In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Sweden. Volume B (Tables) is presented in document C/RM/S/5B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Sweden. As required by the Decision, in preparing its report the Secretariat has sought clarification from Sweden on its trade policies and practices.


NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Swedish Economy

1. Sweden is geographically the fourth largest country in Europe, and is the largest of the Nordic group of countries in both area and population. With a about 8.5 million people, its average population density is less than 20 inhabitants per square kilometre (Table I.1). However, the vast majority of Sweden's population is concentrated in the cities of the south.

2. Since the early 1980s, economic growth in Sweden has averaged about 2.5 per cent annually, with a peak rate of close to 3 per cent in 1987. Since then, the growth of real GDP - dampened by increasing capacity bottlenecks in industry - slowed down, to below 2 per cent in 1989 (Tables I.2 and I.3).

3. Merchandise exports have been a strong element in Swedish output growth over past years. With merchandise trade corresponding to about one quarter of GDP and substantial trade in services, the country is heavily dependent on international trade.

4. While Sweden's trade has grown substantially since the mid-1980s, its performance has not kept pace with the expansion of world merchandise trade. Its current share in world merchandise exports of 1.7 per cent ranks Sweden 15th among all traders, down from 12th place in 1985.

5. Sweden's key natural resources are forests, iron ore and water power. However, the Swedish economy has diversified production and trade into a wide range of specialized industrial products, including motor vehicles, steel, pulp, paper, and a variety of high technology products and services. Today, Sweden imports all of its oil and most of its coal, equivalent to about two-thirds of its energy sources.

6. The structural changes in the Swedish economy are reflected in a secular decline in the contribution to GDP of agriculture, fishing and forestry, to currently 3 per cent. Mining and manufacturing, roughly a quarter of Swedish output, have also lagged in growth during the 1980s. In contrast, the (private) service sector has grown relatively rapidly in recent years, to its current share of 62 per cent in GDP.

(2) Recent Economic Performance

7. In the face of serious capacity constraints, the Swedish economy is in a phase of overheating. The current economic scene includes relatively high and accelerating inflation rates; declining international competitiveness; a large and increasing current account deficit; and a large and rising external debt.

8. Economic policy in Sweden is directed towards dampening demand through the tightening of fiscal and monetary policies, as well as introducing measures designed to improve productivity and growth. These measures are intended to moderate wage increases and remove structural
rigidities in the labour market and elsewhere. The Government's over-riding objectives continue to be full employment while maintaining the Swedish welfare system (unemployment is currently running at a rate of 1.4 per cent; Table I.2).

9. After years of huge deficits, the Government's budget has been in surplus since 1987 (Table I.4). In 1989, the surplus was equivalent to 5 per cent of GDP. The improved budgetary position has been due to rapid revenue growth, combined with slower increases in government expenditure.

10. The current account deficits have been financed by increases in Sweden's foreign debt, attracted by high interest rates. At the end of 1988, gross foreign debt amounted to 50 per cent of GDP. All recent increases in external debt are due to borrowings by the private sector.

11. Capital inflows have exerted considerable upward pressure on the krona. This development, coupled with relatively high inflation rates in Sweden, led to a real appreciation of the krona by around 9 per cent between 1987 and the end of 1989 (Table I.5).

12. In early 1990, the Government implemented a crisis programme, including a freeze on prices and rents; the appointment of a special mediator to obtain agreements between parties for lower wage growth; and increases in investment fees applicable to construction. The Government has also announced a tax reform package to be applied from 1991, designed to above all improve work incentives and labour productivity by reducing marginal income tax rates. Overall, the tax reform is to be revenue neutral.

(3) Trade Performance

(i) Commodity pattern of merchandise trade

13. The long-term trend in Swedish export patterns has been from raw materials and low processed products, such as paper pulp, iron ore and steel, to more highly processed goods. Today, about three-quarters of exports are accounted for by semi-manufactures, automotive products, other non-electric machinery, raw materials, office machinery and telecommunications, miscellaneous consumer goods and chemical products (Table I.6). Engineering products alone make up over 50 per cent of Sweden's total exports (Table I.7).

14. Imports have grown substantially over recent years, increasing at about 12 per cent annually since 1983 (Table I.7). As with exports, engineering products predominate, accounting for over 40 per cent of total Swedish imports (Table I.8). Major items include motor vehicles, business machines, EDP equipment, power plants, and special purpose plants for certain industries. Imports of fuels declined in the 1980s, and their share in total merchandise imports fell from 22 per cent in 1979 to 7 per cent last year.
(ii) Regional pattern of trade

15. Three-quarters of Sweden's merchandise trade is conducted with the European Communities (EC) and the member States of the European Free Trade Association (EFTA). The EC alone accounts for over one half. Outside Europe, the main trading countries are the United States and Japan (Table I.9).

16. Sweden's five most important individual trading partners are, in descending order of importance, the Federal Republic of Germany, the United Kingdom, the United States, Norway and Finland. Together, these countries account for about half of Sweden's total merchandise trade (Table I.10).

17. Semi-manufactured products, mainly paper, paperboard and steel are the most important exports to the Federal Republic of Germany. In addition to these products, exports to the United Kingdom and the United States mainly include motor vehicles, machinery and telecommunications equipment.

18. Sweden's total merchandise trade with developing countries, as a group, increased from US$3.1 billion in 1978 to US$4.8 billion in 1988. This represents an increase of just over one-half, at a time when Sweden's overall merchandise trade more than doubled. Between 1978 and 1988, merchandise trade with developing countries, as a group, fell from 13 to 7.5 per cent in Swedish imports, and from 14 to 9.6 per cent in Swedish exports.

19. Import developments were, of course, influenced by the decline in the value of petroleum imports, as well as the more general availability of raw materials at historically low prices. Indeed, imports from developing Asia, a major supplier of manufactures, increased more rapidly than total Swedish imports between 1978 and 1988.

20. Swedish exports to developing Asia also increased relatively rapidly during that period. However, the performance of exports to Latin America, the Middle East and Africa was poor, mirroring foreign exchange shortages and problems of high indebtedness in these developing areas.

(4) Outlook

21. According to Government forecasts, the worsening trends that have recently emerged in the Swedish economy are expected to continue this year and next. Investment activity is expected to be sluggish, and real GDP growth is predicted to further slow down to less than 1.5 per cent in 1990 and 1991. Inflation is expected to accelerate to an annual rate of over 7.5 per cent.
22. In terms of GDP, Sweden's current account deficit is expected to double from about 2 per cent in 1989 to about 4 per cent in 1991. The major factors behind this development are increasing interest payments to finance the higher levels of private external debt, and higher net expenditures for tourism.

More recently, a report released by the Swedish National Institute for Economic Research has warned that the Government's forecasts may be on the optimistic side. The Institute predicts that the current account deficit will grow to about 5 per cent of GDP in 1991. The Institute expects wages to increase by 10 per cent in 1990 and 8 per cent in 1991. Inflation is expected to rise to almost 10 per cent in 1990, before easing to 9 per cent in 1991. See The Wall Street Journal, Europe, Swedish Think Tank Paints Bleak Economic Forecast, Monday, April 2, 1990, p. 5.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) Introduction

23. The Kingdom of Sweden has a democratically elected Parliament (the Riksdag) which, according to the Instrument of Government of the Swedish Constitution, has the power to make all laws in Sweden. Thus, trade policy in Sweden is based on laws passed by the Swedish Parliament. For example, directives regarding the level of customs duties must be approved into law by the Parliament. Responsibility for presenting laws and legal amendments to Parliament rests with the Government.

24. The Parliament has the right in certain areas to establish laws which delegate certain decision-making powers to the Government. In the area of trade policies and measures, the Parliament has delegated powers to the Government to issue ordinances regarding the importation and exportation of goods. Authority for this is contained in the Act Authorising the Issue of Ordinances Concerning the Importation and Exportation of Goods (SFS 1975:85).

25. Ordinances issued by the Government are not laws and hence need not be passed by Parliament. They are a frequently used instrument. A large share of Swedish trade policies and measures are therefore conducted by the Government or its agencies acting on Governmental authority.

26. Proposals to provide financial industry assistance are a matter for Parliament.

(2) Trade Policy Objectives

(i) General trade policy objectives

27. Sweden acceded to the GATT in 1950. Since then, Sweden has participated actively in all negotiating rounds and has accepted all MTN protocols, agreements and arrangements. Thus, Sweden is a signatory to all the MTN codes, as well the Arrangement Regarding the International Trade in Textiles (MFA IV).

28. A central aspect of Sweden's trade policy has been to foster close trade relations within Europe. Sweden was a founding member of EFTA. In 1972, along with other EFTA countries, Sweden concluded trade agreements

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2 These are the Agreement on Technical Barriers to Trade; the Agreement on Government Procurement; the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (the Subsidies Code); the Arrangement Regarding Bovine Meat; the International Dairy Arrangement; the Agreement for Implementation of Article VII of the GATT (the Customs Valuation Code); the Agreement on Import licensing Procedures; the Agreement on Trade in Civil Aircraft; and the Agreement on Implementation of Article VI of the GATT (the Anti-Dumping Code).
with the EEC and the ECSC, promoting free trade in industrial goods between Sweden and participating countries.

29. Given Sweden's close proximity and dependence on trade with the EC, Sweden has for many years been keen to forge closer trade links with member countries. Strengthening the ties between Sweden and the EC has taken on even greater prominence in Sweden in recent years with the announcement that the single EC market is to apply by the end of 1992. However, for reasons of foreign policy (in particular, its commitment to remain a neutral, non-aligned country), formal membership of the EC has not been actively considered by the Swedish Government.

30. Following the signing of the Luxembourg Declaration between the EC and EFTA in 1984, an important objective of Sweden has been to strengthen their relationship through the development of a European Economic Space (EES). At a meeting in Brussels between Ministers of the EC and EFTA countries on 19 December 1989, it was agreed that formal negotiations would commence as soon as possible in the first half of 1990, with the aim of concluding them as rapidly as possible. It was also agreed that the objectives of the EES would be:

- "to achieve the free movement of goods, services, capital and persons, on the basis of the relevant aquis communautaire, to be identified jointly; exceptions, justified by considerations of fundamental interests, as well as transitional arrangements, could be a matter for negotiation; equal conditions of competition should be ensured;

- to strengthen and to broaden co-operation in the context of the Community's actions in other areas, such as education, working conditions and social welfare, consumer protection, programmes for small and medium sized enterprises and tourism;

- to reduce economic and social disparities between the regions."

31. Despite a general commitment to open trade, Sweden has departed from this policy by maintaining long-standing policies which confer protection on a number of sectors. The main sectors receiving preferential treatment have been agriculture and the textiles, clothing and footwear industries.

32. Policies restricting imports in these sectors are stated to have been motivated mainly by the objective of ensuring self-sufficiency for security reasons. Other objectives have included the need to preserve employment opportunities in these industries which are important sources of employment in regional areas, and to protect the living standards for certain groups of Swedish people. For example, a cornerstone of Swedish agricultural policy has been the objective of ensuring that Swedish farmers enjoy a living standard which is comparable with that received by industrial

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3 EFTA Bulletin, 4/89-1/90, pp.5-6.
employees. Assistance to these sectors has therefore been provided largely according to sectoral demands without necessarily taking into account aspects of economic efficiency and world trade.

33. Recently, however, there has been a substantial shift in Swedish policy towards the degree of protection provided to these sectors. Current Government policy is that industries should compete for domestic resources, by and large, on a more equal footing.

34. These sentiments are behind the Government's recent statements on reforming the domestic agricultural marketing and pricing arrangements from 1 July 1990. Details of these reforms are still being finalized. However, self-sufficiency for reasons of national security and regional development will continue, it appears, as important agricultural policy objectives. The question of reducing barriers to outside market entry will be handled in conjunction with the ongoing negotiations in the Uruguay Round. "The agenda for future negotiations on these matters includes the restructuring of protective measures and other trade barriers in the direction of tariffification. The overall level of protection and the forms it takes will thus depend on international developments."

35. For manufacturing industries, the Government has stated its intention to eliminate all quantitative restrictions on textiles and clothing when MFA IV expires on 31 July 1991, and for leather footwear from the beginning of 1993. More generally, there has been a shift in government policy from one of providing temporary financial support for structural adjustment in certain crisis-ridden industries, such as shipbuilding and iron and steel, to one of providing lower levels of Government assistance. Government financial assistance currently comprises support for research and development, export promotion, support for small businesses and regional and energy policy measures. Government support for industries concentrated in certain regional areas continues to be an important aspect of industry assistance.

36. Sweden's industrial policy is contained in the Act of 1987 on Swedish Industry Facing the 90s. This industry policy program, which is renewed every three years, continues the restrictive approach to the support of ailing industries, and aims to stimulate the development of technology and small businesses across a broad range of industries. The Act states that

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4 The Parliamentary Working Group dealing with the reform of agricultural policies concluded that the "proposed food policy envisages the replacement of protective measures at the border and price control as general means of fulfilling the various policy goals by a system based on protective measures at the border but without any regulation of the domestic market, and in addition the implementation of targeted publicly financed measures to satisfy national security requirements, to safeguard the environment, and to promote regional development." A New Food Policy, 25 October, 1989, p.12.

5 Ibid, p.12.
industrial policy should contribute to welfare and prosperity by promoting long-term industrial growth based on strong international competition.

37. A new three year industry-policy program was presented to Parliament in March 1990. There is no change in the general direction of industrial policy. The new programme builds on previous policies and provides for greater market orientation in the development of industries.

38. Another objective of Sweden's trade policy has been to encourage trade with developing countries. With this in mind, Sweden implemented its GSP system in 1972 and later in February 1987 introduced, as part of this scheme, special tariff concessions to countries designated as least developed by the United Nations. For a number of reasons, however, Sweden's trade with developing countries remains relatively small. One reason is the maintenance of quantitative import restrictions on textiles and clothing products and the exclusion of these products from the GSP Scheme. Another reason is the absence of historical ties between Sweden and developing countries.

(ii) Objectives in the Uruguay Round

39. Sweden is strongly committed to promoting a strong, multilateral rules-based trading system. This is seen as best serving Sweden's economic objectives as well as facilitating its primary foreign policy objective of remaining a neutral, non-aligned country. Sweden, both individually and as an important member of the Nordic group of countries, has been a firm supporter of the Uruguay Round since its inception.

40. Sweden's objectives for the Uruguay Round in the area of market access include reduced tariffs, quantitative restrictions and other import charges in many of its major export markets, in particular, for steel, building materials, chemical products, engineering products and paper. Sweden also seeks to improve the rules of the Anti-Dumping and Subsidies Codes and to widen the scope of the Government Procurement Code. In the fields of technical barriers to trade, Sweden supports changing the rules to reduce the scope for countries to use these procedures as a barrier against imports.

41. The Swedish authorities have indicated that agricultural reform will proceed irrespective of the outcome of the Uruguay Round. However, the question of border protection will depend upon the extent to which agreement is reached on agriculture in the Uruguay Round. Sweden is actively participating in agricultural negotiations. Any lowering of international barriers in this area would provide a further impetus to agricultural reform in Sweden.

42. Other areas of high priority for Sweden in the Uruguay Round include agreement on new rules regarding trade-related investment measures, rules to adequately protect international property rights as well as the rules to reduce restrictions on trade in services, in particular, in the banking, construction, telecommunications and transport areas.
3. General Trade Laws and Trade Legislation

43. The General Agreement per se has not been incorporated into Swedish domestic legislation. Consequently, no Swedish individual would have the right to sue the Swedish Government for violation of the GATT.

44. However, Sweden's accession to GATT is recognized by the Parliament, and Sweden is bound by the General Agreement under international law. Thus, Swedish law must comply with obligations made under the GATT. In this way, major aspects of the GATT are reflected in Sweden's domestic legislation.

45. Swedish trade policy measures are based on acts or ordinances. Acts are passed into law by Parliament and hence require approval by Parliament to be changed. Ordinances, on the other hand, do not pass through Parliament and are issued on the authority of the Government. Most ordinances are issued by the Government to implement laws established by Parliament.

46. Sweden's basic tariff legislation is contained in the Customs Act (SFS 1987:1065). This contains all the procedural rules for levying tariffs. The tariff duties to be charged are prescribed by a special scale of duties in the Customs Tariff Act (SFS 1987:1068). Deviations from the customs tariff are provided for in the Customs Duty Exemption Act (SFS 1987:1069). These include tariff concessions under the tariff suspension scheme, duty drawback arrangements, and rules for imposing anti-dumping and countervailing duties. Government authorization to issue ordinances regarding duty exemptions under international trade agreements is also provided for in the Customs Duty Exemption Act.

47. The Government may issue ordinances regarding the importation and exportation of goods. Authority for this is contained in the Importation and Exportation of Goods Act (SFS 1975:85).

48. Within the authority provided by these Acts of Parliament, the Swedish Government has issued numerous ordinances which prescribe the procedural and administrative aspects of trade laws operating in Sweden.  

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6 Among the more important ordinances relating to trade laws in Sweden are the Ordinance Concerning Customs Values (SFS 1980:749); Ordinance Concerning Investigations of Dumping and Subsidies (SFS 1985:738); Ordinance Concerning Application of the GATT Agreement on Government Procurement (SFS 1980:849); Ordinance Concerning Threshold Values Regarding Procurement Under the Framework for the GATT Agreement on Government Procurement (SFS 1986:282); Ordinance Containing Directives to the Board of Trade (SFS 1988:570); Ordinance Concerning the Obligation of Authorities to Notify Certain Directives, etc (SFS 1988:569); Free-Trade Ordinance (SFS 1987:1185); Ordinance Concerning Exemption from Duty of Goods from Developing Countries (SFS 1987:1285); and the Ordinance Concerning the Origin of Goods (SFS 1984:59).
49. The National Board of Trade and the National Agricultural Market Board are entrusted with administering the import and export licensing of non-agricultural and agricultural goods, respectively. The relevant responsibilities are provided for in the Ordinance for the Regulation of Imports and Exports (SFS 1984:53, 1988:567). The marketing and pricing regulations for agricultural and fish products handled by the National Agricultural Market Board, are based on the Price Regulation of the Agricultural Products Act (SFS 1967:340) and the Fish and Fish Products Act (SFS 1974:226), respectively.

50. In addition, the Government prescribes general guidelines for providing financial support to Swedish industries in accordance with acts passed through Parliament which authorise the provision of such assistance. Funds to be earmarked for industry assistance are approved by Parliament as part of the normal budgetary process. The steps taken by the Government in deciding to provide financial support to industry are illustrated in Chart II.1.

Chart II.1
Steps in the Government decision-making process for providing financial support to industry

- The government prescribes general guidelines for support measures
- The government authorizes decision-making agencies to use the guidelines
- The decision-making agency offers support
- The decision-making agency pledges to furnish support
- The decision-making agency pays out the amount/assigns a formal guarantee, etc.
- The recipient firm makes repayments (interest, fees, etc.)

(4) **Structure of Trade Policy Formulation**

(i) **Legislative and executive branches of Government**

51. The Parliament is ultimately responsible for basic trade policy in Sweden. All national trade policy decisions, including agreements and treaties with other countries, require approval by the Swedish Parliament if they are of major importance or involve legislation.

52. The Government receives its authority from Parliament. The Cabinet presently comprises 21 ministers, which represent the political party or parties. Government decisions are formally taken by the full Cabinet. However, in practice, it is common for decisions to be made informally between the relevant group of ministers.

53. Trade policy is largely implemented and administered by the Government through its ministries and national civil service. Within the Government, matters concerning international trade falls mainly under the jurisdiction of the Ministry for Foreign Affairs. Its Trade Department, headed by the Minister for Foreign Trade, handles all aspects of Sweden's international trade. It is currently structured into five divisions according to the main areas of responsibility (Table II.1).

54. In view of the close interdependence between trade and industry policy, other ministers also play an important part in formulating Sweden's trade policies. In this context, the Ministers of Industry and Agriculture are particularly important. The Ministry of Industry is responsible for co-ordinating industrial policy, while the Ministry of Agriculture handles all matters regarding food and agriculture, forestry, fishing, horticulture and reindeer husbandry.

55. In Sweden, the ministries are primarily responsible for policy matters, such as preparing Government legislation for Parliament. The enforcement of Government decisions, current legislation and regulations is conducted by a number of central administrative agencies which are headed by a Director-General appointed by the Government. These agencies operate independently from the ministries, and are often requested by the Government to comment on policy issues. They frequently propose amendments to laws and regulations approved by Parliament and the Government.

56. The central government agency on trade matters in Sweden is the National Board of Trade. Its main function is, at the request of the Trade Department of the Ministry for Foreign Affairs, to report on trade policy issues relevant to Sweden. In this context, the Board consults with representatives from interested parties such as industry, importers, exporters and trade unions. The National Board of Trade is also responsible for, inter alia, conducting anti-dumping and countervailing duty investigations, as well as being the import and export licensing authority for industrial goods.

57. Other Swedish agencies which play an important rôle in administering trade and industry policy are the National Agricultural Market Board which has similar responsibilities for agriculture and fisheries as does the Board of Trade for industrial goods; the National Board of Agriculture
which is concerned with structural improvements in agriculture, horticulture and reindeer husbandry, as well as animal health and animal and plant protection; and the National Customs Board which administers the customs service in Sweden.

(ii) Independent review bodies

58. There are no official independent bodies in Sweden charged with the responsibility of publicly reviewing matters of public assistance. However, as proposals for sectoral assistance are matters for Parliament, these matters are discussed in various committees where both the facts and the political aspects of granting assistance are examined. It is therefore left to the Government to represent the interests of consumers and taxpayers, as well as those of domestic producers, in deliberations on matters of sectoral assistance.

59. All Government bills to be presented to Parliament are circulated for comment beforehand throughout relevant ministries and agencies. The National Board of Trade and various other agencies play an important rôle in providing advice to the Swedish Government on matters affecting trade policies. On occasions, the Government may also seek advice from special ad hoc commissions consisting of experts which are appointed by the Government to inquire into special matters.

(5) Trade Agreements

60. Apart from the GATT, Sweden is a member of several other multilateral organizations related to trade. These include the OECD, and in particular, the Code of Liberalization of Current Invisible Operations and the Code of Liberalization of Capital Movement which are designed to promote trade in services and capital flows, respectively, between OECD countries.

61. Some 70-80 per cent of Sweden's international trade takes place under regional trade agreements. By far the most important of these are the European Free Trade Association, which was originally established in May 1960 to create a free-trade area with Austria, the United Kingdom, Denmark, Norway, Portugal and Switzerland; and the free-trade agreements between Sweden and the EC. Under these agreements, trade in industrial goods between participating countries is free of tariffs, but trade in agriculture is largely excluded.

62. The provisions of the Stockholm Convention creating EFTA were examined in a Report by a GATT Working Party which was adopted by Council

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7 The current members of EFTA are Austria, Sweden, Norway, Finland, Iceland and Switzerland. Finland became an associate member in 1961 and Iceland in 1970.

8 Both the EFTA Convention and the free trade agreement between Sweden and the EEC cover certain processed agricultural products. Some other agricultural products are covered by the EFTA Convention.
on 4 June 1960. Following this Report, Contracting Parties concluded on 18 November 1960 that, inter alia:

"The Contracting Parties feel that there remain some legal and practical issues which would not be fruitfully discussed further at this stage. Accordingly, the Contracting Parties do not find it appropriate to make recommendations to the parties to the Convention pursuant to paragraph 7(b) of Article XXIV."9

63. The Report of the Working Party on the Swedish-EC Agreements was adopted on 19 October 1973. It concluded that, inter alia:

"The Working Party could not reach any unanimous conclusions as to the compatibility of the Agreement with the provisions of the General Agreement. Thus it felt that it should limit itself to report the opinions expressed to the competent bodies of the Contracting Parties."10

64. Sweden has bilateral trade agreements with Greenland and the Faroe Islands which provide for, by and large, the same preferential arrangements as those contained in the EEC agreement.

65. Bilateral agreements have been negotiated by Sweden to promote trade and overall economic relations, chiefly with developing countries and State-trading countries. Sweden currently has such agreements with 26 countries (Appendix II.1). According to Swedish authorities, these agreements are non-discriminatory and fully compatible with Sweden's obligations under GATT. Certain trade complaints between the countries concerned may be resolved under these arrangements. 11 An example of a bilateral agreement is provided in Appendix II.2.

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11 It has been reported, for example, that complaints from Swedish companies against low-priced imports from Eastern countries accused of disrupting the Swedish market, have been discussed at the annual negotiations stipulated in Sweden's bilateral trade agreements with these countries. "For the most part it has been possible to resolve these problems satisfactorily. In a few cases, however, it has been necessary to undertake anti-dumping actions". Swedish Trade Policy, Fact Sheets on Sweden, The Swedish Institute, May 1987, p.4.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Régime

66. The exchange rate of the Swedish krona is pegged to a trade-weighted index which is determined using a basket of currencies from Sweden's 15 most important trading partners. Each country included in the basket accounts for at least one per cent of Sweden's total foreign trade (merchandise exports and imports) and has its currency quoted daily on the Stockholm foreign exchange market. The exchange rate for the krona has been determined on this basis since August 1977 when Sweden withdrew from the European currency union.

67. The weights for each country used in the exchange-rate index to construct the benchmark are, in principle, proportional to each country's share of Swedish foreign trade. However, due to the importance of the US dollar in Sweden's trade payments, it has been given a weight double its trade-weight. Consequently, the weights of all other currencies in the index are below their actual trade weight. These weights are adjusted annually, on 1 April, using the average trade statistics for the five preceding calendar years. The currency weights in the foreign exchange index which were set on 1 April 1979, together with those that operated from 1 April 1989 to 31 March 1990, are shown in Chart III.1.

68. The current benchmark of 132 for the trade-weighted index was set following Sweden's 16 per cent devaluation of the krona on 8 October 1982. This followed previous devaluations of 10 per cent in both 1981 and 1977 when the exchange rate index was adopted.

69. The exchange rate for the krona is managed by the Central Bank of Sweden (the Riksbank) to ensure that movements in the trade-weighted index are limited to plus or minus two index units or, based on the current benchmark for the index of 132, to plus or minus 1.5 per cent. This is achieved by the Central Bank intervening in the market to set the spot rate with the US dollar. Spot rates for other currencies are then determined on the basis of the cross-rates applying in international markets.

\[\text{On a strict trade-weighted basis, the US dollar would currently be ranked not first, but third, in importance in the basket of currencies, behind the Deutsche mark and the pound sterling.}\]
Chart III.1
Weights of the Riksbank's foreign exchange index, 1979 and 1989
(Per cent)

April 1979

- US dollar 16
- Deutche mark 17
- Pound sterling 10.1
- Norwegian krone 10.1
- Danish krone 9.5
- French franc 5.4
- Finnish mark 7.1
- Other 6.9
- Japanese Yen 2.6
- Italian lira 3.4
- Belgian franc 3.7
- Dutch florin 5.2
- Danish krone 9.5
- Finnish mark 7.1

April 1989

- US dollar 22.5
- Deutche mark 18.4
- Pound sterling 11.1
- Norwegian krone 8.7
- Danish krone 7.6
- French franc 5.2
- Finnish mark 6.7
- Other 6.1
- Japanese Yen 3.6
- Italian lira 3.8
- Belgian franc 3.7
- Dutch florin 4.6
- French franc 5.2
- Finnish mark 6.7

Source: Sveriges Riksbank.
70. An important feature of the variable exchange rate system operating in Sweden is that the value of the Swedish krona is heavily influenced by movements in the US dollar - reflecting the disproportionate weight of this currency in the basket. Indeed, the krona has devalued by around 30 per cent against the (depreciating) US dollar since peaking against this currency in 1985. Thus, the rates of exchange between the krona and foreign currencies of several other trading partners (e.g. the pound sterling) have also declined since the mid-1980s. However, to maintain the trade-weighted index within the permitted range, declines in the value of the krona against these and other currencies over this period have been compensated for by appreciations of the krona against currencies such as the Deutsche mark and the Finnish mark.

71. Individual movements in the nominal exchange rates between the Swedish krona and the currencies of major trading partners since the depreciation of the Krona in 1982, are shown in Chart III.2. Overall, the nominal effective exchange rate of the krona has declined over this period by about 5 per cent (Chart III.3).

(2) International Competitiveness

72. The benefits to Sweden's international competitiveness that followed the devaluation of the Swedish krona in 1982 and earlier years, have now been largely eroded. Although Sweden's balance of trade surplus, equivalent in 1989 to 1.5 per cent of GDP, remains relatively high by international standards, Sweden's trade performance has deteriorated over recent years. The Riksbank expects that the trade surplus will stagnate, and the current account has continued to record ever increasing deficits, accentuated by strong growth in net outflows for travel, interest and dividend payments (Table III.1).

73. An indication of Sweden's overall decline in international competitiveness throughout the second half of the eighties can be seen from Chart III.4. On average, the relative price of Swedish exports in international markets has continued to increase since 1983 and, over the same period, their market share has continued to decline. In 1989 alone, the share of Swedish exports of manufactures to the 14 OECD countries, combined, declined by almost 4 per cent.
Chart III.2
Exchange rate movements against major trading partner currencies, 1984-89

Source: Sveriges Riksbank.

Chart III.3
Nominal and real effective exchange rate changes for the Swedish Krona, 1984-89

Source: Table I.5.
Chart III.4
Market share and relative price for
Swedish manufactured exports to 14 OECD
Countries, 1980-90

Index 1980 = 100

Market share

Relative price

74. Moreover, while in 1988 the nominal exchange rate for the Swedish krona remained virtually unchanged, the krona became stronger in 1989. This was due largely to the net capital inflow into Sweden, attracted by relatively high interest rates resulting from the tightening of monetary policies to combat inflation (Table III.2). The stronger krona, combined with the relatively high inflation rates in Sweden, has led to a recent acceleration in the real appreciation of the krona. Consequently, the real effective exchange rate of the krona appreciated by around 6 per cent in 1989, and overall was around 20 per cent higher at the end of 1989 compared with the early 1980s.

75. One factor explaining Sweden's decline in international competitiveness has been relatively slow productivity growth throughout much of the 1980s. Export performance has also been hampered by an acute labour shortage and high capacity utilization rates which have emerged since late 1988 as important factors constraining output growth.

76. Recent increased pressures for higher wages along with other labour costs have been the main factors contributing to accelerating inflation rates since 1987. Inflation rates had been declining continuously from the high levels experienced in the early 1980s.

77. Wage and price increases have been exerting negative pressures on Sweden's international competitiveness and contributing to growing current account deficits. The Swedish Government is currently taking measures designed to tighten demand and increase labour supply, as well as various

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13 Measured on the basis of interest rates for six-month deposits during 1989, the weighted average of the interest rates for the 15 countries in the Swedish exchange rate index fluctuated between 1.5 and 2.5 percentage points below that of Sweden. The margin against the United States widened whilst it narrowed against the interest rates applying in Japan and Western Europe. The particularly large inflow in the second half of 1989 was also aided by the removal of virtually all remaining exchange controls from 1 July which permitted non-residents to purchase krona denominated bonds.

14 Reflecting the increasingly tight labour market, labour costs rose by 8.4 per cent in 1988 and 10 per cent in 1989, compared with an average of 7.2 per cent during the preceding two years (Chart III.5).
structural measures to enhance productivity and growth. A freeze on prices and rents has been introduced in order to dampen inflationary expectations and complement demand tightening measures. A special Government mediator has also been appointed in order to achieve moderate wage settlements for this year and 1991.

Chart III.5
Nominal hourly wages in Swedish industry, 1980-89
(Annual percentage change)


15 The duration of the freeze will be definitely decided in the supplementary Budget Bill which is to be presented to Parliament by the end of April.
78. A process of deregulation which began mainly in the late 1970s has transformed the Swedish financial sector from one of the most heavily regulated systems in Europe. Severe credit rationing, strict exchange controls, interest rate regulation and other tight controls over the lending and borrowing policies of financial institutions have been progressively dismantled. Today, the Swedish financial sector is virtually deregulated.

79. Deregulation of the financial sector focused initially on the domestic financial market. Interest rate regulations on banks' household deposits were abolished in 1978, as were quantitative controls on new issues of private bonds in 1983. Similarly, certain credit rationing controls such as the bank's liquidity quotas on government and housing bonds and investment rules for banks and insurance institutions were abolished, respectively, in 1983 and 1986. Foreign banks have been permitted to operate in Sweden on the same conditions as domestic banks since 1985.

80. Important changes to Sweden's exchange control regulations since September 1987 are summarised in Table III.3. From 1 July 1989, currency regulations were abolished which, inter alia, partly controlled Swedish companies and individuals wishing to invest, borrow and lend abroad; purchase foreign currency for deposit in domestic banks; transfer bank notes and securities to and from Sweden; and engage in forward foreign exchange (and options) transactions. Furthermore, non-residents are now permitted to invest in Swedish securities denominated in Krona and to borrow in Swedish currency.

81. Exchange controls remain predominantly for taxation and statistical reasons, to prevent Swedish companies or individuals from depositing cash in foreign banks and from paying life assurance premiums to assurance companies outside Sweden. Foreign securities purchased abroad must be deposited with an authorised agent in Sweden, and certain Swedish bonds purchased by foreigners should be kept in Sweden. The Exchange Control Ordinance will terminate on 30 June 1990. After this date, the few remaining regulations are to be contained in separate legislation to be passed through Parliament.

82. All transactions involving the purchase or sale of foreign currencies are permitted without restriction, provided they continue to be conducted through authorized Swedish banks, including foreign banks operating in Sweden. No taxes or subsidies apply to the purchase or sale of foreign exchange. Authorized banks conduct business between each other and with their customers at commercially set rates for both spot and forward transactions in any currency. The Central Bank sets limits on the net foreign exchange holdings of each authorized bank.

83. Payments for imports may be made freely through an authorized bank. Imports are also permitted to accept foreign suppliers' credit. Similarly, payments to non-residents for invisibles made through an authorized bank are permitted without restriction. Foreign exchange for travel abroad is free.
84. Travellers leaving Sweden may freely take out means of payment. While abroad, Swedish citizens may open overseas accounts, provided the funds are transferred to Sweden on return.

85. There are no special regulations on residents exporting, importing or owning gold or gold coins. These are subject to normal customs procedures.

(4) Exchange Rate Movements and Trade

86. Since the substantial devaluations of the krona in the early 1980s, the real effective exchange rate has appreciated continuously. Since 1985, the appreciation had been modest. However, the increase has accelerated again in 1988 and 1989 (Chart III.3 and Table III.4).

87. The improved international competitiveness of Swedish industry following the currency devaluations of the early 1980s, helped to turn the trend in the current account experienced by Sweden since the early 1970s. The deficits peaked at about 3.5 per cent of GDP in the early 1980s, declined substantially following the devaluations, and a small surplus was in fact recorded in 1984.

88. However, persistent and generally increasing current account deficits have accompanied the real appreciation of the krona in recent years (Chart III.6). An exception was the year 1986 when Sweden, as a large net importer of petroleum products, benefited largely from the falling oil prices.

Chart III.6
Trade and current account balances
1970–90

89. The relatively large current account deficits have been fuelled by high levels of consumer demand in Sweden. Domestic consumption, accounted for some 80 per cent of GDP in the 1980s, at a time when investment levels were also relatively high. For most of this period, the levels of gross investment in Sweden have substantially exceeded gross levels of domestic savings (Chart III.7).

Chart III.7
Gross saving, investment and current transaction balance as percentages of GDP, 1982-88

Per cent

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<th>Gross saving</th>
<th>Investment</th>
<th>Current transaction balance</th>
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Note: Gross saving is consumption of fixed capital plus net saving. Gross investment represents the sum of increases in stocks and gross fixed capital formation. Current transaction balance refers to gross saving minus gross investment.

90. In the second half of the 1980s, the short-fall in domestic savings has necessitated overseas borrowing by Sweden to finance increasing current account deficits. Sweden's gross foreign debt as a proportion of GDP increased from around 48 per cent in 1985 to approximately 50 per cent in 1988. In recent years, foreign debt has been raised privately and the proportion of public external debt has declined accordingly.

91. Domestic consumption in Sweden has "spilled-over" onto imports of goods and services. Expenditure on imports of goods and services grew rapidly as a proportion of real GDP throughout the 1980s. During the late 1970s and early to mid-1980s, domestic consumption was boosted by expansionary fiscal policies in Sweden which saw unsustainable budget deficits (Table I.4). The impact of budget surpluses on domestic consumption from 1987 has been more than offset by a negative household savings ratio since 1986, and increased corporate borrowings (Chart III.8).

IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

92. On average, Sweden is a low tariff country, with most tariffs bound under GATT. In 1988, the simple average m.f.n. tariff applying to Swedish imports was less than 5 per cent. Nevertheless, tariffs remain important for a variety of goods, such as certain agricultural commodities, textiles, clothing and footwear. Furthermore, several imported goods are subject to specific or alternate tariff rates. These automatically provide higher ad valorem rates of assistance if import prices collapse. Swedish producers therefore receive an element of insurance against the likelihood of future lower-priced imports. In agriculture, there are also variable levies and, for products such as fresh fruit and vegetables, seasonal tariffs.

93. Over 400 tariff lines are subject to variable import levies, covering both the basic agricultural commodities, such as cereals, dairy products, meats, sugar and fish, as well as a wide-range of processed foodstuffs. As indicated in Table IV.1, the levies provide high and variable ad valorem tariff rate equivalents, which strongly restrain or virtually prohibit competing imports, so as to support domestic regulations controlling the marketing and pricing of agricultural commodities. As a result of these arrangements, which also include heavy subsidization of most agricultural exports, the Swedish agricultural sector is currently amongst the most highly assisted in the world.

94. Quantitative restrictions also apply to imports from all countries of certain fish.

95. Sweden, as a member of the MFA, has extensively applied highly restrictive voluntary export restraint arrangements to limit imports of clothing and, to a lesser extent, textiles from major exporting countries. Sweden currently has MFA agreements with 14 countries. In addition, Sweden has concluded bilateral arrangements outside the MFA with five MFA participating countries and three non-participating MFA countries, and unilaterally restricts imports from a further five countries. The restrictions applied to imports under these 27 arrangements cover a wide

16. This Chapter discusses the various trade policies and practices followed in Sweden according to whether the measures operate directly on imports, exports or, more generally, trade and production. However, the close interdependence between trade flows and domestic production patterns means that the effects of these measures will not be limited to their mode of operation. Trade measures operating directly on any single factor must invariably affect other parameters. Restrictions imposed on imports must, for example, ultimately lower exports. Similarly, import restrictions will, in the longer term, significantly alter production patterns by reallocating the economy’s resources into less efficient uses, thereby reducing the economy’s overall productive capacity.
range of clothing and, to a lesser extent, textile products from 26 countries.

96. Imports of leather footwear into Sweden from seven countries are currently subject to bilateral quantitative restrictions.

97. A system of import licensing operates in Sweden to monitor, and where necessary restrict, certain sensitive imports. With the exception of goods subject to quantitative restrictions, import licences are generally issued automatically for surveillance purposes, and are limited to a narrow range of agricultural products, as well as iron and steel products. Some agricultural and industrial products imported from State trading countries generally require an import licence.

98. The net cost to the Government of financial assistance provided to manufacturing industries from 1984-85 to 1988-89 is shown in Table IV.2. Over this period, it declined in total from SEK 9.5 billion in 1984-85 to SEK 6.1 billion in 1988-89.

99. Financial assistance to exports is provided by the Swedish Government through the subsidization of agricultural exports as part of the domestic marketing and pricing arrangements for these commodities; export promotion through the Swedish Trade Council; provision of export finance and export credits through the operations of the Swedish Export Credit Corporation and the Swedish Export Credits Guarantee Board respectively; provision of regional support to industries locating in less populated areas of Sweden; and support for research and development through funding of the National Board of Technical Development and the Swedish Industrial Board.

100. Government financial support to "crisis-ridden" industries such as shipbuilding, forestry and iron and steel was substantial prior to the mid-1980s, but has fallen since then and, with the main exception of iron and steel, now relates almost entirely to outstanding commitments. Some industries, such as the textiles and clothing industries, continue to receive sectoral support from the Government, but this too has been cut-back substantially in recent years. Food processors continue to receive compensation to offset the high cost of agricultural inputs in Sweden.

101. Other measures which may significantly restrict Swedish imports in certain product areas include absolute and conditional prohibitions on imports, technical and safety standards and Government procurement (including offset) arrangements. Whilst many of these measures are introduced for reasons other than to restrict imports, such as to protect health and safety, they nevertheless may become a de facto or disguised means of assisting local industries. This applies even where the application of these arrangements would appear on the surface to be non-discriminatory between imports and domestic production. Determining the impact of these arrangements on international trade and industry assistance is however difficult.
Measure Operating Directly on Imports

(i) Tariffs

102. The Swedish Customs tariff is a single-column tariff which applies the same tariff rates to all sources, subject to various free-trade arrangements (see Chapter II). In 1989, duty-free imports under the free-trade agreements accounted for around three-quarters of Sweden's total imports.

103. Sweden fully implemented the Harmonized Commodity Description and Coding System of classifying imports and exports on 1 January 1988 to replace the CCCN Nomenclature. The 5,019 six-digit code descriptions, contained in the Harmonized System of the Customs Co-operation Council approved on 14 June 1983, were further sub-divided in the Swedish Customs Schedule into seven-digit descriptions which prescribe the tariff rates applicable to imports. Following the adoption of the Harmonized System, the number of tariff lines (or tariff rates) in the Swedish Schedule increased from around 5,500, to approximately 7,000.

104. The objective was to introduce the Harmonized System into Sweden without significantly changing the average level of tariffs applicable to imports. However, to date no studies are available which measure the overall impact of the tariff rate changes resulting from the Harmonized System.

105. Tariff reclassifications associated with the Harmonized System resulted in some significant tariff increases for some products, and reductions in others.

106. At the time when the Harmonized System was introduced, tariffs on some products were also revised. The most significant were the changes made to tariffs applying to fish products which were implemented following GATT Article XXVIII negotiations. These changes reduced tariffs on some products whilst increasing tariffs on others, and converted many of the specific rates on fish products to ad valorem rates.

(a) Customs valuation and clearances

107. Sweden supports the principles of Article VII of the GATT and of the Customs Valuation Code. Customs valuation procedures in Sweden comply with these rules, which have been implemented in Sweden in the Ordinance on Customs Value of 1 January 1981.

108. The value-for-duty used for customs purposes by Sweden is based on the c.i.f. price of the imported good at the place of importation. This is

17 For example, tariffs on imports of certain liquid synthetic polyolefins rose from free to 9 per cent. However, exemption from duty under Section 12 of the Customs Exemption Act, applies as from 1 January 1990. See Section (h).
normally the transaction value of the imported article, adjusted upwards to reflect certain costs (e.g. selling commission and packaging costs) incurred by the buyer but not included in the selling price (Article I of the Agreement). Where the use of the transaction value method is unsuitable, alternative procedures, such as substituting the transaction value of identical goods exported to the same place of importation, are prescribed in the regulations. Sometimes, this involves inquiries by experts on customs valuation from the Board of Customs to determine the correct c.i.f. value.

109. When goods are entered for customs clearance, the importer must declare, inter alia, the customs value of the goods on the import declaration form. This value must be verified by an invoice and, in some cases, a packing list of the goods. The invoice must contain full details of the goods to be cleared, such as the seller, the agreed price for each item and, where applicable, any price discounts. If requested, the importer must also present to Customs a freight bill, insurance policy or some other documentation verifying the declared customs value.

110. Since 1974, responsibility of clearing imports through Swedish Customs has rested with importers' clearing agents and forwarding companies. Imported goods pending clearance through Customs may be stored in private temporary storage houses established throughout Sweden with permission from regional Customs authorities. The goods may be stored in these facilities for 30 days, or longer, if valid reasons exist.

111. A system of customs credit is available, whereby importers are provided up to 45 days following lodgement of the import declaration for the goods, to pay the customs duties. The provision of credit, which is usually without security, is closely scrutinized. Importers who do not fulfill their obligation to pay Customs duties on time risk having the credit facilities withdrawn. More than 99 per cent of the entire Customs collection is paid by importers on credit.

112. Most goods imported into Sweden are cleared through the immediate release system. This enables goods imported by approved importers to be released immediately through customs for sale, prior to the importer lodging the Customs declaration and the Customs duties being assessed. Under this system, imported goods are first registered, and the importer is given about two weeks to submit the written declaration. Goods are available for release and sale immediately on registration. For goods subject to import regulations, the importer must satisfy all requirements (e.g. have a valid licence) before goods can be released for consumption. There have been no changes in these arrangements within the past five years.

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18 This applies, for example, where the sale has not been at arm's length between the exporter and the importer.
113. Appeals against Customs decisions must be lodged in writing with the Board of Customs and be made within a prescribed time period. The time period allowed for appealing against Customs decisions that relate to the assessment of import duties is one year from the day of assessment. Appeals received outside this period are dismissed. After a decision has first been reviewed by the Board of Customs, further appeals can be made to the Administrative Court of Appeal. Under certain circumstances, a decision of the Court of Appeal can be appealed to the Supreme Administrative Court.

(b) Form of tariffs

114. Ad valorem tariff rates are by far the most common form of tariff levied on imports into Sweden. Of the approximately 5,000 tariff lines in the Schedule which currently have positive tariff rates, over 90 per cent are expressed in ad valorem terms. Over recent years, reliance on the use of other types of tariff rates has declined. For example, many specific tariff rates formerly applying to fish products were converted to ad valorem rates on 1 January 1988.

115. Although a low percentage of tariff lines overall, non-ad valorem tariff rates are prevalent in a number of important product areas. In these product areas, about one-third of domestic production competes with imports that are subject to non-ad valorem tariffs. Specific tariff rates are widely applied to edible fruits, certain chemicals (especially glues, matches and fertilizers), fibreboard, certain electric lamps and some seafood products. Moreover, alternate tariff rates are common in certain areas of the Customs Schedule. These tariffs impose either an ad valorem or a specific rate of duty, depending upon the price of the imported product (e.g. 17 per cent, subject to a minimum of SEK 700 per 100 kgs). Imported goods subject to alternate rates are tyres, man-made filaments, clothing, made-up textiles and headgear.

116. Unlike specific tariffs which set no minimum to the ad valorem tariff rate that can be levied on imports, alternate tariffs in the Swedish schedule impose a minimum ad valorem rate of duty. However, neither specific nor alternate tariffs set a ceiling on the ad valorem rate of duty that may be applied to imports. For both specific and alternate tariffs, the ad valorem rate equivalent will rise as the price of the imported product declines. Non-ad valorem tariffs, and in particular alternate rates, can therefore progressively cushion the domestic industry against less expensive imports by restricting these imports more heavily when import prices decline.19

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19 For any particular product subject to a specific tariff rate, imports of cheaper substitutes will be more heavily restricted (in ad valorem terms) compared with imports of more expensive alternatives. By changing the relative prices of substitutes in favour of the more expensive product, consumption patterns will be distorted away from the cheaper (Footnote Continued)
117. Imports into Sweden of a wide range of fresh or chilled edible vegetables and fresh edible fruits are dutiable at mainly free or low rates for most of the year. However, they attract much higher tariff rates if imported when the domestic crop is "in-season". Almost half of the tariff lines in Chapters 7 (Edible Vegetables and Certain Roots and Tubes) and 8 (Edible Fruits and Nuts; Peel of Citrus Fruit or Melons) of the Customs Schedule involve seasonal tariffs. Major perishable commodities subject to these seasonal tariffs include potatoes, tomatoes, onions, cabbages, lettuces, grapes, melons, apples, pears, cherries, plums and most berry fruits. Seasonal tariffs also apply to certain imports of fresh flowers. In total, some 43 products and product categories are covered by seasonal tariffs.

118. In the majority of cases where seasonal tariffs apply, about two-thirds of the products or product categories have differences between the highest and the lowest tariff rates of over 10 percentage points (based on ad valorem tariffs). For no product or product categories was the range less than 5 percentage points.

(c) Average tariff levels

Overall, m.f.n. tariff levels in Sweden are low. In 1988, the simple average of applied tariff rates was 4.7 per cent and 3.5 per cent using m.f.n. import weights. For industrial products, the average tariff rates were respectively 4.9 per cent and 3.8 per cent. The averages for agricultural products were lower (2.6 per cent and 1.6 per cent, respectively). About two-thirds of m.f.n. imports enter Sweden at tariff rates of 5 per cent or less (Chart IV.1).

(Footnote Continued)

product towards the more expensive substitute. On the other hand, domestic manufactures will, ceteris paribus, be encouraged to produce less expensive substitutes where the level of protection against imports is greatest. Because of the uneven impact which non-ad valorem tariffs have overtime, and across substitute goods of varying prices, these tariffs will tend to distort trade flows and domestic production and consumption patterns to a greater extent than will ad valorem tariffs.

20 The most appropriate tariff rate for examining the impact on trade of seasonal tariffs will usually be the highest or "in-season" rate. To use the lower rate would understate the restrictive impact of tariffs on imports. This is because it is the "in-season" rate which protects domestic production and therefore determines the size of the local industry.

21 These averages exclude the ad valorem equivalents of variable levies.

22 The statistics based on import-weights understate the degree to which a country's tariff structure restricts imports of goods directly competing with domestic production. Simple averages using number of tariff (Footnote Continued)
Chart IV.1
Imports distributed by range of tariff rates, 1986
(imports by tariff range, per cent)

Source: GATT Tariff Study.

119. Approximately 30 per cent of tariff lines in the Swedish Customs Schedule provide for duty free entry. These include most raw materials, basic chemicals, pharmaceuticals, wood pulp, newsprint, pig iron and some finished goods such as most ships and aircraft.

120. The majority of semi-manufactured and finished goods have m.f.n. duties of 5 per cent or less. Exceptions include 6.2 per cent on automobiles, 3 to 13 per cent on most textiles (rising to 16 per cent) and 13 to 17 per cent on clothing (rising to 25 per cent). Thus, although tariff escalation does exist in the Swedish tariff and may be significant in some product areas, its incidence overall is relatively low.

121. With a few exceptions for certain products such as clothing, the Swedish tariff is relatively uniform. The standard deviation of tariff levels overall in 1988 was relatively low, just under 5 percentage points.

(Footnote Continued)
tariff lines are more likely to approximate domestic production patterns.

The standard deviation is a statistical measure used to determine the dispersion between items within a frequency distribution. Expressed in percentage points, it measures how far from the average the items in a frequency distribution are located. The larger the dispersion amongst individual items, the larger the standard deviation. A tariff structure which has a low dispersion in tariff rates will distort domestic production and consumption decisions far less than a highly disparate tariff structure.
122. Whilst, on average, tariff rates in Sweden are low in the agricultural sector, free tariff rates for most agricultural products are supplemented by substantial variable levies (see Section (ii)). Furthermore, the restrictive impact of seasonal tariffs on edible fruit and vegetables is understated in the tariff averages for agriculture from the GATT Tariff Study, since both the duty-free "out-of-season" and higher "in-season" tariff rates are included.

(d) Tariff reclassifications

123. Reclassifications in the Swedish tariff schedule and changes in tariff rates over recent years have been limited mainly to those introduced at the time of the Harmonized System. The existing level of tariffs therefore generally reflects the outcome of the tariff reductions implemented by Sweden as a result of the Tokyo Round. These phased reductions, which started in 1979 and were completed in 1985, reduced the simple average m.f.n. tariff on all industrial products by 20 per cent to 4.8 per cent. As indicated earlier, this compares with a simple average m.f.n. tariff in 1988 of 4.7 per cent.

124. On 1 July 1989, Sweden did, however, implement its tariff cuts on tropical products as part of the Montreal trade liberalization package. Since Sweden already had either zero m.f.n. or GSP duties on imports of almost all tropical products, these changes affected only a small number of products. Tariffs were mainly reduced from m.f.n. rates of 3.8 per cent to free on selected plaiting products, furniture and certain articles of ivory; from 1.4 per cent to free on veneers of certain tropical woods; and from 8 per cent to free for twine, cordage etc. of sisal or other textile fibres of the genus Agave, Acaba or other hard (leaf) fibres.

(e) Free-trade agreements

125. Approximately 85 per cent of imports into Sweden are sourced from industrial countries. However, only some 20 per cent of Sweden's imports from industrialized countries receive m.f.n. treatment. Imports of industrial goods "originating" from the EFTA-members Austria, Finland, Iceland, Norway and Switzerland are exempt from duty, as are industrial imports from EC countries under the Swedish-EC Free Trade Agreements.

126. Trade in most agricultural products is excluded from the European Free Trade Association (EFTA). Agricultural goods excluded are those falling in Parts II or III of Annex D to the Stockholm Convention. For these products, Sweden is obliged to grant to other EFTA countries tariff

(Footnote Continued)

the dispersion between items within a frequency distribution. Expressed in percentage points, it measures how far from the average the items in a frequency distribution are located. The larger the dispersion amongst individual items, the larger the standard deviation. A tariff structure which has a low dispersion in tariff rates will distort domestic production and consumption decisions far less than a highly disparate tariff structure.
treatment which is not less favourable than that provided to the EC. Some agricultural goods subject to trade (those falling in Parts I and II of Annex D to the Convention) may have price compensation measures provided to take account of the increased costs of basic agricultural inputs used in their production.

127. Fish and marine products listed in Annex E to the Convention were originally excluded from the free-trade arrangements. However, according to the provisions of the Convention, they are now to be covered as from 1 July 1990. Certain transitional arrangements are to operate until 31 December 1993, after which time all forms of government aid incompatible with Article 13 of the Convention shall be eliminated. These transitional arrangements allow Sweden to apply quantitative restrictions to imports of fresh or chilled herring or cod (excluding fillets) from EFTA countries where they are necessary to avoid serious disturbances in the Swedish market. As long as Finland maintains its present régime with regard to Baltic herring, Sweden may apply quantitative restrictions to imports of herring. Swedish imports of other fish products falling in Annex E will not be subject to any transitional arrangements and will therefore be imported free into Sweden from EFTA countries as of 1 July 1990.

128. In the framework of the Swedish-EC free trade agreements, virtually all industrial tariffs have been removed. This includes trade with Greece, Portugal and Spain, the most recent countries to join the EC. In the case of imports from Spain, the phasing-out of Swedish tariffs which was to be completed by 1991, was brought forward to 1 July 1989.

129. With minor exceptions, which are listed in Annex I to the Agreement with the EEC, all goods falling within chapters 25-97 of the Harmonized System may be traded between the EEC and Sweden free of tariffs. However, with the exception of a limited number of agricultural products listed in Annex II to the EEC Agreement, free trade in agriculture between Sweden and EEC countries is not provided for by the Agreement. Rather, the Agreement states that the two parties are "to promote the harmonious development of trade in agricultural products". Protocol No. 2 to the Agreement with the EEC lists those products where price compensation measures may be used to take account of the increased costs of agricultural inputs used in their production. Several of these agricultural products may be traded between Sweden and EEC countries at reduced but, nevertheless, high rates of duty.

130. A small share of Sweden's international trade is conducted in the framework of numerous bilateral trade agreements between Sweden and other trading partners. Until recently, the major bilateral trade treaties have been longstanding agreements with Eastern European countries. Sweden also has bilateral agreements with non-European countries. A number of these agreements were concluded because GATT relations did not exist between Sweden and the participating country and, in certain cases have been, in practice, superseded by GATT. Other more recent agreements have also been concluded by Sweden to cover economic co-operation rather than just trade issues. Bilateral agreements currently operate with countries such as Mexico, Brazil, Algeria, Nigeria, Egypt, Iraq, Malaysia, Thailand and China (see Chapter II).
131. Bilateral agreements exist with Greenland and the Faroe Islands which provide for duty-free access to imports into Sweden of "originating goods" from these trading partners. The Agreement with the Faroe Islands was implemented on 1 January 1976, and followed the withdrawal of Denmark from EFTA to join the EEC on 1 January 1973. The Swedish-Greenland Agreement was implemented on 1 July 1985 after Greenland withdrew from the EEC.

132. With the exception of imports of certain fish products in the Sweden-Faroe Islands Agreement which pay the m.f.n. tariff rate, these agreements provide for the same preferential treatment as the Swedish-EEC Agreement.

(f) Tariff bindings

133. Overall, some 96 per cent of total imports enter Sweden under bound or partially bound rates (Chart IV.2). Currently, approximately 6,400 tariff lines, representing about 90 per cent of the total, are bound or partially bound (Chart IV.3). The percentage of tariff bindings is much lower for agricultural commodities than for industrial products (57 per cent of tariff lines compared with 96 per cent).

Chart IV.2
Imports into Sweden at bound rates of tariffs, 1988

<table>
<thead>
<tr>
<th>SEK billion, per cent</th>
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<tbody>
<tr>
<td>45</td>
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<tr>
<td>40</td>
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<tr>
<td>10</td>
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<td>5</td>
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<tr>
<td>0</td>
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</tbody>
</table>

- Agriculture: 73% Bound (98% Overall)
- Industry: 2% Bound (96.2% Overall)
- Overall: 3.8% Bound (96.2% Overall)

Total import value: SEK 44.821 billion

Source: GATT Tariff Study.
Chart IV.3
Proportion of bound tariff rates in Sweden, 1988

Number of tariff lines, per cent

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Industry</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbound</td>
<td>43%</td>
<td>3.9%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Bound</td>
<td>57%</td>
<td>96.1%</td>
<td>90.5%</td>
</tr>
</tbody>
</table>

Total tariff lines: 7,018

Source: GATT Tariff Study.
134. In the case of agricultural commodities, many imports are also subject to variable import levies. These levies are not bound (see Section ii).

135. For some 6 per cent of bound tariff lines, the applied tariff rate is less than the rate at which the item is bound. Of these, about one-third have current rates of zero and bound rates of over 5 per cent. About another third, which have current positive ad valorem rates, have bound rates at more than 50 per cent higher. A substantial safety margin has therefore developed for certain products between Sweden's applied and bound tariff rates.

136. Tariffs for certain commodities, in particular agricultural products, are also bound in the form of a specific rate. While in most of these instances the current applied tariff is itself a specific rate, there are a number of cases where existing items with ad valorem tariff rates are bound in specific terms.

(g) Generalized system of tariff preferences

137. Imports from developing countries, which accounted for less than 8 per cent of Sweden's merchandise imports in 1988, benefit from Sweden's Generalized System of Preferences. This scheme, introduced on 1 January 1972, has been modified to include new beneficiary countries; to extend the product coverage; and in February 1987, to grant special concessions to least-developed countries.

138. Sweden's Generalized System of Preferences grants preferential tariff treatment to imports originating from a declared list which currently contains 161 developing countries. Of these, all imports originating from those 42 countries or territories that have been designated by the United Nations as least-developed countries, are accorded duty-free entry without quantitative restrictions.

139. For imports from other GSP beneficiaries duty-free entry is extended to industrial products, except for most imports of textiles, practically all imports of clothing and footwear and certain lamps and light fittings. Sensitive agricultural commodities, such as meats, cereals and sugar are excluded from GSP treatment. For some products, e.g. cut flowers and certain fruit, imports are only accorded GSP treatment if imported out-of-season.

140. About half of the product descriptions covered by the GSP Scheme are ineligible for GSP treatment if imported from Bulgaria, Romania and China. According to Swedish authorities, they are excluded from GSP treatment for

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these products in order to prevent imports from disturbing the Swedish markets for steel, rubber tyres and textiles and clothing.

141. Since 1987, several changes have been introduced to the GSP scheme. These have mainly extended the product coverage of the scheme. For example, jams, fruit jellies, marmalades, fruit or nut purées and pastes (ex tariff item 20.07) were added to the list of products covered by the scheme. In addition, Fiji, Cape Verde and Jordan were added to the list of countries eligible for receiving GSP treatment. Some administrative liberalizations were also introduced.

142. The scheme contains rules of origin whereby the goods have to be either wholly obtained in the beneficiary country or have undergone sufficient working or processing in that country. Special rules may be applied to countries forming a regional economic grouping. Certificates of origin - Form A - must be completed and replies to any requests for verification of this certificate must be furnished to the Swedish Board of Customs within six months. It is also required that the goods be transported directly to Sweden from the exporting beneficiary country.

143. In order to be eligible for GSP treatment, GSP countries must have fulfilled notification procedures, especially regarding the authorities empowered to issue Certificates of Origin under the Swedish Scheme. There are currently 67 GSP countries that have not completed these notification procedures and do not therefore receive GSP treatment.

144. Provision has been made for a safeguard clause in the Swedish GSP scheme which enables the Swedish Government "in critical circumstances of market disruptions, or threat of market disruptions ... to reintroduce m.f.n. treatment in the tariff field to the extent to which the GSP treatment applies. Such safeguard measures can be introduced against imports from that or those countries whose export cause or threaten to cause market disruptions or against all beneficiary countries." To date, this clause has never been used.

(h) Tariff concessions

145. Under Sweden's suspension scheme, domestic manufacturers importing certain prescribed material inputs which are not manufactured locally, may be exempted from paying customs duty. Authority to suspend the payment of customs duty for eligible products is contained in Section 12 of the Customs Duty Exemption, etc Act (1987:1069). Exemptions from duty are limited to a period of four years.

25 The individual items affected are mainly imports of iron and non-alloy steel; iron and steel products; rubber tyres; wadding; felt; twine; certain textile fabrics; knitted or crocheted goods; carpets; and other textile floor coverings.

26 At present, the ASEAN regional economic grouping has been granted the right to make use of this rule.
146. Currently, more than 300 products are covered by the tariff suspension scheme, and include mainly chemicals, plastics and machinery. The actual list of products has been altered on four occasions.

147. Section 12 also enables the Government to grant tariff suspensions that are limited to specific deliveries (suspension in casu). In practice, this possibility is limited to certain chemicals, machinery and equipment.

148. Sections 18-19 of the Customs Duty Exemption, etc. Act also authorise the Government to provide drawback of Customs duty to Swedish manufacturers. The major areas where duty drawback is available are for imported materials used in the manufacture of goods which are exported; in the shipbuilding and aviation industries; and goods exported in the same state as when originally imported (Section 19). Prior authorization from the Board of Customs is required to obtain these types of drawback.

149. Drawback of duty on imported materials used in manufacturing can be claimed on imported goods which have been re-exported after having been repaired, processed, completed or packed up. The same applies for imported goods used as materials for the manufacture, repair, processing, completion or packing of goods for export.

150. Special drawback may be granted for goods re-exported without having been used, or only used in Sweden for testing or other similar cases (Section 21). In practice, this provision is mainly used where imported goods are returned to the seller because of incorrect delivery, damage, etc.

151. Reduced drawback is available for goods imported for temporary use in Sweden (Section 22). The drawback of duty is reduced by 5 per cent for each month that the imported product has been used domestically. Reduced drawback may also be granted in other special cases. No prior authorization is required from the Board of Customs for special or reduced drawback.

152. Drawback applications are handled by the appointed controlling customs office and are subject to minimum amounts of duty and time limits on the exportation of the goods in question. The time limit is usually three years. The number of applications processed varies between 2000 and 3000 each year. In 1987-88, some SEK 160 million of Customs duty was refunded under drawback arrangements.

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27. The products are listed in Annex 6 of the Swedish Customs Schedule (Annex 3 of the current edition of the Swedish Customs Schedule from the International Customs Tariffs Bureau). This list covers the products eligible for suspensions for the period up to 30 June 1990.

(ii) Variable import levies

153. An extensive and elaborate system of variable import levies operates in Sweden to restrict imports of a wide range of processed and semi-processed agricultural products. At the moment, some 420 tariff lines of the Swedish Customs Schedule are subject to variable import levies. Variable levies apply to well over three-quarters of the domestic production of basic agricultural commodities and processed foodstuffs.

154. Variable import levies underpin the domestic marketing and pricing regulations which operate in Sweden to assist domestic producers of agricultural products. The high administered domestic prices are maintained by the imposition of variable levies on imported substitutes. In many cases, these variable levies are set so high that the price of imports become prohibitive. These specific-rate levies, which in principle correspond to the difference between world market and administered domestic prices, are changed regularly to reflect significant variations in the relationship between world and administered domestic prices. Thus, when the world price for a commodity falls beyond acceptable limits, the specific levy on imported substitutes is increased to prevent the administered domestic price from being competed downwards by access to cheaper imports. Alternatively, increases in world prices beyond acceptable limits would result in a decrease in the variable levy imposed on imports.

155. In order to support the higher prices for basic agricultural commodities, variable levies are applied to imports of a wide range of foodstuffs which involve significant processing of higher priced agricultural inputs. These variable import levies on foodstuffs are, in principle, set to compensate Swedish food processors for the extra costs of agricultural inputs resulting from the agricultural pricing arrangements.

29 Imports covered by these arrangements mainly include cereals (wheat, rye, barley, oats) and their major products (flour, starch and certain food preparations); potatoes (including starch); dairy products (fluid milk, cream, butter, cheese and milk powder); livestock products (eggs and poultry, pork, beef, veal, horse and sheep meats); horticultural products (peas and beans); sugar and sugar confectionary; and oilseeds, vegetable oils and fats.

30 Like tariffs, variable import levies assist local producers by raising the price of imported substitutes. However, whereas a given ad valorem tariff places an upper limit on the degree to which imports can be restricted (and hence on the level of assistance afforded domestic producers), variable import levies insulate domestic producers from foreign competition. In this way, for example, a decline in world prices is accommodated for by increases in the level of protection provided domestic producers. Thus, variable import levies afford domestic producers with open-ended assistance, as do import quotas.
156. Ad valorem tariff rate equivalents for variable import levies are summarized at the 5-digit tariff item level in Table IV.1. The simple average ad valorem tariff rate equivalent for products subject to variable levies is currently about 65 per cent, and range from free to over 430 per cent.

157. For products like cereals, sugar and oilseeds, variable import levies are reviewed usually monthly and changed to reflect movements in world prices. For other products like dairy products, meat and eggs, upper and lower domestic prices are fixed. The objective is to maintain the domestic price at a price which is midway between these two levels (called the middle price). Import levies therefore remain unchanged, provided the domestic price stays within these two price limits.

158. Table IV.3 indicates the rates of assistance provided for certain major products by the variable import levies in 1988, 1989 and 1990. Only three commodities, table potatoes, veal and cheese, had nominal rates of 100 per cent or less in 1990. Most commodities had nominal rates within the range of 100 to 300 per cent. For fluid milk, nominal rates were as high as 500 per cent. Furthermore, apart from cereals, most meats and dairy products (excluding butter and milk powder), nominal rates increased in 1990. This was particularly the case for eggs, which rose from 275 per cent in 1989 to 302 per cent in 1990.

(iii) Import licensing

159. Sweden is a signatory to the GATT Agreement on Import Licensing Procedures. Most imports into Sweden are free from licensing requirements. However, licences are required for a large variety of goods, mainly certain meats, seafood, iron, steel, textiles and clothing.

160. In Sweden, import licensing arrangements are administered by two Boards. The National Agricultural Market Board is the licensing authority for all agricultural commodities and fertilizers. Except for a few, mainly non-edible raw materials, this covers goods classified in Chapters 1-24.

31 Licences from the National Agricultural Market Board are currently required on all imports of meat of asses, mules, hinnies, wild boar and goats; frozen buffalo meat; fresh or chilled cod and herrings (excluding fillets and other meat); frozen fillets of cod and coalfish; salted herrings (including fillets); unfrozen shrimp and prawns, boiled; wheat and meslin; cane or sugar beet and chemically pure sucrose, in solid form; syrup and other solutions of cane or beet sugar; and molasses (except when used in animal feeding). The importation of certain products of iron and steel requires an import licence for surveillance purposes to be issued by the National Board of Trade. Certain textile products imported from all countries except EC and EFTA countries, the Faroe Islands, Japan, United States, Canada, New Zealand and Australia require a licence for surveillance purposes. Licensing also applies to all imports of lupin seeds, grafted cherry, plum, pear and apple trees from countries except those which have a free trade agreement with Sweden.
and 31 of the Customs Schedule. The licensing authority for all other goods, i.e. essentially those classified in Chapters 25-30 and 32-99 of the Customs Schedule, is the National Board of Trade.

161. The licensing system is authorized by Ordinance No. 53 (1984) on Import and Export Regulations (reprinted 1987:1291). The main purpose of the system is to monitor certain sensitive imports, especially low-priced imports and, where deemed necessary, to restrict such imports. The licensing boards may prescribe that, following a decision by the Government, certain goods may be imported only under licence. Imports of goods will be prescribed where the Government feels it desirable for special trade policy reasons; for averting the risk of disturbance in the social economy or a national shortage; or for regulating prices of agricultural or fish products. Unless so prescribed, goods are free of any import licensing requirements.

162. Licences are also required to import a wide range of additional agricultural and manufactured products from State-trading countries.

163. The importation of coffee and cocoa into Sweden required an import licence and certificate of origin under the regulations of the International Coffee Agreement and the International Cocoa Agreement. However, these are no longer necessary for coffee following the recent collapse of the International Coffee Agreement.

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32 Countries are Albania, Bulgaria, the People's Republic of China, Czechoslovakia, the German Democratic Republic, Hungary, the Democratic People's Republic of Korea, Mongolia, Poland, Romania, the Union of Soviet Socialist Republics and Viet Nam. Agricultural goods subject to additional import licensing from these countries are fresh, chilled and frozen meat and edible offal of bovine cattle, domestic pigs, sheep and reindeer; eggs (not in shell) and yolk; and malt. Licences are also required for imports of the following manufactured goods from these countries; cement; certain limited chemical products and plastics; certain yarns and fabrics, knitwear and ready-made textiles; shoes with outer soles of leather, artificial leather, rubber or plastics; table china; pig iron and most ferro-alloys; rolling mill products, including tubes of iron or steel bars and rods of brass; certain semi-manufactures of aluminium and cables, cordage and the like of aluminium; AC motors, triphase; and grafite electrodes.

33 Sweden is actively involved in all major international commodity agreements and organizations. In addition to the International Cocoa Agreement, these currently include the International Natural Rubber Agreement, The International Jute Agreement, the International Tropical Timber Agreement, The International Wheat Convention, and the International Sugar Agreement. Sweden is also a member of several study groups, these being the International Rubber Study Group, the International Cotton Advisory Committee, the International Lead and Zinc Study Group and the International Nickel Study Group.
164. Over the past five years, the list of goods subject to import licensing has been reduced on four occasions. Previous requirements for licences to import goods from Portugal, Greece and Spain have been abolished.

165. Licences are granted to importers for current imports which in principle must be supported by a sales contract. They are valid for a set period of time, normally from three to six months for agricultural commodities (with the exception of certain kinds of fish where the period is considerably shorter), and from three to nine months for manufactured goods. The average period for which an import licence is granted is four months. No conditions are attached to the granting of a licence except that the imports must be paid through an authorized bank.

166. For most prescribed imports, licences are issued automatically by the licensing boards on receipt of an application to import from the importer. The number of non-automatic licences issued in Sweden has been reduced. However, for several sensitive commodities, licences to import are not issued automatically and quantitative restrictions apply.

167. The average time taken to obtain an import licence is five working days. In 1989, some 23,000 applications for automatic licences and 28,000 applications for non-automatic licences were received by the licensing Boards compared with 18,000 and 40,000 respectively in 1988. Almost all applications for import licences are approved. Although there are no legal procedures for appealing against a decision not to grant a licence by the Boards, an applicant may have the decision reviewed by the Government. However, it is rare for the Government to reverse a decision of the Board.

168. As from 1 July 1981, a licensing fee has been charged for licences issued by the National Board of Trade. The charge is to cover the administrative costs of issuing import licences. It is determined on a sliding scale according to the value of the licensed imports. At present, the fee ranges from 1 per cent for imports equal to SEK 5,000, to less than 0.45 of one per cent for goods exceeding SEK 50,000. The fee is exempt on licensed goods having a value of less than SEK 5,000. The fee does not apply to import licences issued by the National Agricultural Market Board. Total fees collected by the National Board of Trade are approximately SEK 7 million per year.

(iv) Quantitative restrictions

169. For several products subject to import licensing, quantitative restrictions are applied by either the National Agricultural Market Board or the National Board of Trade. This is in line with the main purpose of the licensing arrangements of monitoring imports of certain sensitive goods with the aim of limiting, where considered necessary, the quantity imported.

34 The use of quantitative restrictions as part of the import licensing requirements is discussed in the next section.
170. Sweden does not generally apply quantitative import restrictions on a global basis. Rather, they are mainly negotiated and maintained on a bilateral basis with specific exporting countries. Certain unilateral quotas have also been imposed. In these cases, it was thought that, due to low export potential, bilateral agreements were not warranted. Quantitative import restrictions applied by Sweden mainly limit the level of imports to a fixed quantity or volume, although a few value-based quotas do operate on some imports.

171. By virtue of Sweden's Protocol of Accession, longstanding quantitative restrictions have applied to the volume of reindeer meat imported from State-trading countries, as well as to imports from all countries of many types of fish subject to licensing. Types of fish subject to quantitative import restrictions are fresh, chilled, frozen herring and herring fillets, fresh or chilled cod and dried, salted or smoked Baltic herring.

172. By far the major product areas covered by quantitative import restrictions are textiles and clothing. Some 35 per cent of all imports of textiles and clothing are currently subject to quantitative restrictions. Most of these restrictions fall under the voluntary export restraint agreements which Sweden has negotiated under the MFA to restrict imports of textiles and clothing from major exporting countries. Quantitative import restrictions also apply to leather footwear originating from certain State-trading countries.

173. Sweden has been a continuous member of the MFA since joining MFA I in March 1974. Whilst most of the existing bilateral arrangements covered by the MFA date back to then, the number of countries subject to these agreements has subsequently increased. Currently, Sweden has bilateral MFA agreements with 14 countries. Full details of these arrangements are provided in Table IV.4.

174. During MFA IV, Sweden has made some attempt to liberalize its restrictions on imported clothing and textiles by reducing the number of product categories contained in the Agreements. Several of the current MFA agreements also provide for the future removal of certain product categories from the restrictions (e.g. the Agreement with India). Furthermore, the agreements provide for improved annual growth rates. However, as shown in Table IV.4, these growth rates remain low, being substantially below the 6 per cent figure provided for in the MFA (see also Chapter V).

175. In addition, Sweden maintains many voluntary bilateral export restraint arrangements on imports of clothing and textile products outside the MFA. Some of these countries participate in the MFA. Bilateral arrangements currently operate between Sweden and the MFA participating

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35 Countries affected are the Republic of Korea, Malaysia, Pakistan, Singapore, Thailand, Yugoslavia, Macao, China, Turkey, Hong Kong, India, Philippines, Indonesia and Sri Lanka.
countries of China, Czechoslovakia, Hungary, Poland and Romania. Non-participating countries in the MFA with which Sweden currently has bilateral arrangements on clothing and textile products are Malta, Bulgaria and the German Democratic Republic. In the case of Malta, Sweden has applied the same provisions as in its agreements with MFA countries.

176. Unilateral restrictions have been imposed by Sweden on clothing and textile imports from the non-participating MFA countries of Taiwan, Albania, Democratic People's Republic of Korea, United Soviet Socialist Republics and Viet Nam. Details are provided in Table IV.4.

177. Bilateral MFA agreements with Mauritius and Brazil to limit imports of clothing and textiles were terminated in March and August 1987, respectively. A purely monitoring arrangement currently operates between Sweden and Mauritius. In the case of Brazil, an arrangement exists for the two Governments to consult should Brazilian imports increase substantially. There have been no consultations to date as the importance of Brazilian imports in the Swedish market has continued to decline.

178. Bilateral agreements on clothing and other textile products that formerly applied to imports from Portugal were removed on 1 March 1986, when it entered the EC. A monitoring arrangement, administered in Portugal, was terminated from 1 February 1989.

179. The longstanding quantitative restrictions which limit imports of clothing and textiles from Czechoslovakia, Hungary and Poland also curb imports into Sweden of a wide range of leather footwear (Table IV.4). Quantitative restrictions also apply to imports of leather footwear from Bulgaria, the German Democratic Republic, the United Soviet Socialist Republics and China. In the case of Romania, the quantitative restrictions applied prior to 1987 have been replaced with consultative arrangements. Sweden may invoke these arrangements should Romanian exports to Sweden of leather footwear exceed a specified level (increased from 55,000 pairs to 60,000 pairs for 1990). Whilst these procedures have never been invoked, the arrangement continues to operate in practice as a quantitative restriction administered in Sweden.

180. The quantitative restrictions on imports of clothing, other textile products (e.g. bed linen) and footwear under the various bilateral or unilateral restrictions mentioned above, are administered by the National Board of Trade under import licensing requirements. Well over 95 per cent of imports of clothing, textiles and footwear subject to quotas enter Sweden under a system of back-to-back licences to control the level of imports. Import licences for restricted goods are issued by the Swedish Board of Trade upon application and presentation of the appropriate

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36 An import licence was required to import the following goods originating in Portugal: shirts; knitted underwear; sweaters, pullovers, slipovers, cardigans, bedjackets and jumpers; coats; jackets; skirts; blouses; trousers; protective and work clothing; rainsuits and overalls; bedlinen; towels; curtains and other furnishing articles.
licensing certificate from the exporting country. In this way, back-to-back licensing in both Sweden and the exporting country provides a double-check on the level of imports. For the remaining 5 per cent or so of quota imports subject to other agreements and arrangements (such as those with the State-trading countries of Eastern Europe and in East Asia), import licences are administered in Sweden by the National Board of Trade.

181. The allocation amongst traders of entitlements to import goods into Sweden subject to quantitative restrictions is predominantly handled by authorities in the exporting country. The remaining few quota entitlements are allocated by the National Board of Trade to importers according to past performance. Applications from new importers are processed on a case-by-case basis. They are covered by a minor share of the allowed import levels (usually 10 per cent).

182. Licensed quantities not used by one importer are generally re-allocated to other importers who can be expected to utilize these amounts. Quota entitlements which cannot be re-allocated remain unused. There is no market, either official or unofficial, operating in Sweden for the transferability of quota entitlements between importers.

183. The Swedish Government in December 1989 outlined to the Swedish Parliament its intention to terminate quantitative restrictions on imports of textiles and clothing from all countries at the expiry of MFA IV on 31 July 1991. Until then, the current system of restrictions are to remain in place. This Government decision, which was endorsed by Parliament, includes no transitional arrangements for phasing-out quotas. According to Swedish authorities, it will be implemented irrespective of the final outcome of the negotiations on textiles and clothing under the Uruguay Round.

184. Agreements covering textiles and clothing exports with expiry dates beyond 31 July 1991 are to be terminated from that date. Denunciation clauses contained in the agreements enable either party to withdraw at any time provided 120 days notice is given.

185. The Swedish Government has decided that all quantitative restrictions applying to imports of leather footwear from State-trading countries will be lifted from 1 January 1993. Until this date, the current restrictions on imports of footwear are to be maintained, subject to agreed annual growth rates.

186. Swedish authorities stated there was no likelihood that these decisions to remove quantitative restrictions on imports of these products would be reversed prior to implementation. Once implemented, the only restrictions that would apply to these imports would be tariffs which were

37 The Government considered tendering of quota entitlements about 10 years ago, but rejected it in favour of maintaining the current system of allocating quota entitlements based on the past performance of importers.
expected to continue at the existing relatively high (by Swedish standards) levels.  

(v) Import prohibitions

187. Sweden has ratified the Washington Convention (Convention on International Trade in Endangered Species of Wild Fauna and Flora; CITES). Imports of those species covered by this Convention are only possible if a permit is obtained from the National Board of Agriculture.

188. Sweden also prohibits absolutely the importation of certain plants and plant products infected or infested by certain plant pathogens in order to prevent the spread of harmful plant and animal diseases and pests.

189. With only very few exceptions, Sweden continues to apply for an indefinite period unilateral trade sanctions on goods and certain services with South Africa. Prior to the introduction of these prohibitions on 1 July 1987 (Ordinance SFS 1987:477), partial trade sanctions had operated with South Africa. Legislation banning the importation of certain agricultural products from South Africa was introduced in January 1986, and controls forbidding new investments by Swedish companies in South Africa have existed since 1979.

190. An import ban was introduced by Sweden from 1 February 1986 on imports of wood chips, timber and timber products of coniferous trees (coniferae) from the United States, Canada, Japan and China, as well as mentioned goods with remaining cortex from other countries outside Europe. The ban was implemented following the discovery in 1984 of pinewood nematodes in shipments of softwood to Finland (Ordinance SFS 1985:1074). The pinewood nematode was added to the list of harmful vermin. Notification of the ban to GATT under Article 7.4.1 occurred on 11 July 1988.

38 As indicated in Section (i)(b), a large proportion of tariffs applying to imports of textiles, clothing and footwear are in the form of specific or alternate rates which currently provide relatively high (and potentially even higher) ad valorem equivalents, generally in the range of 15 to 20 per cent.

39 Items covered include certain types of furs, reptiles, crocodiles, tortoises and turtles, ivory and products thereof, as well as products of African and Indian elephants.

40 The National Board of Agriculture is responsible for plant protection as well as veterinary examination in Sweden. These prohibitions are contained in Ordinance SFS 1975:944 (as amended by Ordinance SFS 1985:1074).

41 The Swedish sanctions on trade with Namibia were abolished as of 1 April 1990.
191. Prior to its implementation, substantial trade in softwood products occurred between Sweden and the countries affected. For example, from 1977 to 1982, softwood exports to Sweden from the United States averaged US$28 million per year.

192. More recently, the ban has been relaxed to some extent and Swedish authorities now permit imports of coniferous sawn wood products from United States, Canada, Japan and China provided they are kiln dried in accordance with specific conditions. Some scientific evidence exists that, because of particular climatic factors, nematodes may pose no threat to Scandinavian forests. However, this evidence is inconclusive, and import restrictions will apply to enable ongoing Nordic research programmes to establish beyond doubt the potential risks of the pinewood nematode in Europe.

193. Seasonal prohibitions apply to imports of certain seafood. Lobsters may not be imported during the period 15 July to 15 September, oysters from 1 May to August 31 and crayfish (not boiled) from 1 January to the second Wednesday in August inclusive. Seasonal prohibitions which formerly applied to imports of fresh apples and pears were abolished on 15 November 1989.

194. Sweden prescribes minimum size requirements on imports of most seafood. These minimum size requirements apply to domestically caught seafood.

195. In addition to the system of absolute import prohibitions described above, Sweden also operates conditional prohibitions on certain imports. Under these arrangements, imports of certain goods are only permitted if certain regulations are complied with and authorisation is obtained from the relevant authority. Such conditional prohibitions are mainly for health and medical reasons.

196. In the case of certain plants and vegetables, imports are only permitted if a phytosanitary certificate issued by the Plant Protection Authority of the country of cultivation is presented upon importation.

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42 In addition to normal importing conditions, these require that the wood be kiln dried to a temperature of at least 70°C; that a phytosanitary certificate verifying compliance with the above conditions be issued by the plant quarantine authorities in the exporting country; and that the phytosanitary certificate has been endorsed by the Swedish Board of Agriculture. See import permit no. 1988-07-05.

43 Examples include salmon (50cms), salmon trout (35cms), pike-perch (40cms), crayfish (freshwater 9cms and Nephrops 13 cms), oysters (6cms) and lobster (22cms).

44 This applies to imports throughout the year of the following live plants and fresh plant products: bulbs, corms, tubers, rhizomes and other (Footnote Continued)
197. A phytosanitary certificate is also necessary for imports between 1 April and 30 September of several fresh plant products. Imports and marketing of fodder must be authorised by the National Agricultural Market Board. Furthermore, the National Board of Agriculture must issue a permit before imports of a variety of animal products are allowed. These restrictions are maintained in order to prevent the admission of animal disease into Sweden.

198. Sweden operates stringent conditional prohibitions on the import of medicines and pharmaceutical preparations. Special permits issued by the National Board of Health and Welfare are required to import medicines, pharmaceutical and bacteriological preparations, syringes, cannulae, narcotics and contraceptives. The importation of abortion-inducing preparations is prohibited absolutely.

199. Detailed regulations apply to the importation of products that may be hazardous to health or the environment, as well as to products that have been treated with substances or preparations that might be dangerous. For example children's toys, sanitary and medical articles may not be imported into Sweden if they contain dangerous substances. Special import regulations also apply to explosives, gas protection materials, maps, weapons and radioactive substances.

200. Imports of alcoholic beverages (wines, spirits and beer containing more than 1.8 per cent by weight), including industrial alcohol, may only be imported through the Swedish State Monopoly (see Section xii).

(Footnote Continued)

live plants including trees, shrubs, bushes, roots, cuttings and slips, cut flowers and flower buds of carnations, roses and chrysanthemums (including gerbra and gypsophilla), potatoes, onions and similar products (not garlic), green onions, onion sets or chives, lettuce, blanched celery, apples, pears and quinces, cherries, apricots, peaches (including nectarines) plums, raspberries, gooseberries, currants, strawberries and other cultivated berries, melons and sugar beets, carrots, horse radishes, red beets and other root crops, Jerusalem artichokes, fodder beets, swedes and other fresh forage foods.

45 These include cauliflower, broccoli, tomatoes, outdoor cucumbers, sweet pepper, fennel, spinach, aubergines and citrus fruits other than lemons.

46 These are live animals and carcasses, animal products, embryos and enzymes; and fodder, wastes, tools used for the feeding of animals etc. The veterinary declaration also requires a permit to be issued for the import of raw hides and non-corded wool (exceptions for raw hides may be obtained in certain cases).
(vi) Levies and other charges

201. In addition to the value added tax, which is levied on the general consumption of almost all goods and many services, the Swedish Government selectively taxes the consumption of a wide range of other products. Excise taxes are levied on tobacco products and alcoholic beverages. Additional indirect taxes also apply to the consumption of commodities such as advertising, cassettes, fuels (including petrol), packaging, pesticides, motor vehicles, certain food preparations, cosmetics and video recorders.

202. Consumption taxes operating in Sweden are applied equally to all goods, whether imported or sourced locally.

(vii) Technical regulations and standards

203. Sweden is a member of the GATT Agreement on Technical Barriers to Trade. The Agreement was ratified by Sweden on 19 December 1979 with the passing of the Government Bill 1979-80:24. This legislation took effect from 1 January 1980.

204. Responsibility for determining technical regulations ultimately rests with the Swedish Parliament. After passing the legislation containing the framework of the proposed requirements, Parliament confers on the Government the power to issue an Ordinance specifying how the Act is to be implemented and the responsible authority. Technical regulations are then prepared by the relevant authority. They include administrative provisions and stipulate characteristics which a product must pass regarding, inter alia, levels of safety, performance and quality. The main product groups covered by technical regulations and the corresponding authorities responsible for their determination are listed in Table IV.5.

205. Notices concerning proposed technical regulations which may have a significant effect on trade and proposals to introduce certification systems are published by the National Board of Trade in a periodical issued by the Swedish Standards Institution.

The tax on video recorders is in practice levied only on imports of videos since there is no domestic production. However, as videos produced in Sweden would be taxed equally, the tax does not benefit domestic production relatively to imports.

By virtue of Ordinance SFS 1988:569, any authority intending to issue regulations or guidelines regarding the technical construction, quality, machining, testing or approval of products, as well as marketing and application of products subject to international trade, must first inform the National Board of Trade. The notice should be well in advance of the relevant authority taking a decision, but in urgent cases the notice can be given as late as when the authority has decided on the matter. In cases where the proposed regulations or guidelines are likely to impact on

(Footnote Continued)
206. The National Board of Trade is also responsible for notifying other parties to the Agreement through the GATT Secretariat and fulfilling the obligations as enquiry point for questions on technical regulations and certification systems in Sweden. In deciding which technical regulations are to be notified under the GATT Agreement, the National Board of Trade considers numerous criteria, such as the nature and aim of the draft regulations; its likely impact on international trade; and treatment of products of national origin versus imported products.

207. Once adopted, technical regulations and certification systems are published in the code of regulations issued by the relevant body. National standards are published by the Swedish Standard Institution, which is the co-ordinating body for standardization work conducted in Sweden.

208. The Government, through the National Board of Trade, has encouraged authorities to adopt regulations with international standards in mind. A major part of Swedish standardization work is directly related to international standardization work. Swedish authorities and testing agencies participate in a wide number of international schemes which enable national approval to be based on tests conducted in other countries.

209. Since 1974, all official safety testing demanded by the national authorities has been conducted by several appointed official testing agencies which together are responsible to the Centre for Testing, a part of the National Testing Institute. The Centre for Testing supervises and co-ordinates all official testing conducted by the National Testing Agencies, ensuring in particular that they operate in an expert and impartial way. The aim of these technical regulations is to reduce health hazards and the risk of accidents. Decisions concerning these regulations may be appealed first to the authority demanding the testing and finally to the Government.

210. For many industrial products, technical regulations operate to minimize health hazards and improve work safety. Technical regulations

(Footnote Continued)
Sweden's international trade, the authority is required to consult with the National Board of Trade before making any decision, unless there are particular reasons for not doing so. Regulations concerning the execution of the Ordinance may be given by the National Board of Trade (Section 6). The Board has issued a regulation concerning this matter (SFS 1988:18).

49 The approved agencies for national testing are the Swedish Motor Vehicle Inspection Company; the Swedish Plant Inspectorate (responsible for all statutory inspection of pressure vessels and lifting devices); the National Machinery Testing Institute (covers mechanical excavations, tractor diggers and truck cabs); the Swedish Institute for Testing and Approval of Electrical Equipment (SEMKO); the National Testing Institute (covering a range of products, such as wooden materials, dangerous goods, heating and various measurement equipment); the National Corporation of Swedish Pharmacies (contraceptives); and the Swedish Road and Traffic Research Institute (inertia brakes for trailers).
apply, for example, to electrical products, non-electrical machines and apparatus, mechanical handling equipment, building materials, dangerous goods (e.g. cadmium, asbestos and poisons), pharmaceuticals, foodstuffs and aerosol sprays. In the case of pharmaceuticals, medicaments may only be imported if a special permit is issued by the National Board of Health and Welfare, the central body responsible for the administration of legislation covering medicaments in Sweden. To be sold in Sweden, medicaments must be registered to ensure that certain requirements are met.

211. In some areas, Sweden imposes stringent health and safety regulations. Sweden is one of the leading countries in developing and enacting regulations designed to protect human health, safety and the environment. Some of the Swedish environmental and safety regulations and threshold limit values for chemical residues permitted in agricultural products, for example, are far more demanding than those of other countries.

212. Technical regulations apply in the field of communications. For example, imports of radio, telephonic, transmission and reception apparatus and electrical cable, are subject to certification that they comply with Swedish standards.

213. Sweden is a member of the so-called Copenhagen Agreement which, after initial implementation for five years on 1 July 1975, became permanent on 20 May 1980. This Agreement provides for imports of electrical products manufactured outside the Nordic countries into Sweden without re-inspection provided they have been inspected and certified in another Nordic inspection institute.

214. Sweden is participating bilaterally with other EFTA-EEC countries in numerous international Schemes and Conventions aimed at eliminating technical barriers to trade. These are designed to enable national authorities to accept the results of tests and inspections performed in other participating countries.

215. The distribution and handling of foodstuffs in Sweden is regulated by the National Food Administration. As a longstanding member of the Codex Alimentarius Commission, Swedish standards have been adapted, where possible, to comply with internationally established food standards.

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50 As a general rule, from 1990 electrical imports into Sweden do not require compulsory certification. Most electrical materials to be marketed in Sweden are, however, subject to compulsory registration, and a limited number of high risk products require certification proving that the products conform with an international standard that does not deviate from that in Sweden.

51 The Schemes are the Pressure Vessels Scheme; the Gas Appliances Scheme; the Agricultural Machines and Tractors Scheme; the Liquid-Fuel Heating Equipment Scheme; the Lifting Appliances Scheme; and the Ships Equipment Scheme.
However, the Swedish regulations covering food quality, packaging, labelling, handling and hygiene are frequently more demanding.

216. In principle, the same food regulations apply to both imported and domestically-produced goods. Special regulations for imported foodstuffs are only introduced if there are strong reasons for doing so. In some instances, certain foodstuffs must undergo inspection upon importation.

217. Foodstuffs offered for sale in Sweden must, in particular, not contain prohibited additives, must meet certain stipulated food standards and be properly labelled. The National Food Administration is responsible for overall supervision of compliance with the law. Certain food additives, such as enrichment substances, preservatives and colouring agents must be approved by the National Food Administration. The criteria for approving additives is that their inclusion in the foods must be beneficial for the consumer. Approved food additives are published annually by the National Food Administration.  

218. A long and increasing list of "foreign substances" exists which stipulates maximum permitted levels in foodstuffs sold in Sweden. These regulations cover, for example, the maximum permitted content of pesticides on fresh fruits, berries, vegetables, potatoes, and root crops; and anti-germination substances in or on food. Details of many other foreign substances permitted in or on foodstuffs sold in Sweden are provided in the Ordinance on Foreign Substances in Food. The National Food Administration conducts routine tests on foodstuffs to determine levels of foreign substances, such as pesticides, in or on foodstuffs.

219. Foodstuffs must be properly labelled in Swedish (although English is accepted in some cases) and provide specified details of the type and composition of food. All ingredients and weights must be given, and the use of preservatives, colours, antioxidants, emulsifiers, thickening agents etc., must be declared on the label.

220. Imports of certain foodstuffs also require an import permit to be issued by the National Food Administration. The permits are issued after the goods in question have been inspected which, in most cases, involves a sample of the product being scientifically analysed. Foodstuffs subject to

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52 Generally, the use of food additives is restricted. No colouring agents may be added, for example, to meat and meat products, milk and dairy products, flour, bread, rusks, fruit, berry and vegetable conserves, ketchup, chilli sauce, tomato puree preserves, marmelade and jam, jellies, compotes, fruit and berry compotes and soups, vanilla ice cream, fish balls, fish pudding and certain fish conserves.

53 Certain standards are stipulated for edible oils and fats, milk and dairy products, coffee and coffee powder, sugar and honey, fruit syrups, juices and preserves, ice cream products, grain and bakery products, eggs and egg products, meat products, berries, fruit, vegetables, fungus products and vinegar.
import permits are eggs, meat and milk, as well as their products and marine food products of cod liver, shrimps, crayfish and live molluscs.

221. The National Food Administration has approved certain countries or establishments where most vegetable foods can be imported without special inspection of each imported consignment. However, regular random sampling of vegetable products takes place.

222. Import permits for Brazil nuts, peanuts and peanut kernels and peanut butter and paste requires a certificate which details the level of aflatoxins contained in the product.

(viii) Government procurement

223. Sweden is a member of the GATT Agreement on Government Procurement. The principles and obligations contained in that Agreement became part of Swedish law with the passing by Parliament of two ordinances on 27 November 1980.

224. The Agreement covers all procurements valued above the threshold limit of 130,000 Special Drawing Rights (currently equivalent to approximately SEK 1.071 million) by 23 nominated central government entities. Swedish suppliers account for some 45 per cent by value of all Swedish procurement subject to the Agreement. The next most important

54 In the case of meat and meat products, permission to import is subject to these products having undergone acceptable inspection in the exporting country and been classified as fit for human consumption. Furthermore, they must originate from an establishment that has been approved by the National Food Administration. For this to be done, the National Food Administration must inspect the premises at the official invitation of the authorities in the country concerned. The decision to approve the establishment is based on such factors as the disease situation in the country, hygienic conditions of the establishment, the inspection system used, and the quality of the products.

For an import permit to be issued for milk and milk products and curd in the form of cottage cheese, products must have undergone heat treatment and originate from an approved overseas establishment.

Eggs and egg products must comply with the stipulated bacteriological standards for these products and must have been heat treated if an import permit is to be granted.

55 These were Ordinance 1980:849, latest edition 1988:101, relating to the implementation of the GATT Agreement on Government Procurement, and Ordinance 1980:850 which amended the Government Procurement Proclamation (1973:846). This was subsequently amended by Ordinances 1983:38 and 1983:846 which came into force on 1 April 1983. The latest provisions relating to procurement by Government authorities are contained in the Ordinance Concerning Purchases (1986:366) and the National Audit Bureau's directives (1986:612) relating to this Ordinance.
sources are the EC (with about 18 per cent), Japan (12 per cent) and the United States (11 per cent).

225. Government procurement covered by the GATT Code represents less than 5 per cent of total public procurement in Sweden. Procurement by several important government sectors is not covered by the GATT Agreement. For example, procurement at the regional levels is excluded, as well as procurement by large Government enterprises such as the Swedish State Railways, the Swedish State Power Board and the National Swedish Telecommunications Administration.

226. Total State procurement, excluding regional and local authorities and enterprises, was estimated to be of the order of SEK 100 billion in 1989. About half of this procurement is subject to specific Swedish regulations on government procurement.

227. Swedish legislation on government procurement requires that authorities let contracts for purchases in a business-like manner, i.e. after taking into account all the factors necessary to make purchasing as economic and effective as possible. Authorities are not to restrict their purchases to local Swedish suppliers where they consider it possible to obtain more economic purchases from abroad. In addition, all tenders should be treated objectively and on an equal footing, and there should be public access to all procurement documents. There are no appeal procedures against purchasing decisions made by the authorities.

228. According to the legislation, Government procurement can be made by either closed tenders, negotiated purchases or direct purchases. Closed tenders are let without entering into negotiations with tenderers, while negotiated purchases enable discussions to be held between the tenderers prior to letting of the contract. In choosing which procedure to use, authorities are to select the one which is commercially the most appropriate. Tenders must normally be invited by advertisement or letter. Any supplier, local or overseas, may submit a tender (whether invited or not). The authority is obliged to treat all tenders equally.

229. At the national level, there is no preferential treatment extended to national suppliers under the legislation. In the case of equivalent tenders, however, government contracting authorities are requested to give preferences to suppliers located in the four most northern counties. This does not apply to procurement covered by the GATT Code.

230. Whilst the procurement rules contained in the Ordinance relate strictly to purchases by the central government, local and regional entities, nevertheless, apply in principle the same rules on a voluntary basis.

231. In the case of government procurement by agencies covered by the GATT Agreement, provision exists in the legislation for the principle of national treatment to not apply where a specific procurement decision may impair important national policy objectives. A decision of this kind can only be taken by the Swedish Parliament.
232. Many of the major agencies not covered by the Agreement engage in closed tendering for procurement of goods. In the case of the wholly Government owned and operated Swedish State Power Board, for example, the Board often does not advertise upcoming procurements. The Board provides procurement information on a selective basis, usually only as part of the invitation to bid.

(ix) Offsets and other countertrade arrangements

233. Prior to the 1980s, Government contracts involved no provisions for offsets or other countertrade arrangements. Such arrangements were limited to private contractual arrangements which were organised without Government involvement.

234. More recently, however, domestic pressures developed for the Swedish Government to insist on offset arrangements when letting Government contracts with overseas suppliers of military equipment. Five military contracts involving offset arrangements have been let by the Swedish Government with overseas suppliers (Table IV.6.). The contracts involved total offset work for Swedish firms of approximately SEK 1.9 billion. Nearly all of this work has involved the manufacture in Sweden of military equipment.

235. In addition, the contract for a military aircraft (JAS), signed in 1982, involved pledges for industrial co-operation between foreign sub-contractors and Swedish industries, in some cases until 2002. For example, Swedish firms are exporting jet engine parts to the United States, and General Electric America was obliged to create more than 500 jobs producing trucks in Northern Sweden. All told, more than 20 foreign sub-contractors have made commitments with Swedish industry involving already SEK 2,600 million, and altogether, up to 2002, more than SEK 5,150 million. To date, orders and commissions for Swedish industry have totalled over SEK 1,750 million.

(x) Anti-dumping and countervailing action

236. Sweden is a party to the Agreement on Implementation of Article VI of the GATT (the Anti-Dumping Code) which entered into force on 1 January 1980. At the same time, it also became a member of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT (the Subsidies Code).

237. Swedish legislation encompassing both these Agreements is contained in the Ordinance on Dumping and Subsidy Investigations (SFS 1985:738). The legislation enables the Government to decree that anti-dumping or countervailing duties be imposed where there is sufficient evidence that

56 This legislation supersedes Section 3 of the Customs Ordinance No. 979 (1973:1979).
imports are dumped or subsidized, and are causing or threatening material injury to the domestic industry.

238. Firms or representatives (excluding trade unions) of the affected industry may lodge a petition with the National Board of Trade under Swedish legislation, as may the government authorities of an interested third country. The initial decision by the Government on whether to hold an investigation is based on a positive finding by the Board that there is sufficient evidence in support of the petition. This finding must be produced by the Board within two months of the date of receipt of the petition by the Board. In reporting its opinions to the Government, the National Board of Trade is required to consult with the National Board of Customs and, for certain agricultural products, the National Agricultural Market Board.

239. If the National Board of Trade finds that there is sufficient evidence supporting an investigation, the Ministry For Foreign Affairs would be requested by the National Board of Trade to prepare a programme for an anti-dumping investigation. Based on the preliminary investigation and any other information considered relevant by the Ministry For Foreign Affairs (e.g. information supplied by the Price and Competition Board on the degree of domestic competition existing in the industry), the Government then makes the final decision on whether the National Board of Trade is to proceed with an anti-dumping investigation. The results of the investigation, together with recommendations on the measures that should be taken, must be submitted by the National Board of Trade to the Government within nine months of the initial Government decision for the Board to conduct an investigation.

240. A decision by the National Board of Trade to deny a petition may be appealed to the Government. However, a decision on anti-dumping or countervailing matters, once taken by the Government, cannot be the subject of an appeal. There is no provision in the Swedish legislation for consideration of "national interest" or the need to balance the interests of producers with those of consumers.

241. Provisional duties may be imposed by the Government during the course of an investigation following advice from the Board of Trade. The Government may also decide, once again based on the Board's advice, that a current investigation should be terminated following a price undertaking being agreed to by the exporter.

242. The Swedish legislation contains no "sunset clauses" whereby these measures lapse automatically after a specified time period. However, the explanatory statement issued by the Government at the time the Ordinance

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57 The Swedish legislation adopts the definition of injury contained in the Anti-Dumping and Subsidies Code, i.e. injury means material injury to a domestic industry, threat of material injury to a domestic industry or material retardation of the establishment of such an industry.
was introduced states that "... duties will be of limited duration. As a
guideline, this time limit should not exceed three years. Duties must, of
course, be levied only as long as injurious dumping or subsidization
exists".

243. Sweden has never imposed countervailing duties.

244. The use of anti-dumping action by Sweden has also been limited, there
being only a few occasions of anti-dumping duties being imposed. Imports
into Sweden from 11 countries (covering seven products) have been
investigated by the National Board of Trade since 1980. Two of these
cases, covering exports of wood particleboard from Czechoslovakia and
Poland, led to provisional duties of 42 and 35 per cent respectively being
introduced, and long-term price undertakings being negotiated. These price
undertakings were removed in February 1990.

245. No action was taken in two other cases. It was concluded that the
importation of steel radial summer tyres from the Republic of Korea and
Yugoslavia were not causing or threatening material injury to the local
industry.

246. An investigation initiated in November 1985 on imports of
plastic-coated steel sheets and plates from the German Democratic Republic
was subsequently withdrawn.

247. The two remaining completed dumping investigations, initiated in
January 1989, on imports of hardboard from Poland and the Soviet Union,
were completed in October 1989. Provisional duties of 30 per cent
(lacquered) and 40 per cent (others) were applied from 1 August
to 30 November 1989 to imports from these two countries. Although no
formal decision has yet been made, the Swedish Government is of the opinion
that there exists no necessity to impose anti-dumping duties.

248. The National Board of Trade is currently conducting investigations
into anti-dumping activity from four countries. Two were initiated in
July 1989 against imports of PVC pipes from Poland and Czechoslovakia. The
other two, initiated in December 1989, concern fertilizer imports from
Romania and the German Democratic Republic.

249. The Government is also considering a preliminary finding by the
National Board of Trade which proposes that imports of plywood from the
United States and Czechoslovakia be investigated.

(xi) Article XIX action

250. Sweden has never implemented Article XIX action to provide import
restrictions to safeguard domestic industries. During recent years no
requests for import relief in accordance with Article XIX have been made by
Swedish industry.

251. No specific legal basis exists in Swedish legislation for
implementing safeguard action under GATT Article XIX. Potential use of
such measures are governed by Sweden's international commitment to the
GATT, as well as domestic legislation covering the introduction of tariffs

252. The Parliament has delegated powers to the Government to issue ordinances restricting imports through tariffs and quantitative restrictions. These powers enable the Government to issue directives in special circumstances, such as to prevent mainly disruption of the Swedish economy or to protect people’s livelihoods. The definition of special circumstances is governed by the provisions of GATT Article XIX; there is no national interpretation of what is meant by "special" circumstances. No such tariff increases have occurred since 1958.

(xii) State-trading enterprises

253. Sweden’s State-trading falling under GATT Article XVII is limited to the marketing of alcoholic beverages, liqueur, wine and strong beer by the Wine & Spirit Co. Ltd. This is maintained principally for social, temperance, political and financial reasons.

254. Trade in these products is regulated by the Trade in Beverages Act of 1977. Under this legislation, the Wine & Spirit Co. Ltd. is granted the exclusive right to import alcoholic beverages into Sweden. The quantities imported by the State monopoly are determined commercially and the prices fixed according to costs, profits and the rates of excise tax levied on these products. Total imports of these products amounted to SEK 1,265 million in 1988, compared with SEK 870 million in 1984. Of these, over 95 per cent by value of imports were wine and other alcoholic beverages, excluding strong beer.

255. In the case of other alcoholic beverages (excluding strong beer), the Wine & Spirit Co. Ltd. is the sole domestic producer. This was also the case for wine prior to 1985. Since then, the state-trading enterprise has accounted for around half of domestic production. Domestic consumption of wine is sourced almost entirely from imports which represent about 98 per cent of total consumption. For other alcoholic beverages, domestic consumption has remained evenly spread between imports and domestic production.

256. Exports of alcoholic beverages (mainly vodka and, to a limited extent, wine) are made by the Wine & Spirit Co. Ltd. at commercial prices.

257. The entire production of strong beers in Sweden is by private brewers who also export limited quantities. Imports by the Wine & Spirit Co. Ltd. account for only a minor share of domestic consumption, averaging under 10 per cent by value in recent years. The limited share of imports in domestic consumption has remained by and large constant during a period when domestic consumption of strong beers has grown rapidly.

58 This refers to Swedish production of a special kind of champagne which is made from imported grapes.
(3) **Measures Directly Operating on Exports**

(i) **Export promotion**

258. The Swedish Government promotes exports through partial annual funding of the semi-State-owned Swedish Trade Council. The objective of the Swedish Trade Council is to encourage Swedish exports by supporting firms wishing to engage in exporting activities. The Swedish Trade Council provides an array of practical export assistance, such as conducting overseas market research and analysis, organising participation in exhibitions and trade fairs, and providing market specialists, as well as general advisory services covering exporting. Many of these services are provided through Sweden's overseas trade offices, as well as the trade sections of the Swedish embassies in countries where trade offices do not exist.

259. The export promotional services provided by the Swedish Trade Council are available to all Swedish companies. Some services are provided to firms free of charge, while others are charged according to a set schedule. Firms subscribing to the Swedish Trade Council, currently nearly 3000, receive large discounts on fee-charged services. Most services provided by the Council assist established Swedish exporters.

260. In 1988-89, the Swedish government provided the Swedish Trade Council funds amounting to around SEK 249 million. This represented 60 per cent of the Swedish Trade Council's total funds of SEK 413 million for that year. The Government's contribution comprised a general appropriation of SEK 141 million and special funding of SEK 108 million to finance special government projects. In 1987-88, total Government funding to the Council was SEK 237 million.

(ii) **Export Finance**

261. The Swedish Export Credit Corporation was established in 1962 for the purpose of providing commercial finance for Swedish export of capital goods and services. It is jointly owned by the Swedish Government and eleven of Sweden's largest commercial banks. The Corporation's Board of Directors comprises 11 members, five of which are elected by the Government.

262. From 1978, the Swedish Export Credit Corporation has been entrusted to handle a government supported export credit system (called the State Support or S-system). The S-system receives Government support for reimbursement of the costs associated with the difference between the regulated lending rates charged by the Corporation and commercial borrowing rates, as well as for foreign exchange losses. Exporters also benefit from the possibility of receiving an offer for finance under the S-system which is valid for six months free of charge. In 1988, Government support for the S-system, excluding provision of concessionary credits, amounted to a total of SEK 362 million, compared with SEK 529 million in 1987. Of these amounts, foreign exchange losses amounted to SEK 38 million and SEK 56 million, respectively.

263. The interest rates charged by the S-system are regulated by the Government in accordance with the OECD Consensus Arrangements on Guidelines
for Officially Supported Export Credits to which Sweden is a participant. This arrangement is recognised by the GATT Subsidies Code. Depending upon the particular currencies involved, an interest rate surcharge is added to these rates, ranging from 0.50 to 1.50 percentage points, to reduce the size of the Government subsidy. A charge of 0.25 per cent is levied to cover the operating costs of the Swedish Export Credit Corporation. A minimum commitment fee of 0.5 per cent is also charged. The Government has decreed that lending rates in low interest rate currencies should contain no interest rate subsidy.

264. Demand for government-supported credits has declined over recent years since the Corporation has in most cases been able to offer cheaper finance on current market terms. Although the S-system represents around 50 per cent of total loans currently outstanding, most of these relate to loans undertaken prior to 1983. In 1988, new loans of SEK 3,656 million were disbursed under the S-system, compared with total loans of nearly SEK 21,000 million.

265. According to the Ministry of Industry, the total net cost to the Swedish Government of assistance afforded industries by the Corporation providing government-supported export credits was SEK 71 million in 1988-89. This compares with SEK 464 million in 1987-88 and SEK 594 million in 1986-87. In 1985-86, the amount was SEK 1,386 million.

266. A major beneficiary of the interest rate subsidy provided by the S-system was the ship construction industry which received credit finance for both exports and domestic sales. In 1988, SEK 207 million was paid by the Government to the SEK to cover the costs on previous loans for ship sales, compared with SEK 305 million in 1987. Most of this expenditure related to ships sold domestically. The large decline over recent years in the shipbuilding industry has been one of the major factors behind the reduction in new loans being provided under the S-system.

(iii) Export insurance

267. Guarantees providing export credit insurance are provided on behalf of the Government by the Swedish Export Credits Guarantee Board (EKN). It was established in 1933 with the primary aim of protecting Swedish exporters against certain types of losses on export transactions. It operates under the general authority of the Ministry for Foreign Affairs. Its representatives, along with those from the Ministries of Finance and Industry, export industries, industrial associations, banks and trade unions, are appointed to the Board of Governors by the Government.

268. EKN operates two types of guarantees, the so-called normal (or N) guarantee, and those issued under the Swedish national interest guarantee (or S) scheme. Guarantees can cover both political and commercial risks. Over recent years, the relative importance of S-guarantees has increased significantly. S-guarantee commitments increased from less than 40 per cent of total commitments issued in 1985, to over 60 per cent in 1989. EKN also provides limited investment and exchange rate guarantees.

269. EKN finances its overall deficits through borrowings from the National Debt Office which, in principle, are paid for by EKN at market
rates of interest. As at 30 June 1989, EKN had borrowed through these facilities SEK 2,346 million, compared with a maximum level of borrowings set by Parliament of SEK 3.7 billion. In addition, EKN is entitled to borrow the equivalent of SEK 500 million in foreign currencies. Accumulated borrowings have increased rapidly in recent years - reflecting the fact that deficits incurred by EKN have risen sharply owing to the foreign debt difficulties encountered in countries such as Poland, Brazil and People's Democratic Republic of Korea. For example, the deficits of EKN increased continuously from SEK 14 million in 1984-85 to SEK 450 million in 1987-88, before falling to SEK 287 million in 1988-89.

270. Certain guarantees are only granted by EKN after special consideration by the Swedish Government, in particular, when the project under consideration is very large. In these cases, the interest charges on borrowings from the National Debt Office to cover claims are paid to EKN by the National Judicial Board for Public Lands and Funds via the Government Budget. The amount of compensation paid by the Government for interest on debt with the National Debt Office was SEK 206 million in 1988-89 and SEK 193 million in 1987-88. As at 30 June 1989, outstanding commitments concerning government guarantees amounted to SEK 9,501 million, compared with SEK 6,216 million in 1987.

271. The total net costs to the Government of the EKN's operations were estimated to be SEK 166 million in 1988-89, compared with SEK 473 million and SEK 285 million in 1987-88 and 1986-87 respectively. In 1985-86, the amount was SEK 164 million.

272. Following a report in autumn 1988 by a Government Committee on the rôle of official support in export financing, a Bill containing new guidelines was passed by Parliament in March 1990. A Government proposal to terminate the interest compensation paid by the Government to EKN was thereby accepted.

(iv) Bilateral trade agreements

273. The free-trade agreements that apply between Sweden and the EC and within EFTA, have certain implications for Swedish exports. Steel trade with the European Communities, for example, is based on the Free Trade Agreement covering Sweden and the ECSC concluded on 22 July 1972. The net budgetary cost of the EKN systems which occur due to interest rate compensations amounted to SEK 140 million in 1987-88, compared with SEK 113 million and SEK 99 million in 1986-87 and 1985-86 respectively. In 1984-85 this amount was SEK 121 million.

59 The Free Trade Agreement is supplemented by an exchange of letters dated 24 May 1989 between the parties whereby it is agreed to hold consultations immediately when it appears necessary to either party that appropriate solutions need to be found to correct for market disturbances.
selling iron and steel both domestically and for export to ECSC member countries, Sweden is bound under this Agreement to apply the pricing rules contained in the ECSC constituting treaty.

274. More generally, the free-trade agreements contain rules to ensure that competition between the countries is fair. Cartel arrangements and abuse of dominant market position by one or more firms designed to influence trade are precluded under the Agreements (see Chapter II).

(v) Export prohibitions and licensing

275. Swedish exports to South Africa and Namibia have been, with very few exceptions in the pharmaceutical sector, prohibited since 1 October 1987. In order to improve the effectiveness of this ban, increased investigatory powers and resources have been recently provided to the National Board of Customs.

276. In January 1988, the Swedish Government decided to generally exempt from the ban Swedish exports to Namibia for use within the framework of the activities of the United Nations Transition Assistance Group. Following independence of Namibia on 21 March 1990, Sweden lifted its trade sanctions as of 1 April 1990.

277. As from June 1986, the re-export by Swedish companies of foreign produced goods to destinations banned by the country of manufacture has been prohibited by law. This prohibition affects exports to controlled destinations of certain advanced technology which were included on the Swedish Commodity list. Sweden is not a member of COCOM.

278. For security reasons, Sweden maintains extensive controls over the production and export of military equipment. Both the manufacture and export of military equipment are prohibited under domestic legislation, unless a licence is issued by the Government. The prohibition on manufacture of military equipment is contained in the Act on Control of the Manufacture of Military Equipment and Related Matters (SFS 1983:104, latest change 1988:559).

279. Swedish legislation lists 16 different groups of military equipment which require export and production licences. This list dates back to the 1960s. Therefore a commission, appointed by the Government, has recently issued a report on how to define military equipment and how to formulate additional directions to ensure correct classifications.

280. The commission defines military equipment from criteria of function and construction and proposes a definition based on the destructive effect of the equipment.

61 Exports of military equipment have been prohibited since 1913. The Act on Prohibition of Exports of Military Equipment and Related Matters (SFS 1988:558) and related ordinances (SFS 1988:561) contain these provisions.
281. The Government at the same time appointed a parliamentary committee to make recommendations regarding:

- the relationship between a continuously viable Swedish defence industry and its exports,
- the consequences of and the conditions for foreign industrial cooperation in the defence sector,
- the need for changes in the guidelines for the exportation of arms.

282. The committee concludes that maintaining a viable national defence industry presupposes foreign cooperation. It proposes that agreements on joint development and production of arms with a foreign partner should require permission from the Government. Minor adjustments in existing guidelines are also proposed.

283. The Government has announced its intention to review present legislation taking into account, inter alia, the two reports. A new law may come into force on 1 July 1991 at the earliest.

284. Since 1983, licences for the manufacture of military equipment abroad, involving joint development and production between Swedish and overseas firms, have also been required. Identical rules are applied to the granting of these licences as to the export licences.

285. Exports of military arms from Sweden have grown significantly over recent years, and currently account for about 2 per cent of Sweden’s merchandise exports. In 1989, exports of arms amounted to SEK 6 billion, compared with SEK 2.2 billion in 1984. Generally speaking, Sweden’s military exports are distributed such that about half are sold to countries of Western Europe, about 15 per cent to North America, around 30 per cent to Asia and the remainder to Africa, Australia and other destinations. Some 50 per cent of Swedish production of military hardware is sold to domestic armed forces.

286. In order to secure domestic supplies, export restrictions in the form of export levies and export licences may be applied on rare occasions to agricultural and fish products. No such restrictions on exports currently apply, and in recent years, such restrictions have only been applied temporarily to exports of potatoes (licensing) and cod (levies).

287. Exports of scrap metals are licensed and restricted. With the exception of copper scrap, these restrictions were abolished on 1 January 1990 for trade between Sweden and the EFTA and EC member countries. Similar restrictions on exports of copper scrap will be lifted by 1 January 1991.

(vi) Export subsidies

288. As noted elsewhere in this report, the high administered (regulated) prices for major agricultural commodities produced in Sweden are maintained by variable import levies and orderly marketing regulations, administered by the various market regulation associations. They enable surplus
quantities to be siphoned-off from the domestic market to prevent competitive pressures from lowering domestic prices.

289. Exporting is the major method by which domestic surpluses are removed from the domestic market by the market regulation associations. However, since the administered domestic price is always set substantially above the world export prices, export subsidies are paid to farmers in order that they receive the same price on exports as for domestic sales. Without subsidies, exports of these commodities from Sweden would be unprofitable at internationally traded prices and returns to farmers would be substantially reduced.

290. Export subsidies are normally paid to the individual exporter by the respective market regulation association in the form of export refunds. In principle, these export refunds amount to the difference between the administered domestic price and the realised lower world market price. In a few cases, the export subsidy is simply the difference between the administered domestic price at which the crop is redeemed and the export price received by the association. A case in point is oilseeds where the entire domestic crop is redeemed by the market regulation association who then sells it both domestically and internationally,

291. In each of the last five years, subsidies on exports have totalled SEK 2 to 3 billion, equivalent to about 10 per cent of total income from agriculture. The funds used by the market regulation associations to finance these subsidies come from a complex mixture of general government budgetary funds, import levies and internal levies paid by certain processors and producers. These funds are transferred to the relevant associations by the National Agricultural Market Board (see below).

(4) **Measures Affecting Production and Trade**

(i) **Structural adjustment assistance**

292. During the mid-seventies, several important Swedish manufacturing industries experienced severe economic pressures due to both domestic and international developments. In order to rationalise the structure of crisis-ridden industries in a socially acceptable manner, the Swedish Government introduced various adjustment assistance schemes.

293. By far the major part of adjustment assistance was provided through temporary support measures introduced, not as part of any pre-existing sectoral arrangements, but as selective measures. They were passed through Parliament by the Government to provide assistance to particular firms experiencing structural difficulties. Minor assistance was also provided under sectoral programmes, which were established on a longer term basis, to support restructuring of particular sectors confronted with severe structural pressures.
(a) Temporary assistance measures

294. Since their introduction in the mid-seventies, the net cost of adjustment support provided by the Government currently totals around SEK 80 billion in current prices. The net cost of these schemes peaked in 1982-83 at some SEK 12 billion in current prices. In both 1986-87 and 1987-88, the total net cost of adjustment support had fallen to about SEK 1 billion.

295. About half, or in total some SEK 39 billion, of the adjustment support paid by the Government since the measures were introduced, has assisted the shipbuilding industry. Other industries which have also received substantial assistance are the iron and steel, pulp and paper and mining industries. Some assistance was paid to firms in the fields of computing, chemicals, electronics, energy, textiles and clothing (Table IV.7). About two-thirds of this adjustment support was provided prior to 1981-82.

296. In line with the Government's recent policy that support to ailing industries should be avoided, few new measures to support crisis-ridden industries have been introduced for several years. The current net cost to government of support to these industries is therefore relatively small and, with the exception of the iron and steel industry, relates mainly to outstanding commitments under previous schemes.

(b) Sectoral support

297. Special sectoral programmes administered by the National Industrial Board were established to provide structural adjustment assistance to certain sectors experiencing severe structural problems.

298. The main industries to receive sectoral assistance have been textiles and clothing, wood products and, prior to 1986-87, the hand-made glass industries (Table IV.7). Many of the programmes such as the structural-rationalisation guarantees, the write-off and depreciation loans, and the investment guarantees have been either reduced or discontinued. Consequently, the net cost of sectoral support has declined in recent years, from SEK 312 million in 1984-85 to SEK 160 million in 1988-89.

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62 The net cost of Government support has been estimated by the Swedish Ministry of Industry based on a methodology used by EFTA and the Nordic Council of Ministers. The net costs of budgetary assistance to the Government is estimated by adding to Government grants (less any repayments or royalties returned to the Government), the estimated concessional value of the loans, equity capital and loan guarantees provided by the Government. For loans and equity capital, the concession was calculated by taking the difference between the Government bond rate and, respectively, the interest rate charged on loans, and dividends received on shares. The assistance provided by loan guarantees was estimated as the value of guarantees fulfilled by the Government, less any guarantee fees received.
A major aspect of this sectoral assistance was the wage subsidies paid to firms in the textiles and clothing industries for employing elderly workers aged between 50 and 65 years of age. Total grants under this scheme have declined substantially, from SEK 257 million in 1981-82 to SEK 86 million in 1988-89, in line with reductions in the rate of award. The wage subsidy was terminated in 1989.

The Government announced in 1989 that the programme of sectoral assistance to the clothing and textiles sector would be continued for three more years until 1 July 1992, at an annual cost of SEK 85 million.

The Structural Development Program administered by the National Industrial Board, has also provided subsidies since 1983-84 to promote development activities in emerging areas of industrial development. Expenditure under this scheme has steadily increased since its formation, from SEK 3.1 million in 1984-85 to SEK 5.4 million in 1987-88.

(ii) Regional support

Sweden implemented a comprehensive regional policy in the 1960s to foster greater industrial development in the northern counties. The prime objective of this policy was to provide alternative employment opportunities in these regional areas to those provided by the traditional, but declining industries of agriculture and forestry.

This objective was reaffirmed in the Regional Policy Act of 1985 which states that, inter alia, regional policy should be conducted with a view to promoting the positive development of enterprise, employment etc. in all parts of the country and with the aim of inter-regional balance.

Sweden's regional policies are to a large extent administered by the State county administrative boards and the National Industrial Board which is the central authority responsible for regional financial assistance to enterprises. Financial assistance to support regional development normally takes the form of location grants, investment grants, location loans, conditional support and employment grants.

The amount of assistance varies according to the regional development area in which the proposed investment will occur. Maximum location grants vary from 20 per cent of the value of the investment, up to 50 per cent (or up to 70 per cent in special circumstances requiring governmental approval). Location loans can cover up to 70 per cent of the cost of the investment, and are made at the official Swedish discount rate plus 4.25 percentage points for a term not exceeding 20 years. Respite of up to five years can be granted for the repayment of loans and, in certain cases, the interest rate. Conditional support for such expenses as advanced staff training, special marketing or product development, relocation etc., is available up to a maximum of 50 per cent. Employment grants which are a fixed sum paid annually for up to seven years for recruitment of additional
labour, are available up to a maximum grant for each man retained of SEK 180,000.

306. Regional incentives in Sweden are directed towards certain designated areas. The counties receiving highest priority are Norrbotten, Vastebotten, Jamtland, Vasternorrland, Gavleborg, Kopparberg, Varmland and certain areas of Bergslagen.

307. In the more sparsely populated areas, special measures also apply. Subsidies are paid to compensate firms for high travel and freight costs in Northern Sweden. Subsidies varying between 10 and 50 per cent are paid to cover freight costs for goods transported to and from the designated area, excluding certain products such as paper, paper pulp, metals, steel products and iron ore. Passenger transport subsidies of between 20 and 40 per cent of travel expenses are also paid.

308. A system of reduced payroll taxes has also operated in Norrbotten since 1984, whereby the tax rate is reduced by 10 percentage points in the fields of mining, industry, wholesale trade, industrial consulting and tourism. In the locality of Svappavaara, all payroll taxes were eliminated for a ten-year period in 1984, following the closure of the iron ore mine.

309. Where threatened closure of a major industry occurs in a regional area, the Government may organise through the Ministry of Industry rescue-operation packages to individual firms to facilitate their restructuring.

310. Packages of this kind have been implemented for several regions, including the Bergslagen region; the Malmfalten mining region in the far north; and the shipbuilding communities of Uddevalla and Malmo. In Bergslagen, for example, the mining and iron and steel industries which employ much of the local workforce are undergoing structural transformation. A special three-year programme costing SEK 425 million was implemented in 1986 to provide alternative employment opportunities in this region.

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63 In March 1989, the Government presented a bill to Parliament proposing a major overhaul of the system of providing regional support to industry. According to this bill, the geographical extension of the regional development areas is decreased, from 13 per cent to 7 per cent of the population. Furthermore, the number of instruments is to be reduced and the rates of award adjusted to conform with the policies in the EC.

64 In developing these packages, a variety of measures may be used, including intensified labour-market policy measures (including retraining); regional support for certain enterprises, or inclusion of the stricken municipalities in a temporary development area; special investment companies; extra resource inputs for county administrative boards, development funds to support entrepreneurial start-ups etc; and specific inputs in other fields relevant to the restructuring of enterprises (communications, education, technology diffusion etc.).
311. Similar packages were also implemented for Bergslagen (autumn 1987) and Norrbotten (spring 1988). In February 1990, the Government presented to Parliament a bill regarding support to Blekinge.

312. The net cost of regional support provided by the Government in 1988-89 was estimated by the Ministry of Industry at SEK 1,932 million, compared with SEK 1,367 million in 1987-88 and SEK 1,539 million in 1986-87.

313. Certain agricultural production in Northern Sweden benefits from regional subsidies paid by the Government as part of the domestic marketing regulations operated for these products. Regional support in the form of price supplements financed by the Government are paid to producers in Northern Sweden of milk and meat (mainly veal and beef, but also pork, mutton, lamb, horse and reindeer). In 1988-89, regional support to these commodities by way of government-financed supplements totalled SEK 526 million, compared with SEK 521 million and SEK 525 million in 1987-88 and 1986-87 respectively. Some 75 per cent of this expenditure related to milk production. The remainder covers mainly similar price support provided to sugar beet producers delivering beet to factories in the Islands of Gotland and Oland.

314. The so-called low income initiative introduced in 1974 to assist relatively small farmers also supports many regional farms. Initially, government funds were provided to finance delivery supplements on milk production, amounting to SEK 102 million in 1985-86. More recently, the Government has also reduced input costs to recipient farmers by funding a range of activities such as replacement services to livestock farmers, social insurance, temporary interest support, farm business health care and establishment support. These schemes are mainly administered by the National Board of Agriculture, using largely budgetary funds transferred from the market regulation funding pool. The total costs to the Swedish Government of the low income initiative scheme since 1984-85 has been SEK 435 million per year.

(iii) Agricultural pricing and marketing arrangements

315. Production of many of Sweden’s major agricultural commodities continue to be assisted by extensive government pricing and marketing regulations. These regulations which have been in operation for many years, currently apply to grains and certain vegetables (wheat, rye, barley, oats, mixed grain, flour, field beans, peas and potatoes); oilseeds, vegetable oils, clover and grass seeds; sugar beet; poultry eggs and egg products; meat (beef, pork, mutton, lamb, horse and reindeer); milk and dairy products (mainly butter, cheese and milk powder); and fish. The administration of the price and marketing regulations for these products is the responsibility of the National Agricultural Market Board while most of the market regulation operations are delegated to seven market regulation associations (Table IV.8).

316. A central aspect of the marketing arrangements is the setting of an administered domestic price for each product. These prices and the rules governing the market regulation system are arrived at in negotiations between producer, government and consumer representatives, chaired by a
Through this Agency which reports to Cabinet on the agreed marketing regulation rules, the Government maintains considerable influence over these agricultural negotiations. The agreed market regulation rules are based on the guidelines set by Parliament for agricultural policy. They are submitted by Cabinet to Parliament as a government bill which is passed into legislation. As discussed earlier in this report, to prevent import competition from undermining the administered domestic prices set for these products by the Government, border protection mainly in the form of variable import levies is applied to competing imports.

A further important element of these arrangements in Sweden is the payment of subsidies on exports and domestic storage costs to handle the resulting surplus domestic production. These subsidies provide further assistance to agricultural producers by increasing export returns (see Section (2)(vi)).

(iv) Agricultural levies

As already indicated, the funds available to the National Agricultural Market Board to finance agricultural marketing arrangements are from general budgetary transfers, revenue from import levies, and revenue from an extensive system of internal levies imposed on domestic producers or processors of certain agricultural products. The share of revenue of the so-called market regulation funding pool raised by agricultural levies has fallen over recent years, from around 41 per cent in 1984-85 to about 35 per cent in 1988-89. At the same time, the share of revenue from the government budget has declined from around 49 per cent to 41 per cent, while the share from import levies rose from 10 per cent to 24 per cent (Table IV.9).

Associations comprise representatives from the production, processing, purchasing and sales of the commodity concerned. The Government appoints the Chairman and some other members. At least one of the members represents consumer interests and another is from the National Agricultural Market Board. The activities of these associations have been laid down through directives from the National Agricultural Market Board. There are currently seven market regulation associations. For a few regulated commodities such as sugar, the price regulation system is administered directly by the National Agricultural Market Board.

The agreed market regulation rules which are approved by Parliament apply for a particular price regulation period, normally one year. Further negotiations are conducted twice annually to adjust the prices of commodities in accordance with the rules set by Parliament. Prime consideration is given in these negotiations to the extent of cost increases in the agricultural sector, and to movements in the level of farm incomes. Agreed prices are communicated by the Board to the Government which has authority from Parliament to set the level of prices.
Chart IV.4
Determination of regulated agricultural prices in Sweden

Source: The Swedish Agricultural Market Board.

319. Internal levies are collected by the National Agricultural Market Board and disbursed to recipient producers through the activities of the market regulation associations. The current levies are the hectarage levy and delivery levy on potatoes; the fat production levy on domestic oil production; the milling levy on bread grains (including barley and oats); the production levy on protein meal from imported oilseeds; the slaughter levies on chickens, beef and pigmeat; the levy on laying hens; the fertilizer levy; marketing fees for liquid milk, cream and cheese; price regulation fees for fish; and other relatively minor production and processing levies.

320. Total revenue collected by the National Agricultural Market Board from internal levies amounted to SEK 2,500 million in 1988-89, compared with SEK 2,591 million and SEK 3,126 million in 1987-88 and 1986-87, respectively. Some 90 per cent of the revenue collected from internal levies by the National Agricultural Marketing Board is transferred to the market regulation associations for meats, eggs, potatoes, oilseeds and cereals. The exact allocation of the revenue from agricultural levies
between the various regulation associations is set during the price negotiations.

321. Revenue collected from internal levies are used by the National Agricultural Market Board for other purposes. Examples include contributions to plant breeding and government veterinary services as well as compensation to slaughter houses for special sanitary slaughter procedures.

(v) **Food subsidies**

322. Government-funded food subsidies currently apply to fluid milk. Similar subsidies on cheese and milk powder and meats of beef, veal, pigs, sheep and poultry were terminated in the early 1980s. The primary objective of food subsidies has been to assist domestic milk producers whilst at the same time restraining price increases to consumers.

323. These subsidies assist local producers by raising their returns through government funding, rather than through being able to charge higher prices to consumers. The food subsidies have mainly been used as "compensation for non realized price increases" on dairy products. Until recently, the subsidy on milk has generally varied between SEK 2,000 and 3,000 million per year. In 1988-89, it fell to SEK 1,788 million, compared with SEK 2,047 in 1987-88 and SEK 2,289 million in 1986-87.

(vi) **Price compensation measures for the processed food industry**

324. Most food processing industries in Sweden are compensated for the additional costs incurred by having to pay higher prices for their agricultural inputs (whether imported or domestically sourced) subject to domestic pricing and marketing regulations. Without price compensation, Swedish food processing industries could not compete with imports of processed food products entering duty free under the free-trade agreements with the EEC and EFTA. Similar measures to compensate Swedish processors for the inflated prices of domestically sourced and imported raw materials subject to import levies, apply also to exports of most processed food products. The National Agricultural Market Board is responsible for administering price compensation measures.

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67 Protocol No.2 of EFTA lists all of the agricultural food products subject to price compensation measures, together with the type of compensation, when imported into EFTA countries from the Communities and vice versa. This list may be expanded to include other commodities from Chapters 1 to 24 of the CCCN. The same list of products and types of compensation are identical for all goods imported from EFTA countries into the Communities. However, for EFTA countries, the list of commodities and, in particular, the types of compensation measures prescribed for the eligible commodities, do differ between the countries.

68 Several types of compensation measures are prescribed in EFTA. (Footnote Continued)
325. The most common form of price compensation is external price compensation. Domestic producers of processed food products are compensated for the additional costs incurred on their basic agricultural inputs, by providing them with equivalent assistance on their outputs via the imposition of variable levies on competing imports. This variable import levy corresponds, in principle, to the difference between the regulated domestic price and the world market price of the basic agricultural input contained in the processed product. The amount of the levy is set according to either the actual quantities of basic agricultural inputs used in the production of the processed food, or on the basis of a standard recipe. In the case of exports, food processors are compensated for their increased costs by grants which are based on the quantities of basic agricultural inputs used to produce the exported good.

326. For a few processed food products, domestic manufactures are compensated for their additional costs on basic agricultural inputs using an internal price compensation system. Under this system, the funds are financed by equalization fees imposed on domestically produced (excluding exports) and imported processed food products.

327. Although in number most processed food products receive external price compensation, the value of compensation provided is normally much greater on products receiving internal price compensation. For example, in 1988-89, import levies and export refunds associated with processed food products for which external price compensation was provided, amounted to SEK 170 million and SEK 308 million, respectively. For the same year, internal price compensated food products received SEK 770 million, with almost SEK 200 million being paid to exporters of processed food products. Revenue from the equalization fees used to finance internal price compensation.

(Footnote Continued)

These are the imposition of variable or fixed levies on imports to compensate for different prices of raw materials (external price compensation); or internal price compensation may be applied. Compensation on exports of food processed products is provided for in the Protocol to offset for differences in the prices of basic agricultural inputs.

69 The compensatory differentials between domestic and world prices are fixed every quarter using average prices for the preceding three months. However, these amounts may be altered more frequently if major changes occur to world prices. The compensatory amounts for basic products as well as the variable levies based on standard recipes to be imposed on imports are published quarterly by the National Agricultural Market Board.

70 Where a standard recipe is applied, the importer can apply to the National Agricultural Market Board to have the amount of the levy based on the actual raw material content if this would result in a lower levy.

71 The amount of compensation paid is determined, with the exception of a few processed food products, according to actual quantities used rather than standard recipes.
compensation amounted to SEK 743 million in 1988-89, of which SEK 216 million was paid on imported food products.

(vii) **Subsidies for research and development**

328. Technical research and development is supported by Government funding mainly through the National Board of Technical Development. Funding is provided to both companies and institutions to promote the application of developmental work. Funding is normally provided by way of grants, but can also take the form of loans and conditional grants. Annual grants from the Government to the National Board of Technical Development increased in nominal terms from SEK 558 million in 1981-82 to SEK 919 million in 1987-88, before declining to SEK 819 million in 1988-89.

329. The Ministry of Industry has estimated that the net costs of government support to businesses and collective research institutes (excluding universities) for research and development amounted to SEK 622 million in 1988-89, compared with SEK 699 million and SEK 616 million in 1987-88 and 1986-87, respectively. These figures include the activities of the National Board for Technical Development, the Industrial Fund and a few other sources. The increase in 1987-88 mainly reflects the expansion in the microelectronics programme.

330. Through the operations of the Swedish Industrial Fund, the Swedish Government promotes large industrial development projects where technical and commercial risks are high. Assistance is by way of loans (up to a maximum of 50 per cent of cost) which are to be repaid if the project becomes commercially viable, or grants which are to be paid in the form of royalties. Annual grants from the Government to the Swedish Industrial Fund for this purpose amounted to SEK 55 million in 1988-89, compared with SEK 58 million in 1987-88.

(viii) **Other assistance**

331. The Swedish Government provides assistance to small business through the provision of industrial guarantee loans, operating loans and development capital. In 1988-89, the net cost of these schemes was estimated to be SEK 136 million, compared with SEK 146 million and SEK 203 million in 1987-88 and 1986-87, respectively. Most assistance was provided in the form of development capital for small businesses. The scheme providing industrial guarantee loans was terminated on 1 July 1987, but outstanding commitments on these guarantees are likely to continue for a number of years.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Introduction

334. This Chapter discusses the trade practices and policies operating in Sweden according to the industry classifications used in the GATT Tariff Study. This provides a convenient way of examining the combined impact of trade policies on the development of individual sectors of the economy. However, it must be emphasized that the impact of these measures is not limited to the sector in which they are applied. 72

(2) Agriculture

335. Sweden's longstanding agricultural policy objectives have been to secure food supplies for mainly defence reasons, aiming on occasions for 80-85 per cent and above self-sufficiency, and ensure that farmers receive sufficient income to enjoy a living standard comparable with other groups in Sweden. As a result, the agricultural sector has been heavily protected. The main protective arrangements used, namely the comprehensive system of administered domestic prices and marketing regulations supported by high import levies, were discussed in detail in Chapter IV. These arrangements cover about 95 per cent of Swedish agricultural production. Much of the remaining agricultural output is heavily protected by seasonal tariffs which apply to imports of a wide range of commodities, e.g. horticultural products. Agricultural policy in Sweden has therefore traditionally guaranteed farmers with a domestic market which has been largely insulated from foreign competition.

336. Sweden's agricultural policy has also had other objectives. An important part of Sweden's post-war agricultural policy has been, for example, to maintain employment in northern Sweden. The role of agriculture in providing employment in these regions, where alternative employment opportunities and land use are limited, has been emphasized repeatedly by the Government. With this in mind, the Swedish Government has supplemented its general agricultural assistance arrangements with several schemes designed to target additional benefits to farmers in northern Sweden.

72 Because of the inter-relationship between different industries and sectors, a full assessment of the impact of trade policies and practices on the economy is only possible if these measures are viewed from an economy-wide perspective. Such an approach is essential since trade policies and practices benefit the preferred industry or sector only to the detriment of other industries or sectors. The most fundamental example of this is the tax imposed on efficient exporting industries or sectors imposed by import restrictions introduced to protect domestic industries.

73 The 1985 Agricultural Policy Decision introduced a policy of reducing production and making the agricultural sector accountable for its own costs. It also established a special environmental goal.
Agricultural policies in Sweden have increased domestic prices of agricultural commodities well above what they would otherwise be. An indication of the extent to which consumer prices for regulated commodities have been raised above world prices since 1985, is provided in Chart V.1. Although falling for most commodities in recent years due to substantial increases in world prices, price differentials in 1989 remained well over 50 per cent for nearly all regulated products, and over 150 per cent for milk and milk products and beef and veal.

Chart V.1
Price distortions to Swedish consumers of agricultural commodities, 1985-88

Source: GATT Secretariat estimates, using information from OECD Country Study on Sweden.
338. Food prices have risen much faster in Sweden than prices of other products. Between 1980 and 1988, for example, the consumer price index for all goods except regulated food products increased by 72 per cent, compared with an increase of 115 per cent for all regulated food products combined. It would appear that the objective of providing foodstuffs to Swedish consumers at "reasonable prices" has, in practice, meant prices which are way above international levels.

339. Detailed estimates of assistance provided Swedish agriculture using the concepts of producer and consumer subsidy equivalents have been reported for a number of years by the OECD. These estimates cover some 95 per cent of Swedish production. They illustrate the high levels of assistance provided to these industries (Table V.1). Despite recent reductions, assistance to Swedish agriculture remains not only high when compared with that provided most other sectors in Sweden, but also by international standards.

340. The incidence of assistance across commodities within the agricultural sector provided by these arrangements tends to be highly uneven. In 1989, for instance, PSEs ranged from a low of 19 per cent for sheepmeat to a high of 88 per cent for poultry.

341. The estimated average percentage producer and consumer subsidy equivalents in 1989 for Swedish agriculture were estimated to be 47 per cent and -49 per cent respectively. In other words, both producer returns and domestic prices paid by consumers were increased as a result of these arrangements at the farm-gate level by, on average, approximately 50 per cent in 1989.

342. The total transfers to producers from consumers paying above internationally competitive prices for agricultural products have declined since 1987, from an estimated SEK 23 billion to SEK 18 billion in 1989.

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74 Even allowing for the phasing out of food subsidies on meats, food prices rose during the period by 85-90 per cent, considerably more than for other goods.

75 Comparisons of levels of assistance between countries are useful only as a means of putting an individual country's assistance régime into perspective. From a policy point of view, overseas assistance levels are irrelevant in setting domestic levels of industry assistance. It must also be remembered that differences do exist between countries in the coverage and methodology used to evaluate assistance in the OECD study.

76 The greater the disparities in assistance between commodities or activities, the more decisions by producers and consumers will be distorted by the assistance structure.

77 These estimates cover total agriculture and are taken from the Joint Working Party of the Committee for Agriculture and the Trade (Footnote Continued)
On an individual household basis, this amounted to almost SEK 8,500 per household in 1989. Based on an annual average disposable income per household of approximately SEK 115,000, this represents an annual tax on the average household of around 7 per cent. Applying to most basic foodstuffs, this regressive tax on domestic consumers would represent a much larger proportion of the disposable income for those majority of Swedish households receiving lower than average disposable incomes.

343. The producer subsidy equivalent of assistance to Swedish farmers, estimated to be almost SEK 20 billion in 1989, corresponds to about SEK 220,000 per farm per year, or about SEK 7,000 per hectare of arable land. As explained above, some 90 per cent of this total assistance to agricultural producers is provided by Swedish consumers paying higher prices; the remainder is provided by Swedish taxpayers through the government budget.

344. The high levels of protection accorded Swedish agriculture have created a situation where production of many commodities substantially exceeds domestic consumption. This is despite the use, at times, of several supply measures to control production of major commodities. Most of these surpluses are exported. While small relative to major exporters of agricultural commodities, these surpluses are nevertheless a substantial proportion of Sweden's agricultural output.

345. Until recent years, levels of assistance to Swedish agriculture were generally on a rising trend. Since 1987, agricultural assistance has declined overall, largely reflecting improved world prices, especially for cereals (mainly wheat), sugar and dairy products. Nevertheless, the agricultural sector continues to be insulated from international competition, and agricultural policies have become less market-oriented. Despite protection, the relative importance of the agricultural sector in Sweden has declined in the longer term. Employment in agriculture has fallen from around 30 per cent of the national workforce in 1930, to currently under 4 per cent. Its contribution to GDP has also declined sharply, to currently less than 3 per cent.

(Footnote Continued)
Committee, Agricultural Policies, Markets and Trade, Monitoring and Outlook, 1990, Part IV, Developments in Agricultural Assistance and Budgets, OECD, AGR/90/07, Table IV.8, p. 26 (forthcoming). They exceed the total CSE and PSE estimates given in Table V.1 which includes only those commodities for which CSE and PSE estimates have been calculated by the OECD.

78 See footnote 77.

79 For example, in 1987-88, production exceeded domestic consumption by 48 per cent for wheat; 17 per cent for butter; 33 per cent for milk powder; 11 per cent for pork; 14 per cent for eggs; and 4 per cent for potatoes.
346. Measures currently affecting trade and production of individual agricultural product categories, together with data on production, imports and tariff rates are summarized in Tables V.2-V.10.

(i) Dairy products (Tariff Study Category 30)

347. According to the OECD study, milk and milk products was the second most highly assisted industry in Sweden in 1989. The average PSE for this industry in 1989 was estimated to be 62 per cent, well above the overall average for agriculture of 47 per cent (Table V.1). Some 70 per cent of this assistance is provided to producers by consumers paying higher prices for their products. The remainder is financed by the Government (and thus indirectly by Swedish taxpayers). This share was higher than for other agricultural commodities due to the continued operation of food subsidies for fluid milk.

348. The high levels of protection accorded the dairy sector are due to the administered pricing and marketing regulations administered by the Market Regulation Association (MRA) for Dairy Products, which operate on milk, butter, cheese and skimmed milk powders. Although tariffs are not applied to imports of these products, imports are restrained, and in some cases virtually prohibited, by high variable levies. The high and variable tariff rate equivalents of variable levies on imports of dairy products are shown in Tables IV.1 and IV.3.

349. Milk production has remained an important part of Sweden's agricultural sector. Milk production continued to expand substantially every year since 1977-78, until 1985. Milk production declined by around 7 per cent between 1985 and 1989. This had been largely reflected in a substantial reduction in butter and milk powder production. Cheese output had, on the other hand, continued to expand slightly. Since 1989, production of milk has again begun to increase.

350. The decline in milk production between 1985 and 1989 was due largely to the introduction of a number of programmes designed to help reduce surplus production of dairy products. These included a system of voluntary milk delivery quotas (or the two-price system), consumer food subsidies, discounts to public institutions and an investment ban for animal products.

351. Consumer food subsidies currently apply to certain fluid milk products. From 1973 until 1982-83, they also operated on cheese. The food subsidy on certain fluid milk products has been declining since 1983-84, when it was SEK 2,603 million. In 1988-89, the food subsidy was SEK 1,788 million, compared with SEK 2,047 million in 1987-88 and

80 By curtailing price increases to consumers, food subsidies reduce surpluses by increasing consumption at lower prices. Without these subsidies financed by taxpayers to assist producers, import levies and administered prices to consumers would have been set higher by the Government.
SEK 2,289 million in 1986-87. Even with these food subsidies, the domestic prices for milk and milk products have, on average, exceeded world prices by two to three times in recent years (Chart V.1). The milk subsidies are to be abolished as from 1 January 1991.

352. The voluntary milk delivery quotas on production, introduced for a three-year period commencing 1 July 1985, expired on 1 July 1989. The scheme was based on the payment of prices below the domestic price to participating farmers who produced beyond a certain contracted quota level. No milk production quotas are currently operating in Sweden.

353. The production quota arrangements were implemented through a price equalization scheme across milk and dairy products which continues to be operated by the MRA for Dairy Products. Under this scheme, price supplements on butter, which are largely financed by equalization levies imposed on more profitable products (e.g. fluid milk and cream), are paid to the dairies so that they get the same profit regardless of production. Other revenues, such as government transfers, initially not intended to finance the equalization scheme, are also used.

354. The equalization supplement is varied to raise the farmer's price during the off-season and promote production of milk throughout the year. The supplement is also varied according to region and fat content of milk.

355. Regional production of milk in northern Sweden has been supported by price supplements financed by the Government. These price supplements differ between dairies depending on their geographical location and cost differences. They increase the producer price of milk in northern Sweden without raising milk prices to consumers. Government funding for this purpose has increased continuously from SEK 320 million in 1984-85 to SEK 496 million in 1988-89.

356. Additional funding is provided by the Government as part of its low income initiative to assist farmers with low annual production. The cost to the Government of providing delivery price supplements on milk under this programme was SEK 108 million in 1984-85, and SEK 84 million in 1988-89.

357. Amounts paid to private exporters in the form of export refunds by the MRA for Dairy Products and the Swedish Dairy Association totalled SEK 369 million in 1987-88. These refunds, which subsidize exports of dairy products, are financed by fees on production, and not by budgetary funds. Some 90 per cent of export refunds relate to exports of milk powder and butter.

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81 The Swedish Dairy Association is responsible for the payment of export refunds on milk powder.
358. The MRA for Dairy Products performs a number of additional activities. It administers the milk buy-out scheme using funds transferred from the Government. Discounted purchases by public institutions of cheese, butter and milk consumed at schools (totalling SEK 11.3 million in 1987-88) are also funded by the MRA. In 1988-89, additional funds of SEK 46.7 million were paid by the MRA to meet storage costs which were mainly for butter.

359. As already indicated, the MRA activities are funded mainly through disbursements from the National Agricultural Market Board which are in turn financed from a number of sources. A major source is Government revenue transferred to the Board. A large share of these government funds are earmarked for financing certain schemes, such as the provision of food subsidies on fluid milk, the delivery price supplement on milk and the price support provided farmers of northern Sweden. The share of revenue from Government transfers has fallen, from around 48 per cent in 1984-85 to approximately 40 per cent in 1988-89. Other sources of revenue include a share of the Board’s receipts from import levies and various internal processing levies.

360. A bilateral agreement concluded following the Tokyo Round provides Sweden with limited access to the cheese market of the United States. Limited access to the Canadian cheese market is provided for by a Nordic cheese agreement.

(ii) Foodstuffs (Tariff Study Category 24)

361. This category is very wide ranging, covering fruits, vegetables, tropical beverages, sugar, flours, preparation of cereals and certain animal products, such as eggs.

362. Except for high seasonal tariffs which apply to imports of many edible fruits and most vegetables, tariff rates on these products are generally zero or under 5 per cent. Certain yeasts and mustard preparations are dutiable at 15 per cent if imported, while imports of certain non-specified food preparations based on butter or other milk fats are dutiable at 25 per cent (Table V.3).

363. High variable levies are, however, applied to imports of many processed and semi-processed foodstuffs in order to support the domestic prices administered for many agricultural products (Tables IV.1 and IV.3). In the case of processed food products, these variable levies are set in accordance with the price compensation measures provided for in the EEC/EFTA free-trade agreements (Chapter IV). In many cases, the variable levies are so high in ad valorem terms, that the import price is virtually prohibitive.

(a) Fruit and edible nuts (Tariff Study Sub-Categories 24.01 and 24.02)

364. Seasonal tariffs at relatively high levels apply to imports of most fresh edible fruits, including melons, apples, pears, cherries, plums and berry fruits. In order to assist the local fruit-growing industry,
seasonal tariffs are structured throughout the year so that tariffs are much higher during the Swedish season.

365. In most instances where seasonal tariffs operate, the "out-of-season" tariff rate is zero whilst the "in-season" rate is an ad valorem rate, usually in the range of 5 to 18 per cent. By far the majority of fruit products or product categories covered by seasonal tariffs have a difference between the lowest and highest tariff rate of more than 5 percentage points.

366. For some commodities such as grapes, apples and pears, the "in-season" rate is expressed in specific terms. In the case of apples and pears, the specific rate is a sliding scale depending upon the price of the imported product. The scale of duties ranges from a minimum ad valorem equivalent of 125 per cent for imports priced at or below SEK 2 per kg., to a maximum of 7 per cent for apples and pears priced at or above SEK 3.51 per kg. Based on average farm-gate prices for apples in the period November 1989 to February 1990 when the sliding scale of duties applied, the average tariff rate provided domestic producers by these arrangements ranged from around 35 per cent to 55 per cent, depending upon the domestic price of apples. Similar information was not available for pears.

367. A wide range of fresh fruits can only be imported if an authorisation permit is first issued by the National Board of Agriculture. To obtain such a permit, a phytosanitary certificate issued by the Plant Protection Authority of the country of cultivation must be presented to customs officials on importation.

368. Fresh fruits imported must also comply with Swedish standards stipulating the maximum permitted levels of "foreign substances", e.g. pesticides on foodstuffs. Regular tests are conducted by the National Food Administration to ensure compliance with these regulations.

369. Brazil nuts, peanuts and peanut kernels, peanut butter and paste can only be imported if a certificate detailing the level of aflatoxins contained in the products is available to customs officials at the time of importation.

82 For example, the tariff on fresh plums is zero in the winter months from 1 October to 15 July, but from 16 July to 30 September when the Swedish crop is in season, the tariff rate is 15 per cent. As local production is assisted by the higher "in-season" tariff rate, it is this rate which is most relevant for assessing the impact of seasonal tariffs on trade and production.

83 These arrangements cover imports of fresh apples, cherries, apricots, peaches (including nectarines), plums, raspberries, gooseberries, strawberries, other berries, currants, melons and quinces. All citrus fruit (except for lemons) imported between 1 April and 30 September also require a phytosanitary certificate.
370. Both imports and domestic production of edible fruits and nuts are subject to a uniform tax.

(b) Vegetables, fresh or dried (Tariff Study Sub-Categories 24.03 and 24.04)

371. Most edible vegetables are subject to seasonal tariffs whereby the rate is increased from zero in the out-of-season months to "in-season" ad valorem rates of between 10 and 20 per cent. Most vegetables or vegetable categories covered by seasonal tariffs have a difference between the lowest and highest tariff rate of 10 percentage points or more.

372. The seasonal tariff on imports of fresh or chilled tomatoes is complicated by having four alternative rates operative throughout the season. From 1 November to 15 April, tomatoes may be imported into Sweden duty free, rising in three stages to a maximum rate of 17 per cent or SEK 0.70 per kg. (whichever is the lower amount) during the summer months of peak Swedish production from 1 July to 30 September. Thus, the alternative rate has the potential at least to provide ad valorem rates of duty in excess of 17 per cent should international prices slump.

373. Imports of fresh or chilled potatoes are also subject to a seasonal arrangement. The alternate tariff for early potatoes with low starch content of 20 per cent, subject to a minimum duty of SEK 25 per 100 kg., applies from 6 June to 5 July. During the remainder of the year it is replaced by a variable levy, currently of SEK 56 per 100 kg. Import levies also apply to year-round imports of manioc, sweet potatoes and other fresh or dried roots and tubers high in starch content. Imports of potato starch are subject to a variable levy, currently set at SEK 250 per 100 kgs.

374. The variable levies on potatoes and other vegetables with high starch content support the pricing and marketing regulations that operate to assist domestic growers of potatoes. Under these regulations, the Market Regulation Association (MRA) for Potatoes regulates table potatoes through intervention buying, storage support and export subsidies. Activities of the MRA for Potatoes are financed by import levies, acreage and delivery fees.

375. Similar arrangements operate on certain types of peas and beans which, if imported, are free of tariff but subject to high variable levies. Domestic marketing regulations are carried out by the Market Regulation Association for Grains. Support in the form of a discount to buyers of certified seed was provided at a cost of SEK 9.8 million in 1987-88. An additional SEK 29.4 million was provided in 1987-88 for acreage support.

84 Goods subject to these arrangements include imports of fresh or chilled alliaceous vegetables such as onions; shallots; cauliflowers; cabbages; lettuces; cucumbers; gherkins; leguminous vegetables such as peas and beans; and other vegetables like artichokes, asparagus, celery and spinach.
376. Many vegetables can only be imported into Sweden by first obtaining an import permit from the National Board of Agriculture. This requires a phytosanitary certificate issued by the Plant Protection Authority in the country of cultivation.

377. Imports of vegetables, potatoes and root crops must not contain more than the maximum permitted levels of "foreign substances" (e.g. pesticides) stipulated in domestic regulations if they are to be imported into Sweden. Routine tests are conducted by the National Food Administration to ensure compliance with these standards.

378. Edible vegetables and certain roots and tubers are also taxed uniformly by the Government whether produced domestically or imported. The tax does not discriminate between domestic production and imports.

(c) Sugar and confectionery (Tariff Study Sub-Category 24.08)

379. Imports of raw and refined sugar, sugar syrup and sugar solutions are imported free of duty while imports of sugar confectionery are dutiable at 5 per cent. However, in order to support the domestic pricing and marketing arrangements which operate to assist domestic sugar growers, imports of these products are restricted by variable levies which provide high and variable tariff rate equivalents (Tables IV.1 and IV.3). The variable levy on imports of refined sugar, for example, is currently SEK 169 per 100 kgs., compared with a previous rate of SEK 215 per 100 kgs.

380. National agricultural policy requires that domestic sugar production should satisfy some 85-90 per cent of total sugar consumption in normal years. Except for 1987-88 when considerable imports were permitted following a poor harvest, imports of sugar have been relatively minor.

381. According to the OECD study on agricultural assistance, the producer subsidy and consumer subsidy equivalents for sugar were 38 per cent and -36 per cent respectively in 1989. These rates correspond to amounts of SEK 312 million and SEK 308 million respectively (Table V.1).

382. The pricing and marketing arrangements for sugar are administered directly by the National Agricultural Market Board. Farm-gate prices of

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This applies to imports of the following fresh vegetables: potatoes, onions and similar products (excluding garlic), green onions, onion sets or chives, lettuce, blanched celery, peas, sugar beets, carrots, horse radishes, red beets and other root products, Jerusalem artichokes, fodder beets and swedes. In addition, phytosanitary certificates are also necessary for imports between 1 April and 30 September of fresh cauliflowers, broccoli, tomatoes, outdoor cucumbers, sweet peppers, fennel, spinach and aubergines.

Licences are required for imports of cane or beet sugar and chemically pure sucrose (in solid form), syrup and other solutions of cane and beet sugar and, except when used for animal feeding, molasses.
raw and refined sugar, together with the basic price of beets (16 per cent sugar), are determined through annual negotiations between the Government, the beettongrower association, the sole sugar processor and consumer representatives. From 1989, these negotiations are included in the negotiations for other agricultural products. The administered prices take into account cost increases in growing sugar beet and processing sugar.

383. Once determined, import levies on refined and raw sugar are varied monthly, or more frequently if required, to support these prices. The import levy for refined sugar is set at the difference between the administered domestic price and the world market price, as determined by the spot price for white sugar at the Paris bourse, adjusted for quality differences and transportation costs to Sweden. The levy on imports of raw sugar is set such that the difference between the administered domestic price for refined sugar and the imported price of raw sugar, based on the London price, covers domestic refining costs, including the costs of bags, transportation and storage. Thus the profitability and size of the refining industry is determined by government regulation.

384. Funding of these arrangements for sugar is mainly by way of import levies collected by the National Agricultural Market Board. This revenue is also used to provide regional support through extra payments to sugar beet producers located on the Baltic Islands of Gotland and Oland. Sugar factories located on these Islands are compensated for their additional production and transportation costs. In 1987-88, regional support provided by these measures totalled SEK 9 million, of which beet producers received SEK 3.5 million.

385. The higher costs of transporting sugar to the northern regions of Sweden is subsidized. Expenditure of SEK 1.2 million was used for this purpose in 1987-88.

(d) Other foodstuffs (Tariff Study Sub-Category 24.10)

386. Imports of egg and egg products (whether dried or not) enter Sweden free of tariff. However, all imports are subject to a variable levy to support the administered domestic prices set for eggs and egg products. For example, imports of eggs are currently subject to a variable levy of SEK 870 per 100 kgs. (Tables IV.1 and IV.3). As a result of these arrangements, the share of imports in domestic consumption has been negligible.

387. Egg production in Sweden receives high levels of assistance. In 1989, producer and consumer subsidy equivalents were estimated to be 54 per cent and -61 per cent respectively, which correspond to amounts of SEK 515 million and SEK 592 million (Table V.1).

388. The domestic prices of eggs and egg products are set within government determined limits. The marketing regulations for both eggs and egg products are administered by the Market Regulation Association (MRA) for Eggs. The MRA purchases surplus eggs at the administered domestic price for future export at world prices. Private exporters are also paid export refunds to compensate for the differences between the administered
domestic and international prices. In 1987-88, export refunds totalling SEK 33 million were paid to private exporters. An additional SEK 34 million was incurred in 1987-88 by the MRA for Eggs to store and dry surplus eggs purchased for future export.

389. A supplement is paid by the MRA for Eggs to egg packing plants to promote both egg quality and sales. This totalled SEK 27 million in 1987-88 and SEK 29 million in 1988-89. The MRA for Eggs also administers certain policy measures designed to reduce egg production.

390. The funding of the activities of the MRA for Eggs is mainly met from an egg laying levy paid by farmers. This levy, which is higher for larger farms, discourages production. In 1988-89, revenue from the levy amounted to SEK 76.8 million, compared with SEK 76.4 million in 1987-88. Other sources of revenue include import levies, as well as in some years, transfers from the stabilization fund administered for poultry meat. In 1988-89, revenue from import levies was SEK 64.2 million. The corresponding figure for 1987-88 was SEK 53.7 million.

391. Import permits, requiring in most cases inspection on importation of eggs and egg products, are necessary to ensure compliance with domestic regulations on bacteriological standards. In addition, eggs and egg products must be heat treated to be imported.

392. In the case of imports of unshelled eggs and yolk from State-trading countries, automatic licences are required from the National Agricultural Market Board.

393. The production of natural honey in Sweden is assisted by a specific tariff rate levied on imports of SEK 25 per 100 kg. In ad valorem terms, this represents on current prices a tariff rate of 4 per cent. Honey imported into Sweden must also comply with certain domestic standards stipulated by the National Food Administration.

(iii) Fish, shellfish and products (Tariff Study Category 31)

394. Imports of nearly all seafood into Sweden enter at zero tariff rates (Table V.4). However, for many products, a price regulation fee is imposed.

395. The assistance to fishermen takes the form of price supplements paid directly by the Government. A "low price line" (or world market price line) is applied and, consequently, the fees are relatively low compared with other agricultural commodities where "high price lines" (or producer price lines) operate. Most of the assistance provided for Swedish fishermen is provided by consumers paying higher domestic prices.

87 Like all specific rates, however, this rate will change inversely with movements in world prices.
396. The pricing and marketing regulations for fish are administered in Sweden by the Market Regulation Association (MRA) for Fish. The arrangements were modified substantially in 1978. Price supplements are provided by the MRA whenever the annual target or norm domestic prices set for most salt water fish exceed their realised price. The supplements amount to a certain share of the price differential. Norm quantities, limiting the level on which price supplements are paid, are established for each fish species. Norm prices and quantities for different fish species are fixed by the Government after negotiations between the National Agricultural Market Board, consumer representatives and the fisherman's delegation.

397. If the market price exceeds the norm price for a certain species of fish, price reducing measures may be taken to protect the interests of consumers. However, this situation has not arisen in recent years.

398. To support the regulation, the MRA for Fish sets minimum prices. Fish that cannot be sold at the minimum price is purchased by the MRA at a predetermined surplus price.

399. In 1987-88, expenditure by the MRA on these activities totalled SEK 75 million. Four-fifths of this amount was related to price additions.

400. Freight support funded from budgetary means has been provided under certain conditions to fishermen confronted by extraordinary transport costs. In 1987-88, the expenditure was SEK 1 million. From July 1989, budgetary means have not been used for this purpose.

401. Licences are required from the National Agricultural Market Board to import fresh or chilled cod and herring (including fillets and other meat); frozen fillets of cod and coalfish; salted herring (including fillets); and unfrozen boiled shrimps and prawns. Quantitative restrictions are applied to imports of fresh, chilled, frozen herring and herring fillets, fresh or chilled cod and dried, salted or smoked Baltic herring.

402. Sweden applies seasonal prohibitions to imports of certain seafoods imported within particular time periods. All imports of cod liver, shrimps, crayfish and live molluscs require an import permit to be issued by the National Food Administration. The products are inspected on importation, and often a sample of the product is scientifically analysed. As noted in Chapter IV, minimum size requirements are applied equally to imports and to domestically caught seafood.

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88. These are for lobsters, from 15 July to 15 September; oysters from 1 May to 31 August and crayfish (not boiled) from 1 January to the second Wednesday in August inclusive.
Beverages and spirits (Tariff Study Category 29)

403. Beverages and spirits of low alcoholic content (more than 0.5 per cent by volume but not more than 1.8 per cent by weight) may, with the exception of beer, be imported free of duty (Table V.5).

404. Specific tariff rates apply to imports of all other beverages, including low alcohol beers and spirits. Although these rates are low on average, they provide uneven levels of ad valorem assistance between highly substitutable products. As with all specific rates, ad valorem rates within each tariff line will vary inversely with the price of the imported product.

405. Excise taxes are levied at various rates on alcoholic beverages consumed in Sweden, as well as carbonated and other soft drinks. For spirits and wine, the tax consists of a basic specific amount and an ad valorem fee. For beer and soft drinks, only a specific fee is applied. For imported beverages, the tax is levied at identical rates on top of the tariff rates contained in the Customs Schedule.

406. A packaging tax applies to all packaging used, whether or not imported, for certain "ready-to-drink beverages" sold in Sweden (including wine and spirits, malt liqueur, stilldrinks and juices). These taxes are levied in a non-discriminatory manner between domestically produced and imported beverages.

407. The major control over imports of alcoholic beverages into Sweden is through the regulated operations of the State-trading enterprise. The Wine and Spirit Co. Ltd. has exclusive rights to import alcoholic beverages into Sweden.

408. Although imports of non-alcoholic aerated waters are admitted duty free, imports of certain aerated waters containing added sugar are subject to a variable levy, which is currently SEK 25 per 100 litres. Similarly, variable levies apply to imports of non-alcoholic fruit and vegetable juices which are mainly entered free of tariff. In the case of some juices, such as apple, strawberry, black-currant and vegetable juices, both levies and ad valorem duties of up to 10 per cent are levied on imports. An indication of the high and variable ad valorem tariff rate equivalents provided on products by these variable levies is given in Table IV.1.

89 For example, depending upon the alcoholic content, specific rates ranging from SEK 10 to SEK 14 per 100 litres apply to beer imports (equivalent to ad valorem rates of 3 per cent in 1988); from SEK 10 to SEK 40 per 100 litres for wine imports (corresponding to ad valorem equivalents ranging from 1 to 7 per cent); from SEK 10 to SEK 100 per 100 litres for imports of other fermented beverages (corresponding to ad valorem equivalents ranging from 2 to 10 per cent); and from SEK 17.50 to SEK 92.5 per 100 litres for spirit imports (corresponding to ad valorem equivalents ranging from 1 to 6 per cent).
(v) Tobacco (Tariff Study Category 32)

409. Manufactured tobacco products imported into Sweden are subject to a specific tariff rate of duty. Duties range from SEK 0.017 to SEK 0.89 per cigar, cheroot and cigarillo, depending upon its weight. One of two specific rates apply to imported cigarettes depending upon the tobacco content (SEK 0.006 per cigarette or SEK 0.011 per cigarette).

410. Specific tariff rates for manufactured tobacco products ranged, in ad valorem terms, from 1 to 7 per cent for cigars, cheroots and cigarillos (depending upon weight), and were 1 per cent for cigarettes in 1988 (Table V.6).

411. Manufactured tobacco products produced in or imported into Sweden are subject to an excise tax. Tobacco products are taxed according to the products' weight. Different tax rates apply between cigars and cigarillos, and cigarettes. The tax rates for domestically made and imported products are the same. In the case of imports, the tax is levied on the value of the product inclusive of the specific tariff.

412. Unmanufactured tobacco, i.e. tobacco leaf, may be imported free of tariffs and levies into Sweden. There are no other restrictions on the import of tobacco leaf into Sweden.

(vi) Animals and products thereof (Tariff Study Category 26)

413. Imports into Sweden of practically all processed meats, whilst free of tariff duty, are subject to variable levies (Table V.7). The levies are set within the domestic price limits fixed for meat products. Imports of meat and meat products, such as beef and veal, poultry meat, pork and horsemeat are therefore restrained, and many of these products represent a relatively small share of domestic consumption.

414. Due to an agreement with Iceland that permits 650 tonnes per year of lamb to be imported into Sweden free of import levy, imports of lamb represent a greater share of the domestic market. However, in view of the high costs of producing lamb in Iceland, and the annual limit applied to these imports, assistance to lamb producers in Sweden is barely affected by these arrangements.

415. The average producer and consumer subsidy equivalent for meats in 1989 was 55 per cent and -63 per cent respectively, corresponding to amounts of SEK 4,459 million and SEK 5,430 million. The level of assistance provided meat products is highly variable. In 1989, the producer subsidy equivalent ranged from a high of 88 per cent for poultry to a low of 19 per cent for sheepmeat (Table V.1).

416. The import levies on meat underpin the pricing and marketing regulations which operate in Sweden for these products. Market regulation of beef, veal, pork, sheepmeat and horsemeat is conducted by the Market Regulation Association (MRA) for Meat. Wholesale prices for these products are determined annually by the Government through consultations with representatives from processors, farmers and consumers.
417. The MRA for Meat provides export refunds to private exporters equal to the difference between the higher administered domestic price and the world export price. In 1987-88, these totalled SEK 647 million, comprising SEK 63 million for beef exports, SEK 448 million for exports of pigmeat and SEK 135 million for exports of other meat products (e.g. edible offal).

418. The MRA also finances storage costs, as well as price rebates and discounts during certain times of the year to public institutions (e.g. schools). These totalled SEK 169 million in 1987-88, of which SEK 88 million and SEK 37 million related to storage costs and price rebate schemes, respectively. Prior to 1984-85, food subsidies on the major meats were funded by the Government to assist farmers without raising prices to consumers.

419. The above activities of the MRA for Meat are funded mainly by revenue from the slaughter animal levies paid by meat processors and import levies on meat products. Slaughter levies for funding beef exports were eliminated and increased for pigmeat in 1988. Import levies on sheepmeat cuts, which had increased by 31 per cent from June 1987 to December 1988, have been decreased on several more recent occasions. Following a reduction of SEK 1.45 per kg. to SEK 19.00 per kg. from 1 December 1988, the import levy on sheepmeat was reduced again by SEK 0.45 per kg. on 1 July 1989. A further reduction of SEK 0.55 per kg. was introduced from 1 January 1990. However, the current levy of SEK 18.00 per kg. is still some 20 per cent higher than it was in 1987.

420. Regional support through price supplements to slaughter houses in northern Sweden to assist farmers are provided by the MRA for Meat using mainly government funding.

421. Similar arrangements apply to the production of poultry meat in Sweden where the regulatory authority is the National Agricultural Market Board. Export refunds, paid for by slaughter fees on chickens, amounted to SEK 10 million in 1987-88.

422. All imports of meat of asses, mules, hinnies, wild boar and goats, as well as frozen buffalo meat, must be licensed by the National Agricultural Market Board. Additional licences are required for fresh, chilled and frozen meats and edible offal of bovine cattle, domestic pigs, and sheep from State-trading countries. Reindeer meat imported from State-trading countries is covered by longstanding quantitative restrictions.

90 The high and almost prohibitive levy applied by Sweden on imports of sheepmeat cuts was the subject of complaints raised by the representatives of both Australia and New Zealand at the Surveillance Body of the GATT in May 1989. See GATT Document MTN.SB/9 of 19 June, 1989, pp.7-9.

91 In 1987-88, regional support amounted to SEK 93 million for beef and veal; SEK 17 million for reindeer meat; SEK 11 million for pigmeat and SEK 5 million for sheepmeat.
423. Imports of meat and meat products must also comply with certain domestic health standards. Generally, they must not contain any food additives. Furthermore, import permits are only granted by the National Food Administration if the meat and meat products have undergone acceptable inspection in the country of export, and originate from establishments approved by the National Food Administration.

(vii) **Grains** (Tariff Study Category 25)

424. All cereals and cereal products (e.g. starch) can be imported into Sweden free of tariffs (Table V.8). However, with the main exception of rice, all imported cereals and cereal products are subject to variable levies which provide high and variable ad valorem tariff rate equivalents (Table IV.1). Foreign supplies represent some 6 per cent of domestic consumption of cereals.

425. Licences to import wheat and meslin are only issued by the National Agricultural Market Board if the imported product is fit for baking. Automatic licences are required to import malt from State-trading countries.

426. Production of grains and exports of cereals (and in particular wheat) have, until recently, increased significantly. Despite more recent reductions, exports of cereals still account for some 20 per cent of domestic production.

427. The producer and consumer subsidy equivalents for grains in 1989 were estimated to be 24 per cent and -35 per cent, respectively, or SEK 1,836 million and SEK 1,925 million (Table V.1). The PSE rate for wheat was estimated to be lower than for coarse grains, while, the CSE rate was higher (more negative).

428. The Market Regulation Association (MRA) for Grains agrees to redeem all domestically produced cereals at the administered domestic price negotiated annually between the Government and processors, millers, growers and consumers. All cereals thus acquired are exported by the MRA at world prices. The loss on exports of cereals by the MRA for Grains totalled SEK 800 million in 1987-88.  

429. Costs of storing cereals are partly met by the MRA. In 1987-88, rebates and storage expenses of the MRA were SEK 24 million. The MRA also finances the costs of providing rebates to grain used for specific purposes, such as ethanol production.

430. The major sources of revenue to the MRA for Grains include the milling levies on wheat and rye and, from 1987, on barley and oats used for human consumption. Revenue from import levies and fertilizer levies as well as, in some years, revenue from other internal levies (e.g.

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Of this, SEK 570 million related to wheat exports, SEK 160 million to exports of oats and SEK 18 million to rye exports.
levy on oilcake from imported oilseeds) is also important. The Government agreed in 1985 to finance 40 per cent of these costs for a five-year period.

431. The recent reduction in the quantity of cereals exported is largely due to schemes introduced by the Swedish Government to curtail cereal production and reduce the export subsidies paid on grains. The first such scheme was a voluntary fallow compensation arrangement introduced for the 1987 crop. Participants in this scheme were paid for placing a share of their land in fallow. For the 1988 crop, this has been replaced by a voluntary acreage diversion scheme. The scheme is designed to control production by compensating farmers who divert a part of their area cultivated for grains or other regulated crops, such as oilseeds and sugar beet, to producing crops (including forage production and forestry) which are not subject to administered domestic prices.

(viii) Oilseeds, fats and oils and their products (Tariff Study Category 27)

432. No tariffs apply to imports of oilseeds as well as to imports of practically all crude animal and vegetable oils and their residues. Ad valorem tariffs (of mainly 8, 15 or 17 per cent) apply to imports of practically all other vegetable oils (Table V.9). However, imports of all these products are restricted by variable levies which provide high and uneven ad valorem tariff rate equivalents (Table IV.1).

433. Behind the wall of high variable levies applied to imports, pricing and marketing regulations which assist local growers apply to oilseeds, oil and meal from oilseeds, clover and grass seeds. The regulation activities are conducted by the Market Regulation Association (MRA) for Oilseeds which establishes each year domestic prices for oilseeds. In Sweden, rapeseed, turnip and mustard seed are mainly grown.

434. The MRA for Oilseeds redeems the entire oilseed crop at the negotiated support prices. The crop is then sold by the MRA to the domestic margarine manufacturing industry or exported at the lower world price. The difference in prices is met by the MRA, using revenue collected by a fee imposed on domestically produced as well as imported fats and oils. In 1987-88, the export costs of oilseeds and vegetable oils amounted to SEK 270 million.

435. The MRA also administers the market regulation for grass and clover seed. This scheme provides mainly price support to growers of around 20 varieties of clover and grass seed. In 1987-88, price support paid to growers by the MRA was SEK 2.7 million. In addition, acreage support of SEK 9.1 million was also provided.

93 Import levies do not apply to clover and grass seeds.
(ix) **Other agricultural products** (Tariff Study Categories 28, 33 and 34)

436. These categories include cut flowers and other agricultural products of animal and vegetable origin. Subject to some exceptions, particularly for cut flowers and roots, imports of these products enter duty free (Table V.10).

437. Seasonable specific tariffs apply to most imports of fresh flowers (mimosas, heather, broom, heliconia and strelitzia are admitted free of duty). The seasonal tariffs provide disparate ad valorem levels on cut flowers, ranging from 5 per cent to 16 per cent in 1988. Assistance to local producers may increase if world prices for cut flowers decline.

(3) **Industry**

438. Reflecting the relatively high export orientation of Sweden's industrial sector, tariffs for industrial products are, in general, relatively low. Consequently, the incidence of tariff escalation in the Swedish tariff is relatively low overall. In some product areas, such as clothing, footwear and chemicals, mild tariff escalation exists.

439. The most highly assisted industries in Sweden continue to be the clothing and, to a much lesser extent, the textiles and footwear industries. The main instrument of assistance has been the use of tight quantitative import restrictions on clothing and textile products from major exporting countries. Currently, Sweden has arrangements restricting imports of textiles and clothing from 26 countries. Most of these are voluntary export restraint agreements with exporters under the MFA which Sweden joined from the outset. Sweden has negotiated additional bilateral import quotas with other countries and imposed some unilateral import restrictions. Quantitative import restrictions apply to imports of leather footwear from certain State-trading countries.

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94 Under these arrangements, the tariff rates on imports of carnations, gladioli, roses and tulips range from duty free during the off-season, to SEK 10 per kg. for roses and carnations, currently equivalent to an average ad valorem rate of 15 per cent; SEK 7.50 per kg. for tulips when the Swedish crop is in-season, currently equivalent to 16 per cent ad valorem; SEK 5 per kg. for other fresh flowers, currently 5 per cent ad valorem, or SEK 10 per kg., and currently 14 per cent ad valorem, if imported from 1 March to 30 November.

95 Well over three-quarters of Sweden's industrial production is accounted for by pulp, paper and paperboard (13 per cent); ores and metals (11 per cent); transport equipment (11 per cent); non-electrical equipment (10 per cent); chemicals (7 per cent); electrical machines and apparatus (5 per cent); wood and cork (5 per cent); and manufactured articles not elsewhere specified (15 per cent). These industries are major export earners; together, they represent some 60 per cent of Sweden's industrial exports.
440. Although Sweden has made some attempts in recent years to liberalize these arrangements, they nevertheless remain restrictive. It has been estimated recently that these restrictions alone increase import prices by 20 to 30 per cent and clothing prices at the retail level by 5 to 10 per cent. This corresponds to a total transfer in the form of higher prices from consumers to producers of between SEK 1.6 billion to 3.3 billion. For the average Swedish household, this corresponds to an annual tax of between SEK 750 and SEK 1,560.

441. Whilst financial support to industry has fallen sharply since the mid-1980s, certain industries continue to receive substantial Government funding. In addition to the textiles and clothing industries, other sectors still benefiting from substantial Government funds include shipbuilding and the steel industry. They received funds totalling SEK 1,135 million and SEK 769 million respectively in 1988-89. A large share of these payments related to outstanding commitments made by the Government to programmes initiated in earlier years under Government policies designed to provide adjustment support to aid the rationalization of ailing industries.

442. Measures currently affecting trade and production in individual Swedish industries, together with data on production, imports and tariff rates, are summarized in Tables V.11-V.18.

443. Sweden has applied for many years protective policies to its clothing and, to a lesser extent, its textiles and footwear industries. This has been achieved mainly through numerous bilateral agreements with major exporting countries to restrict imports of an extensive range of products (Table V.11). Textiles and clothing products subject to quantitative restrictions are described in Table V.19.

444. Tariffs applying to imports of textiles, clothing and footwear are nevertheless important, and amongst the highest in Sweden. According to the GATT Tariff Study, the simple average tariff rate in 1988 was

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96 Since quantitative restrictions enable imports to be obtained at world prices, and sold at higher prices which reflect their relative scarcity on the domestic market, excess returns or rents are generated. Who appropriates these rents is often difficult to determine, and will depend upon such factors as the system of quota restrictions in operation and the market conditions confronting the imported product. The bilateral quantitative restrictions on Sweden's imports take the form of voluntary export restraints which are applied in the exporting countries. Therefore, it is most likely that exporters would respond to the limitations on exports, by increasing their prices to Swedish importers to appropriate these rents. However, because of relatively high tariffs on most imports of textiles, clothing and footwear, the Swedish Government will appropriate (in the form of tariff revenue) a share of these quota rents.
11 per cent for textiles and clothing products, and 12 per cent for footwear. Tariff rates range from free up to 25 per cent for certain clothing imports, and from 3 up to 14 per cent for some items of footwear.

445. Most of these tariffs are in the form of alternate rates which can provide uneven levels of assistance between products, depending upon their price. The potential also exists for ad valorem tariff rate equivalents to increase when world prices for these products fall.

446. Manufacturers of textiles and clothing have also had their returns increased by Government subsidies. The Government has funded the sectoral assistance programme for the textiles and clothing sector to assist firms in this sector to adjust to longer term structural pressures. The sectoral programme provides support for firms to invest in modern machinery; for export exhibitions; for product development and design; for managerial training and for all types of consultancy services. Assistance under this scheme takes mainly the form of guarantees, depreciation loans, educational assistance and marketing assistance.

447. The Government has recently decided to continue this support until July 1992 at a fixed annual cost of SEK 85 million.

448. A wage subsidy paid by the Government to firms for retaining elderly employees aged between 50 and 65 years of age was terminated by the Government from 1 July 1989.

449. The total support provided by the Government to the textiles and clothing sector under the above measures has declined continuously from SEK 343 million in 1983-84, to SEK 187 million and SEK 144 million in 1987-88 and 1988-89, respectively.

450. These measures have been used by the Government as a means of achieving several policy objectives, including the goal of improving the international competitiveness of the local industry; the production goal of achieving a certain minimum volume of production - equal to 1978 production levels; the supply goal of sourcing locally at least 30 per cent of the domestic market for textiles and clothing; and the self-sufficiency goal of preserving domestic production for security reasons. The dominant policy objective has been that of self-sufficiency which, to a large extent, encompasses the supply and production goals.

451. In practice, it would appear that these goals have been largely achieved at the expense of the first objective, that is of promoting internationally competitive clothing and textiles industries. However, nor were the production and supply objectives reached in practice; volume production was not maintained at the desired 1978 level and domestic supply as a proportion of consumption was below 20 per cent in recent years.

452. Sweden, in conjunction with other Nordic countries, was successful in having a clause inserted in the MFA, acknowledging the right of small countries to maintain a "minimum viable production capacity". Dubbed the "Nordic" clause, signatories to whom this clause applies were allowed to permit import quotas on textiles and clothing to grow at slower rates than allowed for other countries, and could also place limitations on the
transfer of unutilised quotas across different product categories. This clause was largely designed to provide special protection to countries such as Sweden, which had small markets, high import levels and a correspondingly low level of domestic production. It was motivated largely for emergency preparedness or security reasons.

453. Sweden currently operates bilateral agreements restricting trade in mainly a wide range of clothing with 16 developing countries, as well as State-trading countries. The agreements with the State-trading countries also restrict imports of textiles and leather footwear. Details of these agreements are provided in Table IV.4. In addition, monitoring arrangements exist between Sweden and a few other countries such as Brazil and Mauritius. As Sweden maintains no restrictions on imports of these products from EC or EFTA countries, the Swedish restrictions have, to some extent, diverted Swedish imports from developing countries to EC countries, such as Italy and Finland.

454. As a result of the critical situation for the Swedish textile and clothing industry, the bilateral restraint arrangements have often been of a quite restrictive nature. In renegotiating recent agreements, Sweden has made some attempts to liberalize these restrictions, by reducing product coverage, raising growth rates and improved flexibility provisions. In its 1989 Report to the Textiles Committee, the Textiles Surveillance Body made the following comments on reviewing Sweden's more recent textiles and clothing agreements:

- "The number of restraint agreements increased from thirteen to fourteen, as that with Brazil lapsed in 1987 and new agreements were concluded for the first time with China and Turkey. All other Sweden's agreements were concluded with developing countries;

- the product coverage is selective and was reduced in all agreements reviewed;

- the number of restraints decreased in all agreements;

- increase in base levels were below 6 per cent, and the annual growth rates are in all cases below 6 per cent;

- improvements in flexibility provisions were made in all agreements reviewed, but swing is never more than 5 per cent, and in most cases less than 5 per cent, and all agreements set a cumulative use of flexibility below the sum of the levels for swing and carry over/carry forward set out in Annex B."

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455. As well as affecting the prices to consumers, quantitative restrictions on imports of clothing, textiles and footwear may affect the choice of products available to consumers.\footnote{The costs to Swedish consumers of import restrictions on textiles and clothing have been highlighted by a number of studies. Hamilton, for example, estimated the protection against clothing imports for various industrial countries based largely on quoted prices for export licences in Hong Kong. He estimated that of the countries included in his study, Sweden had the highest degree of protection, equivalent on average to a tariff rate of 50 per cent on clothing imports. See Hamilton, C., Voluntary Export Restraint on Asia: Tariff Equivalents, Rents and Trade Barrier Formation, Seminar Paper No. 276, Institute for International Economic Studies, Stockholm, 1984. It has also been estimated that more recently quantitative import restrictions alone increase import prices of clothing from low-cost countries by as much as 20 to 30 per cent. This corresponds to higher prices for clothing at the retail level of between 5 and 10 per cent. On this basis, the transfer from consumers to mainly domestic producers from quantitative import restrictions would be within the minimum range of SEK 1.6 to 3.3 billion per annum. Average Swedish households would therefore save annually between SEK 750 and SEK 1,560 if quantitative restrictions were removed. The tax would tend to be regressive, so that the savings accruing to families on below average incomes would be a higher proportion of their disposable income. See Lindström, E., Textile and Clothing Market: Towards a Liberalization.}

456. At the end of 1988, the Swedish Government's intention to terminate quantitative restrictions on imports of textiles and clothing from all sources at the expiry of MFA IV on 31 July 1991, was communicated to and endorsed by the Swedish Parliament. Quantitative restrictions on leather footwear imports are also to be terminated at the end of 1992. Until then, the existing arrangements on textiles, clothing and footwear are to continue.

457. These decisions reflect a significant shift in the objectives of Sweden's textiles, clothing and footwear policies. A Government proposal in the 1988-89 Budget that the sector would have to function under largely the same conditions as other industries was accepted by Parliament. This meant the end of production levels or market share targets for these industries which Parliament had previously solicited the maintenance of, in particular, the 30 per cent market share for domestic textiles and clothing producers, or achieving 1978 producer levels.

(ii) Transport equipment (Tariff Study Category 13)

458. Comprising predominantly the automotive industry, the transport equipment industry accounts for over 10 per cent of Sweden's industrial value added. The industry, which employs around 80,000 people, exports
over 70 per cent of its output. In 1986-87, exports were in excess of SEK 40 billion. This represented well over 15 per cent of Swedish merchandise exports.

459. In 1988, the simple average m.f.n. tariff rate for transport equipment was 4 per cent. Tariff rates ranged from free to 7.7 per cent (Table V.12).

460. With the important exception of Japanese imports, nearly all imports of passenger motor vehicles are sourced from EC countries, entering Sweden duty free. In 1988, the major sources of passenger motor vehicles in order of importance were the Federal Republic of Germany, Sweden and Japan. Together, these sources accounted for 87 per cent of newly registered passenger motor vehicles in 1988. The share of sales by Swedish manufacturers has fallen continuously over recent years (Chart V.2).

461. In spring 1988, discussions were held between officials of the Swedish and Japanese Governments concerning the aggressive marketing of exports of Japanese passenger motor vehicles in Sweden which, at the time, had risen sharply above 1987 levels. The Swedish side expressed its concern, but did not demand that any quantitative restrictions be applied by Japan. According to the Swedish authorities, no limits on the quantity of Japanese exports to Sweden were established neither explicitly or implicitly. Imports of Japanese passenger motor vehicles after having jumped from 22 per cent of the domestic market in 1987 to 25 per cent in 1988, continued to account for the same share of the domestic market in 1989. At the annual meetings of the Swedish and Japanese Mixed Commission for Economy and Trade, views are exchanged on this and other bilateral issues.

462. Unlike some other Swedish industries, the automotive industry has received relatively little direct financial funding from the Swedish Government. However, as part of Sweden's regional policies administered by the National Industrial Board, several assistance packages have been provided to the automotive industry to maintain job opportunities in sensitive regional areas. The recent closure of the Uddevalla shipyard, for example, prompted the Government to create a special package of

99 In the case of motor vehicles, the simple average m.f.n. tariff rate was 6 per cent, and tariffs ranged from 3.8 per cent to 7.7 per cent. Imports of passenger motor vehicles are dutiable at an m.f.n. tariff rate of 6.2 per cent.
Chart V.2
Passenger motor vehicles sold in Sweden according to country of origin, 1980 and 1989 (per cent)

1980

- Sweden: 34.2%
- EC (except FRG): 15.9%
- Japan: 14.1%
- FRG: 33.6%
- Others: 2.2%

Total sales = 192,588 passenger cars

1989

- Sweden: 25.5%
- Japan: 24.8%
- EC (except FRG): 14.7%
- FRG: 33.9%
- Others: 1.1%

Total sales = 307,104 passenger cars

Source: Ministry for Foreign Affairs, Sweden.
measures designed to assist Volvo in building its new car factory in Uddevalla. Similar incentives were also provided to SAAB for locating part of its car manufacturing facilities in Malmö, an area hard hit by the closure of the Kockums shipyard.

463. In the 1970s, shipbuilding was one of Sweden's top 10 industrial sectors and held a 10 per cent share of the global market. During the late 1970s and 1980s, the industry underwent major restructuring and rationalizing. Restructuring in the shipbuilding industry was necessary in response to increased competition from the newly industrialized countries and, in particular, falling international demand for ship construction, related to escalating oil prices and a variety of other factors.

464. Currently, shipbuilding accounts for less than 2 per cent of industrial value added in Sweden. The number of yards has been reduced to about 20, and the workforce has decreased from around 31,000 in 1975 to only 5,000 in 1987. Large merchant ships are no longer produced. The last remaining shipyard for commercial ships, Kockums in Malmö, delivered its final merchant vessel in September 1987. The industry now concentrates on producing small passenger ships.

465. A large share of the costs of restructuring was funded by the Government. Since 1980-81, subsidies of some SEK 20 billion have been paid, with most of the expenditure occurring prior to 1986-87. The sharp increase in the amount paid in 1988-89 to SEK 1,135 million was due to the payment of claims by the Government as a result of previous credit guarantees provided on ships.

(iii) Ores and metals (Tariff Study Category 08)

466. In Sweden, mining of ores and the production of metals, mainly involving the manufacturing of iron and steel, have traditionally been key industries.

467. In the case of Swedish mining, the industry has declined rapidly over the years. It currently accounts for 2 per cent of industrial value added and employs around 12,000 persons. The industry exports over 60 per cent of its output, amounting to about 2 per cent of Sweden's total merchandise exports.

468. Sweden continues to be a major world exporter of iron ore where it is currently ranked at the sixth place. Sweden also produces and exports copper, lead, zinc, silver, gold and other non-ferrous metals. Most of the mines are located in northern Sweden.

469. Average tariffs on imports of ores and metals are low. Ores may be imported from any source duty free whilst m.f.n. tariffs on imports of metals are generally 5 per cent or below. The simple average m.f.n tariff rate for ores and metals in 1988 was 3 per cent, and tariffs on these products ranged in rates from free to 7 per cent (Table V.13).

470. Almost all imports into Sweden of ores and metals receive preferential treatment. In practice, most metals are imported into Sweden duty free from EC countries.
471. Several Swedish regions are heavily dependent on mining as a source of employment. Most mines are located in Norrbotten in the extreme north, where they account for more than half of all employment in the region. The industry did receive considerable financial assistance from the Government as part of the temporary arrangements introduced in the mid-1970s and early 1980s to benefit crisis-ridden industries. Nearly all of this assistance was paid to LKAB's iron ore operations. Some SEK 4.3 billion was paid for this purpose up to 1982-83. Assistance since then has been minimal, and relates to outstanding commitments made in earlier years.

472. The mining industry has also benefited significantly from the regional policies operated by the National Industrial Board. Owing to employment problems in Bergslagen, for example, the Government has recently decided to devote extra funds to guarantee the continuation of iron ore mining operations in the area until 1991, when the two remaining mines are to be closed.

473. The major metals industry in Sweden is iron and steel production. It currently accounts for 4 per cent of total industrial value added, and employs over 34,000 people. Some half of steel production is exported, mainly to the EC or the United States. Iron and steel contribute about 5 per cent to Sweden's total merchandise export revenue.

474. Under the temporary assistance arrangements noted above, the Government provided substantial direct financial assistance to the Swedish steel industry. Since 1980-81, some SEK 5 billion has been paid in government subsidies to the steel industry, of which SEK 769 million was paid in 1988-89. Rationalization of the iron and steel industry has been substantial and has resulted in major changes in ownership and reductions in employment. The State-dominated group, SSAB, Svenskt Stal AB, continues to be the biggest producer of steel, whilst two private firms, Avesta and Sandvik, have developed as the largest producers of speciality steels.

(iv) Machinery and equipment (Tariff Study Categories 11, 12 and 14)

475. This sector comprises a large proportion of Sweden's engineering industry. It includes the manufacture of non-electrical machinery (such as agricultural, metalworking, office and construction machinery); electrical machines and apparatus (such as industrial and telecommunications equipment); and professional and scientific equipment (including photographic and optical equipment).

476. Tariffs for all these products are, on average, low. The simple average m.f.n. tariff rate for these products was around 3 per cent in 1988. Tariffs ranged from free to 5 per cent for non-electrical machinery and for professional and scientific equipment. For electrical machines and apparatus, m.f.n. tariffs ranged from free to 8 per cent (Table V.14).

477. Sweden operates an extensive system of technical, health and safety regulations and standards which overseas-produced goods must comply with before imports are permitted. Such regulations, for example, apply to electrical products, non-electrical machines and apparatus, mechanical handling equipment, as well as a wide range of radio, telephonic transmission and reception apparatus. Whilst in principle these do not
discriminate between domestically-produced and imported products, compliance with these regulations and standards may affect imports in cases where Swedish standards and regulations differ to those enforced overseas.

478. In the case of electrical equipment, most imports into Sweden require compulsory individual testing prior to certification. However, this is not necessary for electrical goods imported into Sweden that have been certified in another Nordic inspection institute (Copenhagen Agreement).

479. Sweden has, together with other EFTA, EC and Eastern European countries, entered several bilateral schemes whereby national authorities may accept inspections conducted by authorities in participating countries. Two of these are the Agricultural Machines and Tractors Scheme, and the Lifting Appliance Scheme.

(v) **Chemicals and energy products** (Tariff Study Categories 9 and 10)

480. Imports of coal and natural gas products enter Sweden duty free.

481. In 1988, the market value of chemical production reached SEK 46.7 billion, and exports amounted to SEK 22.4 billion, which was around 7 per cent of Sweden's total exports.

482. In the case of chemicals, the simple average m.f.n. tariff in 1988 was 4 per cent. Imports of these products are dutiable at m.f.n. rates ranging from free up to 11 per cent. Mild tariff escalation exists. Basic petrochemical feedstocks tend to be either duty-free or dutiable at low rates, whilst many plastics and other chemical products tend to be dutiable at higher rates of duty (Table V.15).

483. Certain chemicals and petrochemical products are subject to health and safety standards. Some products require an automatic licence to be imported from State-trading countries.

484. One of the largest chemical product groups is the pharmaceuticals industry. The simple average m.f.n. tariff rate applied to imports of pharmaceuticals was 1 per cent in 1988. However, tariffs on dressing materials are as high as 12 per cent.

485. Production and importation of pharmaceutical products are subject to extensive health and safety standards.

(vi) **Leather, rubber, wood, articles thereof and furniture** (Tariff Study Categories 01, 02, 03, and 17)

486. Tariffs on imports of semi-manufactured wood products on an m.f.n. basis range from free to 3 per cent. The simple m.f.n. average tariff in 1988 was 1 per cent (Table V.16).

487. Anti-dumping action has restricted imports of panelboard into Sweden. Price undertakings on exports of particleboard from Czechoslovakia and Poland, were introduced in 1986 following dumping investigations that led to provisional duties of 42 and 32 per cent, respectively. These measures
were terminated in February 1990. Provisional duties of 30 per cent (lacquered) and 40 per cent (others) were applied from 1 August to 30 November 1989 to imports of hardboard from Poland and the Soviet Union. In this respect, a dumping investigation was completed in October 1989 by the National Board of Trade. Although a formal decision still has to be made, the Swedish Government is of the opinion that there exists no necessity to impose anti-dumping duties.

488. The Government is currently considering whether to investigate imports of plywood from the United States and Czechoslovakia, following a preliminary finding by the Swedish Board of Trade.

489. A ban on imports of woodchips, timber and timber produce of pine from the United States, Canada, Japan and China was introduced in February 1986. Imports of coniferous sawn products from these countries are conditional on the issue of a phytosanitary certificate by relevant authorities stipulating that certain provisions have been met.

(vii) Pulp, paper and paperboard (Tariff Study Category 4)

490. Sweden is the world's third largest exporter of paper and paperboard, supplying some 13 per cent of the export market. The pulp, paper and paperboard industries are export oriented, with over 75 per cent of their output of paper and paperboard being exported.

491. The simple tariff rates on these products are generally very low. However, imports of certain types of wallpaper and similar wall coverings are dutiable at rates of 7.2 per cent and 12 per cent respectively (Table V.17).

492. The Swedish pulp and paperwood industry has undergone substantial structural change. To aid this process of adjustment, the Government through its temporary support programme for crisis-ridden industries, has provided financial assistance to pulp and paper manufacturers. Since 1981-82, the net cost to the Government of this assistance has totalled SEK 3,348 million. Nearly all of this assistance was paid in 1982-83, and no assistance was recorded in 1988-89.

(viii) Other products (Tariff Study Categories 06, 07, 16, 18 to 23)

493. This is a heterogeneous residual category. The main categories produced by Sweden are other mineral manufactures, for which the simple

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100 Imports of paper pulp and paperwaste are duty free, while for paper and paperboard, m.f.n. tariff rates range from zero to 2 per cent. The simple average m.f.n. tariff rate for paper and paperboard is 2 per cent. In the case of manufactured articles of paper most items, if imported, are dutiable at tariff rates of either 2.2 per cent or 3.2 per cent. This is reflected in the simple average m.f.n. tariff rate being 3 per cent in 1988.
average m.f.n. tariff rate was 3 per cent and the tariff range was from zero to 10 per cent; glass and glassware, for which tariffs on imports ranged from zero to 12 per cent, and the simple average m.f.n. tariff was 5 per cent; firearms, ammunition and tanks etc., for which the simple average tariff rate was 2 per cent, ranging from zero to 3 per cent; and manufactured articles not elsewhere specified, for which the average m.f.n. tariff rate on imports was 4 per cent, ranging from zero to 14 per cent (Table V.18).

494. Many of the products included in these categories are subject to health and safety regulations. Certain of these products require automatic licences to be issued if they are to be imported from State-trading countries.

495. The hand-glass industry received financial support from the Government during the late 1970s and 1980s for the purpose of structural adjustment. However, the value of this assistance during the 1980s has been small. No assistance of this kind has been provided since 1985-86.
VI. TRADE DISPUTES

496. Sweden settles its trade disputes via diplomatic channels including the GATT. There are no statutory domestic procedures for conducting consultations or negotiations with trading partners in case of trade disputes.

(1) GATT Dispute-Settlement Cases

497. The only Panel established in the GATT against Sweden was to investigate a complaint made in July 1954 by Italy concerning the imposition by Sweden of anti-dumping duties on Italian imports of ladies' stockings of nylon or similar synthetic fibres. The Report of the Panel was adopted by Council on 26 February 1955. The anti-dumping duties on imported ladies' nylon stockings were abrogated by Sweden in July 1955.

498. In April 1988, the Government of the United States requested that a GATT Panel be established under Article XXIII:2 to consider Sweden's use of seasonal quantitative restrictions on imports of fresh apples and pears. Under these arrangements, imports of fresh apples and pears were prohibited when the Swedish crop was in-season. The matter was not pursued following the decision implemented by the Swedish Government on 15 November 1989 to replace these arrangements with seasonal tariffs with a sliding scale of duties (see Chapter IV).

499. Sweden has not initiated any complaints against other countries under GATT Article XXIII.

500. Sweden requested that a Panel be established by the Committee on Anti-Dumping Practices to investigate the decision by the United States to impose anti-dumping duties on imports from Sweden of stainless steel pipes and tubes. The Panel was established in January 1989. The terms of reference for the Panel investigation were finalised in April 1989. The investigation commenced in May 1989, and is still in progress.

(2) Other Cases

501. The EFTA Agreement provides for both formal and informal channels for resolving trade disputes as they arise between member countries. Under Article 31 of the Convention, a participating country may request that a formal complaint be brought before the Council if it considers that any

101 The terms of reference reads as follows: "To examine, in the light of the relevant provisions of the Agreement on Implementation of Article VI of the General Agreement, the matter referred to the Committee by the delegation of Sweden in document ADP/40 concerning the determination of injury and dumping made by the United States authorities in an anti-dumping duty investigation of imports of stainless steel pipes and tubes from Sweden and to make such findings as will assist the Committee in making recommendations or in giving rulings."
benefits conferred upon it by the Convention are being or may be frustrated. Article 31 is to be used only as a last resort, when attempts to settle disputes by negotiation between the parties concerned fail.

502. After considering the matter, the Council makes recommendations on the appropriate course of action which, though not legally binding, would normally be carried out. The Council may authorise other EFTA countries to suspend the application of specified obligations towards a partner not willing to implement the Council's recommendations.

503. Only six cases have come before the Council for settlement under Article 31 in the history of EFTA, the last in 1967. None of these cases directly involved Sweden.

504. The Agreement between Sweden and the EEC provides for the establishment of a Joint Committee which shall be responsible for the administration of the Agreement and its proper implementation. A member country which feels that a given practice is incompatible with the Agreement, may refer the matter to the Joint Committee. If the offending contracting party fails to abolish the practice objected to within the period fixed by the Joint Committee or, in the absence of agreement in the Joint Committee, within three months of the matter being referred to it, the contracting party may adopt any safeguard measures it considers necessary to deal with the serious difficulties resulting from the practice in question; in particular it may withdraw tariff concessions (Article 27). The Joint Committee is free to adopt its own rules of procedure and shall consist of representatives of the Community and Sweden.

505. Identical arrangements are established under the Agreement between Sweden and the member States of the European Coal and Steel Community.

506. Sweden has not referred any matters to the Joint Committees established by the Swedish-EC agreements since the mid-1970s.

507. As indicated in Chapter IV, Sweden has many bilateral agreements or economic co-operation arrangements with other countries which provide for regular consultations and negotiations between Governments on trade issues. These agreements do not establish dispute-settlement procedures as such, nor do they provide for special trading rules allowing discriminatory treatment between Sweden and its trading partners. Nevertheless, Swedish authorities have indicated that trade differences and potential disputes between Sweden and countries concerned were often resolved by consultations under these agreements.
VII. SUMMARY OBSERVATIONS

(1) Sweden in World Trade

508. Sweden ranks currently 15th amongst world exporters and 18th amongst importers. Its share in world merchandise trade is 1.7 per cent. Between 1979 and 1989, the dollar value of Swedish exports expanded roughly in line with the growth of world merchandise exports (Chart VII).

509. Sweden’s orientation towards trade is illustrated by the fact that merchandise exports and imports correspond to about half of its gross domestic product. Interlinkages with the world economy have been enhanced by rapid expansion of trade in services and direct investment to and from Sweden, facilitated by a recent progressive deregulation of financial markets and exchange controls. Today, one in ten employees in Sweden work for foreign-owned companies, many of which are heavily engaged in trade.

510. Swedish export growth has been led by manufactures, which now account for three-quarters of merchandise exports. Pulp, paper, paperboard, motor vehicles and telecommunications equipment are particularly prominent and fast growing export items. The latter two plus EDP equipment are also among the most dynamic Swedish imports. Overall, the product range of imports is greater than for exports.

511. Geographically, Sweden’s trade is highly concentrated. More than 70 per cent of merchandise is traded with the EC and the member countries of EFTA. The United States ranks a distant third. Sweden’s trade with developing countries, less than 10 per cent of the total, just matched that with the United States.

512. Sweden’s present trade problems revolve around a growing current account deficit. Over the past five years, major Swedish export industries have lost world market shares. More recently, buoyant domestic demand along with capacity constraints at home resulted in an acceleration of inflation and rapid import growth. Efforts to cool down the economy by a policy of high interest rates induced capital inflows which strengthened the exchange rate of the krona, further reducing the international competitiveness of Swedish firms at home and abroad. Current attempts to cope with these problems include trade policy reform, designed to improve the efficiency of the Swedish economy.

(2) Institutional Framework

513. Under the Constitution, the Swedish Parliament has ultimate responsibility for trade policy. It sets the laws for conducting international trade. Parliament has also passed legislation delegating substantial authority to the Swedish Government for formulating trade policy. The Government issues ordinances which can be changed without Parliamentary approval.

514. Cabinet as a whole is formally responsible for all trade policy decisions by the Government. In practice, many decisions are informally made by the responsible Ministers, in particular, the Ministers for Foreign Trade, Industry, Agriculture and Finance. The discretionary powers available to the Government are substantial.

515. The Government consults closely with the private sector, in particular producers and traders, in an informal way on most matters of trade policy.

516. Trade policy is implemented through a number of autonomous agencies. These agencies operate within the framework of the trade laws and the scope provided by specific ordinances and regulations. Relevant agencies include
the National Board of Trade, the National Board of Customs and the National Agricultural Market Board. Usually, a trader has to interact with only a few bodies. Trade-related administrative procedures are generally streamlined and transparent.

517. While trade-related agencies are often requested by the Government to comment on policy issues, there is no statutory body for public reviews of trade policies in Sweden. Major policy reforms, such as those for agriculture, are frequently the subject of reviews conducted on an ad hoc basis.

(3) Trade Policy Features and Trends

518. Sweden is a full participant in the GATT system. Following its accession to GATT in 1950, Sweden has actively participated in all negotiating rounds, and is a signatory to all MTN Codes.

519. Sweden is a supporter of the m.f.n. principle. However, over two-thirds of Sweden's imports receive preferential treatment, mainly within the framework of EFTA and under the free-trade agreements with the EC. These agreements provide for duty-free trade, primarily in industrial products, amongst participating countries. Sweden has bilateral agreements with other trading partners, affecting relatively small volumes of trade.

520. In 1972, Sweden implemented a global scheme of preferences for developing countries, providing for duty-free access of imports to the Swedish market. The scheme covers all products sourced from least-developed countries. For other developing countries, several major export items, such as clothing and footwear, are excluded from the scheme. Further limitations apply to imports from the GSP beneficiaries Bulgaria, Romania and China.

(1) Recent evolution

521. The Swedish market is, for the most part, open to international trade. In some product areas, market access has been heavily restricted, including a broad range of agricultural products, clothing, textiles and footwear.

522. Adjustment assistance to major industries, in particular shipbuilding and steel, became significant in the 1970s and early 1980s. These programmes have declined substantially in the course of the last decade. Financial support for research and development, export promotion, assisting small business and regional development is also provided by the Swedish Government, at a total net cost of SEK 6 billion in fiscal 1988-89, down from more than SEK 9 billion in 1984-85.

523. Following the Tokyo Round, Swedish tariffs were lowered on industrial products by an overall 20 per cent (simple average tariff) between 1979 and 1985. Since then, tariff changes have been minor, limited mainly to changes implemented with the introduction of the Harmonized System on 1 January 1988.
Type and incidence of trade policy instruments

524. Tariffs are the principle instrument of import policy in Sweden. Tariffs are generally low, averaging on an m.f.n. basis about 5 per cent. In some areas, such as textiles and clothing, ad valorem tariffs exceed 10 per cent.

525. For products such as, tyres, certain chemicals, and some textiles and clothing, Sweden applies specific or alternate tariffs whose incidence can be substantial. In agriculture, a comprehensive system of variable levies is in place, and there are also seasonal tariffs for fruits and vegetables. These measures considerably reduce the transparency of Swedish import policy, and induce uncertainty about the levels of protection.

526. Reflecting the specific measures in place for agriculture, the level of tariff binding is relatively low (57 per cent of all tariff lines). For manufactures, the tariffs for about 96 per cent of all items are bound.

527. Import prohibitions are limited to several products, including imports of endangered species, some plants and plant products, seafood during certain periods, and goods imported from South Africa. Imports of coniferous sawn wood products from the United States, Canada, Japan and China are prohibited conditionally, as are imports of medicines, pharmaceutical preparations and hazardous or dangerous goods.

528. Import licensing has become less important over the years and, by now, non-automatic licensing in Sweden has been virtually eliminated. Import licences are issued without notable delay. They serve largely as a tool for monitoring imports of a few agricultural and steel products, and for administering quantitative import restrictions on fish, textiles, clothing, footwear and some other products. When importing from State-trading countries, licences are required for a wider list of goods. A State-owned company has the monopoly to import alcoholic beverages, including industrial alcohol.

529. Other trade-related measures include health, safety and technical regulations or standards. Over 20 bodies are responsible for determining technical regulations, covering mainly a broad range of mechanical, electrical and telecommunications equipment. Sweden applies sanitary and phytosanitary controls to imports of a wide range of fresh plants, plant products, live animals and animal products. The authorities have made efforts to bring Swedish measures into line with international norms. For many products, differences still remain, with several remaining more stringent in Sweden.

530. Sweden has a variety of product-specific taxes. The same tax rates are applied to domestically produced and imported goods.

531. In public procurement, contracts are to be awarded objectively and in a commercial manner, and there is no preferential treatment for national suppliers. Local procurement, accounting for about half of total public procurement in Sweden, and procurement by major Government authorities such as the Swedish State Power Board are not bound by these guidelines. About 5 per cent of total public procurement is covered by the GATT Code.
532. Certain Government contracts, involving mainly overseas supplies of military hardware, have contained offset arrangements in favour of domestic manufactures.

533. Exports of military equipment require licences. Swedish exports to South Africa have been prohibited since 1987, except for a few pharmaceutical goods. Sanctions on trade with Namibia were abolished on 1 April 1990. Export licences and restrictions apply to a few other products, such as scrap metals. There are currently no export taxes or other charges on exports.

534. Export promotion by the Government includes partial funding of the Swedish Trade Council, which is engaged in the collection and dissemination of information and certain marketing activities. The Government also supports export finance in the framework of the OECD Consensus on Export Credits. The Swedish Exports Credit Guarantee Board provides guarantees for export credit insurance on behalf of the Government.

535. In recent years, export subsidies, equivalent to about 10 per cent of total income from agriculture, have been paid to farmers for selling surplus production on the world market.

(iii) Temporary measures

536. Sweden's rules on anti-dumping and countervailing measures closely follow the GATT Codes on Anti-Dumping Measures and Subsidies. Sweden has never used countervailing measures, and has imposed anti-dumping measures on very few occasions. The only recent price undertakings - on imports of wood particleboard - were removed in February 1990, in accordance with Government policy that the duration of such measures should not exceed three years.

537. Sweden has never taken recourse to Article XIX action nor to the balance-of-payments provisions of the GATT. Safeguard provisions in EFTA and the free trade agreement with the EC have not been used regularly by Sweden.

(iv) New initiatives

538. Sweden has one of the most highly protected agricultural sectors among industrial countries. Domestic marketing and pricing arrangements, supported by high variable levies, substantially raise domestic prices for agricultural products. According to recent estimates, the average Swedish household would be better off, annually, by some SEK 8,500 (currently equivalent to US$ 1,400) if these arrangements were terminated. In fiscal 1989, Swedish consumers are estimated to have paid an extra SEK 18 billion for basic agricultural commodities such as cereals, dairy products, meats and sugar.

539. Domestic consumers have also been penalized by the quotas for textiles, clothing and footwear which currently restrain imports from 26 countries. These restrictions increase domestic prices and affect the range and quality of products available to Swedish consumers. As with
agricultural protection, the cost to consumers fall disproportionately on the lower income groups.

540. The Government has recently announced plans to expose these sectors to greater competition. It intends to implement a major reform of agricultural policies in July 1990. Initially, the focus is on deregulating the domestic market. Future levels of border protection will be considered in the context of the Uruguay Round. Moreover, the Swedish Parliament has endorsed the Government's intention to remove all quantitative restrictions on textiles and clothing by August 1991, and on footwear by 1993. Tariffs will then become the main tool of import policy in these product areas.

541. The policy reforms are likely to improve the allocation of resources in Sweden. The induced lower consumer prices for staple commodities like food and clothing should also mitigate pressures on wages, and in this way contribute to Sweden's overall economic performance by reducing inflationary expectations.

(4) Trade Policies and Foreign Trading Partners

542. While promoting structural adjustment in Sweden, policy reforms in agriculture, textiles, clothing and footwear will increase the Swedish market for its foreign trading partners. In particular, the reforms should help to boost the small share of developing countries, currently 7.5 per cent, in Swedish imports. However, even with the removal of quantitative restrictions, many developing countries will still have to compete in the Swedish market with textiles, clothing and footwear imported duty-free from EC and other EFTA countries.

543. Sweden intends to forge even closer links with the EC, especially in view of the single EC market by the end of 1992. In this regard, the Swedish Government attaches high priority to the creation of a "European Economic Space", due to be negotiated this year.

544. Sweden has also been a very active participant in the Uruguay Round. It is strongly supporting initiatives to improve market access worldwide, strengthen international trading rules, and design multilateral rules in the new areas, including trade in services. This reflects the importance of the markets outside Europe as sources for industrial inputs and consumer goods, and as outlets for Swedish exports of steel, automobiles, telecommunication equipment, engineering and consulting activities and a large variety of other goods and services. An enhanced multilateral trading environment will ensure that Swedish firms are in a good position to share in the full potential of the global market. At the same time, global moves towards trade liberalization will help to contain trade diversion that would otherwise result from Sweden's efforts to improve market access in a regional context.