

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

**C/RM/M/54**  
20 January 1995  
Limited Distribution

(95-0131)

---

**COUNCIL  
15-16 December 1994**

TRADE POLICY REVIEW MECHANISM

SWEDEN

MINUTES OF MEETING

Chairman: Mr. K. Kesavapany (Singapore)

	<u>Page</u>
I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL	2
II. OPENING STATEMENT BY THE REPRESENTATIVE OF SWEDEN	3
III. STATEMENT BY THE FIRST DISCUSSANT	5
IV. STATEMENT BY THE SECOND DISCUSSANT	6
V. STATEMENTS BY MEMBERS OF THE COUNCIL	8
VI. REPLIES BY THE REPRESENTATIVE OF SWEDEN AND ADDITIONAL COMMENTS	12
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL	14

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman welcomed the delegation of Sweden headed by Ambassador Manhusen, the discussants, Ambassador Booth Gardner (United States) and Mr. Adrian Constantinescu (Romania), and members of the Council.
2. The Chairman recalled that the purpose of the TPR Mechanism was "to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties" (BISD 36S/403).
3. The Council was to base its work on two reports; the report by the Government of Sweden, contained in document C/RM/G/54, and that of the GATT Secretariat in document C/RM/S/54. The discussants had outlined the main issues they intended to raise in document C/RM/W/24. Copies of written questions submitted by the delegations of Australia, Canada, Hong Kong and the United States were available.
4. The Chairman then offered the floor to the representative of Sweden.

## II. OPENING STATEMENT BY THE REPRESENTATIVE OF SWEDEN

5. The representative of Sweden began by noting that this second review of Sweden's trade policy was probably unique in the history of the TPRM in that the subject of review was a national trade policy that would no longer exist in about two weeks, which was when Sweden was expected to join the European Union. However, in acceding to the European Union and integrating into the Customs Union, Sweden would not abandon its national trade policy traditions and objectives. But it was clear that Sweden would be working in a new trade policy setting, together with the other EU members. Thus the review, though the timing was somewhat awkward, was a good occasion to sum up Sweden's trade policy achievements, on the verge of entering into new forms of co-operation, both in the European context and multilaterally in the WTO.

6. Important developments had affected Sweden's trade policy since its first TPRM review in 1990, both domestically, in the regional context and on the multilateral level. Sweden's long-standing open and liberal trade policy reflected a high dependence on foreign trade. Exports and imports each represented roughly 30 per cent of gross domestic product (GDP). The early successes of Swedish industry were to a high degree a result of exposure to foreign competition and open markets internationally, allowing economies of scale. Many of Sweden's largest industries exported well over half their output. Moreover, considerable production capacity was maintained abroad through direct investment in industrialized and developing countries. Imports also played a crucial rôle, complementing domestic production, stimulating efficiency in the domestic economy and exerting downward pressure on prices.

7. Free trade was, and would continue to be, a cornerstone of the trade policy of such a trade-oriented country. Sweden had therefore always promoted a multilateral, rules-based system for world trade, as proven by its active engagement in all GATT rounds. The reliance on an open multilateral trading system was even more crucial in view of Sweden's present economic difficulties; in the severe recession output had fallen for three consecutive years, 1991-93, with unemployment and the public deficit reaching record levels. However, a continued dramatic rise in exports was expected to boost total production of goods and services by almost 2.5 per cent in 1994; this would be impossible without open export markets. Economic activity was expected to strengthen in 1995 due to expanding investments in domestic-oriented production. The Swedish Government remained concerned about reducing its large budget deficit, prompting further cuts in government spending and certain tax increases.

8. It was illustrative of the trend in Sweden's trade policy that two areas previously subject to significant regulation and restrictions, textiles and agriculture, had undergone extensive reforms since the previous review. In textiles and clothing all quantitative restrictions on imports had been abolished in 1991, Sweden had left the MFA, and the former aid programme for the domestic industry had been terminated on 1 July 1992. A guiding principle of the food policy, adopted by Parliament in 1990, was that agriculture should, in principle, operate under the same market conditions as other sectors. The reform mainly implied domestic deregulation with the phasing out of export subsidies being of key importance. Border protection had been maintained, but was to be adjusted according to the agreements reached in the Uruguay Round.

9. The new food policy marked a major change to a more market-oriented system. Temporary arrangements encouraging reduced surplus production accompanied the reform to assure a socially accepted transition. Reforms began on 1 July 1991, when Sweden applied for EU membership. Expectations of future membership influenced the reform programme, and Parliament had adjusted the food policy in certain areas to facilitate application of the Common Agricultural Policy from 1 January 1995.

10. Concerning regional integration, the representative noted that Sweden's main trading partners were in Europe; in 1993 trade with western Europe had accounted for more than 70 per cent of exports and imports. Liberalization at the regional level was an important element of trade policy and in 1972 Sweden and the other EFTA countries had concluded free trade agreements with the EEC. Further important advances in European integration had occurred since Sweden's first review; the agreement on the European Economic Area (EEA), providing free movement of goods, services, capital and manpower within the area, had entered into force on 1 January 1994. Sweden and some other EFTA countries had also applied for full EU membership. The accession negotiations had been concluded successfully in early 1994. Accession had been accepted in a Swedish referendum, and assuming that outstanding ratification procedures were completed as envisaged, Sweden would enter the EU on 1 January 1995.

11. In parallel with strengthened regional ties, Sweden had worked actively towards a successful conclusion of the Uruguay Round. Multilateral trade liberalization should keep pace with regional integration in order to ensure that benefits were extended to all countries, not only as a matter of principle, but also because Swedish industry was present around the world. Sweden thus had had many specific trade interests to look after in the negotiations. The Uruguay Round results had generally been very well received at the political level and among private business in Sweden. The positive outcome in certain areas was in no small measure due to the invaluable co-operation with Nordic colleagues. Parliament would approve the results and Sweden's accession to the WTO shortly.

12. As an EU member, Sweden would work towards keeping Europe open and competitive. Sweden would not abandon its long-standing support for free trade. Accession to the EU implied certain modifications of Sweden's present trade and tariff policy; in some areas, such as textiles, this entailed temporary new restrictions. The Secretariat's report contained some other examples but no analysis should overlook the dynamic, trade-creating aspects of the EU; this was a fundamental point that should have been given more emphasis in the Secretariat report. Moreover, in several respects the results of the Uruguay Round would contribute to dampening any negative consequences of Sweden's transition to the EU, not only in the area of tariffs but clearly also in textiles. At any rate, the working party that would examine the EU enlargement and the upcoming Article XXIV:6 negotiations would provide due opportunity to discuss in detail coming changes in Sweden's trade and tariff policy.

### III. STATEMENT BY THE FIRST DISCUSSANT

13. The first discussant (Mr. A. Constantinescu) considered the present review important to get an overall picture of Sweden's trade policy relative to the general economic situation and to assess the coherence and implications of Sweden's existing trade measures and instruments. Sweden's developed and outward-oriented economy was sensitive to domestic factors and to the external environment. Its recent performance had been affected by built-in structural imbalances, particularly high public expenditure. The social security system, monopoly public sectors and devaluations had helped to sustain demand and somewhat disguise the need for improved efficiency and adaptation to a changing environment. The deep recession during 1991 to 1993 had prompted structural reforms and fiscal consolidation which, according to the authorities, had "created extremely favourable conditions for strong and stable economic growth in the future".

14. Data suggested that the present recovery was export-led, although the economy appeared "dual" in character, with export-oriented industries improving performance while domestic demand remained depressed. The export expansion had been fuelled, *inter alia*, by improvements in competitiveness. Free trade was a fundamental objective for the Swedish authorities, proven by their attachment to the multilateral trading system, and openness towards regional co-operation and integration. In spite of the difficult economic situation Sweden had been a leader among OECD countries in taking measures towards deregulation and liberalization since 1990. Steps included strengthening of competition (reduced state aid to industry and abolition of sector-specific aid, elimination of administered prices and export subsidies in agriculture); further liberalization and streamlining of the export and import régimes (continued low import tariffs, no anti-dumping measures and countervailing duties); and new legislation in competition and public procurement. The question was, however, whether free trade was sufficient to pull Sweden out of the recession, or whether supplementary measures were required to improve its economic structure. Moreover, how would trade policy mechanisms and instruments be affected by accession to the EU?

15. Sweden supported various forms of economic integration. Active in EFTA, Sweden had promoted the European Economic Area (EEA), which extended pan-European co-operation. Sweden had also worked for the recent gradual inclusion of former European communist countries, including the Baltic States, into the continental economic structure. The various free trade agreements did not cement trade relations into "trade blocks", with an examination of actual trade flows confirming this view. The results of the Uruguay Round would encourage trade with non-European markets such as Canada, the United States, Japan and countries in the Asia-Pacific region. Regarding trade with countries in central and northern Europe, he asked how Sweden's accession to the EU would influence this trade and how Sweden, as a member of the EU, could speed the acceptance of these countries into the Union.

16. Noting that Sweden attached importance to environmental protection and, hence, to comprehensive policies in the field, he invited Sweden to elaborate on its experience, particularly regarding the promotion of sound environmental policies and the link to specific trade policy instruments. Did Sweden maintain any technical barriers related to environmental protection? Additional questions related to transparency in the publication of trade laws and ordinances; the functions of the National Board of Trade and its relationship with the Ministry of Foreign Affairs and the Ministry of Industry and Commerce; and, finally, the relationship between customs administration and "other authorities" in the implementation of border controls.

IV. STATEMENT BY THE SECOND DISCUSSANT

17. The second discussant (Ambassador B. Gardner) felt that Sweden was one of the contracting parties that had most faithfully taken to heart and implemented the spirit of the GATT. Its trade policies were in most ways a model of openness, and had contributed greatly to Sweden's deservedly admired economic and social status. Sweden had confronted its economic challenge with great dynamism in recent years; it had strengthened its ties with eastern neighbours in response to the end of the Cold War, been among the most active champions of the Uruguay Round, and had pushed vigorously to expand free trade and competition through bilateral free trade agreements, the ambitious European Economic Area and the decision to accede to the European Union. While pursuing these objectives, Sweden had liberalized its own economy, and increased competition by stressing private enterprise, tax reductions, deregulation, privatization and deficit reduction.

18. Sweden's exports had risen significantly over the past two years in response to the krona float and increased competitiveness due to cost-induced rationalization from imports, lower sector-specific subsidies and trimming of the public sector. The medium-term costs of rationalization were serious unemployment, an additional strain on the government budget, a financial and real estate crisis and higher interest rates. However, consumers had saved some SEK 3 billion, about US\$50 per capita, on purchases of textiles alone in the first year following Sweden's decision to liberalize textile imports. This increased purchasing power had strengthened Sweden's economy and living standards, and Sweden's other liberalizing measures would have similar positive consequences. The Swedish economy was thus emerging significantly more competitive and healthy from the recession and rationalization. In acceding to the European Union, Sweden would benefit from increased competition, larger markets, lowered unit costs, economies of scale and harmonized regulations. As such, Sweden should be congratulated on its decisions to accede, provided Sweden did not lose its admirable zeal for liberal trade and did not succumb to ever-increasing regulation stunting agricultural, industrial and regional policies. He sought reassurance that Sweden intended to work within the EU to foster liberal trade policies and to resist greater central economic regulation, rather than to embrace trade preferences and subsidies.

19. Regarding the consequences for Sweden's agricultural policy he noted that the likelihood of accession had impeded and retarded, even stopped, the progressive deregulation carried out since the mid-1980s. The expansion of subsidized agricultural exports, for example, clearly contradicted the goals of the Uruguay Round; other areas and new EU obligations were of equal concern. Would Sweden work within the European Union to end discriminatory import restrictions on agricultural products, such as on bananas? The authorities had proposed to levy high fees on rice stocks, a policy which in his view contradicted GATT Article II. How did Sweden intend to harmonize its milk production policies with the subsidy régime of the EU? The broader issue was how Sweden could harmonize its agricultural policies with those of the EU without sacrificing hard-won benefits from reduced state support.

20. Sweden had made historic changes in recent years to reduce industry assistance, while the requirements of the EU, unfortunately, were not always in harmony with such changes. He invited Sweden to comment on how they intended to address these differences, notably with respect to the EU Broadcast Directive and its quota system. Further, EU m.f.n. tariffs on paper and paperboard were 7.4 per cent and those of Sweden were 2 per cent; Sweden's tariffs would be lowered, and eliminated on wood products, according to its Uruguay Round undertaking. What effects were adoption of EU tariffs expected to have on Swedish industry, possible compensation owed and the likely loss of competitiveness over time due to higher tariffs? The electronic and semiconductor sectors were particularly interesting since Sweden's rates in the Uruguay Round were significantly lower than those of the EU.

21. In concluding, the discussant stressed his nearly unalloyed praise for Sweden's efforts to liberalize its economy and trusted that Sweden would be a voice for liberal trade principles and practices within the EU.

---

## V. STATEMENTS BY MEMBERS OF THE COUNCIL

22. The representative of the European Communities noted that in joining the EU, Sweden would undergo another review of its trade régime in six months. The European Communities enjoyed a long-standing, close and very firm trading relationship with Sweden, accounting for more than 50 per cent of its imports and exports. The desire to deepen this relationship had always been present, as demonstrated by free trade agreements and the creation of the EEA. The accession of Sweden to the Communities was the final step of a natural process.

23. Sweden's accession to the EU was well covered in the Secretariat's report, although the report was too pessimistic about the consequences. Judgements about the likely effects or impact of accession were premature and should not, in principle, be part of the current review of the past four-year period. Discussions under Article XXIV:6 would be the appropriate forum to evaluate the consequences of accession for the three countries (Austria, Finland and Sweden) that had chosen to become members of the Community. He was firmly convinced that Sweden's accession would benefit the EC, Sweden and the world at large. He was of the view that Sweden would not have wanted to join an entity with an attitude different from its own regarding open, liberal policies.

24. The representative of India stated that Sweden had followed a liberal trade policy in recent years with regard to textiles and clothing. The position would change with Sweden's accession to the EU; thus vis-à-vis India about 17 product categories would be subject to quotas as from 1 January 1995. He hoped that Sweden as a member of the EU would persuade other members to follow a more liberal approach towards textiles and clothing imports. He wished Sweden success in its EU membership, having noted that Sweden did not intend to abandon its traditional trade policy objectives.

25. The representative of Norway, also on behalf of Finland and Iceland, observed that the recent change of Government in Sweden implied no deviation from Sweden's traditional dedication to a free and predictable world trade régime. Sweden had attached importance to reaching substantial results in all areas of the Uruguay Round, including a reduction in tariffs and non-tariff barriers, a strengthened GATT system and the achievement of multilateral agreements in the new areas.

26. Sweden's dramatic economic downturn had been reversed in 1993. It was important to note in this context that the authorities had never tempted to cushion the recession by increasing selective aid and support programmes to vulnerable industries or to conceal problems behind artificial import barriers, but had declared that financial assistance to enterprises should be minimized to lay the ground for sound and healthy production in the long run. An extensive employment benefits and training programme had eased the effects of the crisis on individuals. Sweden's policy and action during this period deserved close study and due reflection.

27. He noted that Sweden maintained import licensing only on certain "sensitive" goods. Import restrictions had been removed on textiles in 1991, and agricultural imports had been deregulated gradually since 1990. He commended Sweden for its generally low tariff rates negotiated in the Uruguay Round. However, Sweden's present trade régime appeared generally more liberal than the one that would apply from 1 January 1995. At present, tariffs were notably below EU levels in all major Tariff Study categories except textiles, clothing and rubber. He trusted that Sweden would maintain its proven dedication to liberal and predictable world trade in the new arena it was about to enter. Certain aspects of trade within the EEA would also be affected by Sweden's entry into the EU. Norway and Iceland would return in other fora to the negative effects of Sweden leaving EFTA, particularly regarding market access for fish and some other products.

28. The representative of Australia welcomed the fact that, according to the Secretariat, in areas such as agriculture, textiles and clothing, Sweden had been in the forefront among OECD countries in taking measures towards deregulation and liberalization since 1990. In that period, the main developments affecting Sweden's trade had included the abolition of restraints on imports of textiles, clothing and leather footwear; the conclusion of bilateral and regional free-trade agreements; a new Swedish Competition Act; a new food and agricultural policy that, *inter alia*, abolished guaranteed intervention prices, although variable import levies had been retained pending the Uruguay Round results; entry into force of the European Economic Area (EEA); Sweden's participation in the Uruguay Round; and Sweden's impending EU membership. Liberalization appeared to have slowed as EU membership approached.

29. Australia would welcome Sweden taking an active rôle in minimizing any negative impact of its accession to the EU on third countries. Australia was particularly concerned that existing market access be maintained in the period between accession and the effective date of implementation of the EU's Uruguay Round commitments and further until GATT Article XXIV:6 negotiations would be completed. Acceptable arrangements for third party trade should be established for this as well as future EU accessions, in her view, Article XXIV:6 negotiations should be undertaken prior to implementation of enlargement arrangements of a customs union. Commodity-specific current and minimum access commitments agreed in the Uruguay Round were applicable on a national basis, and should be cumulated for the EU(12) and the joining members. The commitments strengthened the Article XXIV:6 framework considerably and negotiations should proceed in this context.

30. Australia had sought a larger EU quota for high-quality beef to cover both its existing trade with Sweden and its minimum access commitments arising from the Uruguay Round. However, the European Commission had stated that commitments of acceding countries would cease upon their EU entry and that the EU therefore had no obligation to adjust its access arrangements, with claims for compensation to be negotiated under GATT Article XXIV:6. Trade would continue under interim arrangements until negotiations were completed. Sweden's active participation in ensuring maintenance of market access levels would be welcomed.

31. The representative of Japan greeted Sweden's EU membership and hoped it would reinforce Sweden's free-trade régime. Japan and Sweden held regular bilateral consultations and there were no major frictions regarding trade or investment. He asked to what extent EU membership would affect Sweden's trade policies, particularly concerning the application of the common EU tariff and anti-dumping measures. Would Sweden and the EU present a new joint tariff offer? Japanese companies based in Sweden were very interested in these questions and would appreciate information on any change in present policies or procedures.

32. The representative of Brazil drew attention to Sweden's commitments in the Uruguay Round regarding tariffication and tariff reductions and asked both about the extent to which the adoption of EU trade policies would jeopardize Sweden's commitments in market access, and about the procedures to be followed to align these commitments with Sweden's EU membership. Although textiles tariffs would fall upon Sweden's accession to the EU, Brazil was concerned about the reintroduction of import quotas, which would also impose additional administrative costs for Sweden and lead to higher prices. The new quotas were a setback for textile exporters, especially as the increased EU quotas might not reflect total potential trade. He hoped that the entry into force of the WTO and the enlargement of the European Union would be complementary, rather than contradictory, events.

33. The representative of Canada stated that Canada's trade relations with Sweden were very healthy with no outstanding points of contention. He praised Sweden's recovery from the recession and was certain that the recent growth in exports would be matched by higher imports once the domestic economy strengthened. Sweden had made a considerable contribution to the liberalization of international trade through its trade agreements and its rôle in the Uruguay Round and Canada hoped that Sweden would continue to make a positive contribution to the multilateral trading system. He sought details regarding a number of specific issues, supplementary to questions provided in writing earlier, and covering recent changes in provisions regarding the award of public supply contracts; the introduction of procurement preferences, notably the preferential policies of the EU procurement directive; existing policies with regard to imports of eggs, excluding non-Nordic supplies; the operation of a "fat production levy" on fats and oils and the treatment of domestic production relative to imports; and the implications of EU membership for imported fruits and vegetables.

34. The representative of the United States welcomed Sweden's important contribution to the trading system as well as its active rôle in the GATT and its commitments undertaken in the Uruguay Round. He commended Sweden for its recent steps, particularly through the EEA Agreement, to liberalize its laws and regulations in areas such as competition policy, public procurement and investment policy. Sweden's accession to the EU had important implications, including for the further development of the common EU régime. He encouraged Sweden to work with the European Union to lower trade and investment barriers.

35. Noting that Sweden's accession to the EU would bring changes to Sweden's trade and investment policies, he invited Sweden to supply information regarding any timetable for amending legislation to comply with EU requirements and the results of the Uruguay Round. He underlined the importance of maintaining historical trade flows, given that m.f.n. tariffs were generally set to increase. In agriculture, he noted that accession would result in a number of unwelcome developments, for example, an expansion of subsidized agriculture exports contradicted the spirit of the Uruguay Round. The Government had proposed to levy a fee on rice stocks, a measure the United States would consider inconsistent with the GATT, specifically Article II. Given that Sweden would also have to adopt the EU banana régime, he asked if changes in the system would be consistent with GATT requirements and if Sweden work within the European Union to end this import restriction?

36. Appreciating the removal of barriers to foreign and domestic private capital in Sweden, he wondered both whether liberalization extended to non-EU members, and what investment restrictions remained. He noted that Sweden had adopted the EU Broadcast Directive through the EEA, and asked if Sweden would adopt the quota system and whether it would advocate a more liberal approach to audiovisuals within the European Union. Sweden's implementation of the preferential provisions in Article 29 of the EU's Utilities Directive was a matter of concern. He welcomed Sweden's acceptance of the OECD Shipbuilding Agreement.

37. The representative of Hong Kong complimented Sweden for its generally open and liberal trade régime, as well as for its elimination of import restrictions on textiles and clothing and its contribution to the successful conclusion of the Uruguay Round. The alignment of Sweden's trade policies with those of the EU implied generally higher tariffs, increased resort to anti-dumping measures and re-introduction of quotas on textiles and clothing. He hoped that Sweden's accession to the EU would not create major problems for third parties and that Sweden would work towards liberal world trade within the EU.

38. The representative of Poland commended Sweden for its very active and constructive rôle in the Uruguay Round, but questioned the value of Sweden's commitments as it was about to enter the European Union. Could Sweden quantify the impact of its Uruguay Round commitments and the accession to the Union? He would also welcome information regarding abolition of variable import levies in Sweden, and whether the first tariff reductions in agriculture would occur on 1 July 1995. Noting that firm- and sector-specific industry support had been curtailed, he invited Sweden to elaborate on existing industry-wide schemes. Details concerning tax concessions on energy for manufacturing industries and commercial horticulture were requested.

39. The representative of Egypt sought information concerning the impact of Sweden's EU membership on agricultural imports from developing countries, in particular rice, fruits and vegetables; and textile imports, especially from small suppliers such as Egypt. He also asked about future treatment for imports into Sweden under the Generalized System of Preference.

40. The representative of Argentina appreciated Sweden's constructive attitude in the Uruguay Round and wished Sweden success in its accession to the EU. He noted the concentration of Sweden's foreign trade with European countries and asked about prospects for imports from developing countries, especially in Latin America. Other specific queries related to the structure of trade policy formulation in agriculture, the importance of self-sufficiency as a food policy objective, current and future border protection for agricultural products and the participation of foreign suppliers in public procurement.

VI. REPLIES BY THE REPRESENTATIVE OF SWEDEN AND ADDITIONAL COMMENTS

41. The representative of Sweden noted the praise for Sweden's long-standing support for free trade and recognized that Sweden's accession to the EU caused some concern about the future course of Sweden's trade relations. He did not wish to make statements that could in any way affect negotiations under Article XXIV:6, but would nevertheless attempt to provide satisfactory answers to the queries that had been made.

(i) Macroeconomic recovery and the rôle of trade

42. The Swedish economy could be characterized as being "dual" at present. The export industry had experienced an unprecedented boom following the krona float in late 1992, while growth in the domestically-oriented industry had been sluggish. However, he stressed that the Government had not sought a krona depreciation but rather had fought hard, at great cost, to defend the Swedish currency. In retrospect, this had perhaps been a futile fight, but nevertheless a clear reflection of the Government's determination not to repeat the mistakes of devaluation policies of the 1970s and 1980s. The export expansion, although important, was certainly not sufficient to achieve economic recovery, and more broadly based increases in production, investments and domestic demand were needed. Prospects looked rather bright for stronger economic activity in 1995 due to a significant expansion of investment; real GDP was estimated to increase by nearly 3.5 per cent in 1995. However, high interest rates continued to hamper a more fully fledged economic expansion, which was a major reason why reductions in the budget deficit and the foreign debt were priority targets. A further SEK 20 billion in budget reinforcements would be proposed in the Budget Bill in January 1995.

43. He added that currency changes were not the only reason why Swedish industries had regained some of their international competitiveness in recent years; continued structural adaptation, higher productivity and wage restraint had been important contributing factors. An open trade policy had played a key rôle in maintaining pressure for structural adaptation.

(ii) Trade and domestic liberalization

44. The Swedish representative noted that the Government had renounced sector-specific support to industry and that current adjustment was largely driven by market forces. The steel industry and shipbuilding were examples of sectors where significant restructuring had taken place. However, the authorities considered it essential that structural adjustment be effected in a socially acceptable way; hence there was a focus on active labour policies.

45. Concerning more specific requests and comments on recent trade policy trends in Sweden, the representative referred to the written responses that had been made available to Council members (C/RM/M/54/Add.1) and offered further clarification.

(iii) Sweden's contribution to the Uruguay Round and the possible effects of accession to the European Union

46. The representative of Sweden noted that a broad political consensus had existed for many years in Sweden with respect to general trade policy objectives. The present Government had stated on several occasions that a priority objective would be to work within the EU to ensure that the Union remained open, not least in trading with developing and central and eastern European countries. How successful Sweden would be in pursuing this objective remained to be seen, but he restated that Sweden regarded the EU as a dynamic, trade-creating entity and that Sweden's objectives were shared by the EU at large.

In negotiations with the EU on enlargement of certain quotas, such as on textiles, Sweden had sought and largely obtained quotas that corresponded to current trade flows. EU membership, including the access to larger markets and increased competition, was expected to strengthen Sweden's economy for years to come.

47. Sweden intended to be fully integrated into the Customs Union from 1 January 1995 and would consequently apply the EU common external tariff. Sweden's Uruguay Round schedules would be subsumed by the EU as of that date. Some delegations had voiced concern about possible erosion of Sweden's contributions to the Round. Any fears of wholesale erosion were unjustified; although some Swedish tariffs would be adjusted upwards and others downwards, the net result could only be assessed on the basis of a statistical analysis yet to be completed. Any deconsolidation of bound tariffs would be a matter for Article XXIV:6 negotiations, where Sweden would be represented by the European Commission, and could not be pursued in the context of this review.

48. Sweden's adjustment to the Common Agricultural Policy (CAP) and the relation to commitments in the Uruguay Round were complex questions and could only be addressed in a general manner. The formal implication was that Sweden's commitments would be subsumed by the EU, and that any claims for compensation was a matter to be raised in Article XXIV:6 negotiations. In practice, certain measures abandoned by Sweden through its agricultural reform, such as production quotas and export refunds on dairy products, would be reinstated. However, Sweden would draw on the very positive experience of its national reform in negotiations on the future orientation of the CAP.

49. In Uruguay Round negotiations on tariffs on industrial products Sweden had sought, in parallel with bilateral objectives, to harmonize its undertakings with those of the EU. The respective final rates offered showed a net narrowing of the tariff gap between Sweden and the EU on an average, trade-weighted basis. Regarding GSP, he noted that this scheme remained autonomous and that Sweden would adopt the Community GSP system. The scheme was under renegotiation and therefore no precise information regarding possible consequences could be provided at this stage.

50. The representative of Australia referred to written questions submitted earlier and asked for further clarification, in particular on the implications for existing agricultural support of EU payments under the CAP and regional development schemes; the effects of adopting a more restrictive import régime vis-à-vis third countries and possible alleviation measures; steps to ensure the maintenance of traditional trade flows; and interim arrangements in the period between Sweden's accession to the EU and the implementation date for the Uruguay Round commitments of the EU.

51. The representative of Sweden regretted that he was not in a position to provide precise answers. It was impossible at this stage to quantify the effect of replacing existing Swedish schemes with EU support measures. He reiterated that Sweden had sought to secure current trade flows in negotiations on EU-wide quotas. He noted Australia's concerns regarding the need for transitional arrangements.

52. The first discussant commended Sweden for its clarifications, comments and responses. The review had consolidated the image of Sweden as a solid, outward-oriented economy. He hoped Sweden would continue in this vein as an EU member.

53. The second discussant appreciated Sweden's trade policies and practices that applied at present. He did not envy Sweden for its obligations to raise certain tariffs upon accession to the EU, actions which could harm the competitiveness of Swedish industries. He encouraged Sweden to be among the leaders within the EU in promoting a further liberalization of world trade.

## VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

54. 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.

55. 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.

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

### (a) Macroeconomic recovery and the rôle of trade

57. 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 had 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.

58. 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.

### (b) Trade and domestic liberalization

59. 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 Shipbuiding Agreement.

60. 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.

61. 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.

(c) Sweden's contribution to the Uruguay Round and the possible effects of accession to the European Union

62. 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.

63. 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.

64. 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.

65. 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.

66. 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.

67. 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.

---

68. 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.