

Prime Minister
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EUROPEAN CHALLENGES AND OPPORTUNITIES

For decades, the European order was stable and predictable. But it was stability based on the force of East-West deterrence, by the force of mutual assured destruction, or MAD as it was aptly called. Europe from the Atlantic to the Urals was truly developing "à deux vitesses". At the end of the 1980s we witnessed historic changes of an unprecedented magnitude. As we approach the 21st century we are experiencing history in the making.

In her Brugge speech in 1988, Margareth Thatcher said that inviting her to speak about European cooperation was like inviting Ghengis Kahn to speak about peaceful coexistence. Coming from the small group of potential applicant EFTA countries, I shall not invite you to make a similar comparison today. These days the press divides its attention between the prospects for a Norwegian membership application, and the nuts and bolts of a judicial mechanism for the EEA agreement. I can not give you final answers on any of those issues today.

I have been invited here to speak about European challenges and opportunities. By and large, the challenges and opportunities facing Europe are as those facing Norway. We are asking the same questions. Our hopes and aspirations mirror each other's. In the 1990s we will find ourselves at important crossroads in our own country and in Europe. Our political debate concerns how we in a small European country can ensure a safe future for ourselves and for coming generations. How can we strengthen democracy in a new international context characterized by interdependence? How can we develop a sound economy based on sustainable development? How can we ensure full employment? How can we play our part in the broader European cooperation?

Later this year, Norway will decide whether to apply for membership in the European Community. The decision will be the conclusion to a broad political debate about how to safeguard our values and interests in the light of changes in Europe, and in the world.

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It is encouraging that so many parts of our society are becoming involved in the debate on our European challenges and opportunities. Today in Brussels, we are focusing on the outlook for our economic operators in a wider European market. This is not a new concept for Norwegian exporters. It will, of course, be necessary for an increasing number of Norwegian

businesses to venture into Europe, as the title of this conference suggests. But let me make it clear that we are already in Europe. Geographically, historically and culturally, we are an integral part of the European continent. And economically we are actually more a part of Europe than many EC states.

The completion of the internal market will change the framework for economic operators within and outside the European Community. The Trade Council should be commended for its efforts to increase the awareness of the new market conditions which are about to emerge. For several years a number of services have been made available to Norwegian companies to improve their insight into new market opportunities and strategies.

As we are facing a more open world economy, we are at the same time experiencing a new industrial revolution. After several years of extensive restructuring, we see the emergence of a new industrial structure based on new technologies and a stronger integration of services.

The most characteristic feature of these changes is that human knowledge and competence are becoming the most vital resources to cultivate. The level of our own competence and knowledge will increasingly determine our future competitive advantage. Both government and companies will be focusing attention on education and training. The value we can get out of our own production will increasingly depend on our own skills in innovation, production, organization and marketing.

In the European political debate there is much focus on the emergence of a post-industrial society. We should be in no doubt, however, that our future as a modern welfare state will depend on a modern industrial sector based on a high level of competence, knowledge and sustainable technology. We need an industrial sector which will create new employment opportunities and safeguard jobs.

We already have a broad competence base and we are increasing our efforts to expand our educational system. We should continue to build on our long tradition of close dialogue and cooperation between government, the social partners, the business community and the research and education community.

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Eleven months from now the world's largest market will come into effect. It is our common goal and ambition that ministers from the 19 EFTA and EC countries will be able to sign the agreement on a European Economic Area in a few weeks time. The EEA agreement is the most comprehensive trade arrangement ever concluded between the EC and a group of third countries. It will mark a completely new step in the European integration process and it will ensure the continuation of the close cooperation established between Western European countries

since the 1950s.

The EEA agreement will create equal rules of competition for all Western European companies. It is in the interests of all that this important agreement enters into force as from 1993. I therefore welcome the conclusion from the meeting of EC foreign ministers yesterday expressing a strong political will to conclude the negotiations rapidly. I also have the impression that our negotiators are working constructively to find a solution to the outstanding questions which can be acceptable to all.

Norwegian companies should have a good starting point for success in the large European market. Since 1986, Norway has been undergoing a difficult and often painful process of economic restructuring. The decline in oil prices confronted us with economic and industrial challenges similar to those our European trading partners had been experiencing since the 1970s. The fall in the oil prices turned our balance of payments from a surplus of five percent of GNP in 1985 to a deficit of five percent in 1986.

The turn-around operation in the years that followed was not just a question of restoring economic balances; it was also a question of preparing for Norway's economic independence in an open world economy.

Today there are many encouraging signs that indicate we are on the right track. Although there are uncertainties in the short term as to the outlook for an international recovery, we should be in a position to expect higher growth which will help us to reestablish full employment.

- Our inflation rate is down to three percent and among the lowest in the OECD area.
- Household savings are being normalized,
- We have a comfortable surplus in our balance of payments, in fact the biggest surplus in relative terms in the OECD area.
- Norway's net foreign debt has been reduced to around 10% of GDP and further reductions are predicted.
- Public finances are sound, we are the only OECD government with substantial net financial assets.

Our policies at home have conveyed an essential message to Norwegian business: The Government will continue to do everything in its power to ensure predictable and favourable framework conditions. It is now up to the business community to take advantage of these opportunities.

Our exporters have performed well, even in the difficult years which followed 1986. From 1986 to 1990 our export of

traditional goods rose by sixty percent. 1991 was also a difficult year also for Norwegian exporters, especially as regards sales of raw materials and semi-manufactures. But at the same time there have been encouraging signs of a much-needed restructuring process. Exports of processed goods is increasing. Small and medium-sized companies are leading the way.

Our natural resources still constitute the foundation for our exports. Norway is today a major supplier of energy to Europe. The EC countries receive twelve percent of the natural gas and ten percent of the oil they consume from Norway. Norway provides close to ten percent of the fish sold on the EC market.

Our challenge today is to upgrade the value of our products and services. Although our strength still lies in our natural resources, Norway can no longer be viewed primarily as an exporter of raw materials and semi-manufactured products. Today we hear success stories in connection with the shipbuilding industry, shipping services, information technology, fisheries technology, furniture industry, telecommunications, building materials, tourism and of course the whole range of offshore activities.

Later today the Trade Council will publish a survey of how Norwegian companies expect their markets to develop during the rest of the 1990s. Nine out of ten export companies state that Western Europe is and will continue to be their most important market. A majority expect an annual growth of at least five percent towards 1996.

I believe there is cause for such optimism. We are broadening our export base. We cannot plan our future as if the revenues from the oil sector were guaranteed. In the coming eight to ten years we must create footholds for strong, new export sectors. The larger companies will have to take the lead in expanding their activities into new fields of competence. Small and medium-sized enterprises must be given the right incentives and encouragement so that they can manage the transition from the home market to the export market.

To succeed, we need to increase our efforts in education, research and development. We have based much of our welfare on revenues from our rich natural resources. The oil sector illustrates, however, to what extent the exploitation of these resources requires a strong technological base and a high level of competence. Increasingly the competence and qualifications of the individual will help to make our companies more competitive, and at the same time create more interesting and meaningful jobs. This is a democratic challenge for the Government. Unlike most of our natural resources, knowledge is inexhaustible. But knowledge as a resource must be distributed fairly to all. And there will be plenty to go around if we succeed in introducing an extended learning process.

To implement the structural changes which are necessary, we need to encourage expanded cooperation between the social partners. At the Maastricht summit, eleven of the EC countries set new targets for a stronger social dimension of European integration. These are targets that will also be integrated into the future cooperation within the EEA. As trade and capital cross borders, we must see to it that the social dimension follows. Expanded dialogue is required inside companies, between political parties and trade unions and between governments and the social partners at a European level.

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As we prepare ourselves at home, we must also contribute to the creation of a more stable framework abroad. It has always been imperative that Norwegian exporters adapt to changing market conditions in Europe. For a small nation with an open economy, there is really no alternative. We export half of our production, and we import half of our domestic use of goods and services. The success of our exporters determines to a large extent what I would call the welfare equation. Our welfare ambitions at home depend on what we can achieve in interaction with the outside world.

This is why we have taken such an active part in international efforts to reduce barriers to trade. We hope that the Uruguay Round can be brought to a successful conclusion in the near future. Our effort to create a European Economic Area is part of the same picture. We are continuing to pursue a well-established Norwegian policy, not departing from it.

More than most other countries, we need a better organized system for world trade. The need for a legal framework inside each country is obvious to all. As barriers are eliminated, it is becoming equally important to have equal and equitable rules for the international market as well.

At the beginning of the 1980s, governments and business alike faced new economic and technological challenges. Seen in a purely economic perspective, these challenges were comparable to those we encountered in the late 1950s. At that time EFTA was founded to ensure our participation in the economic process of integration in Western Europe. In the 1970s, customs duties on industrial goods still represented the main barrier to trade. In 1973, we negotiated a free trade agreement with the EC, the main objective being elimination of these duties.

The free trade agreement served us well for many years. But new barriers to trade gradually developed. Once again protectionism gave no winners. Millions of jobs were lost, public deficits rose and investments fell. All countries learnt the same historic lesson: No country could find its way out of the economic crisis on its own.

From the very beginning, the creation of an internal European market has been a goal for both the EC and EFTA. But in the early eighties, we all realized how far away we were from creating a market without barriers. Today we are close to reaching the goal. The internal market programme as initiated by the EC in 1985 represents a decisive change in European policy making.

Firstly, the method chosen by the EC in 1985 was a forceful one. The White Paper on the completion of the internal market was an historic political instrument, a programme with a fixed timetable. At the same time it was a political document carrying an unambiguous message to market operators.

Secondly, the project had an economic impact far beyond the scope of the EC. Here I shall confine myself to the reactions in the EFTA countries. We saw clearly that our relatively small, open economies faced the same challenges from a new world economy. Our companies wanted to know whether different market rules were to apply to them. Integration in Western Europe had brought us to the stage where common rules and reliable arrangements for surveillance and enforcement were absolutely necessary to ensure equal conditions for all. And equal conditions within an organized framework is what the EEA is all about.

Thirdly, there were political effects. The EFTA countries soon discovered that the existing framework of cooperation with the EC, based on the free trade agreements, was inadequate in view of the rapid integration within the Community. We needed to find ways of becoming more directly linked with the ongoing integration process.

Fourthly, economic integration in the 1980s triggered off the current process of Western European political integration. The historic decisions at Maastricht illustrate that the EC countries are searching for a framework which will allow them to respond jointly to common challenges. The EC will be the major driving force in the broader European integration process in the 1990s. The scope of the cooperation between the twelve member countries is being expanded. As the 1980s were a decade of economic integration, the 1990s will be a decade for closer political integration.

Today, the new democracies in Eastern and Central Europe have membership in the European Community as their goal. In the EFTA family, Austria and Sweden have applied for membership and Finland and Norway are in a process of deciding whether to apply. A year from now, several EFTA countries will be involved in membership negotiations with the EC.

The Free Trade Agreement of 1973 responded to the challenges of its time. It is not the answer to our present challenges. For Norway there can only be two alternatives regarding our relationship with the rest of Western Europe: The one is the

EEA agreement. The other is membership in the EC.

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When the historians of tomorrow look back at the last quarter of the 20th century, they will no doubt single out the internal market as a key force of integration. At the same time they will undoubtedly note that this was only one of many fundamental changes.

At the beginning of the 1980s, common sense indicated that we should eliminate remaining trade barriers and encourage cooperation in a unified market. Governments and companies acted together.

The same dedication and sense of urgency must be mobilized as we focus our attention on the immense challenges posed by a new European political agenda based on interdependence. We must take full account of the political and economic changes in Central and Eastern Europe. We must coordinate our efforts and support the new democracies in their transition towards a modern market economy. We must take the initiative in finding real solutions to our crucial environmental challenges.

For the new democracies catching up with economic and political developments in Western Europe will be an enormous challenge. They must make a giant leap away from the cooperation or totalitarianism. Vast investments are needed to restore their competitiveness and reverse the environmental degradation. Only a forward looking and environmentally responsible Western European business community can generate the activity needed. They possess the necessary skill and technology for the European development to become sustainable.

As we approach the next century we will need to adopt an all-European perspective. We must build bridges and create common agendas to institutionalize interdependence. The European Energy Charter is a promising example. Proposed by Prime Minister Lubbers of the Netherlands, the charter outlines how market economy principles can be applied to energy transactions and link the new democracies in Central and Eastern Europe closer to the all-European energy market. For Western companies, the charter will provide a more reliable framework for market operations.

Energy, environment and development are inextricably linked. Europe will need both energy efficiency and energy security to support sustainability. The shaping of new environmental measures for Europe will be a test of our ability to respond to new challenges. In Western Europe we have started a process of creating a more unified market. We must continue this effort and we must create framework conditions that help rather than hinder sustainable development.

The precautionary principle and the "polluter pays" principle have now been incorporated into the EC legal framework and the

EEA agreement. This will contribute to change both production and consumption patterns. But we will have to go even further in our international efforts. For industry, the urge to maintain a competitive edge often works against the environment in an international economy where competitors may benefit from more lenient requirements. Consequently the ground rules for economic operators must apply in a broader geographical context.

Unequal national environmental requirements cannot effectively be reconciled with the need for a level playing field and fair competition. Much remains to be done before European rules generally harmonize at a sufficiently high level of environmental protection. However, strategic planners would be well advised to focus their efforts on sustainable development of goods and services. Early movers, says Michael Porter, often become international leaders. Those companies who adapt their strategies today may gain the competitive edge tomorrow.

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As we dismantle the remaining trade barriers, let us also reconsider the conceptual barriers which have shaped our thinking for so long. As exporters you know how important it is to adapt to an ever-changing competitive environment. Right now, the same ability is needed as we prepare for a future where Europe is no longer divided by military frontiers.

A Europe more united, will regain its true position in global affairs and be able to play a decisive role in forging the future. A new, stronger Europe should have the confidence and ability to act as a constructive force in relation to the rest of the world and the Third World in particular.

As we approach the United Nations Conference on Environment and Development, we need coordinated and responsible European positions that can lift the level of achievement. But for this to happen the European business community and trade unions must get involved. European companies have an important role to play. Our management procedures and the framework that we have developed for relations between management and employees also have good export value.

An enduring poverty gap is not in anyone's interest. Future partnerships will be difficult to establish in environmentally destitute countries. I believe that the countries in the Third World less fortunate than we are would benefit from a stronger cooperating Europe. Cooperation with Third World countries is basically an enlightened form of self-interest.

Europe faces historic challenges and opportunities. Norwegian interests are part and parcel of common European interests. Our culture, our environment, our economy and our security are inextricably linked to the new Europe in which we have a part to play.