TRADE POLICY REVIEW MECHANISM

Review of Sweden, 15-16 December 1994

GATT Council’s Evaluation

The GATT Council conducted its second review of Sweden under the trade policy review mechanism (TPRM) on 15-16 December 1994. The text of the Chairman’s concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country’s trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council’s discussions and of the Chairman’s summing-up, together with these two reports, will be published in due course as the complete trade policy review of Sweden and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

The Council has now completed its second review of Sweden’s trade policies and practices. In just over two weeks from now Sweden will accede to the European Union, hence all future examinations of Sweden will be conducted within the reviews of that entity. These remarks, made on my own responsibility, summarize salient points raised during the discussion. They are not intended to substitute for the Council’s collective evaluation and appreciation of Sweden’s trade policies and practices. Details of the discussion will be reflected in the minutes of the meeting.

Council members expressed high praise for Sweden’s adherence to liberal trade principles, and complimented Sweden on the important market opening steps taken autonomously in the past four years, especially in textiles, clothing and agriculture. Sweden had also worked determinedly for a successful conclusion of the Uruguay Round.

After a comprehensive opening statement by Sweden, the Council discussion developed under three main themes:

Macroeconomic recovery and the rôle of trade

Members recognized that Sweden had confronted particularly difficult economic circumstances since its first Trade Policy Review, with real GDP declining for three consecutive years from 1991. However, in 1994 the economy regained momentum; this was largely driven by export-oriented sectors, underlining the importance of trade as an engine of growth and prosperity. It was noted that Sweden was emerging from its deep recession showing elements of a dual economy, as domestic demand remained subdued in 1994. Sweden’s recent experience indicated that its generally open trade régime should be supported by complementary measures to address domestic imbalances, particularly the public deficit.

In response, the Swedish representative agreed that Sweden’s economy showed characteristics of a dual economy. He explained that this was in part because of an export boom following the depreciation of the krona. However, Sweden recognized that export expansion should be backed by a more broadly based increase in domestic activity to ensure recovery. Although prospects were bright due to investment growth, high interest rates continued to hamper expansion; thus, budgetary and foreign debt reductions were a priority. Improvements in Sweden’s competitiveness were due not only to currency depreciation but also to continuing structural adaptation, in which the continued pursuit of an open trade régime played a very crucial rôle.

Trade and domestic liberalization

Participants expressed strong admiration for Sweden’s maintenance and further opening of its liberal trade régime during the recent recession. In addition to agricultural deregulation and liberalization of trade in textiles and clothing, regional integration had been promoted with the entry into force of the European Economic Area, EFTA free-trade agreements with countries in central and eastern Europe, Turkey and Israel, and bilateral free-trade agreements with the Baltic States. New domestic legislation on competition policy and public procurement had strengthened disciplines in these areas. Privatization and liberalization of the investment régime had broadened the scope for foreign presence in the economy. One participant commended Sweden for its recent signing of the OECD Shipbuilding Agreement.

Members sought information on specific aspects of Sweden’s policies and practices, including the publication of trade-related regulations; the functions of the National Board of Trade; the involvement of authorities other than customs in border controls; the link between environmental policies
and trade instruments; state-trading in alcohol, oilseeds and cereals; the operation of a fats production levy; export subsidies for processed food products; import restrictions on eggs; and recent amendments in regulations concerning public supply contracts. Sweden was asked to elaborate on the operation of industry-wide support schemes and on concessions for energy-intensive industries and commercial horticulture.

In reply, the representative of Sweden referred to the written responses that he had made available and offered to provide any further clarification. He pointed out, in particular, that the Government had long renounced sector-specific assistance to industry. Adjustment took place in accordance with market forces, although it was a fundamental objective that this was to be done in socially acceptable forms and retraining programmes were undertaken to improve the mobility of labour.

Sweden’s contribution to the Uruguay Round and the possible effects of accession to the European Union

Members appreciated Sweden’s major contribution to obtaining substantive results in all areas of the Uruguay Round. However, some anxiety was expressed as to the situation that would prevail after Sweden’s entry into the European Union; in this connection, importance was attached to the maintenance of Sweden’s historical trading ties and existing market access. One participant stressed the net trade-creating effect of Sweden’s integration with its European partners and considered premature any judgement on the effects of Sweden’s accession to the EU at this stage.

Specific questions were raised concerning the impact of higher EU tariffs, particularly on forestry products, electronics and semiconductors; the adoption by Sweden of EU anti-dumping measures; changes in GSP treatment; the effects on agricultural trade and Sweden’s Uruguay Round commitments of adoption of the CAP, particularly on beef, and potential expansion of subsidized exports; the import régime to be applied on specific products, notably bananas, rice, fruit and vegetables; and the reintroduction of quotas on textiles and clothing.

It was noted that Sweden’s departure from the European Free Trade Association would affect the preferential access currently enjoyed by some EFTA partners for fish and certain other products. EU accession could also affect the terms of preferential access for central and eastern European countries; the hope was expressed that Sweden would work within the European Union for further integration of these countries.

Other questions raised under this heading covered audiovisual services and the adoption of the EU broadcast directive; preferential treatment of EU suppliers in public procurement; the extension of liberalization of Sweden’s investment regulations beyond participants in the European Economic Area; and any remaining restrictions affecting foreign investment.

In reply, the representative of Sweden said that the EU was seen as a dynamic trade-creating entity. While he could not predict the effect of Sweden’s membership on trade patterns, a priority objective of his Government remained the maintenance of an open and competitive policy which would, inter alia, facilitate trade with developing and central and eastern European countries. He reiterated that, as a member of the EU agreements with third countries, Sweden would aim at maintaining the existing levels of trade. In textiles, Sweden had secured quotas that should generally maintain existing levels of trade. The integration of Sweden’s tariff into the common external tariff on 1 January 1995 would lead to both upward and downward adjustments; however, he said that these issues belonged to the Article XXIV:6 negotiations. He added that Sweden would adopt the Community GSP system.
The representative of Sweden continued that Sweden’s WTO commitments on agriculture would also be subsumed by those of the EU. Some measures such as production quotas and export refunds would be reintroduced; however, Sweden would draw on the positive experience of its agricultural reforms in negotiations on the future of the CAP. While no clear answer could yet be given on future issues such as banana policies, Sweden attached importance to stable supplies and low prices. He noted that the fee on rice stocks was a temporary measure intended to avoid trade distortion, was non-discriminatory and would not prevent traditional imports. He added that Sweden’s commitments under the WTO Agreement on Government Procurement corresponded to those of the EU. Recent changes in public supply contract conditions, made in line with commitments under the EEA Agreement, implied a major increase in the coverage of entities, including expansion to utilities, and new provisions for review and damages. Finally, the liberalization of inward direct investment applied to all sources; practically all restrictions had been lifted and no changes would result from EU membership.

Conclusion

In conclusion, the Council greatly appreciated the positive rôle that Sweden has played in world trade relations. Sweden’s sense of "fair play" in agreeing to undertake its second Trade Policy Review very shortly before acceding to EU membership was particularly well regarded. We wish the Swedish authorities well in their new status as a member of the European Union and hope that Sweden will continue to be a beacon for the promotion of free trade policies and practices at the global and regional levels.