There is no doubt that Austria’s consistent policy towards European integration has provided a predictable framework for trade and investment, and that Austria’s accession to the Communities will result in a further opening-up of the country’s market to other EC members," says the GATT Secretariat’s report on the trade policies and practices of Austria. "However, the further integration of Austria into the European market should not inhibit the development of open trading links with the rest of the world through reductions in trade barriers on a most-favoured-nation basis."

Since 1960, an increasing share of Austria’s trade has been conducted under preferential rules, so that, currently, about three quarters of Austrian imports originate in preferential, mainly EC/EFTA, sources. "The application of m.f.n. treatment," observes the report, "is therefore the exception rather than the rule." Austria’s planned accession to the EC and the introduction of common external tariffs will reduce substantially the level of Austria’s m.f.n. tariff protection.

Like a number of other industrialized countries, Austria applies a restrictive agricultural trade system, which contrasts with its relatively liberal policy on imports of manufactures. This restrictive régime puts a heavy burden on domestic consumers and taxpayers, and on some of Austria’s traditional trading partners. The integration of Austrian agriculture in the Common Agricultural Policy is expected to change trade conditions for most product areas.
In formulating and implementing economic and trade policy, Austria has given a high priority to the protection of the environment. This policy has been reflected in a number of carefully considered domestic trade-related environmental measures and in the active rôles Austria plays in GATT in developing multilateral fora for handling trade-related environmental matters.

The GATT Secretariat's report, together with a report prepared by the Austrian government, will be discussed by the GATT Council on 23-24 March 1992 under the trade policy review mechanism which was launched in December 1989 to enable a regular collective evaluation by the Council of the full range of trade policies of individual GATT members.

The reports cover all aspects of Austria's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the wider economic and development needs.

Attached are summary extracts from the reports. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Austria, including these two reports together with a record of the Council's discussions and of the Chairman's summing-up, will be published in June 1992 by the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Austria in World Trade

Modern Austria's economic development, based on the remarkable stability of its society, has been spectacular. While in the late 1940s Austria ranked far below the income level of other developed countries, in 1990, with about US$21,000 GDP per capita, it was in the middle income category in the OECD area. The Austrian economy has grown steadily in recent years following fiscal reforms introduced in 1978. Between 1988 and 1990, annual growth of real output exceeded 4 per cent, inflationary pressures were moderate and unemployment remained relatively low. Growth of productivity in most industrial sectors was high, almost 7 per cent per annum over the last three years. However, estimates for 1991 and 1992 forecast slower growth rates for both output and foreign trade, while inflation and unemployment are expected to be slightly higher than in recent years.

Austria has traditionally followed a Europe-oriented foreign economic policy. The country's largest partner in both foreign trade and investment is the EC, accounting for almost 70 per cent of Austria's merchandise trade; Austria has agreed to the recently concluded treaty establishing the European Economic Area and seeks full membership of the European Communities by the mid-1990s. Within the EC, Austria's most important partner is Germany, whose share exceeds 40 per cent in merchandise trade and which accounts for 55 per cent of tourist revenue. This is the main reason why Austria has pegged its currency to the German mark. Austria's other main trading partners include Italy, Switzerland, France, the United States, the United Kingdom and Japan. Developing countries account for about 8 per cent of Austria's imports; some 40 per cent of Austria's imports from developing countries were made under GSP treatment.

Due to its neutral policy and central geographical location in Europe, Austria has played a key rôle in East-West trade. The recent radical political and economic reforms in eastern European countries should provide a basis for the re-intensification of Austria's traditionally close trade and economic relations with these countries.

Austria lacks natural resources. Most raw materials and energy sources must be imported and paid for by exports of processed and semi-processed goods and services. Exports and imports of merchandise account for 26 and 31 per cent of GDP. Exports of services also play an important part, reaching $17 billion (11 per cent of GDP) in 1989. Austria's share in world trade has increased over the last decades. In 1990, it ranked the 22nd largest exporter, representing one per cent of world merchandise exports.
Exports of services - particularly tourism - play an important rôle in Austria's economy. Its excellent physical endowments have made the country one of the world's most visited tourist centres. The current account was in surplus in the last two years, due to a positive balance in services.

Institutional Framework

Austria is a federal republic composed of nine Ländere. Most trade policy competence lies with the federal authorities. Parliament is ultimately responsible for adopting trade policy legislation, while trade policy is mainly implemented and administered by the Federal Government. Trade policy powers of the Länder include the formulation of their own procurement policy and the implementation of limited, delegated powers in export and import licensing. They also dispose of funds for the support of regional economic activities.

Trade policy is conducted on the basis of the Austrian Foreign Trade Law and many other, mainly sectoral or product specific laws. According to the Austrian Constitution, administrative actions must be based on explicit authorisation given by law (the Rule of Law principle). However, Government bodies enjoy a substantial degree of discretionary power in trade policy instruments such as licensing and import price surveillance. The activities of the administration are controlled by Parliament, the Administrative Court, the Constitutional Court, the Commission for Complaints from the Public and the Central Auditing Authority.

A particular feature of the Austrian institutional system, which stems from the country's history, is the influential "Social Partnership". The social partners include the Government and four major interest groups (economic chambers and trade unions). The primary institution of the social partnership is the Parity Commission and its three committees, the Sub-committees for Wages, Prices and the Advisory Committee for Economic and Social Questions.

The main powers of the Social Partnership include influence on wage bargaining and consideration of applications by enterprises for price increases. Decisions taken by the social partners are largely followed on a voluntary basis. However, under the Austrian Price Law, provision is made for the possibility of provisional administrative price setting in cases where the social partners' decisions are not observed. Price controls are applied to about 200 basic product groups, with the exception of imported products, under the aegis of the Sub-Committee for Prices.

In a sharp contrast to the closely regulated and strictly controlled public administration, the business of the social partnership is largely conducted informally, without specific legal constraints. In practice, many important issues, including trade-related matters, are effectively decided by the social partners in consultation and consensus. This is usually formalised by parliamentary or Government actions. In practice, the responsibilities of Government bodies and those of the Social Partnership are often intertwined, and the system lacks transparency.
The system of Social Partnership has made a significant contribution to Austria's social stability and dynamic economic development over the last decades. However, its functioning has restricted the play of market forces and has resulted in the protection of some sectors at the expense of others. It may be expected that Austria's accession to the EC and the increasing internationalisation of the Austrian economy will diminish the role of the Social Partnership in trade matters.

State-owned enterprises in Austria account for 14 per cent of total domestic industrial sales. Since the mid-1980s, increasing political emphasis has been placed on making large state-owned enterprises more responsible to market developments. With an injection of new State capital, nationalised industries were restructured, decentralised and placed largely outside the domain of political influence. As a result, by 1989, most nationalised industries became profitable. The Government has recently announced a partial privatization programme.

In Austria, there are no independent review or advisory bodies with the aim of monitoring and analysing economic and trade developments. However, the social partners and the various economic chambers carry out certain advisory functions. The Austrian Institute for Economic Research (WIFO) also regularly surveys economic developments in the country.

Trade Policy Features and Trends

Austria became a contracting party to GATT in 1951. It has signed all Tokyo Round Agreements and the MFA. In 1985, it withdrew from the International Dairy Agreement.

Recent evolution

Since 1960, an increasing share of Austria's trade has been conducted under preferential rules. At present, about three quarters of Austrian imports originate in preferential, mainly EC/EFTA sources. The application of m.f.n. treatment is therefore the exception, rather than the rule.

As a result of wide-ranging liberalization introduced by Austria since its accession to the General Agreement, imports of many products which were originally subject to non-automatic licensing, are now liable only to automatic import licensing. Some agricultural items and manufactures, which together account for about 3 per cent of tariff headings, are still subject to non-automatic licensing. In contrast to this relatively liberal import licensing practice, the Austrian Foreign Trade Law continues to list products falling under nearly three-quarters of HS headings as restricted items. This situation, preserves the possibility under law for Austria to reverse, wholly or partially, trade liberalization already introduced.

The Austrian import régime reflects an approach towards non-EC and non-EFTA members which is based on a differentiation among contracting parties. Austria still maintains quotas on certain goods originating in Japan and continues to apply, in respect of some products, its import MORE
licensing and import price surveillance system in a discriminatory way to imports originating in some central and eastern European contracting parties.

According to Austrian estimates, EC membership will result in more competition from EC sources in a number of sectors, including the food, chemical, electrical and electronic industries. At present, these sectors are protected even vis-a-vis European exports through trade barriers such as technical norms, public procurement policies, border formalities, different taxes and other administrative trade barriers.

In formulating and implementing economic and trade policy, Austria has given a high priority to protection of the environment. This policy has been reflected in a number of carefully considered domestic trade-related environmental measures and the active role Austria plays in GATT in developing multilateral fora for handling trade-related environmental matters.

Austria has never had trade disputes under Article XXIII of the GATT or the Tokyo Round Agreement. It has two Article XXII consultations, one of them with Germany in the subject of transit traffic, the other one with the United States concerning Austria's signature of the European Convention on Transfrontier Television.

Type and incidence of trade-policy instruments

Similarly to many other EFTA countries, Austria also follows very different approaches as between industry and agriculture. While in most industrial sectors competition between domestic and foreign products is present, agriculture is heavily protected and largely insulated from international market signals.

Austria does not maintain any stated sector-specific industrial policies. The policy of the Government is to enhance industrial competitiveness mainly through strengthening industry-oriented infrastructure. Nevertheless, as a combined effect of trade measures, some industries are to a substantial degree sheltered from foreign competition. These sectors include textiles and clothing, footwear, transport equipment, furniture, and the food industry.

Agriculture is supported by internal aid programmes which include federal and regional production subsidies, marketing aids and production quotas. These are supported by a wide variety of restrictive border measures which include import and export licensing, import quotas, variable import levies, high (mainly specific) tariffs, minimum import price requirements, seasonal restrictions and export subsidies. Certain measures, especially on products such as fruit and vegetables in season, amount virtually to import prohibition.

As a result, domestic agricultural prices are much higher than international prices. In 1991, price differentials exceeded 100 per cent for wheat, course grain, sugar, milk and eggs, while for beef, veal,
pigmeat and poultry they ranged between 50 and 100 per cent. Total assistance as measured by producer subsidy equivalent, was estimated by the OECD at S 27 billion or 46 per cent in 1990, a little above the OECD average, somewhat lower than average figures for the EC and well below other EFTA countries. About 85 per cent of the overall support given to agriculture was paid by Austrian consumers, while the rest was borne by taxpayers.

The protection given to Austrian agriculture has contributed to increasing the country's self-sufficiency ratio from about 100 per cent in the 1970s to over 110 per cent in 1989.

While agricultural protection mainly relies on non-tariff related restrictions, tariffs were the principal instruments regulating import flows of industrial products from non-preferential sources.

In 1988, the simple average tariff on m.f.n. imports of industrial products was 10 per cent, a higher level than that prevailing in most developed countries. This relatively high level of tariff protection places non-preferential supplies at a considerable disadvantage relative to imports from the EC/EFTA area. However, recent provisional tariff reductions of about 30 per cent on products covering more than one-third of imports of manufactures have reduced this disparity.

Tariffs on industrial products are mostly ad valorem. Tariff peaks exist on foodstuffs, textiles, clothing, motor vehicles and other transport equipment, electrical machines and apparatus, telecommunication, organic chemicals and the footwear sectors. In some industrial sectors such as textiles and foodstuffs specific tariffs tend to shelter the economy from cheap imports.

Under Austria's GSP system, nearly all industrial imports from least-developed countries enter duty free. For most imports from other beneficiaries, the tariff reduction is 50 per cent. Product groups considered to be sensitive, like certain chemicals, clothing items and vehicles, and most agricultural items, are not included in the Austrian GSP. Suspension of benefits under the specific escape clause, has rarely happened. Recently, central and eastern European countries, the newest beneficiaries of Austria's GSP scheme, have become the largest exporters under the country's GSP system.

Under its Protocol of Accession, Austria maintains import licensing for commercial policy reasons on imports. It is understood that licensing does not apply to imports from EFTA or EC sources. Out of of 1241 HS tariff headings at the four digit level, 943 headings include at least one tariff line which is subject to either automatic or non-automatic import licensing. Most licences, especially in manufactures, can be obtained under a simplified procedure. Many agricultural items and some industrial products like coal, petroleum, aircraft and arms are also subject to discretionary licensing. In import licensing decisions, the competent Federal Ministries are assisted by an Advisory Board in which social partners are also included.
To several products, including a number of agricultural items, cement, pvc, fibreboard, paper, certain textile and clothing products, several iron and steel products, aluminium, electrical motors, electric lamps and bicycles, simplified import licensing is applicable only if Austria has extended liberalization to both the country of origin and the country of import or if the country of origin and the country of import are identical. Several contracting parties (the Czech and Slovak Federal Republic, Hungary, Poland and Romania), are not included in the list of liberalization, in contrast to some non-contracting parties, for example the Soviet Union.

A specific import price surveillance procedure ("Vidierung") is applied to these same product groups and countries. Customs authorities are entitled to use "simplified" import licence procedures only if import conditions have been endorsed by the competent Federal Ministry. The Federal Chamber of Economy and the Presidential Conference of the Austrian Chambers of Agriculture take part informally in the decision-making process.

Under the MFA, Austria has restraint agreements with eight members, and has concluded consultation and/or surveillance agreements with seven countries. Compared with restraint agreements concluded by other importing countries, Austria's agreements are generally less restrictive and their product coverage is very selective.

Austria maintains State trading in the sense of Article XVII of the GATT, for financial reasons, on tobacco, alcohol and salt. The monopoly extends to the importation of the products.

Countertrade agreements are widespread in the field of military equipment. Imports of cars from m.f.n. sources are subject to a counter-purchase system, under which a tariff reduction is available if car producers purchase Austrian automotive products. In earlier years Austria was the centre of barter trading with central and eastern Europe. Recently, the volume of countertrade with this area has declined.

Austria is a member of the GATT Government Procurement Code. Provisions of the Code are currently applicable to about 11 per cent of all Austrian public purchases. Provincial Governments and entities are not covered by the Code. In some Länder, local suppliers enjoy priority over others, including both foreign suppliers and those from other Länder.

In the field of standardisation, Austria plays an active rôle in multilateral and European cooperation. Most Austrian standards rules on labelling and marking largely follow international practices. With the possible exception of motor vehicles, where the current regulatory framework tends to discourage "gray market deliveries" and direct imports by individuals, the Secretariat is not aware of unduly trade restrictive effects of Austrian standards.

Austria maintains a tight regulatory system on the production, trade and use of materials and other products which may represent a danger for
health, security or the environment. Rules in this reflect the great emphasis Austria puts on these issues.

In contrast to agriculture, public support given to Austrian industry is relatively low in absolute terms and by international comparison, and has fallen in the last few years. However, the budgetary burden of the nationalised industries is substantial and is expected to remain so during the next two years. In recent years, Austria has oriented its industrial support policy away from general investment promotion towards aid to environmental protection, R&D and innovative activities. In 1989, the share of regional aid to industry accounted for about 20 per cent of total aids accorded to this sector.

In addition to export restrictions maintained for reasons of national security, public health and environmental protection, Austria applies export licensing to a wide variety of agricultural and manufactured products. Austria is not a member of the COCOM; however, it implements COCOM rules autonomously through its export licensing system. Export restraint agreements on steel (United States) and cheese (United States and EC) are also implemented by the export licensing system.

Austria applies a sophisticated system of entry regulations regarding many business sectors. Certain activities are subject to licensing and certificates of qualification. The coverage of supply-needs testing has fallen in recent years. However, in a few cases it has been replaced by ceilings on the number of persons or firms allowed to operate on a given market. Agriculture, forestry, arts, liberal professions, education, banking, transport and electricity production are subject to their own specific legal provisions. Chambers of liberal professions issue guidelines for the conduct of activities of their members. In the field of energy production, postal services, railways and telecommunication, public monopolies restrict access to markets.

Cartel practices, including private market segmentation agreements restricting parallel imports, appear to be widespread in Austria. The existence of cartels seems to have been facilitated by the "soft" approach implicit in the Austrian Cartel Law vis-a-vis cartel practices and mergers.

The Austrian Cartel Law does not prohibit cartels as such; but cartels must be registered with the Cartel Office. Mergers are also subject to registration, but not to scrutiny by the Cartel Office. Substantial areas, including cooperatives, banking, insurance and State monopolies are largely excluded from the coverage of the Law. Certain collusive agreements are encouraged by the Price Act, which declares price differences of more than 5 per cent inadmissible for identical products at a given location. The Local Supply Law and the Rebates Law, both of which limit the freedom of enterprises to establish prices have similar effects. Legal action against a cartel can only be taken by the Public Prosecutor, and any of the three major Chambers (participating in the system of Social Partnership) and some free professional associations, and not by parties directly effected by the cartel.
The rôle played by the Social Partnership may also contribute to a lenient approach to cartels. The decisive economic regulatory rôle fulfilled by social bargaining seems to work to the detriment of the regulatory rôle of competition.

As a result of the complicated import régime of the country, the widespread use of cartels and the substantial discretionary power in the operation of some import-related institutions, competition between domestic and foreign products is restricted and transparency suffers.

Studies available to the Secretariat indicate that Austria is a high-price country compared to its EC neighbours. High Austrian prices reflect, the comparatively low intensity of competition, resulting from market barriers, underdeveloped regulation on competition, State intervention in economic life and the corporatist nature of Austrian society.

Temporary measures

Austria has used anti-dumping and safeguard actions sparingly and it has never made recourse to countervailing duty actions. In the last decade Austria has initiated two anti-dumping proceedings. They have not led to actions.

In the last five years, three safeguard actions have been taken under Article XIX of the GATT; two concerning agricultural products and the third covering cement and preparations containing cement. A number of contracting parties have challenged the GATT legality of the latter measure, which excludes imports originating in EC and EFTA sources.

Austria has rarely used voluntary export restraints for the protection of its domestic market. The only products concerned are cheeses (EC) and clothing items under the MFA. Austria's exports of steel and cheeses to the United States and EC respectively are subject to voluntary export restraints.

Relatively scarce use of temporary import relief measures may be considered as evidence that Austria's basic trade policy relies essentially on stable and predictable access. Yet the trade measures mentioned above, combined with the existence of cartels and other arrangements among industries or traders may substitute for the lack of formal trade policy actions.

New initiatives

Since Austria's application for EC membership in 1989, the alignment of the country's trade-related regulations with those of the EC has intensified. Taking into account this objective, the Austrian Government has recently announced several economic liberalization programmes, including the reform of competitive legislation and business law; tightening of subsidisation; improved consumer protection; the reduction of the State's influence on nationalised industries and banks; the
liberalization of currency exchange laws and a continuation of reforms with respect to taxation system.

Austria's planned accession to the EC and the introduction of common external tariffs will reduce substantially the level of Austria's m.f.n. tariff protection, as the EC simple tariff average is more than 3 percentage points lower than that of Austria. However, the economic impact of these tariff changes is likely to be decreased by a multitude of regulatory and institutional changes that are also liable to impinge on market access one way or the other.

Acceptance of trade and trade-related EC institutions, will bring about deep changes, inter alia, also in instruments such as import and export licensing; import price surveillance; import quotas; State trading; anti-dumping and safeguard measures; public procurement, standards, subsidies, business entry regulations and competition law and practices. The integration of the Austrian agriculture in the Common Agricultural Policy is expected to change trade conditions for most product areas.

For Austria, the adoption of the European Economic Area Treaty can not replace membership in the EC. However, it is viewed as an important stepping stone.

Trade Policies and Foreign Trading Partners

Austria, as a small trading country, has traditionally supported a rule-based, multilateral trading system. Austria has been an active supporter of the Uruguay Round, stressing the necessity of strengthening the GATT system and taking steps to re-establish confidence in it. It is one of the countries which has actively promoted the inclusion of non-traditional GATT subjects in the Uruguay Round.

At the same time, Austria, like a number of other industrialised countries, applies a restrictive agricultural trade system, which contrasts with its relatively liberal policy on imports of manufactures. This restrictive régime puts a heavy burden on domestic consumers and taxpayers, and on some of Austria's traditional trading partners, the reforming countries in central and eastern Europe and other efficient producers, including developing countries.

At this stage, it is difficult to assess the impact of Austria's accession to the EC on the multilateral trading system. This will be influenced by the results of the Uruguay Round and by the implementation of the EC internal market programme. There is no doubt that Austria's consistent policy towards European integration has provided a predictable framework for trade and investment, and that Austria's accession to the Communities will result in a further opening up of the country's market to other EC members. However, the further integration of Austria into the European market should not inhibit the development of open trading links with the rest of the world through reductions in trade barriers on a most-favoured-nation basis.
I. ECONOMIC POLICY AND FOREIGN TRADE IN AUSTRIA

Austrian economic policy gave priority to employment and economic growth in the 70s and early 80s. Under the motto "Austro-Keynesianism" an expansive fiscal policy, a tight monetary policy and an income policy based on management and labour were implemented. In the course of the 80s the exchange-rate policy was increasingly used to stabilize prices and thus favoured the income policy of the social partners. Fiscal policy to an ever-increasing extent endeavoured to counteract current account deficits. The promotion of investment, exports and the labour market have always been important features in Austria's economy. The use of these instruments may be regarded as the Austrian version of a supply-oriented economic policy.

Since the mid-eighties, a marked change in Austria's economic policy can be observed, aiming at strengthening market forces. Objects of prime concern were and still are deregulation, reprivatization and restructurization of the national industry. This development was intensified by the preparation for an access to the EC following application for EC membership in 1989.

The Austrian institution of social partnership represents a special form of self-steering and control in industry and agriculture via interest representations of employers, employees and farmers without direct intervention of governmental bodies. The system of social partnership has no explicit legal foundation in Austria but the right of interest representations to be consulted with regard to a number of political and economic decisions is vested in several laws. The co-operation of the partners involved aiming at the realization of the above-mentioned targets, full-employment, economic growth and in a medium-term run a stable distribution of incomes. The system emerged after the end of World War II and proved a success especially during the difficult transition phase from war to peace economy.

Vital instruments

A decisive instrument of Austria's economic policy has been the exchange-rate policy, which might be characterized as "hard-currency policy" since the beginning of the 70s. Following a short alignment of the schilling to an "indicator" (currency basket) and/or the European "currency snake" (preceding the European currency systems) the Austrian schilling has been aligned primarily and later on exclusively by the German mark. The Austrian hard-currency policy can be considered as a first step of a causal chain leading via price-stabilization measures to small increases in nominal wages and an improvement of international competitiveness which in turn had a positive effect on economic growth and domestic employment. Since the 80s the prospect of an expected stabilization is an important argument in favour of hard currency policy.
Promotion of investments and exports range among the most important instruments of economic policy in Austria. Investment promotion for a long time relied on indirect depreciation (fiscal credit) but was complemented and replaced later on by direct measures (ERP, financing and guaranty fund, Bürges, Top-Aktion, etc). The system of social partners supported investment decisions in Austria insofar as it stabilized entrepreneurial expectations. The exchange rate stability proved a further asset in this direction.

Export promotion is primarily based on measures of insuring exports (export guaranties) and export financing procedures (Österreichische Kontrollbank). The export promotion of the Federal Economic Chamber plays an important supplementary rôle. Export-oriented projects are given high priority on the investment promotion sector (Top-Aktion, accessories production plants for the foreign car industry).

Economic policy in the 80s

While the concept outlined above proved its worth when coping with the consequences of the first oil crisis (1973/74), its limits surfaced after the second oil crisis (beginning of the 80s). The economic report of 1985 of the Federal Government states in this respect: "This system was not suited for a long-term stagnation such as encountered at the beginning of the 80s."

Economic problems increased as from the beginning of the 80s. They were not only reflected by a slow economic growth but also by raising deficits in the budget and the current account balance plus growing inflation. They culminated in an open crisis in large parts of the national industry. This development was caused - besides unfavourable international frame conditions - by a too slow structural adjustment of Austria's industry. In order to avoid unemployment (national and private) enterprises received subsidies mellowing the necessity of adjustment to changed conditions in world economy. Export promotion was used as another instrument of employment policy, incurring subsequent costs which are only realized today. Economic policy in Austria in the past successfully concentrated on eliminating topical dangers.

Measures introduced in the years 1987/88 are a vital landmark in Austria's economic policy, bringing about a fundamental reform of the State-owned industry and the Austrian fiscal system. A new concept of Austrian integration policy was developed at the same time.

Austria's foreign economy in the 80s

Development

An analysis of the economic and foreign trade development in the 80s shows an average growth rate of the GDP of 2.2 per cent in real terms indicating less growth than in the 60s and 70s and showing furthermore that Austria had not been quite on a par with Western Europe and/or the EC in terms of economic dynamics of +2.3 per cent. Exports in real terms,
however, increased during this period to a greater extent than world trade and OECD exports (5.8 per cent). Imports in real terms increased slightly less (5.1 per cent). Terms-of-trade gains (by almost 1 per cent on average) contributed towards a stabilization of the trade balance deficit.

The shortfall in economic growth was particularly noteworthy vis-à-vis Western Europe (almost 1 percentage point) in the period 1983-1987. In 1986 and 1987 Austria's economy was particularly affected by the combined repercussions of the structural crisis in the State-owned industry and a strong revaluation of the schilling - having its bearing on the competitive strength of the Austrian export industry. Austrian exports increased by only 1.2 per cent in real terms during these two years, world trade by 3.2 per cent.

In 1988 and 1989 the reorganization of the State-owned industry was initiated - causing substantial sacrifices: results have so far been primarily positive. A vital growth impulse has been the all-encompassing tax reform in 1989, based on broadening the taxation basis (elimination of tax advantages) and accompanied by a simultaneous reduction of fiscal rates. In 1990 Austria benefited furthermore from the wake of West German imports. In the period 1987-1990 Austria succeeded in achieving remarkably superior results on an average in terms of real economic growth (4.1 per cent) than Western European countries (3.3 per cent) and West Germany (4.0 per cent). Both domestic demand (investment and rapidly growing private consumption) and exports contributed to this excellent result.

The importance of foreign trade for Austria

Being a small industrialized country Austria depends to a great extent on foreign trade. Goods exports (according to foreign trade statistics) amounted to SFr 467.5 billion in 1990, exports of services to SFr 257.4 billion. Exports of goods and services reached a value of SFr 722.3 billion in 1990.

The Austrian export quota (goods) in 1990 was 25.8 per cent. An international comparison shows that the Austrian export quota on average is almost twice as high as that of Western industrialized countries but slightly lower than that of small industrialized countries. In a recent study from the Austrian Institute for Economic Research ("WIFO") the conclusion drawn from these findings is that there is an "export gap" in Austria, to be explained inter alia by the then centrally-planned economies in neighbour countries.

The export quota for services (without return on capital) soared to 11 per cent in 1990, representing a peak value by international comparison. The most important services sector is tourism with an export income of SFr 133.7 billion in 1990 according to available balance-of-payments statistics (according to WIFO calculations SFr 49.1 billion). While Austria was number twenty-two on the list of export nations with exports of goods, it ranked sixth in respect of tourism export.
The export quota for goods and services of 36.7 per cent clearly emphasizes the vital rôle foreign trade plays for Austria.

The Austrian trade in goods is characterized by a structural deficit in the trade balance, of 4.5 per cent - 5 per cent of the GDP in the past years but which had amounted to 8 per cent to 9 per cent at the end of the 70s and the beginning of the 80s. Between one half and two thirds of the trade balance deficit is compensated for by the net surplus from tourism. An important contribution towards compensating the trade balance deficit is made by the item "Output not broken down as goods or services", resulting from the difference between payments for goods trade and exports and/or imports in accordance with the foreign trade statistics. In the opinion of the Austrian National Bank, the above-mentioned output not broken down as goods and services results, inter alia, from the service component with exports of installations and other services linked to merchandise exports. In the preliminary balance of payments this item contains also elements of capital transactions (trade credits).

The Austrian balance of current accounts has been passive since the mid-sixties until the beginning of the 80s. In the second half of the 70s the deficit attained dimensions evoking the implementation of demand-curtailing measures in economic policy. The immense importance of export promotion in Austria can be explained against this background too.

In this context, mention should be made of the fact that Austria did not endeavour to solve problems in the balance of payments by means of import restrictions in the recent past. With the almost total liberalization of foreign trade in respect of industrial products and the complete abolition of the tariff protection under free trade agreements with EFTA and EC, Austria has foregone the application of the most important traditional instruments of import protection. An international comparison furthermore shows that Austria makes use to a much lesser extent of non-tariff trade obstacles on the industrial goods sector than other countries. According to calculations of World Bank the share of non-tariff obstacles to imports of industrial goods amounts only to 2.4 per cent in Austria.

Since 1982, the Austrian balance of current accounts has been more or less even: small deficits alternate with minor surpluses. In 1990 the balance of current accounts has shown a surplus of S 9.4 million (according to calculations available so far). This is largely to be attributed to the import drive in Germany (in the wake of high demands from the former GDR), in which Austria participated to a higher proportion.

The reasons for this continuing improvement of Austria's foreign trade position are not yet fully examined. Assets have been the improvement of the Austrian export structure, lower prices for energy but also a relative fall in economic growth.
Regional structure

Among the long-term decision factors of the regional structure of foreign trade the provision of production installations for the respective countries and the "economic distance" between partner countries (distances between important trade centres, extent of trade and tariff barriers but also differences in the economic and the social system) take the lead. In the short term the regional structure of foreign trade is influenced by fluctuations in the economic situation at home and abroad, and abrupt changes of relative prices. The integration in Western Europe in the sixties and seventies has had its repercussions on the regional structure of Austria's foreign trade.

More than 80 per cent of Austrian exports went to Western industrialized countries in 1990, 75 per cent to Western Europe, 65 per cent thereof to the EC and 10 per cent to EFTA. Eastern European and developing countries contributed at 10 per cent each to exports. The export share of Western countries manifested an upward trend in the 80s with the importance of the European Communities steadily increasing. The share of East European and of developing countries dropped during this period.

Some 85 per cent of Austrian imports originate in industrialized Western countries in 1990, 68.5 per cent in the EC. The import share from overseas industrialized countries is rising which is due to the above increasing imports from Japan. Seven per cent of total imports originate in East European countries, 8 per cent in developing countries.

Political events in Eastern and Western Europe necessitate an adjustment of Austrian statistics too. As at mid-1990 the former GDR became de facto part of the Federal Republic of Germany and consequently also of the EC, with the formal transition taking place in October. The Community plus the former GDR is now referred to as EC 90. Following the abolition of State economy in Eastern Europe and the dissolution of the CMEA it seems reasonable to include Yugoslavia - so far treated specially - into the group of East European countries. The "New East" thus no longer comprises the GDR but Yugoslavia.

Outlook

Short and medium-term perspectives

Austria’s economy will grow at a higher speed in the short and medium-term compared to the 80s. It will on an average also be more dynamic than in Western Europe. According to the short-term WIFO forecast submitted in September 1991, the GDP will increase by 2.9 per cent on an average in real terms during the period 1991/1992, as compared to 1.8 per cent in Western Europe. For the period 1990/1995 an average economic growth of 3.2 per cent was forecast in the spring of 1991, as compared to 2.8 per cent in Western Europe. Austrian exports are to increase by 4.7 per cent in real terms from 1990 to 1992, and by 7.5 per cent in the first half of the 90s. The WIFO forecast foresees, inter alia, moderate rise in oil prices and a decline of the dollar exchange rate.
Integration policy

The development of industry and foreign trade in Austria was widely influenced by Western European integration. Foreign trade was affected above all by abolition of customs duties and quantitative restrictions. As a result of the elimination of customs duties and import quotas, goods manufactured by EC partners became less expensive, thus replacing both domestic and third countries goods. These two effects are referred to as trade creation and trade diversion respectively. In the recent past, foreign trade was increasingly faced with non-tariff trade barriers, including standards, specifications, quality and health certificates, packaging requirements, abuse of anti-dumping measures, and in a broader sense, subsidies, etc. These measures conferred certain competitive advantages to locally-manufactured goods, as customs duties and import quotas had done previously.

Western Europe integration materialized in several stages. During the first phase (approximately from 1960 to 1972) the abolition of customs duties in the framework of EFTA had opened up markets for Austria in EFTA countries. On the EC market, however, Austrian exporters were discriminated as compared to Community manufacturers. Given that the share of Austrian exports to the EC is considerably higher than that to EFTA countries, the discriminatory effects were more strongly felt than the preferential EFTA terms. As regards Austrian imports, suppliers from EFTA countries' benefited from advantages as compared to EC or third countries' competitors. During the second phase which stated in 1973 (Free Trade Agreement EC - Austria) the discrimination of Austrian exports on the EC market was abolished. However, Austria's preferential treatment on the EFTA-market was lost when the previously disadvantaged EC suppliers were given equal treatment.

In the mid-80s Western European integration entered into a third phase as of July 1985, when the EC Commission submitted "The White Paper on Completing the Internal Market" by 1992 for adoption by the European Council. The White Paper stipulated the abolition of all physical, technical and fiscal barriers to free circulation of goods, services, persons and capital within the Community. The legal basis for this programme was provided with the Single European Act which entered into force in 1987.

Abolishing non-tariff trade barriers within the EC without, however, taking equivalent measures as regards external borders, will result in discrimination of suppliers from third countries compared to competitors from within the Community. Concern for Austrian exports to the EC was an important economic reason for Austria's wish to participate in the EC market. The applications for accession to the EC were submitted on 17 July 1989.

Austrian policy on Eastern Europe

Austria's share in world exports of industrialized countries of Western Europe is 1.7 per cent, whereas exports to countries of the Eastern MORE
Bloc make up for 6 per cent. Austria's market share in the neighbouring countries Hungary and the Czech and Slovak Federal Republic amounts to as much as 15 per cent. For several East European countries Austria is the second most important business partner in the West after Germany.

Austria's intensive economic relations with East European countries are partly to be explained by the geographical situation which plays an important rôle in foreign trade - as already in the past. Thirty-seven and a half per cent of Austrian exports went to Eastern European countries (excluding the USSR and the German Democratic Republic) in 1924, 27.1 per cent in 1937 and as much as 17.4 per cent in 1947. As regards imports ratios were even higher.

The strong market position of Austria in Eastern Europe was due on the one hand to a good knowledge of this market and on the other to the fact, that Austrian companies are more familiar with the weaknesses of the old system than competitors. This particular advantage will be lost with the return to a rational economic system.

Because of the upheaval in Eastern Europe Austria's border position in the European economic area has been shifted. This will improve the attractiveness of Austria as a business location, foremost with a view to production installations, trade centres, regional finance centres and centres of commercial services. Austria will also be given the chance to make up for the lack of internationalization by means of joint ventures in Eastern Europe. So far Austria has made very promising use of opportunities and is No. 1 in Hungary and the Czech and Slovak Federal Republic as a partner in joint ventures and holds the third rank in Yugoslavia and Poland. This development could be regarded as an indicator that Austria might succeed in maintaining the traditional special position also in the light of new circumstances.

The political and economic changes in the East European countries have created serious problems on the traffic and transport sector in Austria, both as a result of intensified bilateral trade relations and transit.

Together with its EFTA partners Austria presently is negotiating Free Trade Agreement with Hungary, Poland and the Czech and Slovak Federal Republic. The agreements could probably come into force in course of the year 1992.

Relations with developing countries outside Europe

Because of greater geographic distances, the wide variety of eligible partners with diverging legal systems and trading customs, language difficulties, but often also climatic conditions, foreign trade with developing countries is more difficult than with industrialized countries. There are usually also more risks involved. On the other hand export to developing countries offers special opportunities, above all in the field of high-technology products and with installations.
Twelve per cent of Austrian trade was achieved with the developing countries in 1980, 8 per cent in 1990, 2.7 per cent thereof with OPEC countries. In an international comparison the share of foreign trade with developing countries is relatively small since the main destination of Austrian foreign trade is concentrated on Western and Eastern Europe. The fact that Austria is under-represented on the markets of developing countries might among other reasons be explained by the small number of large, internationally-operating enterprises and the historically rather weak foreign trade relations with these countries.

For many years Austria has endeavoured to expand its economic relations with developing countries outside Europe, particular attention being given to the rapidly developing States in the Far East. Since the ratio between input and return only increases as from a "critical density" of market penetration onwards when a new market is opened up, it would be recommendable to concentrate on focal countries - this also with a view to other limited resources available in Austria. By this procedure, synergy effects might well be expected. In a WIFO study the following developing countries were suggested as focal destinations for Austrian exports: South Korea, People's Republic of China, Algeria, Cameroon, Taiwan, Saudi Arabia, and Turkey. A study based on topical data is being prepared by WIFO.

II. AGRICULTURE

Targets of Austrian agricultural policy

Agricultural law

On the basis of the 1976 Agricultural Law, agricultural policy aims at maintaining an economically-sound and efficient farming population in a well functioning rural environment, including the preservation of rural settlements, improved productivity and competitiveness of agriculture and a fair share in social and economic progress of all those engaged in farming. The eco-social dimension of the agricultural law is demonstrated by stipulations in favour of promotional activities adapted to overall economy and consumer interests, taking due account of safeguarding the natural bases of human life - soil, water and air.

The agricultural law in its current version and the market regulations for animals, meat and cereals destined at securing prices and marketing, constitute the frame conditions which permit agricultural family enterprises - the very image of Austrian agricultural policy - to produce high-quality food and raw material for industrial processing and energy production at reasonable prices.

Owing to the variety of types of enterprises, above all the parallel operation of primary, secondary and additional income enterprises, agriculture on an individual farming basis proves particularly eligible for the overall economic and social development.
The agricultural sector and its role in the national economy

Agriculture in Austria shows a patchwork structure, 80 per cent of the approximately 280,000 enterprises manage less than 10 ha. Agricultural families are responsible for some 3.5 million ha. of agricultural and some 3.2 million ha. of forest areas exploited. End production in agriculture and forestry amounted to S 81.95 billion in 1990, S 65.55 billion thereof coming from agriculture and S 43.35 billion of this figure from animal production. The share of the agrarian sector with regard to the GDP and national income reads 3.2 per cent in both instances, the percentage of people employed in agriculture and forestry is 6.3.

The degree of self-support amounted to 100 per cent in 1989/90. Austria is a net exporter for all important products (milk, meat, cereals).

Agro-political instruments

The measures adopted in Austrian agricultural policy are not only directed at maintaining the area covering agricultural and forestry exploitation, taking into consideration the high share of mountain farms (36.8 per cent), but pursue above all a better adaptation of agricultural production to market conditions and the realization of the integral production systems. A balanced system of promotional measures, supplemented by market regulations aiming at securing the supply of the population with foodstuffs and safeguarding prices and sales for the farmer, are to contribute towards meeting the provisions of the agricultural law. The system of promotions was created in line with international development tendencies in due consideration of the endeavours on the part of GATT with regard to the abolition of agricultural productionism.

In order to meet with success also in the future, however, the agricultural frame conditions (flexible market regulations, specific innovative promotion, compensation for landscape cultivation, protection from ecological dumping, quality-oriented agricultural price system etc.) and a variety of mutually and reciprocally well matched measures will have to be further developed.

As regards agricultural promotion, a programme of focal items has been prepared in line with a very broadly designed opinion formation process and well balanced in terms of economic and ecological aspects. The envisaged measures read as follows:

- expansion of direct payments;
- production-diverting measures for plants and animals;
- strengthening the competitiveness of products, processing and marketing;
- securing the basic equipment of enterprises and on supra-entrepreneurial basis in co-operation with the Federal provinces;
- increased promotion of ecologic ways of production;
- promotion of education, research and basic work.

Furthermore, measures to reduce production intensity are subsidized and crop rotation premia will be introduced in 1992 in order to disperse monocultures. The new ecology-oriented agricultural concept is supported by consultation, research and training and is based on an efficient and economical use of public funds for securing agricultural family enterprises, self-sufficient supplies of foodstuffs and raw material and the preservation of the landscape, since Austria shows a record of 120 million overnight stays per annum, 80 per cent thereof in mountain areas, and ranges among the most prominent tourism countries in Europe. In the dispute on the future philosophy in agricultural policy, the Austrian approach of balancing economic, ecological and social aspects seems to take the lead over strategies of pure market economy.

Seen in the context of measures adopted, this means that the principle of limited production, balanced pricing and environmentally-sustainable production with a fair reimbursement and a supra-economic performance, to an increasing extent replaces the pattern of low product prices in an unlimited production scenario without any consideration for the multi-functional targets of agriculture.

III. ECONOMY AND ENVIRONMENT

The mutual interlinkages between trade and environment have not been studied for many generations. Economic growth - as traditionally defined - was and is sometimes still the ultimate goal for a society or for a nation.

Economic growth is certainly important, but is not sufficient for a society being aware of the limitation of resources. In that context the World Commission for Environment and Development laid down the principles of "sustainable development" - a development that recognizes the needs of the present economic development without comprising the conditions of life of future generations.

These considerations are reflected in the Coalition Agreement between the Socialist Party of Austria and the Austrian People's Party covering the Formation of a Coalition Federal Government for the Duration of the 18th Legislative Term of the "Nationalrat", which reads as follows:

"Environment conservation will remain an integral component of the Federal Government's policy. Environmental conservation will be more strongly orientated towards providential, causal and co-operation principles. The requisite environmental legislation will be completed, and greater attention will focus on the implementation and monitoring of legal measures in the environmental field.

Austria must continue to play a pioneering role internationally in environmental issues. It must therefore enlarge the scope of its international co-operation.

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Generally speaking environmental legislation must be brought closer into line with EC laws in preparation for Austria's possible accession to the EC. However, Austria's environmental standards must not be lowered in the process. The adjustment will involve retaining Austrian standards where these are more stringent but adopting EC standards in those cases in which these meeting more exacting requirements."

On the international level, the necessity to study both the needs of further economical development and environmental protection are widely accepted. In the introduction to GATT it is recognized, "That their relations (the relations of the contracting parties) in the field of trade and economic endeavour should be conducted with a view to raising standards of living ...". The understanding, that raising standards of living cannot be solely achieved by economic growth, is more and more accepted. The problems concerning the relations between trade and the environment are presently examined in different international organizations, e.g. the OECD. In the view of Austria it should be of vital interest for all countries, both developing and developed countries, to find means and ways to reconcile further economic development and trade promotion with the needs to maintain or realize a sound and viable environment which is part of the standard of living and development.