and Minister of Commerce Bo Xilai. Prime Minister Jens Stoltenberg made a successful visit to China in March 2007.

During the more than 50 years that Norway and China have had diplomatic relations, our relationship has grown to include an impressive range of personal and institutional contacts in almost every sector of our societies. In 2006 China became Norway's most important trading partner in Asia. The same year saw the establishment of the Norwegian-Chinese Chamber of Commerce. For China, Norway is an important trading partner in Northern Europe. Tourism both ways has increased manifold in the last few years.

In 1963 Norway was among the first Western countries with which China established an agreement on cultural cooperation. Since then the cooperation between our countries in the fields of culture, education and research has seen a steady increase. Cultural exchanges, research collaboration and student exchanges will continue to play an important role in increasing the interface between Norwegian and Chinese society and strengthening bilateral cooperation in other areas.

This year marks the 10th anniversary of the Chinese-Norwegian dialogue on human rights and the rule of law. The dialogue has been an important and positive addition to our bilateral relationship. For more than 10 years our countries have collaborated closely on environmental issues, and we will intensify our cooperation on climate change, renewable energy and energy efficiency. Other areas of collaboration include the equitable distribution of goods and resources and international issues such as peacekeeping and global climate, trade and development issues.

China's impressive growth and increasing international presence on the world stage is a much-welcome development that presents opportunities to all nations, including Norway. To meet these opportunities as well as those of an ever-expanding bilateral relationship, the Norwegian Government introduced a new China Strategy in August 2007.

The strategy sets out Norway's aims and priorities vis-à-vis China. The strengthening of Sino-Norwegian economic and trade relations is one of three main pillars of this strategy.

As a consequence of the importance Norway attaches to the evolving relations with China, Norway will strengthen its presence by opening a Consulate General in Guangzhou and increasing the staff at the Embassy in Beijing.

Trade and economic cooperation

Sino-Norwegian economic relations are strong. Increased trade and investments between the two countries, and an increasing number of economic agreements between the two states illustrate this.

Both Norwegian and Chinese trade statistics show the same trend: trade in goods between China and Norway is increasing.[1] However, Chinese and Norwegian trade statistics show different figures and percentages.

Based on Norwegian statistics total Sino-Norwegian trade (imports plus exports) increased by 33% in 2006 compared to 2005. The value of total bilateral merchandise trade, imports plus exports, amounted to US$ 5,4 billion in 2006. A substantial increase of Norwegian petroleum exports to China explains this impressive growth. Norway's exports to China declined by 6,5% in the first eleven months of 2007 compared to the same period in 2006, from US$ 1,6 billion to approximately US$ 1,5 billion. This is due to decreased export of oil so far this year.

Given that China buys Norwegian petroleum on the spot market, there will be volatility from year to year in the trade figures. A better indication of the long-term trade relations is therefore to focus on trade excluding oil exports. Excluding Norwegian oil exports to China, the increase was still a healthy 26% in 2006.

Chinese exports to Norway in 2006 amounted to US$ 3,7 billion, up 17.1% from 2005. During the first eleven months of 2007 Chinese exports to Norway grew by 34%, compared to the same period last year, and amounted to US$ 4,5 billion.

In 2006, oil constituted Norway's largest export item to China (representing 41% of its overall merchandise exports), followed by machinery (15%) and fish and seafood (9,8%).

Machinery and electronic products represented Norway's larges import items from China (accounting for 17,7% and 17,2% respectively), followed by woven apparel (10,9%), knit apparel (8,5%) and furniture and bedding (6,2%).

Chinese statistics show the same trends, but the picture is quite different: Norwegian exports to China increased by 10%, from US$ 1,14 billion to US$ 1,25 billion from 2005 to 2006. During the first six months of 2007 Norwegian exports to China increased by 27,7%

1 "Trade" in the context of this chapter means trade in goods, as there are no reliable country-specific data for trade in services. A survey of bilateral trade in services is covered in chapter three.

compared to the same period in 2006 and reached a total of $US 760 million. Norwegian imports increased by 29%, from US$ 1,32 billion to US$ 1,7 billion from 2005 to 2006. The first six months of 2007 imports increased by 23,1% compared to the same period in 2006 and reached a total of $US 980 million.

Even if, in theory, the import data of one country should be the mirror image of its trading partner's exports data, discrepancies in merchandise trade data are the rule rather than the exception. Discrepancies result from differences in coverage of national trade statistics, valuation systems, partner attribution in case of transit trade, classification, time of recording, as well as differences in exchanges rates or methods of calculating trade data. A simple method to modify the discrepancies would be to use the import statistics of the two countries as a basis for the description of the trade relationship. This would for 2006 give a trade volume of US$ 4,95 billion (versus the Norwegian figure of US$5,4 and the Chinese of US$2,95 billion).

An increasing number of Norwegian companies invest in China and Chinese companies have started to invest in Norway. According to official Chinese figures, Norway has made 258 separate investments in China. To this date three Chinese companies are established in Norway; ZTE, COSCO and Air China.

Sino-Norwegian economic cooperation is strong in several sectors; the maritime sector, the energy sector, the marine sector, tourism and the environment. These sectors have a considerable potential for further cooperation. The economies of Norway and China are to a large degree complementary and Sino-Norwegian trade relations are based on comparative economic strengths.

The Sino-Norwegian Mixed Commission for Economy and Trade formed in 1980 is an important tool in the bilateral economic relations between China and Norway. In addition to discussing matters relating to the general framework for economic relations between China and Norway, the commission handles specific business issues involving the authorities. In September 2006, China and Norway established a sub-committee on investments under the Joint Commission. The first meeting took place in January 2007.

There are a number of important agreements between China and Norway such as the Trilateral Agreement on Maritime Research between China, Norway and Singapore (August 2006), the Agreement for establishing a sub-committee for investments (September 2006), the MoU on Enhancing Cooperation in Energy Conservation and Renewable Energy (September 2006) and the renewed Agreement on Fisheries Cooperation (the updated version of the 2001 agreement was signed in March 2007), Approved Destination Status (ADS) Agreement (2004), Agreement of Maritime Transport (2003), and a bilateral investment treaty (BIT) (1984).

Economic development is connected to sustainable development, and awareness of the linkages between trade and sustainable development is increasing in both Norway and China. China and Norway are both committed to the objective of sustainable develop-

ment, taking into account social, environmental, cultural and economic circumstances in each country. A fruitful cooperation on environmental issues has been ongoing for more than a decade, and includes a wide range of activities. China and Norway are also parties to several multilateral agreements within the area of sustainable development, and have both actively participated at milestone events such as the World Summit on Sustainable Development in Johannesburg, South Africa, 2002. The two governments also agree on the importance of successful and complete implementation of relevant legislation and policies in order to achieve the objective of sustainable development. Both China and Norway oppose the misuse of standards in the sustainable development area as a form of disguised economic protectionism.

The Governments of China and Norway welcome this Joint Study Report and the efforts on both sides to work together to explore possibilities for increased trade and investments between the two countries. Furthermore, they recognise that their strengthened bilateral trade and economic cooperation may also provide important contributions towards the objective of sustainable development.

1.2 An introduction of the economies of China and Norway

1.2.1 The Chinese economy

China began to adopt the policy of reform and opening to the outside world at the end of the 1970s, which marked the beginning of China's transition to a market economy. The process of China's entry into the WTO has made the country's economic system more compatible with the world system. Following China's accession to the WTO in 2001, the Chinese government has conducted a massive rectification and modification of the domestic legislation and introduced new legislations that provide China with a sound legal basis for governing its market economy.

Since the adoption of the reform and opening policy, China's economic development has been spectacular with GDP increasing at an average annual rate of 9.7% in the 1980s and 10.7% in the 1990s. Since the beginning of the new century, China has registered a solid growth track, and its economy has continued expanding quickly. The economy expanded by more than 10% in each of the last five years, at an average of 10.4%. That is more than double the average growth rate of the world economy during the same period. It should be noticed that China's economy remained stable as it steamed ahead. In the last five years, the growth rate never fluctuated by more than 1.1%. Meanwhile, consumer prices have also remained stable increasing about 2.1% per year.

China's economy was the world's fourth largest in 2006. The gap between China and the U.S., Japan and Germany – the top three world economies – has also narrowed in terms of GDP. China now contributes more than 5.5% to the world's GDP.

China's booming economy also saw its per capita income cross the threshold of US$ 2,000 for the first time in 2006. According to World Bank standards, China should no longer be considered a low-income nation, as its per capita income now resembles that of a middle-income country.

China's economic development has also been associated with a surge in the growth of foreign trade. China's total merchandise imports and exports reached US$1761billion in 2006, increasing by 24% compared with the previous year, in which exports increased by 27% (US$969 billion) and imports increased by 20% (US$792 billion), making China the third largest trading country in the world. Meanwhile, the condition of international balance of payment improved, with the foreign exchange reserves significantly increasing.

These economic successes stem from the effective macro-economic regulation of the central government utilising fiscal and monetary policies. Combined with strong growth in domestic consumption and investment, and rapid integration into the world economy, these factors should continue to sustain China's rapid economic growth and development in the long term.

1.2.2 The Norwegian economy

Norway has one of the highest GDP per capita in the world and ranks second in Europe, behind Luxemburg. In 2005 Norwegian GDP per capita (at purchasing power parity) was 169% of the average level in the 25 EU member states.

Petroleum activities have contributed substantially to Norway's GDP, exports and government revenues since the late 1970s. Norway's petroleum industries, including crude oil and gas extraction, accounted for 26% of GDP and about half of all exports in 20062. Norway ranks as the world's fifth largest oil exporter and the tenth largest producer. Estimates indicate that the remaining resources on the Norwegian continental shelf will permit profitable oil production for 50 more years and gas production for almost a century. Development of the new resources will depend upon a number of factors including government policies, expectations regarding future oil and gas prices, cost reductions and technological advances.

Although petroleum activities are important for the economy, employment in the petroleum industry only amounts to 1,4% of total employment in Norway. This underlines the importance of the continued development of the mainland economy for the well-being of the society as such.

A significant share of the Norwegian economy consists of service industries, including wholesale and retail trade, banking, insurance, engineering, transport and communica-

2 Sources: Statistics Norway and the Ministry of Petroleum and Energy

tions and public services. In 2005, the service sector as a whole accounted for approximately 52% of GDP[3].

Manufacturing accounted for approximately 9% of GDP in 2005. The major manufacturing industries are industrial and agricultural machinery, construction of oil platforms and ships, paper products, metal products, basic chemicals and electrical and electronic equipments. These industries are all highly export-oriented.

Since 1990, Norway has recorded surpluses in the trade balance every year except in 1998. In 2006 the surplus reached 18% of GDP (US$ 60.8 billion). Countries in the EU have historically been among Norway's most important trading partners. In 2006, about 82% of merchandise exports were shipped to the EU members, and 69% of the merchandise imports came from the same area. Pursuant to the 1973 free trade agreement between Norway and EU, tariffs on most industrial products were eliminated. The EEA agreement has led to the elimination of a number of the remaining tariffs.

At the end of 2005 the stock of foreign direct investments (FDI) in Norway amounted to US$ 80.3 billion. European investors owned more than 70% of this capital. The petroleum sector received about 31% of total FDI, and 28% were directed towards manufacturing. Other important industries attracting FDI in Norway were wholesale, retail trade and financial intermediation.

At the end of 2005 the stock of Norwegian FDI abroad amounted to US$ 102.6 billion. Over half of this was concentrated in Europe (56%), 20% went to North America and 11% to Asia (of which Singapore received 6%). Investments in oil and gas exploration increased to 32% of total Norwegian FDI, whereas the share of manufacturing and mining industries decreased to 36%. Investments in services such as transport activities, post and telecommunications is growing (9% at the end of 2005).

As to capital markets, foreign investors have owned approximately one-third of the Norwegian Stock Exchange in Oslo for more than a decade. This reflects Norway being an open economy, and is in line with the ownership structure of open economies of comparable size. About another third of the Oslo Stock Exchange is owned by the Norwegian state.

The public sector plays an important part in the economy. Full employment, sustainable development, fair distribution and a strengthening of the Norwegian welfare system are the primary objectives of economic policy. With a view to achieving these objectives, fiscal policy is set in accordance with the economic policy guidelines implying a gradual phasing in of petroleum revenues into the Norwegian economy.

The Government Pension Fund – Global is a fiscal policy instrument that visualizes the use of petroleum revenues through an annual transfer to the Treasury. Over time the use of petroleum revenues, measures by the structural, non-oil budget deficit, shall corre-

3 All figures are those of Statistics Norway unless other source stated

spond to the expected real return on the Government Pension Fund – Global, estimated at 4%.

The Norwegian economy is currently experiencing its strongest expansion in thirty years. Annual growth in GDP excluding shipping and petroleum industries (mainland economy) has been more than 4.5% since 2004. This is well above the historical average from 1980 to 2006 of 2.6%. The main factors have been strong growth in private consumption, an upswing in mainland fixed business investments as well as high investments in the petroleum sector.

The growth capacity of the Norwegian economy is high. This is due to strong productivity growth and increased availability of foreign labour. Capacity utilisation has nevertheless reached a very high level, as a result of strong activity growth. Enterprises report a shortage of qualified labour, and many positions are vacant.

By international standards Norwegian unemployment is low and employment high. The unemployment rate has been under 4% since 2006. In 2006 75.4% of the population between 15 and 64 was employed. Norway has especially high employment for women (72.2% of women between 15 and 64 are employed) and for elderly workers (67.4% of people between 55 and 64 are employed)[4].

Monetary policy is geared towards maintaining low and stable inflation. The operational target is defined as an annual increase in consumer prices of close to 2.5% over time. The interest rate decisions of Norges Bank (the central bank) shall be forward looking, and pay due attention to the uncertainty attached to macroeconomic estimates and assessments. Consumer price inflation has been relatively low for the past few years (1–1.5%) despite strong economic growth. Driving forces behind are the continued drop in prices on imported consumer goods and a slower pace in the price increases on domestically produced goods. Easy monetary policy has been an important contributor to domestic growth. The Norwegian interest rate is currently (as of November 2007) 5,25%.

1.3 Objectives and structure of the study

The study seeks to set out the opportunities and challenges for China and Norway that a bilateral FTA may bring on trade and investment. In addition, this study canvasses a wide range of other issues of mutual interest, highlighting options to enhance economic cooperation between China and Norway. A bilateral FTA would be consistent with WTO rules, and both sides could build on their WTO commitments. It also should be pointed out that the study is without prejudice to whether possible future FTA negotiations between China and Norway would take up all issues in the forms considered in this study.

4 Source: Eurostat

The following are the terms of reference set out for the JSG study:

- To take a comprehensive view of bilateral economic linkages between China and Norway, covering i.a. trade in goods and services, investment and other areas of economic cooperation, and give concrete suggestions on ways and means to encourage closer economic engagement between the two sides;
- To review and examine the existing institutional and legal frame-work governing bilateral trade and investment relations of China and Norway with the object of identifying constraints, barriers and impediments for increasing bilateral cooperation and recommend measures to be adopted for increasing cooperation;
- To examine the existing regional trading arrangements of China and Norway with their respective trade partners and evaluate its impact upon any possible China-Norway arrangement;
- To consider the possibility and scope of a free trade agreement including common disciplines on different trade and investment areas and trade related cooperation;
- To examine all the aspects of the existing bilateral economic relationship between Norway and China;
- To make other recommendations in areas such as environmental and development issues;
- To make other recommendations for closer cooperation issues of common interest in multilateral and commercial forums; and
- To provide a referential basis for decision on a bilateral China-Norway Free Trade Agreement by the Governments of China and Norway.

Chapter One of this study provides an overview of bilateral economic relations between China and Norway and establishes the objectives and structure of this study.

Chapter Two to Four account for the existing barriers to trade in goods, services and investments between China and Norway; and provide an analysis on the scope for and potential impact of liberalisation, in broad terms as well as in specific sectors.

Chapter Five identifies other sector-specific issues and broader areas and opportunities for facilitating cooperation with the objectives of strengthening bilateral linkages through an FTA.

Chapter Six contains the conclusions and recommendation of this study.

Chapter two:
Impact of trade liberalisation in goods

Trade in goods accounts for a large proportion of bilateral trade between China and Norway. This chapter outlines the impact of trade liberalisation on industrial goods and agricultural products. It provides an overview of the structure of tariff and non-tariff measures that are applied in China and Norway, and explores the opportunities and challenges of trade liberalisation on industrial goods and agricultural products through sectoral reviews.

2.1 An overview of Chinese trade policies applying to trade in goods

2.1.1 Tariffs

The customs tariff of import and export of China is compiled on the basis of the Harmonised Commodity Description and Coding System (HS) of the World Customs Organization. According to the *Regulation on Import and Export Tariff* of China, duty rates on imports comprise Most Favoured Nation (MFN) tariff rates, agreement tariff rates, special preferential tariff rates, general tariff rates, tariff quota rates and interim tariff rates.

- MFN tariff rates shall apply to goods imported from and originated in the members of the World Trade Organisation (WTO), providing the MFN treatment is mutually reciprocal between China and these members; or those countries or regions with which China has concluded a bilateral trade agreement for reciprocal tariff preference; or the Customs territory of China;

- The agreement tariff rates shall apply to goods imported from and originated in countries or regions which join together with China into regional trade agreements for tariff preferences;

- The special preferential tariff rates shall apply to goods imported from and originated in countries or regions that have concluded special tariff preferential agreements with the People's Republic of China. Generally speaking, the special tariff rates are applicable to the LDCs;

- The general tariff shall apply to imported goods originated from other countries and/or to imported goods of undetermined origin;
- The tariff quota rates shall apply to imported goods which are subject to the tariff quota administrative regulations; and
- The interim tariff rates are applied for a specific period of time to certain goods.

As a member of the WTO, China began in 2002 to bind tariffs for all products and reduce tariff in accordance with the schedule of commitments on market access for goods, and has been fulfilling its commitments on tariff reduction from then on.

In 2006, China's average tariff level was 9.9%. The average tariff level of industrial products was 9.0%, and the tariffs of most of the mechanical products were reduced to 5%, with some reduced to zero. China's current average tariff level for agricultural products is 15.2%.[5] Table 2-1 shows the dispersion of China's tariff lines in 2006.

In 2007, China's average tariff level is 9.8%. China's current average tariff level for agricultural products remains at 15.2%, while the average tariff level of industrial products has been changed from 9.0% to 8.95%. The 2007 Customs Tariff of Import and Export of the People's Republic of China was modified based on the HS2007 version of the World Customs Organisation (WCO).

2.1.2 Tariff quota

China eliminated tariff quotas on soybean oil, palm oil, rape oil on 10 items in 2006. At present, the products still subject to TRQ administration in China include wheat (6 items), maize (5 items), rice whether or not busked (14 items), sugar (6 items), wool (6 items), wool tops (3 items), cotton (2 items) and chemical fertilizer (3 items).

2.1.3 Rules of origin

Non-Preferential Rules of Origin

With regard to the non-Preferential rules of origin, the State Council of the People's Republic of China has enacted *Regulations of the People's Republic of China on the Origin of the Imports and Exports*, which entered into force on 1 January 2005. These Regulations are applicable to the origin determination of the imported and exported goods eligible for non-preferential trade such as Most-Favoured-Nation treatment, anti-dumping and countervailing measures, safeguard measures, origin markings, country-specific quantitative restrictions and tariff quotas.

5 Note: All the tariff levels listed in this paragraph are applied tariff rates.

China's Non-Preferential Rules of Origin are based on the following criteria: wholly obtained and substantial transformation. Substantial transformation is applicable to origin determination when more than one country or region take part in the production of a good. The criterion of substantial transformation is mainly based on change in tariff classification. Other criteria such as ad valorem value added percentage and manufacturing or processing operations, shall be applied as supplementary criteria, provided that change in tariff classification does not reflect substantial transformation.

Preferential Rules of Origin

Preferential rules of origin are applicable to products originating from countries with which China has concluded Free Trade Agreements. The primary criteria of Preferential Rules of Origin are wholly obtained and Regional Value Content criteria. The Product Specific Criteria include Regional Value Content criterion, change in tariff classification and manufacturing or processing operations criteria.

(1) CEPA

Mainland China has signed the Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macao respectively. In CEPA, the criteria for determining "substantial transformation" include manufacturing or processing operations criterion, change in tariff classification criterion, 30% value-added content criterion, other criteria or mixed criterion.

(2) Special Preferential Tariff Treatment

China has granted Special Preferential Tariff Treatment to some of the Least Developed Countries. The criteria of Special Preferential Tariff Treatment include change in tariff classification and 40% value-added content criteria.

(3) The Free Trade Agreements (FTA)

At present time, China has concluded FTAs with ASEAN, Pakistan and Chile. In all of these FTAs, the rules of origin are based on the 40% Regional Value Content criteria. As for some particular products, Product Specific Rules are introduced.

2.1.4 Other aspects of trade policy

The World Trade Organisation (WTO)

Since WTO Accession in December 2001, China has always been supporting the strengthening of the multilateral trading system and advocating the preservation and dissemination of the WTOs fundamental principles guiding international trading relations. China firmly believes that the fair, open and non-discrimination principles provided by WTO are conducive to the stability and predictability of international trade and trade development. The WTO embodies the spirit of multilateralism in favour of joint participation in international affairs.

Ever since accession, China has implemented its WTO accession commitments and made comprehensive adjustments of its trade regime and trade policy. At the same time, China has systematically overhauled existing laws, administrative regulations and department rules to comply with WTO rules and accession commitments. All the principles, rules and requirements embodied in the WTO Agreement and the Protocol on the Accession of China are implemented in a comprehensive and effective manner. Government transparency has been significantly enhanced. The Chinese Government has also established the WTO Notification and Enquiry Centre in the Ministry of Commerce to provide information concerning China's trade policy, and to fulfil the obligation of notification of China's trade policies and measures as specifically required by the WTO Agreement. The general public has free access to information concerning trade-related laws, regulations and rules through the China Foreign Trade and Economic Cooperation Gazette, which is also available at the website of the Ministry of Commerce *(www.mofcom.gov.cn)*.

China has been actively participating in the WTO Doha Round of trade negotiations, which has a strong bearing on the future development of international trade, the possibility of balanced and orderly development of the world economy and is in the immediate interests of the people of the world. The Chinese Government is of the view that the early conclusion of the Doha Round with balanced results, will uphold the multilateral trading system, and will promote further the liberalisation of international trade. To this end, China has submitted more than 30 proposals and position papers in the negotiations, which have played a positive and constructive role in advancing the negotiations, bridging understanding among WTO Members and narrowing differences.

Regional trade liberalisation

China believes that regional economic and trade cooperation is an objective trend in the world economy and trade, as well as a natural choice for countries and regions throughout the world in adapting to the accelerating process of globalisation. Regional trade liberalisation helps bring down barriers to intra-region trade and investment. It could become a useful supplement to the multilateral trading system and help push forward global trade liberalisation and investment facilitation.

Up to now, China has concluded Closer Economic Partnership Arrangements (CEPA) with Hong Kong Special Administrative Region (SAR) and Macao SAR, signed the Framework Agreement on Comprehensive Economic Cooperation with the Association of Southeast Asian Nations (ASEAN), the Agreement on the Early Harvest Program with Pakistan, and the Free Trade Agreement with Chile. China is also a member state of the Bangkok Agreement[6]. China is currently negotiating FTAs with Australia, New Zealand, Singapore, Iceland and the Gulf Cooperation Council (GCC).

6 The Bangkok Agreement is an initiative under the Economic and Social Commission for Asia and the Pacific (ESCAP) for trade expansion through exchange of tariff concessions among developing country members of the ESCAP region. This agreement was signed on 31st of July 1975 among Bangladesh, India, Lao PDR, Republic of Korea, Sri Lanka, the Philippines and Thailand. China acceded to the Bangkok Agreement in 2001.

Trade remedy measures

China has established a trade remedy regime under the WTO rules. The domestic legislation of Chinese trade remedies mainly comprises the Foreign Trade Law of the People's Republic of China, the Antidumping Regulations of the People's Republic of China, the Countervailing Regulations of the People's Republic of China and safeguard measures regulations. In addition, Ministry of Commerce, being the investigative authority, has stipulated 24 regulations of administrations about antidumping-, countervailing- and safeguard measures investigation according to the authorization of administrative regulations. Until now most of China's legislations on trade remedies have been notified to WTO.

China initiates and carries out trade remedy investigations in accordance with the relevant Chinese laws, regulations and the relevant provisions set forth in different WTO agreements, and ensures that interested members have due possibilities to participate in the investigation of trade remedies by delivering their opinions. China protects the legal profits of interested members during the investigation, ensuring the principle of transparency and due procedures to make the decision based on outcome of the investigation fairly. The aim of China by applying trade remedies is to maintain the order of international trade and carry out fair foreign trade policies, and not to apply trade remedy measures to restrict regular imports.

From December 1997 when China initiated the first anti-dumping investigation on imported news-printing paper to October 2007, China has initiated 48 anti-dumping cases. China has initiated 150 anti-dumping investigations (according to the statistical method of WTO where one product for one country counts as one investigation). Through investigation, definitive measures were adopted in 37 cases and no measures in 9 cases. Presently there are 2 cases still under investigation.

Up to now, China has not initiated any countervailing investigations concerning imported products.

China initiated its first safeguard investigation (on imports of certain steel products) in May 2002 upon the request by a relevant domestic industry. China decided to impose definitive safeguard measures on five categories of imported steel products in November 2002. On 26 December 2003, China announced the termination of the safeguard measures on the imported steel products.

Table 2-1 China's Tariff Dispersion For 2006

Sectors	*Total*	*Đ0%*	*0%<X<=5%*	*5%<X<=10%*	*10%<X<=15%*	*15%<X<=20%*	*>20%*	*Specific*	*Simple Average Applied Tariff*
Agriculture excluding Fish	1090	81	76	271	274	208	173	7	15.2%
Fish and Fish Products	185	17	16	37	97	17	1	0	10.5%
Petroleum Oils	19	1	1	17	0	Đ0	0	0	6.3%
Wood, Pulp, Paper and Furniture	361	132	71	132	4	22	0	0	5.0%
Textiles and Clothing	1069	0	196	385	245	231	12	0	11.4%
Leather, Rubber, Footwear and Travel Goods	219	1	15	94	40	42	27	0	13.1%
Metals	750	32	237	357	75	37	12	0	7.3%
Chemical and Photographic Supplies	1261	9	168	1019	14	10	4	37	7.0%
Transport Equipment	318	1	61	138	47	9	62	0	13.3%
Non-Electric Machinery	884	101	150	478	130	11	14	0	8.0%
Electric Machinery	493	157	33	157	72	23	46	5	9.0%
Mineral Products, Precious Stones and Metals	365	41	142	74	51	17	40	0	8.8%
Manufactured Articles n.e.s.	591	74	66	130	156	89	76	0	11.7%
All Goods	7605	647	1232	3289	1205	716	467	49	9.9%

Note: This table is based on applied MFN duties in 2006.
Source: Ministry of Finance, China

2.2 An overview of Norwegian trade policies applying to trade in goods

2.2.1 Tariffs

The Norwegian Customs tariff is based on the Convention on the Harmonised System (HS). The Norwegian Parliament adopts the rates of customs duty each year. The 2007 version of the Norwegian Customs tariff contains 7025 eight-digit tariff lines. 1295 of these lines are within the agricultural sector.

Industrial sector, including fish and fisheries products

Only 299 tariff lines cover goods liable to customs duty. All these codes are within Chapters 61–63 of the Harmonised System Nomenclature, covering clothing and a number finished textile articles. The rates vary from 0 (zero) to 13,7% (clothing from 0 (zero) to 10,7%).

Agricultural sector

Norway has bound most tariff lines for both ad valorem and specific rates. Currently in the agricultural sector 439 tariff lines are fully duty free and 98 tariff lines are subject to ad valorem duties. The remaining 758 tariff lines are liable to a specific duty (per kg, per item or per litre). The type of duty used for each agricultural product for the upcoming year is announced in legislation each year giving certainty to exporters on which duty that will be applicable for exports to the Norwegian market.

The ad valorem rate for 10 tariff lines are below 10%, 64 between 10% and 99,9%. 24 lines are subject to a rate of 100% or above, with the maximum rate being 555%. The tariff lines covered by specific duty rates are distributed as specified in Table 2-2 hereunder:

Table 2-2

Specific duty rates	*Number of tariff lines*
NOK 0,01–0,99 per kg	120
NOK 1,00–9,99 per kg	320
NOK 10,00–99,99 per kg	270
NOK 100,00 or above	36
NOK per liter	5 (beer)
NOK per item	7 (live animals)

Few policies that directly affect exports are in place in Norway. Export licences are required only for arms and other strategic goods, and for whale products. Permission (export licence) from the Ministry of Foreign Affairs is required for the export from Norway of such goods, services and technologies. Exports of fish and fish products are subject to a statutory fee for financing the Norwegian Seafood Export Council (NSEC). NSEC is the Norwegian seafood industry's combined marketing and information council.

General System of Preferences (GSP)

Norway has a General System of Preferences (GSP) scheme, which allows for preferential tariffs on imports from developing countries and duty-free and quota-free market access for all products originating in least-developed countries. The average tariff on imports from non-LDC developing countries is 5.5%.

The Peoples Republic of China has since 22 March 1979 been a beneficiary country under the Norwegian GSP-scheme.

2.2.2 Quantitative restrictions

The following products are subject to WTO minimum market access commitments under the WTO Agreement on Agriculture at a four to eight-digit HS heading level: Meat of bovine animals, frozen; meat of swine, frozen; meat of sheep and goats (fresh, chilled or frozen); meat of fowl of the species Gallus domesticus; meat of turkeys; meat of poultry ducks, geese, and guinea fowl; meat of game; butter; hens' eggs and white and red cabbage. In addition, Norway has global quotas at the HS six to eight-digit level (apples, pears and turkey roll) and one quota at the two-digit level (meat for promotional fairs and product testing).

The quota fill rate for these quotas are given in the table under:

Table 2-3

Minimum access and other global quotas			
HS heading no.	Description of goods	Quantity	Fill rate 2006
Chapters 02 and 16	Meat to promotional fairs and product testing	25 tonnes	36%
ex 0202	Meat of bovine animals, frozen	1,084 tonnes	100%
0203.2100	Meat of swine, frozen	1,381 tonnes	37%
ex 0204	Meat of sheep and goats (fresh, chilled or frozen)	206 tonnes	98%
0207.1200	Meat of fowl of the species Gallus domesticus	221 tonnes	45%
0207.2500	Meat of turkeys	221 tonnes	0%
0207.3300	Meat of poultry ducks, geese, and guinea fowl	221 tonnes	37%
0208.1000, 9030, 9099	Meat of game	250 tonnes	87%
0405.1000	Butter	575 tonnes	53%
0407.00.19	Hens' eggs	1,295 tonnes	100%
0704.90	White and red cabbage	268 tonnes	9%
0808.10	Apples	8000 tonnes*	84%
0808.20	Pears	250 tonnes	98%
16.02.3101	Turkey roll	20 tonnes	97%

* On apples, quotas are allocated over three periods every year: 7,000 tonnes are allocated for 1 May to 31 July; 750 tonnes for 1 August to 30 November; and 250 tonnes for 1 to 30 November.

2.2.3 Rules of origin

Non-preferential rules of origin are used to determine the origin of goods for various purposes, like import- and export restrictions, marking regulations, the application of MFN rates of duty and other trade instruments.

Preferential rules of origin are used to determine whether a product qualifies under a Free Trade Agreement (FTA) for preferential treatment upon importation into a partner country. Rules of origin are necessary to restrict the benefits reciprocally negotiated to the parties to the FTA concerned. At a minimum such rules should ensure that goods that are merely transhipped or subject only to minimal processing in the territories of the Parties to the FTA, do not qualify for tariff preferences under the FTA. In general, a product is considered to originate in a Party if it has been wholly obtained there, or, where some inputs to the production is coming from outside the FTA area or where some part of the production process took place outside of the FTA area, if the good resulted from substantial transformation in that Party.

- Wholly obtained is where a good is wholly produced or manufactured in one country from materials wholly originating in either FTA Partner country.
- Substantial transformation can be defined either across all products or on a product-by-product basis, by applying one of the following methods or a combination of these:
    i. Change in tariff classification method: under this method, a product after production is required to be classified under a different tariff classification from that of its component materials;
    ii. Value-added method: under this method, a minimum percentage of the value of a product must have been added within the country or preferential area for which origin is being claimed (i.e. the value of input materials from a non-Party is restricted); and
    iii. Specified process or manufacture operations method: under this method, the origin is based on the country in which a specified manufacturing or processing operation for a specific product is undertaken.
    iv. A combination of the above methods.

Preferential rules of origin are negotiated separately for each Free Trade Agreement by the parties to that FTA in accordance with the specific circumstances of those parties.

Non-preferential rules of origin

The following non-preferential rules of origin have been presented to the Norwegian Parliament as part of a new Customs Act, for adoption in 2007:

(1) If the origin of a product is to be determined without being based on a specific agreement on preferential tariff treatment with foreign state or organization, the rules of origin set out in paragraphs (2), (3) and (4) shall apply, subject to any obligations applicable to Norway under international law. The provisions

set out in paragraphs (2), (3) and (4) also apply to MFN treatment in accordance with Article I of the General Agreement on Tariffs and Trade, and upon issue of proofs of origin for a product not covered by a free trade agreement or autonomous preferential arrangement.

(2) A product is considered to originate in the country where it is wholly obtained, or where the last substantial processing took place. The territory of a country includes its territorial sea.

(3) The following products shall be considered as wholly obtained in a country:
   i. mineral products extracted from the soil of the country;
   ii. vegetable products harvested in the country;
   iii. live animals born and raised in the country;
   iv. products from live animals raised in the country and products from hunting, fishing and trapping in the country;
   v. products of sea fishing and other products taken from the sea outside the territorial sea of a country by vessels registered in the country or in the ship's registry of the country and flying the flag of the country;
   vi. products made aboard factory ships exclusively from products referred to under (e), and originating in the country, provided that these factory ships are registered in the country or in the ship's registry of the country and flying the flag of the country;
   vii. products extracted from marine soil or subsoil outside the territorial sea, provided that this country has sole rights to work that soil or subsoil;
   viii. waste and scrap resulting from manufacturing operations conducted in a country, and used articles if collected in the country and fit only for the recovery of raw materials; and
   ix. products manufactured in the country exclusively from products specified under (a) to (h), or from their derivatives at any stage of production.

(4) Where more than one country have been involved in the manufacture of a product, the country of origin shall be the country in which the last substantial and economically justified work or processing takes place, and resulting in the manufacture of a new product, or representing an essential step in the manufacture of a product. Re-packaging, sorting, mixing or minor changes are not considered being work or processing.

(5) The Ministry may give a regulation on the implementation of these rules of origin, including requirements for evidences of origin and the expansion of the scope of application to origin marking, government procurement and trade statistics.

Preferential rules of origin of the Norwegian GSP-system

Norway has been a donor country within the scope of the GSP systems as of 1971. Since then, the rules of origin have been revised and liberalised several times, and during the later years the rules have been harmonised in Europe.

The rules of origin in the Norwegian GSP-scheme are based on the following principles.

- Wholly obtained criterion
- Change of tariff classification of materials used
- In a list of product-specific origin rules, specific production requirements must be fulfilled for the products mentioned in the list.
- For some products there are specific requirements like for example manufacture from yarn; for some products there are value-added rules; and for other products a combination rule might be applicable.
- A tolerance rule of 5% may be applied, except for textile products.

In addition the Norwegian GSP scheme contains provisions for cumulation of origin with origination products under the following regimes:

– bilateral cumulation
– diagonal cumulation with products originating in Switzerland or the European Community on a reciprocal basis
– Regional cumulation (ASEAN)

The rules of origin for use in the Norwegian GSP-system are given in a Ministerial regulation dated 20 February 1998 (FOR 158).

Preferential rules of origin of the Norwegian Free Trade Agreements

Since the establishment of the EFTA-convention in 1960, Norway has applied preferential rules of origin for the benefit of the business community receiving preferential tariffs in trade between the Parties. A bilateral free trade agreement was established between Norway and The European Economic Community in 1973. The agreement on the European Economic Area entered into force 1 January 1994 between the member states of the European Community and three EFTA states Norway, Iceland and Liechtenstein. Since then, the European rules of origin, being an integral part of the Norwegian free trade agreements in force, have been adjusted several times, and are today an updated and modern instrument for the determination of preferential status of products to be traded between the Parties concerned.

Since 1997, Norway and the three other EFTA States Iceland, Switzerland and Liechtenstein, have participated in the system of pan-European cumulation of origin. This system currently comprises the 27 EU-countries, the 4 EFTA states and Turkey. The pan-European cumulation system allows for free use of originating materials throughout the European continent. However, "full cumulation" is allowed only between the member states of the EEA.

A decision was taken in 2005 to pave the way for the extension of this system to nine Mediterranean partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip) and as well the Faroe Islands. This system, being referred to as the Pan Euro-Mediterranean cumulation system, is currently under development and expands according to the speed of implementing revised origin protocols and new free trade agreements between the Parties. The extended system becomes effective among countries that have concluded free trade agreements with the EU and EFTA countries and with each other (at least triangular trade with identical rules of origin).

In the free trade agreements with countries outside the Pan-Euro-Mediterranean cumulation system, Norway has, along with the other EFTA States, applied rules of origin that are based on the layout of the Pan-Euro-Mediterranean model, providing for bilateral cumulation possibilities between the Parties to the FTA.

The harmonised rules consist of two main parts:
1) General rules that identify the basic principles of ROO: Products need to be either "wholly obtained" or "sufficiently worked or processed" in the country concerned in order to be considered originating and to be eligible for preferential tariff treatment within the free trade area. They also include rules on evidences of origin and as well as administrative cooperation for the subsequent verification of such proof of origin.

2) List rules: a product-by-product list of criteria required for products to be granted originating status, such as
– change in tariff heading (a product is considered originating in the exporting country if it has been sufficiently transformed in that country to be classified under a different heading at four-digit level in the Harmonised System);
– sufficient processing (the origin is determined in terms of specific processing operations necessary to give the product its current characteristics);
– value added criterion (the origin is determined in terms of the value that may have been added to the product in the exporting country); or
– a combination of the above.
The Norwegian preferential rules of origin for application in free trade agreements in force are given in a Ministerial regulation dated 13 December 2004 (FOR 1702).

2.2.4 Other aspects of trade policy

The World Trade Organisation (WTO)
As stated in 2.2, multilateral trade liberalisation through the WTO is the first of the three main tracks on which Norway pursues its trade liberalisation policy.

Norway was one of the founding members of the GATT in 1947 and remains strongly committed to the multilateral trade framework under the auspices of the WTO. A strong,

rules-based system is the best guarantee against unilateralism and protectionism, and provides, stability, security, transparency, and predictability for traders.

Norway firmly believes that all WTO members stand to gain significantly from further trade policy negotiations aimed at strengthening the multilateral trading system and improving market access for goods and services. Economic growth and development in all nations – and particularly in developing countries – depends on a strong and fair multilateral trading system. Norway is therefore strongly committed to the Doha Development Agenda (DDA). Norway's main objectives in the ongoing negotiations are substantial improvements in market access for industrial goods (including fish and fish products), with the long-term goal of abolishing tariffs and unjustified non-tariff measures, improved market access for services, stronger disciplines in the area of anti-dumping measures and the elimination of fisheries subsidies that lead to increased fishing capacity. Further Norway wants to maintain a certain level of duties and domestic support in the agricultural sector. That is important for making it possible to maintain a viable agricultural sector in a high cost country.

Norway has also unilaterally liberalised trade in goods and services in order to harvest the economic benefits of such measures. Equally important, Norway's tariff system and administrative procedures for import have undergone significant computerisation and simplification over the last few years. Norway has taken unilateral steps to promote trade with developing countries by implementing improvements to its GSP.

Trade policy has increasingly become a topic for political debate in the public domain in Norway. In addition to the traditional debate on the economic merits of trade, increasing emphasis is being put on other aspects such as health, environment, food and consumer safety. To ensure the continued support of the general public for the multilateral trading system of the WTO as well as for regional trade agreements, the Government consults extensively at the national level with non-governmental groups, including representatives of trade and industry, labour, consumer and other interested organisations. Norwegian trade policy enjoys broad political support in the Storting (the Norwegian parliament).

The European Economic Area

The European Union is Norway's most important trading partner. In 2006 82% of total Norwegian exports of goods went to this market, amounting to US$ 71,5 billion. Oil and natural gas are by far the most important Norwegian export articles to the EU with over 72% share of total exports. Correspondingly, imports from the EU constituted approximately 69% of total Norwegian imports in 2006, equivalent to US$ 43,5 billion.

Norway's trade and economic relations with the EU are mainly governed by the Agreement on the European Economic Area (the EEA Agreement)[7]. The EEA Agreement entered into force on 1 January 1994 and unites the 27 EU Member States and the three

7 The Agreement may be found on the following website:
<http://secretariat.efta.int/Web/EuropeanEconomicArea/EEAAgreement/EEAAgreement>

EEA EFTA States (Iceland, Liechtenstein and Norway) in an Internal Market governed by the same basic rules.

These rules aim to enable industrial goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms. Except for certain fisheries' and agricultural products, the EEA Agreement provides for free trade (zero tariffs).

The EEA Agreement provides a common set of rules for trade and economic relations. In the areas covered by the EEA Agreement, Norwegian businesses and nationals are entitled to the equal treatment as businesses and nationals of EU states across the entire Internal Market.

The EEA Agreement provides for:

- Participation in the internal market, with free movement of goods, services, persons and capital. This means i.a. that a product approved in one country under the common rules normally has to be accepted in the other countries. Workers, self-employed, service providers and students from other EEA countries are generally entitled to equal treatment with the nationals of the host country, including in the areas of social security and the recognition of occupational qualifications;

- Harmonisation of rules and requirements to which goods and services are subject for reasons of health, safety and environmental protection and to protect consumer interests;

- Common rules regulating competition, state aid and public procurement to ensure a level playing field for all enterprises competing in the internal market;

- Extensive cooperation in other areas of society, most importantly in research, education, environmental protection, consumer policy, cultural affairs, social policy, gender equality, tourism and small and medium-sized enterprises; but

- The EEA Agreement does not cover the EU's customs union or its common trade policy with non-member states. Nor are the EEA EFTA States included in the EU's common agricultural policy or the common fishery policy, meaning that the EEA Agreement does not include a common resource management regime. It does not allow free market access for all agricultural and fish products, though it provides for lower customs duties and better market access for a number of such products.

The EEA Agreement is constantly evolving. Whenever new rules governing the internal market are adopted, the EEA Agreement is amended to bring the Agreement in line with these new EU rules. This is done through decisions by the EEA Joint Committee, on which the EFTA countries and the European Commission are both represented. All new rules

that are adopted in the EEA Joint Committee must be incorporated into national law of the EEA EFTA States.

The EFTA Surveillance Authority and the EFTA Court are charged with ensuring that the EFTA countries comply with their obligations under the EEA Agreement. Contributions from the EEA EFTA countries towards economic and social development in the poorer EU countries have been part of the EEA Agreement since it first entered into force. Priority sectors for support under the mechanisms include environmental protection, sustainable development, cultural heritage, promotion of education and training, more effective external border controls and strengthening the judiciary, and health and childcare.

European Free Trade Association (EFTA)

As a member state of EFTA (Iceland, Liechtenstein, Norway and Switzerland) Norway has currently concluded free trade agreements with 16 states or group of states (Canada, Chile, Croatia, Egypt, Israel, Jordan, Lebanon, Macedonia, Mexico, Morocco, Republic of Korea, Southern African Customs Union, Singapore, The Palestinian Authority, Tunisia and Turkey). EFTA is currently engaged in free trade negotiations with Algeria, Colombia, the Gulf Cooperation Council, Peru and Thailand. A joint feasibility study between EFTA and India was completed in October 2007.

One of EFTA's main goals has been to contribute to the expansion of trade in the world at large. Since the beginning of the 1990s, EFTA has actively pursued trade relations with third countries in and beyond Europe. A guiding principle for EFTA's negotiations with third party countries has been to secure that EFTA businesses enjoy the same rights and privileges as businesses from the EU in foreign markets. In more recent years, the EFTA States have also prioritised FTA negotiations based on independent economic considerations, regardless of the EUs trade relations with the third party country in question.

When acting together the EFTA countries negotiate their free trade agreements as a group, speaking with one voice at the negotiating table. However, EFTA does not have a common trade policy – all member states have to agree on the negotiation parameters prior to each round of negotiations. Thus, each member country maintains full sovereignty in the process.

Free trade agreements provide increased predictability and improved market access conditions in trade between Norway and the partner country hence paving the way for increased two-way trade. In a situation where an increasing number of countries are negotiating market access on a preferential basis Norway's FTAs secure Norwegian economic interests in important international markets and are therefore an integral part of Norwegian trade policy.

A principle in EFTAs free trade agreements is to achieve full duty and quota free trade in industrial goods (including fish and fish products) and to make certain tariff reductions for agricultural products.

It should be noted that while the EFTA countries pursue a policy of concluding free trade agreements, this does not detract them from giving priority to a well-functioning multilateral trade system under the auspices of the WTO. The two approaches, bilateral and multilateral, are mutually supportive.

Trade remedy measures

Norway has laws and regulations that allow the imposition of trade remedy measures (anti-dumping, countervailing and safeguard measures) in accordance with our international obligations and WTO rules. However, Norway has not carried out any anti-dumping, anti-subsidy or safeguard investigations nor applied any such measures during the last two decades. Thus Norway's policy regarding application of trade remedies is in practice one of non-application.

To Norway it is crucial that the solutions adopted in FTAs to which Norway is a party are consistent with the general trade policy of Norway concerning such measures. In the present WTO negotiations Norway is a strong advocate for a strict and stringent application of trade remedy measures.

In respect of trade between partners that have entered into Free Trade Agreements, Norway advocates a policy of non-application of anti-dumping and countervailing measures. As regards safeguard measures in accordance with GATT Article XIX and the WTO Agreement on Safeguards, Norway's view is that such measures in accordance with these provisions cannot be applied against FTA partners that are WTO Members and the bilateral FTA specifically prohibits such measures.

Norwegian agricultural policy

Only few areas in Norway are suitable for agriculture. Due to the country's topography, fields are often small, scattered and difficult to cultivate efficiently. Of the total area, only 2,7% is farmland. The climate also determines which crops can be grown and their yield level.

Important objectives for the agricultural policy are to produce safe food to the consumer and public goods, as well as non-trade concerns such as food security, securing settlement in rural areas and cultural landscapes. Agriculture in Norway produces therefore more than just food and fibres.

Norway applies tariffs on many agricultural products to enable Norwegian farmers to sell their products domestically. The tariffs for key Norwegian products are as high as 300–450%, but the average duty for all agricultural products is 39%.

The customs duties and preferences bound in the WTO and in FTAs for agricultural goods can generally be said to be higher, to accord for the higher domestic price, for commodities produced in Norway than for products not produced domestically. The most important agricultural products for Norway are: Meat, dairy products, grains and

some fruits and vegetables. This means that Norway in FTAs gives most preferences to other fruits and vegetables, flowers and non-sensitive products.

2.3 Current trends of trade in goods between China and Norway

Trade in goods between China and Norway has increased substantially during the past few years. In 2006, the total value of trade in goods between China and Norway reached US$ 2950.44 million, compared with US$ 981.67 million in 2001, indicating a threefold increase. The exports of goods from China to Norway, which was US$ 410.99 in 2001, increased to US$ 1700.71 million in 2006. Norway's exports of goods destined for China was US$ 1249.37 million in 2006, an increase of 119% compared to 2001.

Table 2-4 Annual Value of Trade in Goods between China and Norway (US$ million)

Year	*China's exports*	*Norway's exports*	*Total value*
2001	411	571	982
2002	527	929	1450
2003	899	865	1765
2004	1029	1398	2426
2005	1322	1144	2466
2006	1701	1250	2950

* The statistics of 2006 is calculated according to China's custom statistics.

Source: China Statistics Yearbook, 2002-2006.

Industrial goods are the most significant exports of China to Norway, accounting for nearly 98% of all exported goods to Norway originating in China. In 2006, the main products China exports to Norway include apparel and accessories (US$ 766.61 million), office machines, data processing machines (US$ 552.26 million), telecommunication apparatus and equipment (US$ 438.53 million), electrical machinery and apparatus (US$ 208.88. million), and manufactures of metals (US$ 162.24 million).[8]

8 Source: Statistics Norway, http:// www.ssb.no/.

Table 2-5 China's Main Merchandise Exports to Norway (US$ million)

HS06	*Description*	*Value of exports*
84713000	Portable ADP, weight≤10kg,with at least CPU/keyboard/ display	6.8
89019041	Motor bulk carriers, loading capacity ≤150000t	5.8
89012011	Refined petroleum tankers, loading capacity ≤100000t	5
85252022	Radio telephone handsets	4.6
61103000	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	4
61102000	Jerseys, pullovers, etc, of cotton, knitted or crocheted	3.9
73089000	Structure/parts nes, prepd plate, rods etc for struct, i/s	3.9
62046200	Women's or girls' trousers, breeches, etc, of cotton	3.3
61091000	T-shirts, singlets & other vests, of cotton, knitted or crocheted	3.2
62104000	Men's or boys' garments of fabrics of 59.03, 59.06 or 59.07	2.5

Source: China's Custom Statistics, 2006.

Petroleum and petroleum products, general industrial machinery and equipment, fish, chemicals and related products, non-ferrous metals are the main products that Norway exported to China. In 2006, these products accounted for more than 80% of Norway's total exports to China.

Table 2-6 Norway's Main Merchandise Exports to China (US$ million)

HS06	*Description*	*Value of exports*
27090000	Petroleum oils & oils obtained from bituminous minerals, crude	17.6
31052000	Mineral or chemical fertilizers containing the three fertilizing elements nitrogen, phosphorus & potassium	11.4
75021000	Ni unwrought, not alloyed	9.8
29242990	Cyclic amides (incl. cyclic carbamates) and their derivatives; salts thereof, nes	7.3
03037400	Frozen mackerel	4.3
25161100	Granite, crude or roughly trimmed	3.8
03036000	Frozen cod (excl. livers & roes)	2.7
03037990	Frozen fish, nes	2.6
84138100	Pumps nes	2.5
03037200	Frozen haddock	2.3

Source: China's Custom Statistics, 2006.

2.3.1 Technology goods: machinery, electronic equipments and optical instruments[9]

China is one of the world's most important producers and exporters of machinery and electronic equipments, which has been the biggest category of China's exports during the past decade. Mirroring the economic development and upgrade of industrial structure, China's imports in this category have also been increasing rapidly in recent years. According to the latest statistics from MOFCOM, the total volume of China's machinery and electronic equipments trade reached US$ 977.18 billion in 2006, among which exports accounted for US$ 549.42 billion, ranking the third of the world, and import, US$ 427.76 billion, ranking the second of the world.

Norway's robust economic development in recent years has been conducive to the engineering machinery and equipment industry of the country. At present, Norway is also a competitive producer of certain technology-intensive machinery and transport equipment. Machinery and equipments for the ship building industry makes up an important part of the sector. Shipyards have a long tradition in Norway, and continue to play a vital role in many communities. Norwegian shipyards mainly build small and medium-sized specialist ships, such as product tankers, chemical tankers, supply ships and high-speed passenger boats. Norway's shipbuilding traditions have also led to the development of hi-tech production of maritime equipment. Another important part of the technology industry supplies oil platforms and other highly specialised equipment to the petroleum industry. There are also niche-orientated technology companies in other markets supplying products such as reverse vending machines, video conferencing systems, advanced car parts, and pressure sensors for vehicles and the offshore-industry. Exports by the technology industry constitute around 9% of Norway's total exports, and nearly twice that when petroleum exports is excluded. An important feature of this business sector is that a significant share of the supplies is semi-manufactured products and elements that are part of the production processes in other countries such as China. Much of the sector's growth over the last few years has taken place abroad.

Technology goods are an important contributor to merchandise trade between China and Norway. In 2006, the two-way trade in this category reached US$ 728.1 million, among which China's exports to Norway totalled US$ 350.4, and imports totalled US$ 377.8 million.

9 "Technology goods" refer to the commodities under Chapter 84, 85 and 90 of the Harmonised System.

Table 2-7 China's exports of machinery and electronic equipments to Norway (2004–2006, US$)

HS	*Description*			
		2004	2005	2006
	Technology (HS 84,85,90)	107.1	236.7	350.4
84	Machinery incl. computers etc.	52.9	102.6	148
85	Electrical Machinery and equipment	46.3	120.4	178.6
90	Optical instruments etc.	7.9	13.7	23.9

Source: China's Custom Statistics, 2006.

Table 2-8 China's imports of machinery and electronic equipments from Norway (2004–2006, US$)

HS	*Description*			
		2004	2005	2006
	Technology (HS 84,85,90)	309.7	340	377.8
84	Machinery incl. computers etc.	179.3	191	216.1
85	Electrical machinery and equipment	94.4	103.9	109.1
90	Optical instruments etc.	36.1	45.5	52.5

Source: China's Custom Statistics, 2006.

Machinery and electronic equipments constitute a large share of Chinese exports to Norway and the export value has been rapidly increasing over the last few years. Norway imports a great variety of Chinese technologies. However, reflecting the increasing popularity in Norway for high quality Chinese computers, television sets, CD players and DVD players, the majority of Chinese technology exports to Norway are consumer electronics. Of the above-mentioned products, personal computers constitute the largest import category. Other consumer electronics such as radios, TVs, CD- and DVD players, and office machine parts are also imported in large and increasing quantities.

Over the last three years Norway has experienced a rapid growth in technology exports to China. The increase of such goods was substantial in 2006 by over 51% compared to the year before. Close to 70% of Norway's exports of technology products are machineries (HS 84). Liquid pumps primarily used in ships, had the largest share of machineries in 2006 by approximately 25%. As the export of ship-equipment such as pumps are interlinked with the increasingly active Chinese shipbuilding industry, the prospects of future growth of Norwegian machinery exports to China are bright.

In accordance with China's commitments to the WTO, the average tariff level of China for machinery products was reduced to 10% in 2005, and that for electric and electronic products was lowered to 9%. Norway exempt tariff on imported machinery and electronic equipment and implements technical regulations in accordance with international standards.

To some extents, the bilateral trade of machinery and electronic equipment between China and Norway has the characteristics of intra-industry trade, and is fairly complementary. China has comparative advantages in relative labour-intensive electronic products, while Norway has comparative advantages in technology-intensive ones. Consequently, a possible FTA provides an opportunity for encouraging growth in two-way trade in this sector through further liberalisation in tariff and non-tariff measures.

2.3.2 Textiles and apparel[10]

China is the biggest producer and exporter of textiles and apparel products in the world. According to the latest statistics from China Customs, the total volume of China's textiles and apparel products trade reached US$ 162.06 billion in 2006, an increase of 22.6% over the last year, among which exports accounted for US$ 144 billion, and imports US$ 18.1 billion.

The textile and apparel industry of Norway has a long history of development. However, exposure to foreign competition resulted in the early restructuring of Norwegian consumer manufacturing industry, such as the once thriving Norwegian textile industry. At present, the industry, which consists of about 495 companies and 5000 employees, accounts for merely 0.3% of Norway's GDP. A big proportion of Norway's market demand for textile and apparel products depends on imports.

Textiles and apparel products have been one of China's top exports to Norway for many years. China's exports in this category in 2004 and 2005 valued respectively US$ 501million and US$ 430.8 million. In 2006, the export value increased further to US$ 572.4 million, accounting for 45.1% of China's total exports to Norway that year. The most important textile articles exported from China to Norway in 2006 are pull-overs/cardigans (HS 611030, US$ 40.3 million), cotton sweaters (HS 611020, US$ 39.4 million), and women trousers of cotton (HS 620462, US$ 32.6 million).

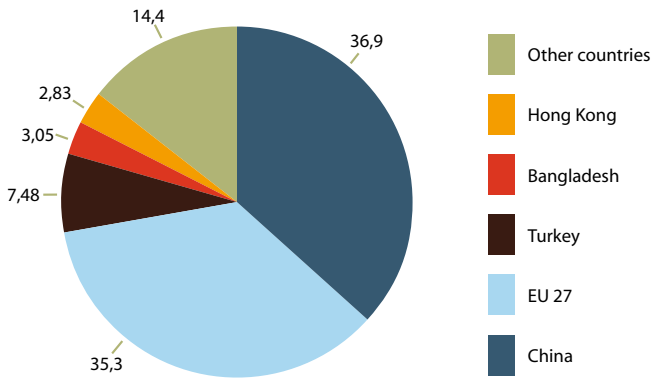
Table 2-9 China's Textiles and Apparel Exports to Norway (US$ million)

HS	*Description*			
		2004	2005	2006
	Finished textile products and clothing (HS 61–63)	501	430.8	572.4
62	Articles Of Apparel And Clothing Accessories	244.6	191	265.4
61	Articles Of Apparel And Clothing Accessories, knit	198.2	184	237
63	Made-Up Textile Articles Nesoi; Needlecraft Sets	58.1	56.3	70.1

Source: China's Custom Statistics, 2006.

10 Refer to the commodities under Chapter 61–63 of Harmonised System.

Diagram 2-1 The five largest exporters of finished textiles and clothing in 2006 – share (%) of total imports



Source of data: Statistics Norway

Diagram 2-1 shows the five most important exporters of textiles and clothing to Norway in 2006. As one can see, China now has the largest market share of total imports of such products to Norway. In 1997 China's share of total textiles and clothing imports was 19.4%, compared to EUs share of 57.6%. In 2006 China surpassed EU as the largest exporter of textiles and clothing to Norway. China's share of total textiles imports to Norway in 2006 was 36.9%.

According to *China's Schedule of Concessions and Commitments on Goods* in the WTO, China's final bound rates of textiles and apparel products range as follows: yarns 5–6%, fabric 10–18%, apparel 14–20%, and finished products 10–17.5%. Reductions on all but one item (HS 5512.11.00) were completed in accordance with the tariff reduction schedule by 1 January 2005.

Norway still maintains 299 tariff lines liable to customs duty within Chapters 61–63 of the Harmonised System Nomenclature, covering clothing and a number finished textile articles. These tariffs are maintained in order to protect the few remaining producers in the industry. The tariff rates vary from zero to 13.7%. A majority of China's exports to Norway in this category are subject to a tariff rate of 10.7%.

Taking into account that the EU, through the EEA-agreement, Turkey, through the EFTA-Turkey FTA, and Bangladesh as a recipient of Norwegian GSP in which the country is granted Least Developed Country (LDC)-treatment, enjoy tariff-free access to the Norwegian market, a Sino-Norwegian FTA may further strengthen China's position in the Norwegian market for finished textiles and clothing. However, it should be noticed that Norway has experienced a transformation of its textiles and apparel industry in recent years. Production and resources have to a large extent switched from low cost apparel areas to high value apparel sectors. A shift of focus toward design, logistics and

marketing are also features of the industry over the past decade. In this sense, a possible FTA would provide an opportunity for further supporting two-way trade of textiles and apparel products. A more liberalised trade-regime in this category would lower the cost of Norwegian consumers on clothing manufactured by China, resulting in increased Chinese production and hence investments associated with the industry. The impact of further tariff liberalisation on Norway's textile and apparel producers could also be taken into account in the future FTA, although the impact is expected to be less than the structural adjustment already underway as a result of domestic reform and globalisation.

2.3.3 Oil, natural gas and chemical products

Production of oil and gas on the Norwegian continental shelf (NCS) started in 1971, and today there are more than 50 fields in production. In 2006, these fields produced 2.8 million barrels of oil (including NGL and condensate) per day and 88 billion standard cubic metres (scm) of gas, for a total production of saleable petroleum of 249 million scm oil equivalents (o.e.). In 2006 Norway ranked as the world's fifth largest oil exporter and the tenth largest oil producer.

In 2006, crude oil, natural gas and pipeline services accounted for 51% of the value of Norway's exports. The value of petroleum exports was US$ 79,3 billion. Great sums have been invested in exploration, field development, transport infrastructure and land facilities. Investments in 2006 amounted to US$ 14,9 billion, or 24% of the country's total real investments.

Creating Norwegian and Norwegian-based petroleum expertise has been an important element in Norwegian petroleum policy. Today, Norway has a highly developed and internationally competitive petroleum industry. This applies to the oil companies, where StatoilHydro is the largest, the supply industry and the research institutions. Supply companies in Norway are represented in most parts of the value chain, from exploration and development to production and disposal. Norwegian suppliers are among the leading in the world in fields such as seismic survey, drilling equipment, subsea facilities and floating production solutions.

A large resource base and the competence and technology level in the petroleum sector are very important assets to Norway. Norway continues to focus on long term activities on the Norwegian Continental Shelf and at the same time give attention to international markets for the supply and service industries. The various elements in the petroleum policy have developed over time and in close dialogue between the different interests. Generally, it has been very important to pursue a sustainable petroleum policy that allows for due considerations of the environment and a concern for future generations.

It has been a guiding principle for the Norwegian resource management to open up the Norwegian Continental Shelf for foreign companies gradually. The reason is that this enables Norway to learn from one area and gain more knowledge before opening

up new areas for petroleum activities. There are considerable variations regarding the degree of maturity in the different areas of the Norwegian Continental Shelf, with the Barents Sea north of Norway being the least explored part of the shelf.

Many of the petroleum-related goods manufactured in Norway include sophisticated technology stemming from domestic research and engineering services. Norwegian technology is world leading in different areas within offshore technology and the petroleum and gas industry is the largest industry in Norway.

Taking advantage of the country's rich oil and gas resources, Norway has developed internationally competitive companies within the petrochemical industry.

China's petroleum reserves and output rank first in the Asia-Pacific region. The estimated recoverable petroleum reserve of China is about 20 billion tons, ranking 6th in the world. According to the figures published by China National Bureau of Statistics, the average annual growth rate of China's petroleum output in the past ten years was 1.8%, while the petroleum consumption of China grew at an average rate of 4.9% in the same period of time, which was the highest in the world. At present, China is the second largest country in terms of petroleum consumption in the world, after the United States. Consequently, China's import of petroleum has been increasing at a high rate in the past decade. In 2006, China's import of petroleum reached 145.2 million tons at the cost of US$ 66.4 billion, ranking third in the world, only surpassed by the United States and Japan.

China is also one of most important producers of chemical products in the world. However, with the rapid development of China's economy, the domestically produced chemical products cannot fulfil the huge and growing market demand. Therefore, currently about half of China's market demand for chemical products depends on import.

Bilateral trade between China and Norway in petroleum and chemical products has grown significantly in recent years, reflecting growth in Chinese domestic demand and continued tariff liberalisation of petroleum and chemical products and other sectors where petroleum and chemical products are intermediary inputs. In 2006, the total trade value of petroleum and chemicals products between China and Norway reached US$ 1027.8 million, among which China's imports totalled US$ 936 million. The sector accounted for 17.4% of the total bilateral trade and 54.8% of China's total imports from Norway in this year.[11]

11 Source: Statistics Norway, http:// www.ssb.no/.

Table 2-10 China's Imports of Petroleum and Chemicals Products from Norway (US$ million)

HS06	*Description*	*2004*	*2005*	*2006*
27090000	Petroleum oils & oils obtained from bituminous minerals, crude	575.9	230.6	176
31050000	Mineral or chemical fertilizers containing the three fertilizing elements nitrogen, phosphorus & potassium	96.6	84.8	114
29242990	Cyclic amides (incl. cyclic carbamates) and their derivatives; salts thereof, nes	46.4	35.9	73.4

Source: China's Custom Statistics, 2004-2006.

Table 2–10 shows that mineral fuels, oils, waxes & bituminous sub (HS 27), organic chemicals (HS 29), and fertilizers (HS 31) are the most significant products that Norway exports to China. In 2006, these products accounted for respectively 18.8%, 12.1% and 7.8% of China's imports of petroleum and chemical products from Norway.

As a net importer of petroleum, China does not impose tariff on imported crude oil and natural gas. The tariff rates of China applied to the majority of chemical imports are in the range of 0%–20%. Tariff quotas (TRQs) are applied on chemical fertilizers. Norway has bound tariff rates up to 7% on some chemical products.[12] The applied tariff rate of chemical products is, however, zero.

The establishment of the future FTA would be of great significance to the bilateral trade of petroleum and especially chemical products, thus bringing benefits for both China and Norway. The producers will benefit from increased demand and potentially better returns for exports, and the consumers will benefit from lower prices and increased supply. Furthermore, the FTA will help to form a long-term mutually beneficial partnership based on trust between the two countries. Energy safety cooperation will benefit both China and Norway by providing them favourable conditions for sustainable economic development.

2.3.4 Metal products; including nickel, aluminium and iron/steel, and alloys of the before mentioned

The metal industry accounts for about half of employment in the energy-intensive industry in Norway. Aluminium is the single most important product, with Norsk Hydro being the dominant company. Norsk Hydro has significant ownership interests in foreign aluminium companies, particularly within the field of processing raw metals. The company is also involved in aluminium processing in Norway. Rapid developments

12 Source: Tariff profile of Norway 2006 (WTO)

in the metal industry require Norwegian companies to spend significant resources on product improvements.

The other main product group within the metal industry is the production of metals in which iron is a component (ferro-alloys). By adding metals such as chrome and silicon, the iron becomes less susceptible to corrosion and better suited to the production of steel for cars and ships. International competition is also strong in this part of the metal industry. The largest Norwegian company in this area is Elkem.

With the economic development of China, the strong market demand has stimulated the rapid development of the country's metal industry. For example, China has been the world's largest crude steel producer since 1996 and the largest consumer since 2003. In the coming years, it is estimated that 60% of steel will be manufactured and consumed in Asia, herein particularly China. At present, China manufactures 34% of total manufactured steel in the world and consumes about 33%. China has already become the world's biggest steel manufacturing and consuming country. It is estimated that the metal manufacturing and consumption of China will increase respectively to 550 MT and 530 MT by 2010.

Table 2-11 Metal products exports to China 2004–2006 (US$ million)

HS	*Description*			
		2004	2005	2006
	Metal products (HS 72 – 83 excl. HS 78 & 80)	70,5	127,7	174,2
75	Nickel and articles thereof	21,3	45,3	64
76	Aluminum and articles thereof	22,5	39	39,6
74	Copper and articles thereof	10	15,5	28,5
73	Articles of iron or steel	6,9	13,6	20,8
72	Iron and steel	9	12	18,6
83	Miscellaneous articles of base metal	0,2	0,4	1,7
81	Base metals nesoi; cermets; articles thereof	0,5	1,6	0,7
82	Tools, implements, cutlery etc.	0,1	0,03	0,2
79	Zinc and articles thereof	0	0,002	0

Source of data: Statistics Norway

Norwegian exports of metal products to China have shown a strong growth in the last three years, by almost tripling in value. The most important product articles of metal exports to China are nickel (US$ 64million in 2006) and aluminium (US$ 39,6 million). Norwegian nickel is mainly utilised in the production of stainless steel in China. Increased production of Chinese steel is hence correlated with increased imports of Norwegian nickel. The removal of China's ad valorem tariff rate of currently 3% for imported unwrought nickel (HS 720210) will therefore create further synergies in the metal industries of China and Norway.

Norway is a major producer of aluminium and exports super thin high-grade aluminium plates (HS 7606) to the Chinese electronics industry. In 2006 the value of Norway's export to China of these articles was US$ 15,6 million. This, however, is 40% less than compared to 2005. The removal of the 6% tariff rates currently in place in China for these products would ensure a steady supply of Norwegian high-quality aluminium to Chinese manufacturing.

Norwegian exports of iron and steel articles (HS 73) have also shown a strong growth, increasing by over 52% from 2005 to 2006. These iron and steel articles are mainly special products utilised in the Chinese shipbuilding industry. Duty rates for such products in China are in the range of 3–25% (average duty range is approximately 10%), clearly indicating that a Sino-Norwegian FTA would provide impetus for increased trade.

Table 2-12 Metal products imports from China 2004–2006 (US$ million)

HS	*Description*			
		2004	2005	2006
	Metal products (HS 72–83 excl. HS 78 & 80)	156,4	185,4	222,2
73	Articles of iron or steel	56,2	72,8	112,2
82	Tools, implements, cutlery etc.	28,4	34,9	38,8
81	Base metals nesoi; cermets; articles thereof	50,8	47,7	30,9
83	Miscellaneous articles of base metal	10,6	14,6	19,6
76	Aluminum and articles thereof	8,4	9,6	11,1
72	Iron and steel	1,5	4,7	7,9
74	Copper and articles thereof	0,3	0,6	0,9
79	Zinc and articles thereof	0,3	0,4	0,7
75	Nickel and articles thereof	0,002	0,005	0

Source of data: Statistics Norway

Imports of metal products from China have grown annually over the last nine years. From 1997 to 2006 the Norwegian imports of metal products from China have increased from US$ 31,2 million to US$ 222,2 million. Iron and steel articles for the Norwegian offshore industry dominate Chinese metal exports to Norway. In the offshore industry, Chinese quality steel is utilised for heavy steel constructions. Another important category of metal products imported from China is tools and cutlery. In 2006, the value of such imported products was approximately US$ 38,8 million, an increase of 11,2% compared to 2005.

2.3.5 Fish and marine products

Fishing, aquaculture and fish processing industries are important contributors to the economies of China and Norway.

Over the last few decades the Norwegian wild capture fishing industry has evolved from a virtually unrestricted activity into a highly regulated industry with quotas and licensing requirements. The Norwegian fishing fleet has developed in the direction of fewer and more efficient vessels. At the same time, Norway has a composite fishing fleet with respect to the size and type of fishing equipment – ocean fishing vessels and a large number of coastal vessels. The Norwegian wild capture fisheries industry, which provides direct employment for approximately 14,000 people, is represented by a diversified seagoing and coastal fleet of approximately 7,300 vessels. Small coastal vessels account for around 6000 of these. The total catches of Norway vary according to annual variations in the size of the major fish stocks, but amounted in 2006 to 2,4 million tonnes per year. Sustainable resource management is fundamental to the Norwegian fishing policy. Simultaneously, fisheries and fishing will help to safeguard settlements and create new activity along the coast.

The Norwegian aquaculture industry is a modern, internationally competitive industry that produces high quality food in an efficient manner. Atlantic salmon and rainbow trout are the dominating species in the aquaculture industry. However, extensive development is taking place with a view toward farming several new species, such as cod (*gadus morhua*), halibut (*hippoglossus hippoglossus*), wolf fish (*anarhichas spp.*) and shellfish.

A licence from the authorities is required to farm fish and shellfish in Norway. Environmental considerations and efforts related to fish health and welfare are given high priority in the industry and public administration, and is an important condition for the aquaculture industry's ability to compete. The fish farming industry in Norway holds over 2,700 licenses.

The Norwegian processing industry consists of nearly 700 units, and employ approximately 10 000 people.

Since 2000 China[13] has seen a stable development of its fishing industries. In 2004 its total aquatic output reached 47,5 million tonnes, whereof 16,9 million tonnes came from wild capture fisheries.

China has the largest number of fishing vessels and fishers in the world. In 2002 the number of vessels was 220 000. In recent years Chinese fisheries authorities have taken a number of management measures.

13 Source: FAO Fisheries and aquaculture country profile.

In 2004, the Chinese marine culture output (including aquatic plants) reached 13,7 million tonnes. Shellfish consists the highest output, while the second largest is seaweed. Production in marine culture takes three forms: in the sea, on mud flats and land based. In addition China has a long history of fresh water aquaculture. In 2004, output of inland aquaculture was 18,9 million tonnes. In inland aquaculture output finfish contributed 17,2 million tonnes, or 91% of total output.

In 2004 there were 8754 fish processing plants in China. Total processed aquatic product amounted to 13,8 million tonnes.

China and Norway are ranked as the world largest and second largest exporters of seafood, respectively. China plays an important role in the global production and trade in fish and fisheries products. In 2006, China's exports of fish and fisheries products reached 3 million tonnes valued US$ 9.4 billion, an increase of respectively 17.4% and 18.7% over the last year. As the world's fourth largest import market of fish and fishery products at present (EU is considered as a single customs territory), China's imports in these categories, mainly from Eastern Europe, South America, Japan, Australia and New Zealand, are now growing more rapidly than its exports. In 2006, China's imports in this category reached 3.3 million tonnes valued US$ 4.3 billion.

The value of Norwegian exports represents around US$ 5.6 billion per year, and supplies major markets all over the world, of which the European Union, the Russian and the Japanese markets are the most important. Fish exports are Norway's second largest export commodity. Salmon and trout exports account for almost half of the export value. Other important categories of fish products are herring and mackerel, traditional products like dried and salted fish, frozen and filleted fish, and other processed products.

In the last years, trade in fish and fisheries products between China and Norway has substantially increased. In 2006, the total trade value in this sector reached US$ 190.2 million.

Table 2-13 Bilateral Trade of Marine Products[14] between China and Norway (US$ million)

SITC 03	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
China's exports	3.8	2.4	4.9	6.7	12.6	23.1
Norway's exports	54.8	78.9	97.6	126.6	171.1	167.1
Total value	58.6	81.3	102.5	133.2	183.7	190.2

Source: Statistics Norway.

Frozen mackerel (HS 03037400), frozen cod (HS 03036000), frozen fish, nes (HS 03037990), frozen haddock (HS 03037200), and Atlantic salmon (HS 03021210) are the most important fisheries products China imports from Norway. Norway's export

14 Marine products refer to the commodities under the division 03 of SITC, including fish, crustanceans, molluscs and aquatic invertebrates, and preparation thereof.

of salmon to China, which started in 1998, has been growing very rapidly. At present, China is the tenth biggest importer of Norway's salmon and the biggest one in the Asian market. About 90% of the imported Atlantic salmon on China's market comes from Norway. Considering the upgrading of Chinese citizens' consumption level and the huge domestic market of China, Norway's exports of salmon and other top grade fish and fishery products to China are expected to grow continuously in the future.

Table 2-14 China's Main Marine Products Imports from Norway (2006) (US$ million)

Frozen mackerel	*Frozen cod (excl. livers & roes)*	*Frozen fish, nes*	*Frozen haddock*	*Atlantic Salmon*
73.4	27.2	26.3	23.3	22

Source: China's Custom Statistics, 2006.

China's import tariffs for fisheries products have dropped from a pre-WTO accession average of 15.3% to 11.0% in 2005. The highest tariff rate for a fisheries product was 23.6% in 2005. 17 items, accounting for 10% of all the imported fisheries products, are exempt from tariffs.

A reason for the increase of the Norwegian export is the increase in the consumption of seafood in China. Another reason is increased demand for raw materials to China's growing fish processing industry. The processed products are re-exported mainly to Japan and the European Union. The growing demand from Chinese consumers and the processing industry has made China into a world leading producer and exporter of fish and fisheries products.

Today, Norwegian exporters of fish and fish products to China are facing tariffs between 10 and 18%, depending on the species and level of processing. With the exception of a very limited number of lines, Norway's final bound rate on fish and fish products is zero.

Removing tariffs and other barriers will facilitate trade in fish products, resulting in economic benefits to both countries. There will be benefits for the consumers of both countries in the form of lower prices and access to a wider range of products, and the improved opportunities afforded to exporters through access to markets will in turn stimulate greater economic activity in both countries. Technology and investment exchanges that accompany the flow of fish products will also lead to productivity gains.

The elimination or substantial reduction of China's import tariff of fish and fishery products will possibly increase Norwegian export to China. Taking into account fishery products' nature of replacement, this might have relevant impact on China's fishery production and fisherman's income. In this regard, these sensitivities should be taken into account.

In February 2006, the Government of China issued a *Programme of Action on Conservation of Living Aquatic resources of China*. It aims to reverse the trend of deterioration of the aquatic environment, decline of fisheries resources and the increasing number of endangered species, reduce overcapacity and improve the efficiency of fishing operations and economic benefits. According to this program the catch will fall from 13.1 million tonnes in 2002 to 12 million tonnes in 2010.

The different aspects of trade liberalisation in the fisheries sector described above should be addressed in the future FTA negotiations.

Bilateral trade in fish and fish products between the two countries is continuously developing. A free trade agreement will contribute positively to the further cooperation and development of the fisheries and aquaculture industries in both countries.

2.3.6 Agriculture products

China is one of the biggest agriculture product producers in the world, with the production of several kinds of primary agriculture products ranking the first, such as cotton, pork, poultry, fruits and vegetables. China also plays a key role in the international agriculture products trade. At present, China is the world's fourth largest importer and the fifth largest exporter of agriculture products. Latest statistics from Ministry of Agriculture show that the total value of agriculture product trade reached US$ 63.5 billion in 2006, of which, export accounted for US$ 31.4 billion, import accounted for US$ 32.1 billion.

As a high-cost, low-potential activity, agricultural production, especially the grain production in Norway has been largely dependent on direct and indirect government support. This is i.a. dictated by factors such as the harsh climate and difficult topography, since almost 3/4th of Norway's land is unproductive and less than 4% is under cultivation. At present, the agriculture production of Norway, which is dominated by stockbreeding, contributes less than 2% to the GDP of the country. Although almost being self-sufficient in meat, poultry and dairy products, Norway imports more than 50% of its food products.

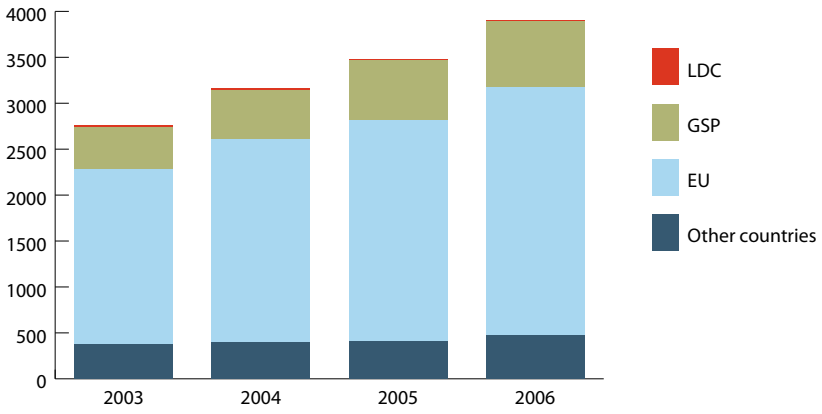
In 2006, agriculture accounted for an employment of about 63,000 man-year or less than 3% of total employment in Norway. However, the farm sector is still very important in many municipalities in Norway.

The food industry is responsible for a large share of the food being processed. The sector plays a significant role with regard to value creation, employment and as a buyer and processor of agricultural commodities. The food, beverage and tobacco industry is the second largest industrial sector in Norway, surpassed only by the engineering industry.

The degree of self-sufficiency and the share of food consumption produced by Norwegian agriculture is around 50%. Export is insignificant for all products except cheese. This illustrates that Norwegian agricultural food production is aimed at the domestic market. Imports are highest for those commodities that cannot be produced in sufficient quantities due to the natural conditions. These are primarily sugar, rice, fruits, vegetables, wine and spirits.

The imports of agricultural goods are steadily rising and in 2006 the import value exceeded US$ 3.9 billion.

Diagram 2-2 Imports of agricultural goods to Norway (Million USD)



Source of data: Statistics Norway

The bilateral trade of agriculture products between China and Norway has been witnessing a rapid growth in recent years, not only in value and quantity, but also in product categories. The main agriculture products China exports to Norway include fruits, vegetables, grains, sugar and honey, while animal foodstuffs dominate Norway's exports to China in these categories. In 2006, the total trade value of primary agriculture products between China and Norway reached US$ 27 million, among which China's exports to Norway amounted to US$ 24.5 million, and Norway's exports to China reached US$ 2.5 million.

Table 2-15 Trade of Primary Agriculture Products* between China and Norway (US$ million)

	China's exports	*Norway's exports*
2001	8.2	0.7
2002	9.5	1.9
2003	12	1.4
2004	18	1.9
2005	20	2.3
2006	24.5	2.5

* Fish and fishery products are excluded from primary agriculture products.
Source: Statistics Norway.

With regard to the import regime for agriculture, Norway maintains a comparatively high level of protection, but the tariff structure is not so transparent due to the extensive use of specific tariffs, i.e. tariffs expressed in NOK/kg or the like, which constitutes an important impediment to the export of China's agricultural products. At present, 28% of Norway's tariff lines in agriculture are above 100%, and 10% are above 300%. Based on WTO calculations, the average of MFN applied tariffs is 39%. The Least Developed Countries have zero tariffs, other developing countries obtain 10–15% tariff reductions compared to the general tariffs under the GSP system of tariff preferences. Tariff rate quotas provide some increase in market access.

The average tariff level of China for agricultural products is 15.2% in 2006. Among all the tariff items of agricultural products, 81 are exempt from duty, and the highest tariff rate is 65%. Tariffs in the 0–20% range are imposed on 76% of all the imported agricultural products. Currently, China applies TRQs on a number of agricultural products, including wheat, maize, rice (whether or not busked), sugar, wool, wool tops and cotton.

The bilateral agricultural trade between China and Norway is comparatively limited at present. The future FTA must continue to give opportunities for agricultural production in Norway and China, but at the same time create new possibilities to enlarge the bilateral agricultural trade. Removing and reducing tariffs and other barriers in agricultural trade will allow the two countries to share the potential benefits from liberalisation, including lower prices and access to a wider range of agricultural products for consumers, and improved opportunities for exporters through improved access to markets. Apart from that, the FTA will also promote agricultural technology cooperation and exchange between China and Norway, thus improving the agricultural production of the two countries.

The different aspects of trade liberalisation in the agricultural sector described above should be addressed in the future FTA negotiations.

2.4 Overall impact of liberalizing trade in goods

The study has demonstrated that China and Norway enjoy to a large extent complementarities in their goods trade. However, a range of tariff and non-tariff barriers currently impedes bilateral trade. Tariff barriers are the easiest to quantify and eliminate. Non-tariff barriers are of a much greater variety and include not only issues regarding product standards and cross-border formalities and procedures, but also issues on implementation of laws and regulations. Liberalising goods trade by addressing both tariffs and non-tariff measures will be a key component of the future FTA between China and Norway.

In broad terms, the liberalisation of trade in goods will promote the economic development of China and Norway, as a result of productivity improvements linked to increasing competition and opportunities to exploit economies of scale in the larger market, and

re-allocation of resources between industries associated with increasing product specialisation in line with comparative advantage. Therefore, the benefits brought about by the FTA would include lower prices and increased choice of consumer goods and inputs into production processes, and improved market access opportunities for exporters. More specifically, an FTA would expand bilateral trade in areas where each country has comparative advantage. In the case of Norway this would include fish and marine products as well as technological products related to the fisheries industry; petroleum and gas related products including the upstream supply industry as well as the chemical products of the downstream industry; and metals, machineries and equipment for the Chinese construction and shipbuilding sectors. In the case of China labour intensive manufactures such as textile and apparel, machinery and electronic equipments, as well as primary agriculture products are important. The sectoral surveys of trade in machinery and electronic equipment, textiles and apparel, petroleum and chemicals, metals, fish and fishery products, and primary agriculture products illustrate some of the net benefits of expanding market access for goods between China and Norway.

An FTA would be expected to eliminate all tariffs on industrial goods between China and Norway as early as possible and make tariff elimination and reductions for agricultural products, while ensuring that non-tariff measures are not more trade-restrictive than necessary to fulfil legitimate national policy objectives. The impact of an FTA on the industrial and agricultural sectors in both countries will also depend on the respective strengths and comparative advantages of these sectors in China and Norway. In this sense, the potential impacts of further liberalisation of goods trade on both countries in different sectors should be taken into account in future FTA negotiations. The possibilities for trade liberalisation as well as sensitivities in individual sectors should be addressed in the future negotiations.

Annex 1
The Exchange Rate of Norway's Krone used in this study (US dollar)

	2001	*2002*	*2003*	*2004*	*2005*	*2006*
NOK	8.99	7.98	7.08	6.74	6.44	6.41

Note: Direct quotation, per US dollar.
Source: IMF, International Financial Statistics, 2001-2006.

Chapter three:
Impact of trade liberalisation on services

Trade in services is becoming an increasingly important element of the overall bilateral economic relationship between China and Norway. This chapter provides an overview of regulatory measures affecting trade in services between the two countries, and highlights the opportunities and challenges of services trade liberalisation through a possible bilateral FTA.

3.1 An Overview of Chinese Trade Policies Applying to Services

While enjoying rapid and stable economic growth in recent years, China has restructured its economy to increase the weight of its service sector. Nevertheless, the proportion of the services sector as a percentage of GDP in China is much lower than that in most developed countries. By the end of 2005, the service industry accounted for about 41% of China's GDP. The major services activities were wholesale and retail trade and catering services (about 24% of the total), finance and insurance (17%), and social services (13%). At present, the employment in the service sectors accounts for about 31.5% of China's total employment.

China's trade in services has continued to maintain a steady rate of growth in recent years of approximately 15% annually. Latest statistics from the Ministry of Commerce of China indicate that in 2006, the total volume of China's services trade reached US $191.8 billion, of which, exports (or revenue) accounted for US$91.4 billion, imports (or expense) accounted for US$ 100.3 billion. At present, China's services imports and exports rank 7th and 8th in the world and comprise 3.8% and 3.2% respectively of the world's total services imports and exports.

In 2006 China's imports and exports of services mainly concentrated on travel, transportation and other business services, which accounted for 30.4%, 28.9% and 16.1% respectively of the gross imports and exports volume of trade in services, and together they accounted for 75.4% of the total. The shares of finance, and communications services were much smaller, accounting for 0.5% and 0.8% respectively of the gross imports and exports volume. This was attributable to the relative large import and export scale of China's trade in goods. The traditional sectors of trade in services that are directly related to imports and exports of goods have developed better, while the technology and knowledge-intensive sectors with high added value such as

financing, insurance, consultancy, computer and information services were still at the initiating stage with weak international competitiveness.

Travel, transportation, other business services, consultancy, computer and information services took the largest share in exports of services, ranking top five in exports of services respectively; transportation, travel, other business services, insurance and consultancy are the top five imported services respectively.

Table 3-1 China's exports of services 2004–2006 (US$ Million)

Description	*Year*			*% Change*
Đ	*2004*	*2005*	*2006*	*2006/2005*
Services (Total)	62055	73909	91419	23.7
Transportation	12067	15427	21015	36.2
Travel	25739	29296	33949	15.9
Communication services	440	485	738	52.2
Construction services	1467	2593	2753	6.2
Insurance services	381	549	549	0.0
Financial services	94	145	145	0.0
Computer and information services	1637	1840	2957	60.7
Royalties and license fees	236	157	204	29.9
Consulting	3153	5322	7834	47.2
Advertising, publicity	849	1076	1445	34.3
Film, audiovisual	41	134	137	2.2
Other commercial Services	15951	16885	19693	16.6

Source: Balance of Payments of China, excluding government services.

Table 3-2 China's imports of services 2004–2006 (US$ Million)

Description	*Year*			*% Change*
Đ	*2004*	*2005*	*2006*	*2006/2005*
Services (Total)	71602	83173	100326	20.6
Transportation	24544	28448	34369	20.8
Travel	19149	21759	24322	11.8
Communication services	472	603	764	26.7
Construction services	1339	1619	2050	26.6
Insurance services	6124	7200	8831	22.7
Financial services	138	159	891	460.4
Computer and information services	1253	1623	1739	7.1
Royalties and license fees	4497	5321	6634	24.7
Consulting	4734	6184	8389	35.7
Advertising, publicity	698	715	955	33.6
Film, audiovisual	176	154	121	-21.4
Other commercial Services	8478	9388	11261	20.0

Source: Balance of Payments of China, excluding government services.

Since China's accession to the WTO, the Chinese government has taken effective measures to liberalize the services market. All the market access commitments in the WTO in the field of trade in services have been implemented through the revision and adoption of sector-specific laws, administrative regulations and department rules. The level of market access for foreign services suppliers has been significantly increased. By the end of 2006, China has opened more than 100 services sectors, accounting for 62.5% of the WTO's Service Sectoral Classification List (W/120). Considering China's status as a developing economy, the services market of China is quite liberalised. Currently, China is positively participating in the WTO DDA negotiations on services and makes new commitments in business and transport services.

The provisions in the *Protocol on the Accession of the People's Republic of China* to the WTO have established the primary principles in which China legislates in the services sector, including detailed regulations on commercial presence and movement of natural persons. A series of new laws and regulations related to services have also been promulgated since China's accession to the WTO, such as *Regulations on Representative Offices of Foreign Law Firms in China, Regulation on Chinese-foreign Cooperation in Running Schools, Regulations on Management of Telecommunication Enterprises with Foreign Capital, Regulations on Financial Institutions with Foreign Capital, Regulations on Insurance Company with Foreign Capital, Regulations on International Maritime*. Further liberalisation of services in China is anticipated to continue in a progressive and manageable way.

In recent years, China has also been making great efforts to promote services trade liberalisation under the framework of regional and bilateral economic cooperation. *The Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-Operation between China and ASEAN* was signed in January 2007, which is the first agreement on trade in services under a FTA framework between China and other countries. China and the ASEAN countries will further open their services sectors, providing improved market access for each other following the agreement. Under the agreement, China has made further commitments for liberalisation in business services, construction and related engineering services, environmental services, cultural and sporting services, and transport services to the ASEAN countries. Since the launch of the CEPAs with Hong Kong and Macao in 2004, twenty-seven service sectors on the mainland of China have been opened to Hong Kong and Macao. Forty-four cities on the mainland have started individual tourist businesses for travel to Hong Kong and Macao. Over 1400 individuals' professional qualification in the areas of construction, accounting and medical services have been mutually recognized between the mainland and Hong Kong. Besides, the concluded and under-negotiation FTAs between China and Chile, Australia, New Zealand, Singapore and Iceland also cover the issue of services trade liberalisation.

3.2 An overview of Norwegian trade policies applying to services

Today the majority of Norway's workforce is employed in the service sector and the service sector's share of the GDP is 56,3%. Norway is dependant on buying advice, information, leisure activities, transport and other services. Goods and service production is connected through value chains. Goods are not just produced; they are also developed, designed, marketed, sold and transported. Many Norwegian companies operate successfully within several aspects of this value chain. A highly skilled workforce is a key resource for most of them.

Although the State has reduced its share holdings in a number of enterprises, state ownership in the services sector remains substantial, particularly in financial, telecommunication, health and cultural services.

In 2006, Norway exported services for approximately US$ 31 billion. All in all, services are one of Norway's most important exports, accounting for just less than one quarter (22%) of Norway's total exports.

The Norwegian services industry has to a large extent developed in response to the need to utilise Norway's rich natural resources and overcome the challenges posed by a harsh climate and difficult geography. Long winters, difficult terrain, and the world's harshest seas all have to be overcome. This reality is reflected in the composition of the Norwegian services sector. Fields where Norwegian firms have specialised include

marine technology, shipping, hydropower, mineral resources engineering, aquaculture, the fisheries industry, forestry, and the oil and gas industry.

Norwegian service providers, being technologically advanced, are also competitive in high tech industries such as software and communications technology, space-related technology, the engineering industry, and biotechnology.

The shipping industry accounts for roughly half of Norwegian services exports (2006). Norway is Europe's most diversified maritime nation and commands worldwide respect for its shipping expertise, equipment and ability to exploit new market niches. Norway's overall maritime economy – an expanding cluster of industries linked to shipping and the aquaculture industry – encompasses an increasingly wide variety of products and services. Norway accounts for nearly 10% of the global shipping fleet, and has one of the largest merchant fleets.

The second largest Norwegian services export is "other business services" and financial services. Norwegian firms export an increasing number of services, in areas as diverse as finance and insurance, legal and auditing services, marketing and public relations, and management consulting.

When it comes to petroleum resource extraction, Norway is a world leader in both the technological and environmental fields. The oil and gas industry accounts for the majority of Norwegian export earnings, and the spin-off effects boost innovation and technological development in other Norwegian industry sectors. For example, Norway has some of the world's foremost expertise when it comes to subsea technology.

Due to its mountainous terrain, Norway has developed engineering expertise in creating underground facilities, including hydropower plants, oil storage facilities, water treatment works, underground stations, military installations and sports facilities. Nearly half of the world's 400 underground power plants are located in Norway. Road construction in a country of mountains and fjords is also a challenge, and Norwegian geological engineers have over time developed great expertise in cavern excavation, bridge construction, knowledge of rock properties, geological analysis, drilling and blasting.

Norwegian building and construction industry has attracted international attention for its innovative design and exceptional products. Norwegian architects have won international acclaim for their modern approach to traditional materials such as wood, stone and metal.

Table 3-3 Norwegian exports of services 2004–2006 (US$ million)

Description	*Year*			*% Change*
	2004	*2005*	*2006*	*2006/2005*
Services (Total)	22731,1	27564,4	31103,3	12,8
Transportation	12522	14477,9	14382,2	-0,7
Travel	2681,3	3133,8	3413,0	8,9
Communications services	289,3	355,6	367,0	3,2
Construction services	104,4	238,7	351,2	47,1
Insurance services	301,2	320,8	303,4	-5,4
Financial services	534,8	689,9	717,2	4,0
Computer and information services	509,2	845,5	1170,6	38,4
Royalties and license fees	217,7	492,9	718,2	45,7
Other business services	5136,5	6478,8	9037,6	39,5
Personal, cultural and recreational services	166,4	330,1	440,6	33,5
Government services, n.i.e.	268,3	200,3	202,2	0,9

Source of data: IMF

Norway imported services in 2006 for approximately US$ 30 billion. The largest Norwegian services imports are travel (accounted for roughly one third of services imports in 2005), shipping related services, business services and financial services.

Norwegian services imports are growing by an average of almost 10% annually (2003–2006). The largest increases are found in oil-related services and in the travel industry. Some of the growth is fuelled by the EU expansion, with service providers entering the country freely from the new EU members, combined with increased demand for foreign labour, particularly in the construction business.

Table 3-4 Norwegian imports of services 2004–2006 (US$ million)

Description	*Year*			*% Change*
	2004	*2005*	*2006*	*2006/2005*
Services (Total)	21868,4	27793,2	29600,8	6,5
Transportation	7610,6	8975,2	8841,2	-1,5
Travel	7638,3	9577,1	10767,9	12,4
Communications services	209,8	268,5	282,5	5,2
Construction services	35,3	39,0	46,5	19,1
Insurance services	395,3	392,0	137,5	-64,9
Financial services	1061,9	1163,6	1117,6	-4,0
Computer and information services	515,1	1063,4	1135,9	6,8
Royalties and license fees	397,9	437,7	522,1	19,3
Other business services	3269,7	4698,4	5496,7	17,0
Personal, cultural and recreational services	345,0	490,1	563,0	14,9
Government services, n.i.e.	389,5	688,0	689,6	0,2

Source of data: IMF

Trade in services in the WTO

Norway has made specific commitments under the GATS in all service categories except audiovisuals, health-related and social services. Norway has bound – with a few limitations on market access and national treatment – measures affecting cross-border supply, consumption abroad, and commercial presence for a number of services, including telecommunications, construction and related engineering services, and distribution and transport services. Norway has an open and liberal regime with respect to commercial presence. Measures affecting presence of natural persons remain generally unbound, except as indicated under Norway's horizontal commitments. In the ongoing services negotiations, Norway generally gives priority to closing the gap between existing levels of liberalisation and the bound commitments in the GATS. Sectorally, Norway gives priority to a meaningful liberalisation and full integration of maritime transport services in the GATS, and to commitments for energy services, telecommunication services, financial services (especially marine and energy insurance), computer, construction, architect and engineering, environmental, legal and air transport services. Norway has offered new commitments in a number of services, an expansion of the schedule of horizontal as well as sector-specific commitments, already implemented at the EEA level.

Trade in services under the EEA Agreement

According to the EEA Agreement Article 3, 4, 31–39, restrictions on the free movement of services and the freedom of establishment of nationals of an EC Member State or an EFTA State in the territory of any other of these States, is prohibited. Annexes VIII-XI of the EEA Agreement contain specific provisions on the right of establishment and Annexes IX-XI contain specific provisions on the freedom to provide services.

Trade in services in Norway's free trade agreements

In line with Norway's active involvement in other international fora, the Norwegian EFTA FTAs now include provisions for the liberalisation of trade in services. In the more ambitious agreements, these cover all modes of service supply and contain separate sections or annexes relating to specific sectors, e.g. financial services and telecommunications. They build on the General Agreement on Trade in Services (GATS) and follow a similar approach, complemented by enhanced specific commitments.

Norway's EFTA FTAs with European and Mediterranean countries all contain an evolutionary clause on services and investment with the aim of achieving gradual liberalisation and the mutual opening of markets for investments and trade in services.

3.3 Current trends of trade in services between China and Norway in specific sectors

3.3.1 Air transport services

After the launch of the reform and opening-up drive, China's civil aviation industry entered a new period of sustained and rapid development. Today, it has formed an air transport network radiating to various directions and linking main countries and regions around the world. According to the 11th Five-Year Plan, air transport services are expected to grow at an anually rate over 12% at least until 2010, and the volume of air transport in China is predicted to be as much as five times its current level by 2022. The main agency responsible for the governance of the civil air transport sector is the General Administration of Civil Aviation in China (CAAC).

According to China's WTO commitments, foreign services suppliers are permitted to establish joint venture aircraft repair and maintenance enterprises in China. The Chinese side shall hold controlling shares or be in a dominant position in the joint ventures. Licenses for the establishments of joint ventures are subject to an economic needs test. Furthermore, with regard to related laws and regulations, foreign ownership of Chinese airlines is permitted up to 49% while a single foreign investor's share should be no more than 25%.

The Agreement on Civil Air Transport between the Government of the People's Republic of China and the Government of the Kingdom of Norway was signed in 1973 and has subsequently been amended several times. This has greatly facilitated the friendly contacts between the peoples of Norway and China. In recent years, air links between China and Scandinavia have seen rapid growth. Further strengthening bilateral cooperation on air services under the framework of the FTA will be instrumental in supporting the cross-border trade, investment and tourism growth.

3.3.2 Maritime transport services

Maritime transport is a growth industry, which is expanding with increased trade in goods and globalization. According to UNCTAD figures the maritime transport volume grew by 52% from 1990 to 2005 and 13,5% from 2000 to 2005.

The maritime transport industry is a truly global activity with international rules for safety, security, environment and social conditions through the International Maritime Organization (IMO) and the International Labour Organization (ILO). This industry is based on international division of labour where the factors of production such as ships, equipment, crew, financing, insurance and classification are sourced in international and competitive markets.

Maritime transport is an important facilitator of world trade. More than four-fifths of world trade by volume is carried by sea. More than purely a facilitator, maritime transport is also a significant exportable service in many countries including Norway and China, and make direct contributions to the national GDP. In view of its importance, for Norway, substantive liberalisation of the maritime transport service sector is essential also in multilateral and bilateral trade negotiations.

Access to a global network of reliable, efficient and cost-effective maritime transport services is beneficial to all economies. Restrictions on maritime transport services can adversely affect a number of economic factors, including export and import prices, and the location of foreign direct investment. Liberalisation is the key to reducing maritime transport costs, providing greater choices to shippers, and ensuring fast and efficient deliveries. Liberalisation in the sector will also encourage foreign investment, which will not only enhance employment opportunities within the sector itself, but will also promote the growth of other related service sectors. The multiplier effect of the maritime transport service sector extends to activities such as ship repair and maintenance, ship classification, distribution, professional services, communications and banking and insurance services.

Norway

Maritime transport is an important sector for Norway. The Norwegian fleet ranks no 6 in the world and is comprised of 1665 vessels measuring 45 million dead weight tons (dwt) according to UNCTAD figures from 1 January 2006. Half of the value of Norwegian exports of services is related to maritime transport. The Norwegian fleet employ some 58000 seafarers of whom 20000 are Norwegians and 38000 foreigners.

Norwegian shipping companies have diversified interests in the Chinese market transporting a variety of cargoes especially by ro-ro and bulk vessels to a number of ports. The number of ship calls to Chinese ports by Norwegian vessels totalled 1000 in 2005. This makes China an important market for Norwegian ship-owners. Some Norwegian shipping companies have established presence in China in the form of representative offices, joint ventures or wholly owned companies.

The last ten years, Norwegian shipping companies have acquired 50 vessels from Chinese shipyards, and they have as of August 2007 46 vessels on order in China.

The Norwegian Shipowners' Association (NSA) has for many years co-operated with the Chinese Government, the China Shipping Group and the Shanghai Maritime Academy on education and recruitment of Chinese seafarers. This cooperation has yielded success and currently some 1200 Chinese seafarers are employed on vessels owned by Norwegian ship-owners. The Norwegian shipping companies would like to be able to operate as manning agents in China, or secondarily, to be more actively involved in the Chinese manning agents business to secure the Chinese seafarers' interests.

China

The maritime transport service industry of China has been developing very quickly in recent years. By 2005, China's fleet was the world's fourth largest in terms of carrying capacity and its container fleet ranked the fifth. The country plans to make its ocean-going fleet the third largest in the world by 2010. The total deadweight tonnage of Chinese-flag flying ocean vessels, which is 44 million at present, will reach 100 million by 2010.

The Ministry of Communications (MOC) is in charge of formulating shipping and port policies. The goals of China's shipping and port policies include establishing a competitive maritime transport market; building up an internationally competitive commercial fleet; and forming a multi-functional port system, taking into consideration economic development and security concerns. Deregulation and reform measures in the sector include updating legislation in accordance with China's WTO commitments, soliciting opinions from foreign and domestic enterprises; relaxing government control on domestic shipping enterprises; and encouraging foreign participation in the international shipping business.

According to related regulations of China, foreign services suppliers are permitted to establish joint venture shipping companies. Foreign investment shall not exceed 49% of the total registered capital of the joint venture. The Chinese side should appoint the chairman of board of directors and the general manager of the joint venture.

A bilateral agreement of shipping between China and Norway was signed in December 2004 in Shanghai, China. The agreement, which includes, among other issues, regulations for hiring crew and adherence to international law, is an important addition to the two countries' level of cooperation. The Norwegian shipping industry is heavily involved in China and the agreement will ensure better access to the Chinese markets and more preferable deals for Norwegian companies. An FTA between China and Norway could provide considerable scope for further cooperation and mutual benefit in the area of maritime transport services.

3.3.3 Energy services

A thriving energy sector – including energy services – is today recognised as a basic element of economic well-being. The availability of varied sources of energy at competitive prices contributes to a nation's ability to compete in the world marketplace. There is a high correlation between rising or more efficient energy usage and economic growth, increased life expectancy, and higher standards of living. Moreover, modern energy services provide the means to develop energy resources in an environmentally sound manner and in ways that promote responsible and efficient development and use of energy resources.

There is already a substantial degree of cooperation between Norway and China in the energy field, mainly focusing on oil and gas exploitation services and environmental services.

Oil and gas exploitation services

According to related laws and regulations, the ownership of mineral resources in China belongs to the whole country, and the State Council exerts the ownership on behalf of the country. To explore or exploit mineral resources, the enterprises must apply for the right of exploration and exploitation respectively, and go through registration legally.[15] Foreigners can provide offshore oil-field services only in the form of petroleum exploitation in cooperation with Chinese partners.[16] Foreigners can provide onshore oil-field services only in the form of petroleum exploitation in cooperation with China National Petroleum Corp. (CNPC) in designated areas approved by the Chinese government. In order to carry out a petroleum exploitation contract, the foreign services supplier should establish a branch, subsidiary or representative office within the territory of the People's Republic of China and go through registration formalities in accordance with relevant laws. The domiciles of the said offices should be determined through consultation with CNPC. Furthermore, the Renewable Energy Law has entered into force on 1 January 2006.

Given that China has substantial offshore production of petroleum, one would expect that Norwegian exports of oil and gas related services to China would be larger than what is seen today. One reason for the seemingly modest presence of Norwegian service providers in this industry in the Chinese market may be because some Norwegian companies operating in China are registered in Singapore.

A memorandum of understanding between Norway's Ministry of Petroleum and Energy and the National Development and Reform Commission (NDRC) of China on cooperation in energy saving and renewable energy was signed in 2006. The potential for further cooperation between Norwegian and Chinese companies in the oil and gas sector is significant, and will be an area of priority in the future of Sino-Norwegian economic cooperation.

3.3.4 Construction (and related engineering) services

The construction sector's position and role as a pillar industry in the national economy is growing stronger in China. From 2001 through 2005, the total output of the construction sector grew at an average annual rate of 21.3%. The employees in the construction sector accounted for more than 5.2% of the employed population in the country. Nearly one third of the rural labour working in urban areas was in the construction industry. In 2005, the added value realised by the construction sector accounted for 5.5% of GDP.

15 Article 3 of *Mineral Resources Law of the People's Republic of China*.

16 Annex 9 of *the Protocol of the People's Republic of China on the Accession to the WTO*.

Foreign investment in construction and related engineering services are permitted in the forms of equity joint ventures, contractual joint ventures and wholly foreign-owned enterprises[17] in China. According to China's commitments to the WTO and related laws and regulations, wholly foreign-owned enterprises can undertake the following four types of construction projects:

- Construction projects wholly financed by foreign investment and/or grants;
- Construction projects financed by loans or international financial institutions and awarded through international tendering according to the terms of loans;
- Chinese-foreign jointly constructed projects with foreign investment equal to or more than 50%, and Chinese-foreign jointly constructed projects with foreign investment less than 50% but technically difficult to be implemented by Chinese construction enterprises alone;
- Chinese invested construction enterprises which are difficult to be implemented by Chinese construction enterprises alone can be jointly undertaken by Chinese and foreign construction enterprises with the approval of provincial government.

Norwegian construction services constituted approximately 4,1% of GNP and 8% of total employment in Norway in 2006. Most providers of construction services are small private companies. There are a number of large companies in the business, and some of these are foreign owned companies. 6,5% of the workforce in the construction services sector has more than 12 years education, compared to a national average of 27%. The major changes in the construction services sector in recent years have been increased use of foreign labour, increased use of prefabricated components in buildings, increased use of information technology, improved waste disposal/recycling, and government demands on energy efficiency in buildings.

Companies performing construction work in Norway are required to be registered at the Norwegian administrative register agency unless they are registered in a national registry in a EU country.

Considering the comparative advantages of Norway in design and project management and that of China in construction and labour resources, construction and related engineering services industry has the potential to become an important contributor to the bilateral trade in services between China and Norway. Therefore, bilateral cooperation should be further enhanced in this sector. An FTA is expected to address a number of barriers including mobility of natural persons, market access issues and recognition of professional qualifications, which would create an improved environment for the business in this area.

17 See also Article 2 of Regulations on Administration of Foreign–Invested Construction Enterprises.

3.3.5 Educational services

According to the statistics of the Ministry of Education of China, there were altogether 141.087 international students studying in China, up 27.3% from 2004.[18]

The primary administrative department of educational services is the Ministry of Education of the People's Republic of China. Joint schools with foreign majority ownership are permitted in China.[19] In addition, foreign institutes and enterprises, representative offices of international organizations and foreign nationals residing in China are permitted to establish wholly owned schools to provide secondary and lower level education services for children of foreign nationals residing in China. More information is available on *www.moe.edu.cn*.

Foreign employees in Chinese-foreign cooperative educational institutions should comply with relevant regulations regarding employment of foreigners in China.[20] Detailed information is available in Regulations on the Management of Employment of Foreigners in China or the website *www.molss.gov.cn*.

In 1963, Norway and China signed an Agreement on Cultural and Educational Cooperation, which is the first agreement of its kind that China entered into with a Western country. Since then, activities and cooperation in these fields have increased substantially. A bilateral scholarship programme administered by The Research Council of Norway (NFR) and the Chinese Scholarship Council has been implemented successfully under the framework of the agreement.

Meanwhile, bilateral research collaboration is also ongoing in a wide range of fields. A Memorandum of Understanding for Scientific and Technological Cooperation between the Chinese Ministry of Science and Technology and the Research Council of Norway has paved the way for further discussions on priorities for scientific and technological cooperation and sharing of information. Polar and marine research has already been identified as areas of mutual interest. In 2006 a Letter of Intent between the Norwegian Ministry of Education and Research and the Chinese Ministry of Education on Norwegian-Chinese Co-operation in the field of Education was concluded.

The future FTA would enhance the bilateral educational and research cooperation between China and Norway, and facilitate the movement of students and educational professionals.

18 *China Trade in Services Report 2006*, China Commerce and Trade Press, P.230.
19 Annex 9 of the Protocol of the People's Republic of China on the Accession to the WTO.
20 Article 28 of *Regulation of the People's Republic of China on Chinese-Foreign Cooperative Education.*

3.3.6 Hotels and restaurants services (including travel and tourism)

Foreign services suppliers may construct, renovate and operate hotel and restaurant establishments in China in the form of joint ventures or wholly foreign owned subsidiaries. There is no special geographic registration on foreign owned hotels and restaurants. Foreign managers, specialists including chefs and senior executives who have signed contracts with joint venture hotels and restaurants in China are permitted to provide services in China.

In 2006, hotel and restaurant services constituted approximately 1,1% of GNP and 3,1% of total employment in Norway. Hotels and restaurants generate approximately one third of total tourist revenues in Norway. The sector is important in maintaining employment in rural areas. Part time workers, young employees and foreign workers, constitute a large share of total employees in the sector.

Companies in the hotel and restaurant sector in Norway are required to be registered at the Norwegian administrative register agency unless they are registered in a national registry in a EU country. There is no discrimination of non-national companies. However, managers are required to pass a written test to be allowed to run a hotel or restaurant. The test is in Norwegian, and hence implicitly demands Norwegian language skills.

The Approved Destination Status (ADS) Agreement

A Memorandum of Understanding between China and Norway on Visa and Related Issues Concerning Tourist Groups from the People's Republic of China was signed in 2004. In the same year, Norway got the Approved Destination Status of China.

The ADS agreement between EU and China went in to force in the autumn of 2004. A similar agreement between Norway and China was signed 3 of June 2004 and entered in to force parallel with the EU-China agreement. Visa handling procedures are facilitated and the agreement enables groups of people to travel for the mere purpose of tourism. This has contributed to a significant increase in the Norwegian tourist sector. In 2007 from January to September, Norway issued 4.440 visas under this agreement, but this only represents a proportion of all Chinese tourists travelling to Norway, who also can get their visas from other members (EU) of the Schengen Agreement.

There has been a marked increase in the two-way tourism flow between China and Norway in recent years. This development reflects the growing importance of the hotels and restaurants services for both countries. Under the framework of the future FTA, China and Norway are expected to cooperate to promote tourism by exploring ways and initiatives to introduce greater convenience to tourists, and providing them with more satisfactory hotels and restaurants services.

3.3.7 Environmental services

The environmental services sector includes refuse disposal services, sewages services, sanitation services, air pollution control, noise and vibration abatement, nature and landscape protection services, remediation and cleanup of soil, surface water and groundwater services, as well as data collection, analysis and assessment, amongst other services.

Partially due to a history of rigorous environmental regulations, the Norwegian market for environmental services is diverse and advanced, and the Norwegian providers of environmental services have years of experience meeting strict requirements. Norwegian actors hold specialised competence in niches such as renewable energy, waste management, sewage treatment, and air and water surveillance technology and systems. Norway has undertaken specific commitments, with some minor exceptions, in the GATS for all categories of environmental services, providing market access for non-domestic services providers.

Since the accession to the WTO, China has opened all categories of environmental services except environmental quality monitoring and pollution source inspection. Foreign enterprises may establish joint ventures with Chinese enterprises in China, and there is no limitation on ownership. Related regulations and measures issued by the State Administration of Environmental Protection of China include *Measures for Operation Certification for Environment Pollution Treatment Facilities*, *Measures for Administration of Qualification for environment Impact Assessment on Construction Project*, and *Measures for Administration of Operation License for Hazardous Wastes.*

Several Norwegian businesses in the environmental services sector are already engaged in the Chinese market, providing various services such as advanced solutions enabling recovery and recycling of materials, biological wastewater treatment for both the industrial and municipal sectors. There is, moreover, reason to believe that given favourable conditions, the trade of environmental services between Norway and China has potential to grow substantially.

3.4 Overall impact of liberalizing trade in services

Services are essential inputs in the production of goods and other services. They encompass a vast and disparate range of economic activities and dominate the economies of developed and many developing countries. Open services markets bring direct economy-wide benefits through the facilitation and encouragement of innovation, efficiency, and quality improvement, when they are regulated in accordance with sound, efficiency-enhancing principles.

The surveys of selected service sectors have demonstrated that services are not only important in the economies of Norway and China, but also an important component of total bilateral trade. Services are the main drivers of economic growth in developed economies and are playing an increasingly important role in economic development of emerging economies.

While Sino-Norwegian trade in services is increasing, further liberalisation of trade in services would be beneficial to the economies of both countries and as well as to economic cooperation and the facilitation of increased investments between China and Norway.

China and Norway recognise the importance to seek mutual beneficial and tailor made solutions for liberalisation of bilateral trade in services in future FTA negotiations. While the two countries have made commitments in the WTO, there are still some restrictions in the services sectors on both sides. It is recommended that that these issues are addressed in future FTA negotiations. All potential impacts on both countries services sectors should be taken into account in any FTA negotiations.

The overall impacts of further liberalisation in services trade are expected to deliver positive results for both the Chinese and Norwegian economies. Access to new technologies and expertise can be a significant positive factor for economic development and consumer welfare, by lowering costs for consumers and producers and shift factors of production to more effective use. Services trade liberalisation should seek to reduce barriers to trade while taking into account legitimate national policy objectives in areas such as protecting the environment, ensuring human health and promoting cultural diversity.

Chapter four: ***Investment***

Foreign investment is recognized by both China and Norway as a key to economic growth and an important basis for deepening and broadening the bilateral economic relationship. This chapter provides an overview of policies and barriers that affect the investment flow between China and Norway, and explores opportunities to promote bilateral investment.

4.1 An overview of Chinese investment policy and measures

Foreign investment has been an important part of China's open-door policy which is the basic state policy. Foreign investment has played a pivotal role in China's sustainable economic development since it adopted reforms and the open-door policy beginning in 1978. Foreign investment has contributed to the China's economic development by providing capital, technology, managerial expertise, and increasing employment, exports, and government revenue.

For 14 years until 2006, China has remained the largest recipient of foreign direct investment (FDI) among developing countries. Of the world's largest 500 firms, over 480 have invested in China.

There have been significant changes in China's FDI policy regime since its accession to WTO, which include efforts such as decentralisation, liberalisation, enhancement of transparency and legislative strengthening. China has improved its overall FDI policy regime by enhancing transparency and abolishing many WTO-inconsistent investment measures. Substantial progress has been made towards the objective of further opening up the service sectors, and China has strictly honoured its WTO commitment since accession. Substantive progress has been made. For example measures such as, relaxation of geographical and ownership restrictions, and removal of restrictions on scope of business, among others, have been applied.

China is struggling to shift its economic growth pattern and transform itself into a resource-conserving, environmentally friendly, and innovation-driven country. Priorities on attracting foreign investment will be consistent with its macro economic goals. China has introduced an industrial policy which serves as guidance for foreign investment. The latest edition of the Industrial Catalogue on Guiding Foreign Investment has been promulgated recently with a view to reshaping the FDI structure in line with

China's national economic development strategy. The new Catalogue came into effect on 1 December 2007. Foreign investors are welcome to engage in the areas of high-tech, energy-saving and environmental protection sectors, modern agriculture, modern service and service-outsourcing sectors.

The Chinese government is also making efforts to coordinate and harmonize regional economic development by carrying out strategies such as "the going west strategy", "the rise of the central region of China", and upgrading of the old industrial foundations in the northeast of China. FDI policy is also intended to assist such strategies.

In recent years, China has also started to encourage outward FDI, largely to upgrade technical skills and to secure supplies of key raw materials, such as petroleum and iron ore. The Central Government and some provincial governments have been encouraging firms to invest abroad by relaxing approval procedures and providing financial support. For example, the National Development and Reform Commission (NDRC) and the Export-Import Bank of China issued a "Notice on Loan Support Policy for Key State-Encouraged Overseas Investment Projects" on 27 October 2004, which specifies that preferential interest rates may be applied to overseas investment loans.

A description of China's FDI policies, legislation and procedures follows below:

Foreign Investment Forms

FDI in China falls into three major categories, which are respectively Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and wholly foreign-owned enterprises.

Chinese-foreign equity joint ventures are jointly established within China by foreign individuals, enterprises or other economic organizations on one side and enterprises or other economic organizations in China on the other. This kind of joint ventures shall take the form of a limited liability company.

Chinese-foreign contractual joint ventures mean that parties to such a venture shall agree, prior to the cooperative establishment of the venture, on the conditions for investment, the ratio of the distribution, the sharing of risks, the form of operations and management and the ownership of the assets at the time of termination of the venture.

Wholly foreign-owned enterprises are established within the territory of China and involve capital investment solely made by foreign investors. The term "wholly foreign-owned enterprise" does not cover branches of foreign enterprises established within the territory of China.

Legal Framework

The basic laws and regulations of China concerning foreign investment are *Law on Chinese-Foreign Equity Joint Ventures, Law on Chinese-Foreign Contractual Joint Ventures, Law on Wholly Foreign-owned Enterprises* and their implementing regulations. These laws

have been reviewed and revised periodically to reflect developments in the WTO and China's own commitments. Quite a few restrictions, such as requirement on the balance of foreign exchange, export performance, localization of supplies and notification of production plans, have been removed in recent years.

Other relevant laws and regulations important for foreign investors include *Corporate Income Tax Law (*which is a unified income tax, and will be implemented on 1 January, 2008*), Company Law and Contract Law*.

Industry Policy

The *Regulation on Guiding Foreign Investment* and the *Industrial Catalogue on Guiding Foreign Investment* are formulated to guide the orientation of foreign investment in line with the national economic and social development strategy of China, and to further protect the lawful rights and interests of investors. According to the above regulations, all foreign invested projects fall into four categories, namely encouraged, permitted, restricted and prohibited. For more details, please refer to *www.fdi.gov.cn.*

Establishment Approval

China's primary regulations on approval of FDI projects include the Law on Chinese-Foreign Equity Joint Ventures, Law on Chinese-Foreign Contractual Joint Ventures, Law on Wholly Foreign-owned Enterprises and their implementing regulations, the Administrative Licensing Law, the Catalogue on Guiding Foreign Investment, and other sectoral policies or guidelines.

As a decentralization effort, competence for screening and verification has been delegated to the provincial government authorities. These authorities can screen, verify and approve foreign investments not higher than US$ 100 million in "permitted" and "encouraged" industries. For "restricted" industries the limit is US$ 50 million. In cases of some newly opened service sectors, regulations or guidelines on verification procedures apply.

Projects valued at more than US$100 million for "permitted" and "encouraged" industries (US$ 50 million for restricted industries) which also falls into the "permitted" and "encouraged" category in the Catalogue on Guiding Foreign Investment must be verified by the National Development and Reform Commission (NDRC) and the Ministry of Commerce at the national level.

More details are available on *www.fdi.gov.cn.*

Regional Policy on Foreign Investment

To attract FDI to support the balancing and coordination of regional economic development is a priority. The Central Government has initiated strategies of promoting the development of the western region ("go west strategy"); central region ("the rise of the central region of China"); and the north-eastern region (by further opening old industrial foundations). The Chinese Government encourages foreign investors to participate in the renovation and restructuring of state-owned enterprises and investments in some

key industries which are locally advantageous and crucial to the regional development. The government also welcomes investment made by foreign corporations in the central region through the transfer of the high value-added part of manufacturing and service outsourcing.

The New "Corporate Income Tax Law"

The new "Corporate Income Tax (CIT) Law" was passed at the 5th session of the 10th National People's Congress on 16 March 2007. The new law will apply to both domestic and foreign investment enterprises (FIEs).

The new tax law was implemented on 1 January 2008. Productive FIEs which enjoy 15% and 24% favourable income tax rates based on the present income tax law, will pay a single uniform corporate income tax of 25%. They are eligible for a 5-year transition period with a gradual increase up to the 25% tax rate, although the "New Law" does not provide the details for this transition.

With the enforcement of the "New Law", some preferential CIT policies currently available exclusively to FIEs will be revoked. For example, the income tax incentives of "2 years exemption and 3 years deduction" will be abolished. But the productive FIEs which have not fully utilised the 5-year tax holiday before the effective date of the new tax law will continue to enjoy the remaining tax holiday.

According to the "New Law", the income tax rate for companies engaged in service trade will go down from 33% to 25%, indicating a greatly reduced tax. Small-sized and tiny-profit companies will enjoy a 20% preferential tax rate.

The new income tax law will adopt a new mechanism with incentive orientations "focusing on priority industries and supplemented by priority regions." Foreign investment enterprises engaged in development of high-tech\new-tech, infrastructure, agriculture, forestry, animal husbandry, and environment protection sectors will be granted new tax incentives. The new income tax law will provide incentives to the western region and special economic areas.

4.2 An overview of Norwegian investment policy and measures

Norway has a long tradition in welcoming foreign investments. Several of Norway's key industrial sectors were developed with foreign capital and competence. The hydro-electric power plants, which were the basis of the fertilizer industry and the aluminium industry, are examples of such sectors. Today, Norway is among the world's largest producers in both these sectors.

Furthermore, Norway is an open economy that welcomes foreign investments as a matter of policy. Norway provides a stable and predictable environment for foreign

investors. The World Bank ranked Norway in 2007 as the 10th easiest country in the world to do business in and as the 8th best country when it comes to enforcing contracts. Norway generally grants national treatment to foreign investors and specific exceptions from these principles are made only in a limited numbers of sectors. The government portal *www.bedin.no* contains information on rules and regulations pertaining to establishing and running a business in Norway. Foreign companies may also get assistance from Innovation Norway in business development throughout Norway. Innovation Norway's China offices are located at the Royal Norwegian Embassy in Beijing and at the Royal Norwegian Consulate in Shanghai.

At the end of 2005 the stock of foreign direct investments in Norway amounted to US$ 80.3 billion. European investors owned more than 70% of this capital. 31% were directed towards oil production and 28% towards manufacturing. Approximately 40% went to the service sector, where financial services, insurance and business services accounted for almost half of this.

Norway is among the best countries in Europe when it comes to entrepreneurship and innovation according to GEM (Global Entrepreneurship Monitor), and there is a steadily increasing interest in starting up new business in Norway.

There are two types of Limited Liability Companies in Norway:

- Private limited liability company (AS) – share capital: NOK 100.000 (US$ 16000), which is the most common
- Public limited liability company (ASA) – share capital: NOK1.000.000 (US$ 160000), mostly listed on the Oslo Stock Exchange)

It is very easy to start a new company in Norway. According to the World Bank it takes just 10 days to start up a new business in Norway, compared to an average of 15 days in the OECD countries. The new company will have to register in The Register of Business Enterprises and the Central Co-ordinating Register for legal entities.

The advantages of investing in Norway are i.a. as follow:

- Open, strong and stable economy;
- Full business access to the EU-market through the EEA agreement;
- Highly competent and motivated workforce at competitive wages;
- Stable political climate and efficient bureaucracy;
- Low corporate tax rate at 28% and the lowest income tax among the Nordic states;
- Good proficiency of foreign languages and English is spoken everywhere;
- Advanced R&D environment – large foreign R&D investment in Norway, in particular in selected branches like IT (Google and Yahoo in Trondheim and all major international energy companies in Stavanger);
- Tax deduction for R&D expenses – (Skattefunn);
- Satisfied foreign investors as foreign owned companies are quite profitable (2004, 10% gross profit on average);
- Excellent air and rail connection to major markets and logistics; and
- High quality of life

At the end of 2005, Norwegian foreign direct investment abroad amounted to US$ 102.6 billion. Norway has a relatively large share of its direct foreign investments in manufacturing and mining industries (35%) and a relatively minor share of investments in services (25%), compared to the structure of Norwegian economy. Norway's foreign direct investments were concentrated in Europe (56%). 20% went to North America and 11% to Asia.

4.2.1 Norwegian foreign portfolio investments through the Government Pension Fund – Global

The Petroleum Fund was established in 1990 as a fiscal policy tool to support a long-term management of the petroleum revenues. Renaming the Fund the Pension Fund - Global in 2006 was part of a broader pension reform, highlighting also the Fund's role in facilitating government savings necessary to meet the rapid rise in public pension expenditures in the coming years.

Due to large annual cash flows from the petroleum activities, causing considerable surpluses on Government finances, the Fund has grown rapidly since the first capital allocation in 1996. Current size of the Fund is US$ 301 billion as of 30 September 2007.

The Ministry of Finance is responsible for the management of the fund. The operational management is carried out by Norges Bank (the Central Bank) which invests the Fund in accordance with guidelines issued by the Ministry. The investment strategy for the Fund is to achieve high financial returns subject to moderate risk. The guidelines states that the fund is only to be invested abroad in financial instruments, and acts as a financial investor with a small ownership share in individual companies. Equities have accounted for 40 pct. of the funds strategic benchmark, and bonds 60 pct. In June 2007, the Ministry of Finance changed the benchmark for the fund, and the new strategic benchmark consists of 60% equities and 40% bonds. The guidelines also states an overall limit on deviations between the benchmark portfolio and actual portfolio, expressed as a tracking error of 1,5 percentage points.

The risks facing the fund are well diversified. The benchmark portfolio comprises indices for 27 stock markets, including 5 markets[21] classified as emerging markets by the benchmark index provider, FTSE. The list of emerging markets included in the benchmark has been deliberated at regular intervals in the National Budget documents, and was last changed in 2003 for the National Budget for 2004. The market analysis is based on as objective criteria as possible, measuring whether markets are open to foreigners, whether the legislation in each market protects investor rights and whether each market satisfies minimum requirements regarding settlement systems, size, liquidity and political and macroeconomic stability. The size of the markets is also important when meas-

21 Brazil, Mexico, South Korea, Chinese Taipei and South Africa.

uring how the inclusion of new markets in the benchmark will change the portfolios expected risk and return.

In addition to the markets included in the benchmark, Norges Bank is allowed to invest in other markets based on their own assessment of issues relating to valuation, return measurement, as well as the management and control of risks associated with investments in each individual market and currency.

The Government Pension Fund – Global's investments in China

Norges Bank publishes the funds holdings as of each year-end. While investments in fixed income instruments have been very limited, investments in Chinese equities have been significant. In table 4-1, companies are classified according to the location of their headquarters. Since companies located in Hong Kong often give exposure toward the Chinese economy, holdings of Hong Kong companies are also reported. The statements for the years 2005 and 2006 shows that the holdings of Chinese/Hong Kong equities have more than doubled from 2005 to 2006. Even though the fund has grown rapidly during this period, the share of Chinese and Hong Kong equities in the equity portfolio has increased. The shares of Chinese and Hong Kong equities as a percentage of the overall equity portfolio, by the end of 2006, were 0,7 pct. and 1,2 pct. respectively. The 1,2 pct. share in Hong Kong equities corresponded with the share of Hong Kong equities in the Funds benchmark.

Table 4-1 Investments in China/Hong Kong companies 2005–2006.

	2005		*2006*	
	China	*Hong Kong*	*China*	*Hong Kong*
Market value (US$ million)	327,2	726	752	1 048
Number of companies	45	119	89	133
Share of overall equity portfolio	0,4%	0,8%	0,7%	1,2%

Source: Annual reports, Norges Bank. Companies are classified according to the location of their headquarters.

By March 2007, Norges Bank Investment Management, which is responsible for asset management within Norges Bank, had 135 permanent employees. NBIM currently has offices in New York and London in addition to Oslo. The bank opened a new office in Shanghai in the fall of 2007. With the opening of the office in Shanghai the bank will gain local presence in the Asian markets, which constitutes 15% of the funds benchmark for equities and 5% for bonds.

4.3 Bilateral direct investment between China and Norway

An increasing number of Norwegian companies invest in China. The most recent big investments include Norske Skog, Norsk Hydro, Jotun, and TTS Marines ASA. In 2005 the Government Pension Fund-Global invested more than a total of US$ 752 million in 89 Chinese companies listed in China. According to Norwegian information, close to 200 Norwegian companies are established in China. 35 to 40 of these are production companies. The other establishments are sales offices and representative offices.

According to Norwegian statistics, Norwegian direct investments in China in 2004 amounted to almost US$ 25,3 million. However, since Norske Skogs investments in China alone have amounted to almost US$ 296 million, these numbers apparently do not give the full picture of Norwegian investments in China.

According to official Chinese figures, Norway had made 258 separate investments in China. Furthermore Norway had invested US$ 268 million by the end of 2006, and made commitments to invest a further US$ 533 million.

The main sectors for Norwegian investments in China are the maritime sector, the energy and environment sector, oil and gas, aquaculture, and the processing industry.

Chinese companies are also investing in Norway. To this date (December 2007) three Chinese companies are established in Norway; ZTE, COSCO and Air China.

As a result of increased investments between China and Norway a sub-committee on investments was established in September 2006, under the Joint Economic Commission. The objective of the sub-committee is to facilitate bilateral investments by exchanging information on laws, regulations, policies and other related information on overseas investments. The committee also enables Chinese and Norwegian investors to raise issues of concern.

A bilateral investment treaty (BIT) is in force between Norway and China. The treaty was signed 21 November 1984 and entered into force 10 July 1985. The treaty includes, i.a. provisions on most favoured nation treatment and expropriation, giving investors predictability in the areas covered.

4.4 Overall impact of liberalizing investment

The study shows that the investment flows between China and Norway, although increasing rapidly in recent years, are still modest relative to bilateral trade. This reflects both regulatory and other impediments to investment and, to some degree, lack of awareness of business opportunities in the other country.

As an international treaty, the future FTA between China and Norway would result in:

- Greater transparency of regulations and laws that affect both direct and portfolio foreign investments;
- more liberalised regimes which will facilitate foreign investment in each country;
- more stable policy frameworks for investors, which could facilitate the two countries developing bilateral trade and economic relations more actively; and
- open domestic markets to each other more quickly.

The future FTA between China and Norway would provide an improved investment environment for bilateral businesses. Both countries could benefit from an increase in bilateral investment, and the exchange and transfer of knowledge, technology, ideas and export opportunities that would flow from increased investments. Furthermore, the future FTA would be expected to promote bilateral investment not only by strengthening investor confidence, but also by positively affecting market perceptions and lead to increased investor interests in new business opportunities in the other country. In the long run, more integrated markets forged by the FTA could improve the competitive capacity of enterprises, the efficient distribution of resources, and further promote two-way investment.

China and Norway should reaffirm their desire to consider the potential for further cooperation opportunities in the FTA and to increase the mutual benefits through the further facilitation of bilateral investment.

Chapter five: ***Strengthening bilateral economic cooperation***

An FTA would be expected to further enhance bilateral trade and economic cooperation between China and Norway. Therefore, it is agreed that the joint FTA feasibility study should address other sector-specific issues and broader horizontal topics of importance to the commercial relationship, and highlight possible areas for cooperation and facilitation to further promote bilateral trade and investment through an FTA. This chapter explores each of these issues in turn, including trade facilitation, E-commerce, sanitary and phytosanitary measures, technical regulations and standards, intellectual property rights, SME's cooperation, temporary movement of natural persons, trade and investment promotion, environment and technology cooperation, and development cooperation.

5.1 Trade facilitation

It is well recognized that trade facilitation contributes greatly to the liberalisation of international trade, which nowadays keeps expanding much more rapidly than ever before. In promoting the trade relations between nations, trade facilitation also plays a distinct role. As a key link in the international circulation of commodities, customs procedures play an important role in promoting the development of trade facilitation.

China

At present, the modernization of the customs regime is underway in China. Trade facilitation is one of the goals that China Customs endeavours to reach by its ongoing modernisation drive. The approaches of trade facilitation take various forms such as establishing infrastructure and facilities for trade, enhancing transparency in trade-related regulations, simplifying the procedures for trade, and applying best practice and techniques developed by relevant international organizations. In a word, trade facilitation could be regarded as a process of reform in the customs regime which aims to facilitate the movement, release and clearance of goods.

China actively takes part in various international fora engaged in trade facilitation under different frameworks, which include APEC, the World Customs Organisation (WCO), and the WTO. China is also involved in some regional trade arrangements, e.g. the Great Mekong Subregion (GMS).

Under the WTO Doha Round Negotiations, China is an active participant in the negotiations on trade facilitation. So far, China has submitted 7 proposals focusing on transparency, risk management, post-clearance auditing and identifying needs and priority. Most of the proposals are co-sponsored by other members. Through clarifying and improving GATT article V, VIII and X, and providing Technical Assistance and Capacity Building (TACB) and Special and Differential Treatment (S & DT) to developing country members, China believes, trade facilitation will benefit all the members under the multilateral trade system.

In 2006, the National Office of Port Management was formally set up, which has enabled port management to take on a new look. China Customs has made every effort to promote the Integrated Clearance Project, which fully capitalises from an established liaison and coordination mechanism between the different port managements and authorities. As a result, most of the ports have witnessed constantly increased customs clearance efficiency, especially in the ports considered important.

China Customs has engrained the strategy of "building a smart Customs with science & technology" in its day-to-day work, under which the Customs pays great attention to raising the management level by using science & technology and the effectiveness of science & technology applications, and has principally established E-Customs, E-Port and E-General Administration application systems. These systems are providing strong technical support for networked Customs clearance operations, smart control, digitised management and sound administrative decisions.

Currently, E-Customs System has been upgraded, switching from H883 to H2000. For E-General-Administration System, China Customs has developed and applied the subsystems for import and export statistics compilation, risk management, enforcement evaluation, revenue analysis and monitoring, prior warning monitoring, office automation, anti-smuggling investigation. E-Port System has developed into a unified cross-department, cross-region and cross-sector information platform for both port clearance enforcement and management and relevant logistical services.

Norway

Trade facilitation is an area which the Norwegian Administration regards to be very important. The Norwegian Customs Administration is within its competence continuously trying to simplify import and export procedures as well as other customs related procedures.

The Norwegian Customs participates actively in various international fora engaged in activities such as simplification of customs procedures and trade facilitation. These fora include the UN, WCO, various EU and EFTA committees and other organisations like the International Road Transport Union (IRU).

One priority during the last few years has been the development of the "New Computerised Transit System (NCTS)" together with the EU and the other EFTA countries. The

EU and the EFTA countries are contracting parties to the Transit Convention. When the NCTS became operative, transit of goods within Europe became "paperless", and all communication concerning transit consignments between Customs authorities are conducted by electronic messages.

Since 1988 the Norwegian Customs' electronic clearance system TVINN has been applied for import declarations and since 1992 for export declarations. Today 99% of all import and export declarations are submitted and cleared through the TVINN system. The average clearance time (except for documents and consignments stopped for control) is less than 10 minutes from the time when the declaration is submitted to the Customs and the goods are released. Claims for customs duties and other taxes are automatically issued.

The TVINN system is open 24 hours a day and declarations may be submitted at all time. If the system finds no errors in the declaration, or it is not stopped by any control parameters set in the system, the consignment is normally released for free use by the owner without further interruption.

The Norwegian Customs has also developed electronic systems for assessing and claiming excise duties and vehicle taxes, accounting, enforcement purposes and risk analysis. The Norwegian Customs has also links with the computer systems of other governmental authorities on behalf of which the Customs performs various task. Such authorities include veterinary and agricultural authorities. The customs procedures and the electronic systems used by the Norwegian Customs are under constant scrutiny aimed at achieving further simplification and efficiency for both the Customs and the traders.

Norway has in most respects gone beyond the requirements and recommendations set in international bodies, conventions and agreements where simplification of Customs procedures is concerned. However, the Norwegian Customs gives priority to further international harmonization of Customs procedures, for example through the revised Kyoto Convention and as an integrated part of international trade agreements. In the development of simplified procedures and electronic systems, the use of international standards and recommendations is considered very important, and these are applied in most cases where such standards exist.

In a free trade context, Norway aims at liberalising trade procedures between free trade partners to the extent possible. Time-consuming procedures are major obstacles to trade. By establishing computerized clearance systems and sophisticated risk management systems and targeted controls, most of the trade can be conducted between exporters and importers without unnecessary delays.

Within the WTO, Norway is actively participating in the negotiations on the revision of GATT Articles V, VIII and X.

In the ongoing negotiations on FTAs within the EFTA framework, trade facilitation is a subject of considerable importance. Within the EFTA States provisions on trade facilitation for future FTAs is under constant development depending on the view and situation of the partner country.

Opportunities for Future Cooperation

Efficient and simplified customs procedures are crucial in contributing towards trade facilitation between China and Norway. Cooperation can ensure that customs requirements are met, while minimising any disruption to the flow of goods, and avoiding any unnecessary costs to traders. Under the framework of the future FTA, China and Norway Customs could strengthen their existing relationship to further facilitate bilateral trade. Furthermore, the inclusion of provisions on customs procedures and trade facilitation in a future FTA would be beneficial to Sino-Norwegian goods trade.

5.2 E-commerce

The increasing use of information technology and digital communications systems, especially the Internet, by business in China and Norway has been a major driving force behind the rapid development of E-commerce in recent years. E-commerce can bring markets closer together, thus facilitating goods trade and introducing new services. The enterprises, SMEs in particular, will profit from the use of E-commerce as it improves efficiency and reduce the cost of transactions.

China

Although starting late, E-commerce is witnessing a rapid popularization and development in China. According to the latest statistics from China Internet Network Information Centre (CNNIC), the number of Internet users in China reached 162 million by June 2007, ranking the 2nd in the world, only after the United States. Among them, about 104 million are broadband Internet users. By the end of 2006, the number of computers linked to the Internet in China reached 60 million.

Besides individual Internet users, most Chinese enterprises have established their own enterprise resource planning (ERP) systems and have been carrying out network marketing, supply-chain management (SCM) and customs relation management (CRM). The models for conducting E-commerce among Chinese enterprises vary and include setting up websites for on-line expositions, on-line trans-national project fairs, continuous online fairs and information portals. Chinese companies have been exploring markets through online negotiations, online sales promotions and online trading. Online purchasing, online auction and online bidding in China have also experienced a rapid increase. Statistics from MOFCOM shows that the E-commerce trade of China reached to RMB 1700 billion (about US$ 212.5 billion) in 2006, among which the business-to-business (B2B) E-Commerce valued 1280 billion RMB 1280 billion (about US$ 160 billion).

With the development of the infrastructure, human resources and information technology in the new century, China is in a position to further explore the use of E-commerce. In July 2007, the National Development and Reform Commission and the Information Work Office of the State Council jointly released the first E-commerce development plan of China. The new plan puts forward the general objectives of China's E-commerce development in the next five-year period. Specifically, by 2010, a basic pattern of E-commerce development environment, support systems, technical services and applications shall be formed. E-commerce should by that point become an important industry and E-commerce applications should develop dramatic growth in the national economy and social development. In order to meet the goal, the Plan states two emphasises of E-commerce. One is to popularize E-commerce applications and the other is to develop the E-commerce industry on a grand scale.

Norway

Norway's Internet communication systems are of high standards, with the adoption rates by businesses and households consistently ranking among the lead nations of the world. The 2006 E-readiness Rankings produced by the Economist Intelligence Unit ranked Norway highly (11th out of 68 countries) in terms of providing an environment conducive to the emergence of e-business. Other E-commerce statistics of Norway include[22]:

- Percentage of households with Internet access: 69% (2006)
- Percentage of enterprises with Internet access: 86% (2004)
- Percentage of individuals using the Internet at least once a week: 77% (2006)
- Percentage of households with a broadband connection: 57% (2006)
- Percentage of enterprises with a broadband connection: 86% (2006)
- Percentage of individuals having purchased/ordered online in the last three months: 47 % (2006)
- Percentage of enterprises having received orders online within the previous year: 28% (2006)

The successes of quite a few Norwegian e-companies, such as "Norwegian" (airliner), "Platekompaniet" (music), and "Fast Search and Transfer" (search engines), can be attributed to Norwegian market characteristics where consumers have an unusually high aptitude for IT knowledge and a hearty appetite for consumer electronics.

As a member of the EEA, Norway has not fully implemented the body's E-Commerce specifications. However, Norway has enacted a national E-Commerce Act which supports much of EEA.

Opportunities for future cooperation

A possible bilateral FTA would provide an opportunity to enhance E-commerce cooperation between China and Norway. Under the framework of the future FTA, China and Norway should make joint efforts to establish a framework that could ensure the sound

22 Source: Eurostat.

development of E-commerce in both of the two countries and consistency with existing multilateral and regional trade rules and norms with a bearing on E-commerce.

Areas for cooperation under the future FTA that could be further explored include:

- Minimisation of the regulatory burden on E-commerce;
- consistency with existing multilateral and regional trade rules and norms with a bearing on E-commerce;
- effective data and consumer protection;
- cooperation in the development of paperless trading; and
- implementation of related capacity building and human resource development projects for a wider application of E-commerce.

5.3 Sanitary and phytosanitary measures (SPS)

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) establishes the international rules-based framework for developing and adopting SPS measures. The SPS Agreement acknowledges the right of members to undertake measures to protect human, animal or plant life and health. It requires that such measures should not be used to restrict trade unnecessarily, are based on scientific principles and are not maintained without sufficient scientific evidence or available pertinent information.

China

Since accession to the WTO, China has established a SPS notification authority and a SPS enquiry point. China has committed to comply with the SPS Agreement and ensure conformity with the SPS Agreement of all its laws, regulations, decrees, requirements and procedures relating to SPS measures. With the booming of China's imports and exports of agricultural products and food, the relevant SPS measures are to be strengthened to prevent the outbreak of existing or emerging infectious diseases or pests and to prevent the contaminated food with toxic substances to protect the human, animal and plant life or health.

The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is a law-enforcement administrative organ of the State Council in the field of quality, metrology, entry-exit commodities inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, supervision of food safety, certification and accreditation and standardization. It is the key government authority in charge of entry-exit animal and plant quarantine and food safety, which are the three main issues covered by the SPS agreement of the WTO. The national SPS enquiry point of China is established in AQSIQ.

The Certification and Accreditation Administration of the People's Republic of China (CNCA) is responsible for the registration system of food manufacturing and processing establishments. The registration requirement applies to both importing and exporting establishments. With regard to import, CNCA, according to the Regulations for Administration of Registration of Foreign Food Establishment Intended to be Imported into China, is authorized to register foreign-located enterprises that produce, process or store foodstuffs destined for China. All foreign establishments exporting food listed on the Imported Food Catalogue for Establishments Registration must apply to CNCA for registration, which means that food listed on the catalogue without registration is not allowed to be exported to China.

The Standardization Administration of the People's Republic of China (SAC) is authorized by the State Council to exercise the unified management of standardisation work in China. It is responsible for drafting the standardisation laws and regulations, formulating the long-term development programs and short-term working plans. SAC is also responsible for the examination, approval, numbering and publication of national standards, and for the registration and guidance of sector standards, local standards and company standards. It also represents China in the International Organization for Standardization (ISO), the International Electro-technical Commission (IEC) and other international and regional standardisation organisations.

AQSIQ is also responsible for conducting risk analysis of the entry-exit of plants and animals and food safety. Chinese measures are science-based and proper risk assessments are carried out accordingly. AQSIQ will determine whether the related agricultural products and food are to be allowed for imports and exports. As a result, the imported or exported products hold high hygienic and health standards. AQSIQ will establish inspection and quarantine requirements for the importing or exporting products, as well as negotiate with related government authorities of other countries on general SPS issues or detailed inspection and quarantine requirements for specific products. To standardise the risk analysis procedure, AQSIQ has released detailed administrative regulations on science-based risk analysis for animal and plant quarantine, taking the related standards of the World Organization for Animal Health (OIE) and the International Plant Protection Convention (IPPC) as reference.

Non-discrimination is one of the core principles followed by Chinese authorities in the implementation of the WTOs SPS Agreement. The local SPS authorities are directly monitored by the AQSIQ to ensure that SPS laws and regulations are uniformly adhered to.

Norway

Norway has committed itself to the rights and obligations in the SPS Agreement since it entered into force in 1995. The work and results of the activities of the standard body setting organisations, and in particular The Codex Alimentarius (CODEX), The World Organisation for Animal Health (OIE) and the International Plant Protection Convention (IPPC), play a crucial role drawing up regulations in this field.

Norway is free of many pests and diseases commonly found in other countries, i.e. food-borne diseases and zoonoses. Thus Norway applies a high level of protection in relation to imports and international trade in plants, animals and foodstuffs. The level of protection must be seen in relation to freedom status obtained by internationally recognised surveillance and control programs. Examples are Residue plan, freedom and/or control plans for tuberculosis, brucellosis, Newcastle disease, BSE/TSE, salmonella, campylobacter, several fish diseases and plant pests (a fully detailed list can found in the annual report from the Norwegian Food Safety Authority). In general, restrictions may be applied on imports where such surveillance and control programs have been established.

Norwegian measures are science-based and proper risk assessments are carried out accordingly. As a result, Norwegian products hold a high hygienic and health standard. Risk assessments on a daily basis are carried out by the Norwegian Food safety Authority, but particular difficult and sensitive issues are put forward to the Norwegian Scientific Committee for Food Safety for evaluation. The level of protection is determined at political level in the relevant ministries.

The main part of Norwegian SPS measures are harmonised with the EU legislation through the EEA Agreement. An important exception is the plant health legislation. Even if these regulations are national regulations, the main elements are based on the same principles as the EU legislation. The objective of these principles is to secure production and trade of plants and propagation material with the best possible health and satisfactory quality. This includes measures necessary to prevent the introduction and spreading of pests which has harmful effect on the plants.

Norwegian regulations in the food safety area are harmonised with the EU regulations through the EEA Agreement. These regulations are not only equivalent to the EU regulations, but identical, corresponding to the obligations of the EU member states. EEA regulations cover also third country legislation, including safeguard measures. As a non-member of the EU, Norway may in certain cases adopt national safeguard measures corresponding to an immediate threat which depart from the adopted EU measures, but that is not commonly done. For the time being no such national legislation is in force.

The responsibility for SPS-regulations at the political level is divided between three Ministries, depending on the products and stage of processing: The Ministry of Health and Social Care, the Ministry of Fisheries and Coastal Affairs and the Ministry of Agriculture and Food. The management and execution duties are covered by one single body, The Norwegian Food Safety Authority, which covers the whole food chain from farm to fork. The Ministry of Agriculture and Food is responsible for coordinating administrative and budgetary matters for that body. Regulation of deliberate release of genetically modified organisms (GMO) is the responsibility of the Ministry of the Environment. In relation to imports and exports the Norwegian Food Safety Authority is the responsible organ for the application of import controls and issuing of export certificates.

The Norwegian SPS notification point is the Ministry of Foreign Affairs, while the SPS enquiry point is the Ministry of Agriculture and Food. The latter Ministry also coordinates the work associated with the WTOs SPS-committee as well as SPS matters in free trade agreements with other countries.

Opportunities for future cooperation

Relations between Norway and China in the SPS area have developed over time on the basis of friendly and constructive relations. In order to further this cooperation, a "Memorandum of Understanding" (MoU) has been negotiated, and a full text has been developed at the administrative level. The signatory ceremony of the Memorandum is expected to take place in the near future. The parties to that MoU are the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), and on the Norwegian side, the Ministry of Fisheries and coastal Affairs and the Ministry of Agriculture and Food. The scope of the MoU is limited to the competency of the respective parties mentioned. In 2004, China and Norway agreed to cooperate in the field of seafood safety and are presently engaged in a joint study on Listeria.

The two parties have also met occasionally and informally within the margins of the meetings in the WTOs SPS committee. But also in this respect, contacts could and should easily and conveniently be developed.

Several delegations from China, also from regional levels, have visited Norway, mainly for information purposes, but also for discussions on the abovementioned MoU. Norway has found these visits very interesting and useful. The visits have been carried out in the form of meetings and in-door information settings, as well as on-the-spot visits at certain premises such as the Border Inspection Post at the airport of Oslo. Similar mutual visits should be encouraged in the future.

In the context of a possible free trade agreement China and Norway would have the opportunity to strengthen cooperation on SPS issues and establish common understanding to related principles and implementation mechanisms.

- The opportunities for bilateral cooperation may include, but are not limited to: Dealing with SPS issues in a framework of enhanced consultation and cooperation;
- improving the understanding of each other's measures and regulatory systems;
- work together to improve SPS operations and associated regulatory practices and to address problems as they arise;
- agreeing on the principles to be applied by both sides with respect to inspection, testing and certification procedures;
- working together to ensure that SPS measures or other standards do not result in unjustifiable restrictions on trade; and
- without prejudice to the EEA Agreement, agreeing on the principles of harmonization, equivalence, transparency and regionalization to address relevant SPS issues.

5.4 Technical regulations and standards (TBT)

The development of globalization has made technical regulations and standards an important component of the international trade policy framework. A widely accepted international standards system will play a key role in protecting fair market competition, expediting transaction of commodities and thus promoting international trade.

As WTO members, both China and Norway follow the WTO Agreement on Technical Barriers to Trade (TBT), which governs the formulation and use of technical regulations, standards and conformity assessment procedures.

China

China has established a national TBT enquiry point in conjunction with implementation of the WTOs TBT Agreement and attaches emphasis particularly to the principle of transparency. China has been making great efforts in recent years to remove technical and regulatory barriers to trade, especially in the areas of standards and conformity assessment, by taking measures consistent with the WTOs TBT Agreement. The adoption of international standards has been greatly increased.

To strengthen and unify the administration of standards, as well as certification and accreditation activities, the Chinese Government established the Certification and Accreditation Administration (CNCA) and the Standardization Administration (SAC) under the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) in 2001 to undertake the certification, accreditation and standards formulation work respectively. China has also amended and adopted a series of new laws and regulations on standards and conformity assessment procedures in order to improve the implementation of its WTO obligations. Technical regulations and national standards will be reviewed and assessed every five years to ensure that they comply with Article 2.4 of the TBT Agreement.

China implements a unitary regulatory system for certification and accreditation activities in accordance with *Regulations of the People's Republic of China on Certification and Accreditation*. To honour the commitments under China's accession to the WTO, AQSIQ and CNCA merged the former two compulsory certification systems into China Compulsory Certification (CCC) system, which equally applies to imported and domestic products, and the two former CCIB Mark and Great Wall Mark were replaced by the new CCC Mark in 2002. According to the *Regulations*, products listed in the CCC Catalogue, which is formulated by AQSIQ and CNCA, are subject to compulsory certification and may be released from the manufacturer, marketed, imported or used for any commercial purposes only after they are certified by the Certification Bodies designated by CNCA and have CCC Mark applied as required. The *Regulations* also provides that a certification body may engage in certification activities only after it is approved by the state's certification and accreditation regulatory authority, CNCA.

While encouraging the adoption of international standards and practices in formulating and amending national standards, China also looks into ways to strengthen bilateral or multilateral cooperation on standards and conformity assessment. China is a full member of the International Organization for Standardization (ISO), the International Electro-technical Commission (IEC), the International Telecommunication Union (ITU), Codex Alimentarius Commission (CAC), the International Accreditation Forum (IAF), the International Laboratory Accreditation Cooperation (ILAC), and the International Personnel Certification Association (IPC), and has been actively participating in the activities of these organizations.

Norway

Norway has developed an extensive framework for addressing standards and conformance issues. Standards Norway (SN), the Norwegian Electro-technical Committee (NEK) and the Norwegian Post and Telecommunication Authority (PT) are the three standards writing bodies in Norway.

Standards Norway, responsible for all standardisation except for those covered by the two other bodies, adopts and publishes some 1,500 new Norwegian Standards (NS) annually, based on nationally made standards and on European and International standards. Standards Norway is the Norwegian member of the European Committee of Standardization (CEN) and ISO.

The Norwegian Electro-technical Committee adopts and publishes some 300 new standards annually, and is the Norwegian member of the European Committee for Electro-technical Standardization (CENELEC) and IEC.

The Norwegian Post and Telecommunication Authority (PT) is responsible for post- and telecommunication standardisation in Norway. Its major tasks are the coordination of international and European work in this area. PT is the Norwegian national member of the European Telecommunications Standards Institute (ETSI) and the International Telecommunication Union (ITU).

Norway has committed itself to the WTOs TBT Agreement since the entry into force of the agreement in 1995. In addition to multilateral obligations, Norway's TBT policy is constantly formed to mirror developments in the EU.

The EEA Agreement is regularly updated in parallel to the EC legislation within the scope of the Agreement. As prescribed by the Agreement, Norway takes appropriate measures to facilitate the smooth functioning of the Agreement. Hence, restrictions on imports and exports of goods within the Area, is prohibited cf. Article 3,4, 8, 11–13. Specific provisions and arrangements are laid down in the Agreements Annex II in relation to technical regulations, standards, testing and certification.

To remove barriers to the free circulation of goods, the EC and the EEA EFTA states use the New and Global Approach as one of the most important instruments.[23] The approach, which implies harmonisation of product requirements and certification systems, gives European standards a vital role and leads to CE-marked products, which may circulate freely within the EEA Area.

About 22 product sectors are harmonised in accordance with the New and Global Approach. The governance of the legislation in these product sectors is in Norway dealt with by different Ministries. The Ministry of Trade and Industry has an overall responsibility for the well-functioning of the approach as such.

Opportunities for future cooperation

A possible FTA between China and Norway would develop bilateral cooperation through identifying principles, disciplines and procedures for dealing with technical requirements, standards and conformity assessment that affect bilateral trade. The FTA could also promote technical cooperation and capacity building in the TBT area, including information sharing, seminars and exchange visits.

In the context of a possible FTA, China and Norway will have the opportunity:

- To encourage wider application of international standards through bilateral cooperation;
- to identify and eliminate existing unjustified technical barriers to promote bilateral trade;
- to improve information-exchange mechanisms between the related government authorities of the two countries and to enhance transparency in the regime of technical regulations, standards and conformity assessment;
- to strengthen cooperation on mutual recognition of conformity assessment; and
- to carry out bilateral cooperation in the field of technical regulations, standards and conformity assessment.

5.5 Intellectual property rights (IPR)

Intellectual property rights protection is a key factor in facilitating economic development and international trade. The establishment and maintenance of effective intellectual property rights regimes provides incentives to innovate and to disseminate ideas and information. Intellectual property rights also help creating an attractive environment for investment and technology transfer. Hence, intellectual property rights are of crucial importance in stimulating investment in innovation. Their importance will continue to grow as the global knowledge economy evolves.

23 A guide to the approach is found on the following website: *http://europa.eu.int/comm/enterprise/newapproach/legislation/guide/legislation.htm*

China

China regards protection of intellectual property rights as an important component of its reform and opening policies and legal framework. Since the 1980s, China has promulgated dozens of laws and regulations for IPR protection including, i.a. the Trademark Law, Patent Law, Copyright Law, Regulations for Protection of Computer Software, Regulations for Penalizing Anti-IPR Crimes, and Regulations for Customs Protection of IPR. A comprehensive legal system of IPR protection has been established.

China attaches importance to enhancing public awareness of IPR protection. Measures taken include holding seminars, producing TV programs, publishing books, and so on. The relevant authorities also provide training on IPR protection with respect to officials, heads of enterprises and technicians. Since its accession to the WTO in December 2001, China has attached high priority on intellectual property rights in conformity with its obligations as a member of the WTO. More stringent penalties for intellectual property infringement have been implemented, together with a large-scale campaign against piracy and counterfeiting.

While making great efforts to improve the domestic legal framework for IPR protection, China has also engaged actively in activities of related international organizations, and strengthened its cooperation and exchanges with other countries in the field of IPR protection.

Norway

Norwegian legislation covers patents, trademarks, designs, geographical indications and plant variety rights, as well as copyright and protection of compilations of data.

Enforcement primarily takes place through civil action taken by right holders through the courts. A new provision has recently been introduced into the Customs Act in order to facilitate enforcement. The provision gives Customs authorities increased access to temporary stop consignments of merchandise suspected of containing counterfeit or pirated goods at the borders. This will make Norwegian border control measures more effective.

Norway became a member of the European Patent Organisation (EPO) on 1 January 2008, and contributes actively to the activities conducted under the auspices of the EPO. Reference is made to the EPO-SIPO Strategic Partnership Agreement that was concluded in June 2007.

The Norwegian government is preparing a White Paper on Innovation to be presented for the Parliament in 2008. Measures in the field of intellectual property rights are going to be one of the focus areas. Competence building and raising awareness in the IPR field among Norwegian enterprises, especially SME's, may be one of the focus areas in the White Paper.

Furthermore, the Government focuses increasingly on measures to facilitate effective enforcement of IP rights, both in Norway and abroad. One goal is to make sure that SMEs, too, can effectively enforce their rights.

Norway also endeavours to act as a bridge-builder between North and South in international fora where IPR-matters are discussed, such as the World Intellectual Property Organisation (WIPO), the WTO TRIPs-Council, the Convention on Biodiversity (CBD), the World Health Organisation (WHO), the Food and Agriculture Organisation (FAO) and others.

Opportunities for Future Co-operation

China and Norway are both members of the World Intellectual Property Organisation, and Parties to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs). Accordingly, both countries maintain comprehensive legal frameworks for the protection of intellectual property rights.

An FTA could help strengthening cooperation between China and Norway in the field of IPR protection, i.a. by information and knowledge exchange between the two countries regarding their respective and IPR legal frameworks IPR policy regimes.

China and Norway agreed in the Joint Study Group to further explore cooperation under an FTA in the following areas:

- Strengthening cooperation on the implementation of intellectual property rights, including in relation to legal, administrative and implementation processes;
- exchanging information on national legislation and accession to international treaties;
- establishing cooperative mechanisms to settle problems identified in the intellectual property rights area, in the first instance through regular clearing of IPR-related matters in the Chinese-Norwegian Joint Economic Commission; and
- cooperative activities under the EPO-SIPO Strategic Partnership Agreement concluded in June 2007.[24]

5.6 SME Cooperation

Small and medium sized enterprises (SMEs) are an important component of both the Chinese and Norwegian economies, both in terms of their number and the proportion of the labour force employed by them. In recent years, SMEs in China and Norway are becoming more actively involved in international business activities, and accordingly could be expected to take advantage of the opportunities created by the future FTA.

24 A whole range of collaborative activities is drawn up in the Agreement, to be agreed more specifically in the months to come. Norway pointed i.a. to Article 32 of the Agreement that states, "the two Offices (EPO and SIPO) will jointly draw up annual work programmes that will set out the specific aspects of their collaboration."

It is important to note that there are differences in the definitions of SMEs in China and Norway.

According to the Chinese Government, SMEs are roughly characterized as having less than 200 employees (with the exception of 3000 employee for the construction industry), with sales value lower than RMB 300 million (US$ 40 million) or capital value lower than RMB 400 million (US$ 53.3 million).

SMEs have grown rapidly during the past two decades in China and have made significant contribution to the national economy. By October 2006, the number of SMEs reached to 42 million, accounting for 99.8% of the total number of China's enterprises. The value of final products and services created by SMEs accounts for 58% of China's GDP and about 70% of China's total value of exports.[25] SMEs also play a very important role in expanding employment. They provide about 80% of the total urban employment in China.

To promote Sino-foreign SMEs cooperation, China established the International Coordination Centre for SMEs in 1985 and the International Cooperation Association of SMEs in 1990. Besides institutional construction, the Chinese government has also enhanced SME development through legislation. The Promotion Law of Small and Medium Enterprises was promulgated in June 2002 and came into force on 1 January 2003. This law aims to promote the healthy development of SMEs by establishing mechanisms to promote fair market competition and encouraging SMEs to actively participate in international cooperation.

As an important event aiming to promote Sino-foreign SMEs cooperation, China International Small & Medium-sized Enterprises Fair is held twice a year in spring and autumn since it was successfully held in the autumn of 2006. It is the largest SMEs trade fair of the highest level, of the most complete varieties and of the largest attendance and business turnover in China.

Norway uses EU's definition that defines a SME as a company with less than 250 employees, annual turnover less than US$70 million and with a balance sheet of less than US$60 million. SMEs account for the vast majority of Norwegian enterprises and make an important contribution to employment and economic growth of Norway. The significance of SMEs to Norway's economy has been increasing, with further opportunities presented by globalisation and technological development. Therefore, to support the development of SMEs has always been on the top agenda of the Norwegian government.

The Ministry of Trade and Industry has organized the majority of its support to SMEs through The Research Council of Norway (NFR) and Innovation Norway (IN). NFR and IN also carry out tasks relevant for SMEs for other ministries and local governmental actors. It is in the interest of SMEs that few organisations are carrying out tasks for several

25 Source: China SMEs Information Network, www.sme.gov.cn.

public bodies, since such a system is easy to understand and user-friendly. NFR supports research activities in public institutions and private firms. IN support innovation activities and establishment of new firms. One of the main target groups for INs activities is SMEs. Under the management and coordination of these institutions, a number of governmental programmes have been established to support the development of SMEs. Some programmes are targeted at specific industries or industrial sectors, while others are targeted at specific geographically confined areas.

Opportunities for future cooperation

A possible FTA would not only create more business opportunities for the SMEs of China and Norway to enter each other's domestic market, but also provide a wider scope for future bilateral SMEs cooperation. To help ensure that SMEs embrace the benefits of an FTA, China and Norway could consider:

- Exploring jointly the strategy and support policy for the development of SMEs, including ensuring that horizontal rules do not discriminate SMEs by favouring large companies;
- promoting cooperation and information exchange between government institutions, chambers of commerce, and industrial associations of the two countries;
- holding trade fairs and investment marts in cooperation for SMEs of the two countries; and
- reinforcing training and personnel exchange between SMEs of the two countries.

5.7 Temporary movement of natural persons

Movement of natural persons between China and Norway is a necessary part of the bilateral trade and is essential to build and strengthen business ties. Therefore, facilitating the mobility of natural persons will promote bilateral trade and investment, and help Chinese and Norwegian industry identify new opportunities arising from an FTA.

China

In recent years, China has improved the regulations and policies on temporary entry of foreign nationals in order to facilitate their visits to China. China has arranged different types of visa and visa-extension procedures to facilitate foreign natural persons' short trips to China, and stay of a duration of more than one year. To enter China, foreign nationals should apply for a Visa F, if he/she wishes to make a temporary business trip; or a Visa Z, if he/she is to reside in China. In accordance with the Law of the People's Republic of China on the Entry and Exit of Aliens, aliens who would like to enter into China shall apply for visas to the Chinese diplomatic missions or consular posts or other agencies abroad authorized by Ministry of Foreign Affairs of the P.R.C. The entry of nationals from a country having visa agreement with the Chinese Government shall be dealt with in accordance with the said agreement.

The Regulations on Examination and Approval of Permanent Residence of Aliens in China was implemented in August 2004. "Residence Permit" was introduced instead of "Aliens' residence credential" in September 2004. With "Residence Permit", the alien can stay in China with multiple entry permission in the period of validity.

At the same time, electronic means have been increasingly applied in visa administration and passenger clearance procedures. Machine-readable visas are in the process of being introduced. This measure will greatly reduce the waiting time for foreign businesspersons at Chinese ports of entry.

Norway

19 December 1996 Norway signed the cooperation agreement with the Schengen countries. Due to organisational changes in EU in 1997, whereby the Schengen cooperation was integrated in EU, Norway signed an association agreement with EU 18 of May 1999. Norway became operative member to the Schengen cooperation in March 2001, and is thereby obliged to implement and apply the Schengen legislation in the area of visa policy and legislation. A standard Schengen visa is valid for all Schengen member states during the valid period of the visa, up to maximum 90 days per 180 days. Any stay in Norway exceeding 90 days, require a work-or residence permit. Applications for this shall be lodged to the Norwegian Embassy, which will forward the application for work or residence permit to the Norwegian Directorate of Immigration which is responsible for the handling of the applications.

To obtain a Schengen visa there are several requirements to be fulfilled. The requirements of for instance documentation of the purpose of the journey and sufficient means may vary from country to country, according to the various practical circumstances. The Schengen member state's local consular posts, shall cooperate in order to obtain a harmonised application of the Schengen legislation. At the Norwegian Embassy in Beijing, the requirements for a standard Schengen visa are; all nationals who wish to enter Norway must meet the requirements of the Immigration Rules. There are mainly three different types of visas to apply for (business visa, family or friend visit visa and tourist visa). The processing time for the respective visas is indicated below:

Business visa: Up to 10 working days
Family or friend visit: Up to four months
Tourist visa (Under the ADS Agreement): Up to 15 working days

Opportunity for future cooperation

China and Norway recognize the importance of making it easier for natural persons to move between their two countries. Further opportunities for facilitating movement of natural persons will be considered in the context of the future FTA.

With the establishment of an FTA between China and Norway, natural persons will travel between the two countries more frequently. Ease of travel for natural persons becomes is a key element for facilitating and encouraging greater bilateral trade and investment

links. Consequently, the visa authorities of the two countries should strengthen cooperation and in the context of the FTA negotiations further options to facilitate the issuing of visas will be explored. The FTA between China and Norway could also provide for a wide range of specific steps to strengthen bilateral cooperation on mobility of natural persons.

5.8 Trade and investment promotion

In an age of globalisation, international trade and investment are becoming more and more important for a country's economic development. In recent years, trade and economic relations between China and Norway have made great progress, but the volume of bilateral trade and investment is relatively small compared with real demands and potential of both countries. Therefore, cooperation on trade and investment promotion between China and Norway will be an issue of great significance under the framework of the future bilateral FTA.

China

The Chinese government has always been attaching importance to trade and investment promotion and making great efforts to create new opportunities of trade and investment for enterprises in all sectors. Established in May 1952, China's Council for the Promotion of International Trade (CCPIT) is comprised of enterprises and organisations representing the economic and trade sectors in China. It is the most important and the largest NGO for foreign trade and investment promotion in China, with the main aim to conduct Sino-foreign economic and technological cooperation through various activities of trade and investment promotion.

In the mid 1980s, Foreign Investment Service Centres were established in many cities throughout China. With the support of MOFCOM, the China International Investment Promotion Center (CIIPC) was established in August 2001. Initiated by CIIPC and 15 local investment promotion agencies, the Federation of Investment Promotion Agencies of China (FIPAC) was set up in March 2002. Two other important government institutions in charge of trade and investment promotion, the Executive Bureau of Investment Promotion of MOFCOM and the Trade Development Bureau of MOFCOM, were established respectively in March and June of 2003. Since then, led and coordinated by MOFCOM, a comprehensive nation-wide trade and investment promotion network has been established in China.

At present, the annual China Export Commodities Fair, China Trade and Investment Fair, China New and High Technologies Fair and China International Small & Medium-sized Enterprises Fair have constituted a nation-level framework of trade and investment promotion. Furthermore, organisations at the provincial level have been established to implement trade and investment promotion activities in accordance with the needs of local economic development.

Norway

The Ministry of Trade and Industry has the overall responsibility for Norway's industrial policy. Norway is an open economy and consequently, internationalisation forms a significant part of the industrial policy and a priority for the Government. Other ministries like the ministries of Foreign Affairs, Finance, Fishery and Coastal Affairs, Energy and Petroleum and Education and Research are also important actors in this regard.

The Ministry of Trade and Industry is responsible for public support systems in Norway that supports Norwegian companies. The international part of the public support system includes in particular for export credits; GIEK and Eksportfinans and Innovation Norway who has many responsibilities with regard to supporting companies abroad and at home.

Investment promotion in Norway is mainly undertaken by Innovation Norway.
As of 1 January 2004, Innovation Norway assumed the duties of the Norwegian Industrial and Regional Development Fund (SND), the Norwegian Trade Council, the Norwegian Tourist Board and the Government Consultative Office for Inventors (SVO).

Innovation Norway aims to promote nationwide industrial development profitable to both the business community and Norway's national economy, enhance the competitiveness and profitability of Norwegian enterprises in international markets, and to help release the potential of different districts and regions by enhancing innovation, internationalisation, promoting Norwegian businesses abroad, and promoting Norway as a tourist destination. For the purpose of trade and investment promotion, Innovation Norway assists customers through the entire export and internationalisation process, acting as a strategic adviser, door opener and problem-solver. Joint promotions include exhibitions, delegations and campaigns to promote Norwegian companies abroad. At present, Innovation Norway has offices in all the Norwegian counties and in more than 30 countries worldwide, including offices in Beijing and Shanghai. The head office is located in Oslo.

The Confederation of Norwegian Business and Industry (NHO) and Oslo Chamber of Commerce (OCC) have also been playing an active role in Norwegian trade and investment promotion.

Opportunities for future cooperation

China and Norway have already carried out effective cooperation on trade and investment promotion under the framework of the Sino-Norwegian Mixed Commission for Economy and Trade, established in 1980. A sub-committee to the commission, for promoting bilateral investments, was formed in September 2006. The establishment of an FTA will further enhance bilateral cooperation on trade and investment promotion by allowing the two countries to better share their successful experiences in this field. Areas for future cooperation could include:

- Strengthening cooperation on human resource development and expertise related to trade and investment promotion;
- enhancing cooperation between non-governmental organizations, especially guilds and chambers of commerce of the two countries, as well as ensuring that rules for chambers of commerce are not a hindrance for their formal establishment; and
- creating opportunities for businesses to benefit from trade and investment promotion activities, such as trade fairs and investment marts.

5.9 Environment and technology cooperation

The Governments of China and Norway recognise the importance of addressing environmental challenges whilst striving for continued economic development. Environmental technologies play a key role in this, as these technologies address present environmental problems whilst being a part of economic growth. Given the importance of securing sustainable development, Norway and China wish to continue their cooperation in the field of environment and technology. Their efforts include encouraging the development of a commercial market for environmental technologies and of commercial actors within this field, one example of the initiatives that has been made being the establishment of the Norwegian Energy and Environment Consortium (NEEC). Both Governments welcome other initiatives encouraging commercial cooperation on environmental technologies. Furthermore, both China and Norway recognise the pivotal role of enforcing environmental regulations to create a market for environmental technologies. Environmental policies and regulations create business opportunities for environmental technologies and services, and is an important driving force for technology innovation and transfer.

A successful cooperation on the environment through a bilateral Memorandum of Understanding (MoU) between China and Norway has been ongoing for more than a decade. The work has focused on climate change issues, hazardous chemicals, biodiversity and air and water pollution, and has aimed to increase capacity on and strengthen the institutions that work with these issues in China. The cooperation program has also included efforts to introduce Norwegian environmental technologies to China. Some of the projects executed under the MoU have contained elements that are highly relevant for a free trade agreement, an example of this being a project on the ISO 14000 standard (project number CHN-0047). The overall project aim was to enable Chinese industry and government administration at both central and local levels to use this international standard. As production processes conforming to the ISO 14000/14001 standard may lead to facilitated market entrance and a competitive advantage in western markets, whilst negative environmental effects of production are reduced, this project contributed towards the aims of both trade cooperation and the environmental MoU. The most recent review of the Sino-Norwegian cooperation on environment suggested that the projects under this MoU could be used as gateways to further commercial cooperation. Additionally, the Working Group on Trade and the Environment under the China

Council for International Cooperation on Environment and Development (CCICED) might provide useful insight on how to address questions related to trade and environment. Both China and Norway encourage the exploration of cooperation activities, hereunder capacity building, that support the intentions of a trade agreement and enable further steps towards sustainable development.

The Governments of Norway and China are determined to make the goods and services traded between the two countries comply with high standards for the protection of human health and the environment. It is recommended that China and Norway to engage in friendly exchange of information about each others' systems and standards, so as to ensure an understanding of the applicable rules in each country.

5.9.1 Environmental protection

China

The Chinese government has attached great importance to environmental protection, making it a basic national policy, whilst sustainable development is an important strategy.

In 1998, the Chinese government changed the name of the State Environmental Protection Bureau to the State Environmental Protection Administration (SEPA), and elevated it to the ministerial level. In the policy regime, China has formulated or revised major laws on environmental protection in the past decade, such as those on prevention and control of water pollution, marine environment protection, prevention and control of air pollution, as well as evaluation of environmental impact. The State Council has also formulated or revised more than 50 administrative regulations to strengthen environmental protection. At present, there are about 3,200 environmental protection administration departments at different levels all over China, with 167,000 people engaging in environmental administration, monitoring, scientific research, publicity and education.

While making great efforts to improve the institutional framework, China has also invested heavily in environmental protection. Between 2001 and 2005, for example, the investment reached US$ 14 billion, which was mainly used to control the dust storm sources threatening the capital area, to protect natural forests and to turn cultivated farmland back into forests or pastures.

In the 11th Five-Year Program for Economic and Social Development (2006-2010), China has clearly set forth its main goals for environmental protection for the next five years: by 2010, while the national economy will maintain a relatively stable and fast growth, the environmental quality of key regions and cities will be improved, and the trend towards ecological deterioration will be brought under control. The Program also requires energy consumption per unit of GDP to decline with 20%, compared with the end of the 10th Five-Year Plan period. The total discharged amount of major pollutants will be reduced by 10%, and forest coverage will be raised from 18.2% to 20%.

Apart from domestic efforts, China has also acceded to more than 50 international conventions on environmental protection, and has been active in performing the obligations stipulated in these conventions, which include the United Nations Framework Convention on Climate Change and its Kyoto Protocol, the Montreal Protocol on Substances that Deplete the Ozone Layer and the Convention on Biological Diversity.

Norway

The Norwegian Government attaches great importance to environmental protection. Norway was amongst the first countries in the world to establish a separate ministry for the environment in 1972, in context of the United Nations Conference on Human Environment in Stockholm, Sweden. The Ministry has six subordinate agencies; the Norwegian Pollution Control Authority, the Directorate for Nature Management, the Directorate for Cultural Heritage, the Norwegian Mapping Authority, the Product Register (The Authorities' Central Register of Chemical Products), and the Norwegian Polar Institute. The Norwegian Pollution Control Authority is responsible for supervisory activities pursuant to the Pollution Control Act, the Product Control Act and their regulations.

Norway is signatory to several international conventions and agreements on the environment, such as the United Nations Framework Convention on Climate Change and its Kyoto Protocol, the Convention on Biological Diversity, the Stockholm Convention on Persistent Organic Pollutants (POPs), the Rotterdam Convention, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and the Montreal Protocol on Substances that Deplete the Ozone Layer.

5.9.2 Renewable energy exploitation

Too high emission of greenhouse gases, causing global warming and climate deterioration at an accelerated rate far beyond our expectations, seriously threatens the sustainable development of our human society. New energy resources have tremendous potential, are environmental-friendly, as well as sustainable, and are thus important sources of energy for harmonious development of nature and the human society. Confronted with the increasingly unbalanced supply and demand of the traditional sources of energy, and the severe challenge of global warming, countries all over the world ought to strengthen the exploration and utilization of the new energies and its technologies.

China and Norway are in dialogue about creating a special framework for cooperation on climate change issues, to be known as the "Framework Agreement for Cooperation and Dialogue on Climate Change". This will be a significant commitment that might fruitfully be reflected in other areas of Sino-Norwegian cooperation. With the appropriate provisions, a free trade agreement may provide stimuli for commercial cooperation within the area of reducing emissions. This will benefit the efforts to address the challenge of climate change and provide important business opportunities for both Chinese and Norwegian commercial actors. Carbon capture and storage (CCS) will most likely be an important element in the cooperation. CCS stands out as a promising technology

that could mitigate the release of large quantities of CO2 to the atmosphere if applied on fossil fuel-fired power plants. Norwegian universities and research institutions have extensive competence pertaining to CCS, with a specialised, national programme, CLIMIT, for gas power technologies with CCS.

Cooperation regarding the Clean Development Mechanism; The 'Framework Agreement for Cooperation and Dialogue on Climate Change', also emphasizes facilitation of cooperation through the Clean Development Mechanism (CDM). Since China is a major provider of Certified Emission Reductions (CERs), and Norway will have a substantial demand for such assets, this cooperation may gain importance in the years to come. A stable and predictable investment and business environment, simplified procedures both on the national and international level, as well as further enhancing the credibility of the CDM as a market mechanism and a tool to mitigate greenhouse gas emissions, will be of importance to those involved in the markets both on the Chinese and Norwegian side.

China

China, as a major energy output and consumption country, is now facing the heavy pressure of energy shortage. Therefore, China has no alternative but to explore and utilise new sources of energy to realise the sustainable development of the national economy.

With the implementation of the 11th Five-Year Plan starting in 2006, the central government of China places greater emphasis on energy saving, emission of pollutants and environmental protection. The Medium- and Long-Term Energy Development Program issued by the Chinese government in 2007 expressly stated that by 2020, the renewable energy would account for about 16% in the total energy consumption. The specific renewable energy targets by 2020 include:

- Wind: 30GW
- Solar Power PV: 1.8GW
- Solar heater: 300million m^2
- Biomass Power: 30GW
- Biomass Diesel: 2Mt
- Biomass solid fuel: 50million tonnes
- Small Hydropower stations: 80GW

China's 11th Five-Year Plan points out that great effort should be made to develop the sources of renewable energy, implement preferential fiscal and taxation policies, investment and compulsory market share policies to encourage the production and consumption of renewable energy. Therefore, the new energy and renewable energy market has huge potential, providing unprecedented opportunities to the new energy companies and institutions at home and abroad.

As a milestone for the country's energy saving campaign, *China Renewable Energy Law,* issued by Chinese People's Congress on Feb. 28, 2005, became effective on 1 January 2006. The goal of the law is to meet short-term energy needs while strengthening long-

term sustainable development objectives. The law aims to reduce air pollution, safeguard human health and the environment, and provide power to off-grid rural areas as well as contribute to mitigating climate change. The law synthesizes basic principles of the market economy and the political objectives of energy security. Incentive policies outlined in the law are intended to encourage the development of renewable technologies and provide market opportunities for renewable energy companies so that local governments, energy enterprises and the public can promote and utilize renewable energy.

Norway

The Storting (parliament) sets the political framework for the energy sector and water resource management in Norway. The Ministry of Petroleum and Energy (MPE) has overall administrative responsibility for these sectors. Among the Acts that regulate water resource management are the Watercourse Regulation Act, the Industrial Concession Act, the Water Resources Act and the Energy Act.

Norwegian authorities set a target in 2001 of saving energy and contribute to new environmental energy that together will give minimum 12TWh before the end of 2010.

Norwegian scientists, professionals and trade and industry are among the leading in the world within a number of areas that concern renewable energy sources. This expert knowledge, combined with good economic framework conditions and accessible technology, should lay the ground for a healthy exploration of those of our resources that haven't been exploited up until today, an exploration that is based on trade and industry.

Norwegian companies have a long tradition in establishing activities based on society-related needs. There is reason to expect many small and middle-sized Norwegian suppliers of equipment and services will become involved in the future wind power, wave power and bio energy industry.

Sino-Norwegian cooperation on renewable energy technologies

Norway and China enjoy a substantive and friendly cooperation in the field of renewable technologies. In order to cement this cooperation the governments of both countries have concluded important agreements.

In 1997 a Letter of Intent on Cooperation on development in hydropower between Ministry of Water Resources (MWR) and MPE was signed. In 2006 a MoU on Enhancing Cooperation in Energy Conservation and Renewable Energy was signed between National Development and Reform Commission (NDRC) and MPE.

As the governments of China and Norway are strengthening the trade and economic relations between the countries, strengthened cooperation within important renewable energy niches would benefit sustainable development in Norway and China. Areas of Norwegian expertise in which China and Norway may want to explore the possibility of strengthened cooperation are as follow:

Hydropower

Norway already bases the main part of stationary power production on the renewable energy source large-scale hydropower. Norway is the sixth biggest producer of hydropower in the world, and the installed capacity is 28 300 MW whilst the average production capacity is 120 TWh per year. Norwegian companies have a great deal of experience in the development and construction of hydropower projects. Norway also has a strong supplier industry that delivers goods and services to hydropower construction, also at the international level. The Norwegian hydropower industry delivers turbines and electromechanical products to other countries, and also consultant services within planning, projecting and other engineering tasks. There is also an increasing demand for Norwegian competence in system operation and preparation for a power market.

Wind and wave energy

Norway has large wind- and wave power recourses along the long coast that are sought to be explored and exploited.

Norwegian companies have extensive experience from offshore oil and gas activities and can utilise this in developing offshore wind and wave technologies. Norwegian companies also have unique experience in operating wind turbines in harsh arctic climate. Some of the Norwegian companies within the wind power industry are Scanwind that produces wind turbines, SWAY and Norsk Hydro (Hywind) that have developed projects for floating wind turbines and OwecTower which is designing foundations (tripods) for offshore wind power.

SINTEF Energy Research, Institute for Energy Tecnology (IFE) and the Norwegian University of Science and Technology (NTNU) are cooperating on wind power research and development.

A promising technology in Norway is offshore wind power far off the coast. It's free of emissions, hardly comes into contact with birdlife, can be placed outside fishing grounds and shipping lanes, and will be out of sight of the population. Several Norwegian companies are leading the way in the development, based among other things on experience from the offshore oil- and gas industry.

Norwegian companies also do research to develop other potential resources like wave power, tidal power and salt power.

Solar energy

Norwegian industry is among the largest producers of silicon for the production of solar cells in the world, and still expanding. A new factory in Årdal starts deliveries of silicon at the end of 2007, another new factory near Kristiansand starts deliveries of silicon in 2008. The production of silicon is energy intensive. Norway has a long history of energy intensive industry because of the abundance of inexpensive electricity through hydropower plants. Norwegian companies are also active in the production of solar thermal collection systems.

Among the Norwegian companies within the solar industry are Elkem solar, Norsun and Renewable Energy Corporation (REC). REC is active in the whole chain of activities related to solar cells and is the world's biggest company within the solar industry. REC is unique in that it delivers goods and services in the whole value chain for solar energy. REC is the world's largest producer of "solar grade" silicon and wafers, and a considerable producer of solar cells and modules.

Bio energy

Norway has great potential in increasing the utilization of bio energy, both for district heating plants and as raw material for bio ethanol.

Concluding remarks

This report illustrates that there are significant complementarities of demand and competence between Norway and China in the field of renewable energy technologies and other areas of environmental cooperation. The benefits of this, both for the economy and the environment, may be facilitated through appropriate language in a future free trade agreement. Both Governments also recognise a possible future FTA as a useful tool to achieve their common goal of sustainable development and harmonious development of nature and human society.

5.10 Development Cooperation

The two sides recognise that under the framework of Official Development Assistance, China and Norway have enjoyed years of productive cooperation, which not only has made positive contributions to China's economic and social development, but also contributed in enhancing the bilateral relations. In this context, both sides would further explore and encourage cooperation in the field of climate change, environment protection and other issues of common interest.

Chapter six:
Conclusions and recommendations

China and Norway have a substantial bilateral economic relationship, which could be enhanced and further developed through a bilateral FTA. This study demonstrates that a bilateral FTA encompassing goods, services, investment and economic cooperation, and is consistent with WTO rules, would support and reinforce bilateral trade and investment linkages, and play an important part in the closer integration of the two economies over the long term, and consequently deliver trade and economic benefits to both countries. Furthermore, the bilateral FTA would be trade creating for the world as a whole, thereby strengthening each country's multilateral and regional trade policy objectives.

6.1 Key Conclusions

Trade in Goods

The study shows that tariffs hinder growth in bilateral trade between China and Norway. There exists scope to further reduce and eliminate tariffs. The study explores the possibility of further liberalisation of goods trade beyond the progress already made in the WTO, and recommends that a bilateral FTA should remove tariffs on industrial goods, and eliminate and reduce the tariffs for agricultural products. While recognizing that the removal and reductions of tariffs would benefit the two countries, the study also identifies concerns related to domestic income, employment impacts, rural policy and food security of tariff elimination or reduction on certain sectors, which should be taken into account in the future FTA negotiations.

The study also identifies non-tariff barriers (NTBs) that have a restrictive effect on bilateral trade. It would be important for China and Norway to ensure that these non-tariff measures do not constitute unjustified barriers to trade. It is suggested that non-tariff measures and improved disciplines and enforcement in areas such as technical regulations and standards, and sanitary and phytosanitary measures, should be addressed in the future FTA negotiations.

Trade in Services

The service sector is becoming an important component of trade between China and Norway, and has a great potential for growth in the future. The study notes the generally open nature of Norway's services regime, and the major opening of China's services sectors associated with China's WTO accession in December 2001, but also demonstrates a range of impediments to the bilateral services trade both in specific industries and

across the sector. Taking these factors into account, the study recommends that China and Norway should strengthen cooperation and promote bilateral trade in services under the future FTA for the benefit of both countries.

Investment

The investment flows between China and Norway are at present relatively modest compared to bilateral trade, but the bilateral investment linkages are growing at a high speed. The study identifies a range of ways that could further facilitate increased levels of investment between China and Norway. It is recommended that building on existing cooperation, an FTA should further promote bilateral investment.

Other areas of Cooperation

The study also identifies the following sector-specific issues and broader areas and opportunities for facilitation and cooperation with the objectives of strengthening bilateral linkages through an FTA: Trade facilitation, E-commerce, sanitary and phytosanitary measures (SPS), technical regulations and standards (TBT), intellectual property rights (IPR) SME cooperation, temporary movement of natural persons, trade and investment promotion, environment and technology cooperation and development cooperation. The study recommends that building on existing cooperation in the above areas, an FTA would be expected to intensify further bilateral trade and economic cooperation with a view to achieve mutual benefits.

6.2 Recommendations

This study has demonstrated that significant complementarities exist between the Chinese and Norwegian economies and that a FTA would benefit the people and economies of both countries. To secure these benefits and build on the long and warm relationships between the two countries, this study recommends that negotiations on a FTA between China and Norway should commence as soon as possible.

Published by:
Norwegian Ministry of Trade and Industry

Additional copies may be ordered from:
Government Administration Services
Post og distribusjon
E-mail: publikasjonsbestilling@dss.dep.no
Fax: + 47 22 24 27 86

Publication number: K-0702 E
Design: Lysvold Design
Printed by: Government Administration Services – 03/2008
– Impression 200