GATT/1479
23 May 1990

GATT TRADE POLICY REVIEW

SWEDEN

On 5-6 June 1990, the GATT Council will consider reports on the trade policies of Sweden, prepared by the Swedish Government and the GATT Secretariat. The reports will form the basis of a comprehensive examination of the trade policies of Sweden.

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

The trade policy review mechanism was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT Council of the full range of trade policies of individual GATT members.

Attached are summary sections of the reports prepared respectively by the Swedish Government and the GATT Secretariat.

The complete trade policy review of Sweden, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, is expected to be published in August 1990, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

The reviews of Australia, Morocco and the United States, which were completed in December 1989, are also available from the GATT Secretariat.

MORE

TRADE POLICY REVIEW

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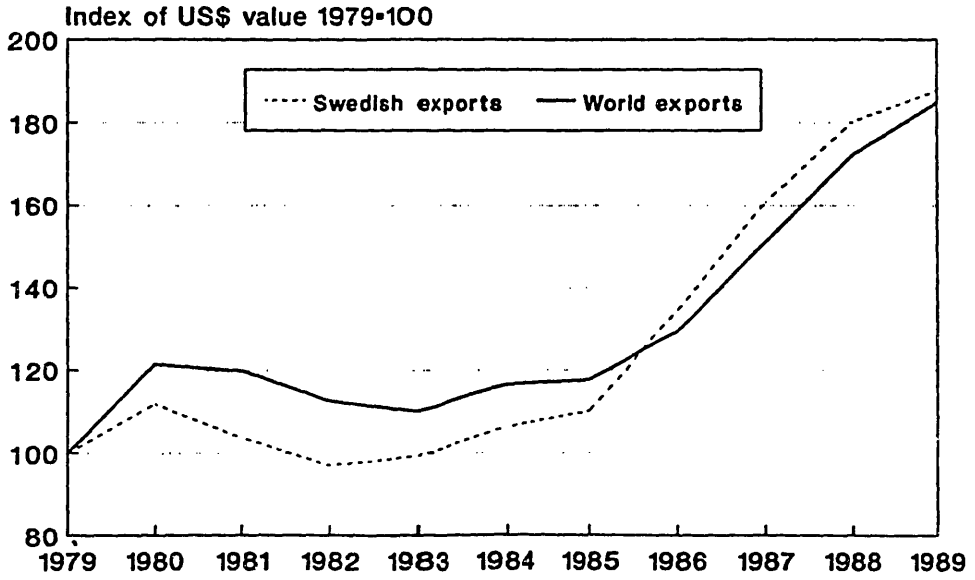
Report by the GATT Secretariat - Summary Observations

(1) Sweden in World Trade

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

Chart VII
Swedish and world merchandise exports, 1979-89



Source: IMF, International Financial Statistics; GATT Secretariat estimates.

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

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

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

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

(2) Institutional Framework

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

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

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

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

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

(3) Trade Policy Features and Trends

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

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

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

(i) Recent evolution

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

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

Following the Tokyo Round, Swedish tariffs were lowered on industrial products by an overall 20 per cent (simple average tariff) between 1979 and

1985. Since then, tariff changes have been minor, limited mainly to changes implemented with the introduction of the Harmonized System on 1 January 1988.

(ii) Type and incidence of trade policy instruments

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

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

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

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

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

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

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

In public procurement, contracts are to be awarded objectively and in a commercial manner, and there is no preferential treatment for national suppliers. Local procurement, accounting for about half of total public procurement in Sweden, and procurement by major Government authorities such as the Swedish State Power Board are not bound by these guidelines. About 5 per cent of total public procurement is covered by the GATT Code.

Certain Government contracts, involving mainly overseas supplies of military hardware, have contained offset arrangements in favour of domestic manufactures.

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

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

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

(iii) Temporary measures

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

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

(iv) New initiatives

Sweden has one of the most highly protected agricultural sectors among industrial countries. Domestic marketing and pricing arrangements, supported by high variable levies, substantially raise domestic prices for agricultural products. According to recent estimates, the average Swedish household would be better off, annually, by some SEK 8,500 (currently equivalent to US$ 1,400) if these arrangements were terminated. In

fiscal 1989, Swedish consumers are estimated to have paid an extra SEK 18 billion for basic agricultural commodities such as cereals, dairy products, meats and sugar.

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

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

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

(4) Trade Policies and Foreign Trading Partners

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

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

Sweden has also been a very active participant in the Uruguay Round. It is strongly supporting initiatives to improve market access worldwide, strengthen international trading rules, and design multilateral rules in the new areas, including trade in services. This reflects the importance of the markets outside Europe as sources for industrial inputs and consumer goods, and as outlets for Swedish exports of steel, automobiles, telecommunication equipment, engineering and consulting activities and a large variety of other goods and services. An enhanced multilateral trading environment will ensure that Swedish firms are in a good position

to share in the full potential of the global market. At the same time, global moves towards trade liberalization will help to contain trade diversion that would otherwise result from Sweden's efforts to improve market access in a regional context.

TRADE POLICY REVIEW

SWEDEN

Report by the Swedish Government - Summary

I. Objectives of trade policies

Sweden is strongly dependent on foreign trade. Exports and imports each represent roughly 30 per cent of gross domestic product (GDP). Producing for world markets and not only for a very limited domestic market has enabled Sweden to realize the benefits of specialization. Many of Sweden's largest industries export well over half of their output. This outward orientation is also manifest in the considerable production capacity maintained abroad through direct investments in both industrialized and developing countries. Imports also play a crucial role, complementing domestic production, stimulating efficiency in the domestic economy and exerting a downward pressure upon prices.

Given the country's strong dependence on foreign trade, free trade is a fundamental principle in Swedish trade policy. Swedish governments have consistently promoted a multilateral, rules-based system for world trade as the best way of safeguarding the country's economic interests. This stance is also an important element of Sweden's overall foreign policy as a small neutral and non-aligned country: close economic ties between countries is seen as promoting stable relations and lessening the risk of serious conflict.

Sweden acceded to the General Agreement on Tariffs and Trade in 1950 and has since then participated actively in all negotiating rounds. Sweden was an early supporter of the Uruguay Round as a means of broadening and strengthening the Agreement, countering the serious growth of protectionist pressures, and contributing to a further liberalization of world trade. This should help to stimulate trade and growth for both developed and developing countries, even in situations of weakening economic activity.

The Government's overall policy objectives for international trade are: global liberalization through multilateral negotiations, supplemented by measures to increase domestic competition and maintain a downward pressure on prices.

An important objective of Swedish trade policy is to facilitate the participation of developing countries in world trade, as a means of providing important additional impetus to the process of development. Sweden implemented the GSP system in 1972, giving developing countries tariff preferences covering most industrial semi-finished and finished goods, as well as certain foodstuffs and agricultural products (exceptions were made for apparel and shoes). Effective from February 1987 least developed countries, as designated by the United Nations, enjoy duty-free

treatment for all goods, provided they fulfill the requirements of the system. Sweden also attaches importance to multilateral cooperation on commodity issues, and has taken an active part in the establishment of the Common Fund for commodities. Price stabilization agreements based upon realistic assumptions are an important part of such cooperation, but other arrangements such as study groups also contribute positively to the stabilization of commodity markets. Measures to support marketing and diversification efforts are also necessary in order to stabilize and increase export earnings for developing countries. Sweden's stance on developing country participation in international trade also influences its position on a number of issues in the Uruguay Round.

A large proportion of Sweden's foreign trade is conducted with Western European countries: in 1988 they accounted for 72 per cent of exports and 73 per cent of imports. An important element of Swedish trade policy is therefore the liberalization of trade at the regional level. Sweden considers it important that global and regional liberalization develops in parallel, as mutually reinforcing processes creating rather than reallocating trade.

Because of linguistic, historical and cultural ties between the Nordic countries, the economic integration among them has assumed a special importance. A passport union, a common labour market, and the harmonization of laws in a number of fields have, together with EFTA and EC free trade arrangements, helped Finland, Iceland, Norway and Sweden to evolve into something resembling a de facto Nordic domestic market. The elimination of remaining non-tariff trade barriers within the Nordic region is an important Swedish trade policy goal today.

Sweden was a founding member of the European Free Trade Association (EFTA), whose present membership also includes Austria, Finland, Iceland, Norway, and Switzerland. A free trade area for industrial goods between the EFTA member states was achieved in 1966. In 1972, Sweden and the other EFTA countries concluded free trade agreements with the European Economic Community (EEC) and the European Coal and Steel Community (ECSC). Free trade in industrial goods has been achieved also here.

Despite the elimination of tariffs through these relatively far-reaching agreements, commerce in Western Europe still faces various barriers in the form of border formalities, differing technical regulations, etc.

Given the volume of Swedish trade with the European Communities, the freest possible access to this market is an important objective of Swedish trade policy. In 1987, the Government presented a Bill to the Swedish Parliament, the Riksdag, proposing that Sweden should aim for as close a co-operation as possible with the EC, while fully respecting Sweden's policy of neutrality and non-alignment. The Bill was approved by a broad majority in late spring 1988.

In December 1989, the EFTA countries and the EC decided at a joint ministerial meeting upon the goal of a global and balanced agreement for

the free movement of goods, services, capital and manpower within a future European Economic Space (EES). A broader and more structured relationship between EFTA and the EC is foreseen, reflecting the EC's push towards a common internal market by 1992. Formal negotiations are expected to commence during the first half of 1990. The aim is to conclude an agreement as rapidly as possible.

A new dimension has recently been added to European cooperation through the developments in Eastern European countries. Sweden strongly supports the reform processes in those countries and would welcome their increased participation in regional economic co-operation based on market economy principles and the rules contained in the multilateral framework for trade. In the same vein, Sweden would also welcome a fuller participation of these countries in world trade and its institutions.

Swedish free trade policy, as presented above, has been facilitated by the considerable structural adjustments in industry that have taken place domestically during the latter half of the 1970s and during the 1980s.

In the field of textiles and clothing, policy has traditionally been determined by national security and regional policy objectives, and Sweden is a member of the Arrangement Regarding International Trade in Textiles (MFA IV). However, the Riksdag has adopted a Bill supporting the Government's intent to abolish all quantitative restrictions on textiles and clothing when the present extension of the Multifibre Arrangement expires on July 31, 1991.

Agricultural policy in Sweden has been closely linked to the concepts of food security, and assuring farmers a standard of living equal to that of comparable occupational groups. Present support mechanisms have been costly to consumers, become a strain in public finances and contributed to inflation without adequately achieving stated objectives. In order to reverse these trends the government is presenting a comprehensive package of reforms of domestic food policy in the Riksdag during the spring session of 1990. The reform will define and clarify the objectives of agricultural policy and seek new, more efficient ways of achieving these objectives. Border protection is not covered by the present Bill, but will be amended to the extent that agreement is reached on this within the Uruguay Round.

A policy area of considerable and increasing importance in Sweden is environmental protection. The scope and magnitude of problems is far greater today than at any previous time. The Swedish Government believes that the linkages between environmental policy and trade policy should become the subject of serious discussion during the next few years, in order to facilitate the far-reaching measures necessary to control present problems and achieve sustainable development in the long run.

II. Description of the import and export system

Imports to Sweden and exports from Sweden are essentially unrestricted. Foreign trade is conducted by economic operators in their

own name and on their own responsibility. They operate within a regulatory framework consisting of acts adopted by the Riksdag, ordinances and decisions by government and more detailed directives by government agencies or local government authorities.

Foreign-controlled enterprises in Sweden are allowed to import to and export from Swedish territory on the same conditions as Swedish enterprises.

The average level of Swedish tariffs is low, approximately 4.3 per cent. Tariffs are bound under the GATT for 94 per cent of Swedish imports. Variable levies are applied to imports of certain agricultural products.

In general Sweden applies no quantitative restrictions to trade in raw materials, semi-finished or finished industrial goods or to trade in services. Existing textile quotas will be terminated in 1991. Limited quantitative restrictions exist on imports of certain agricultural products.

Licensing requirements are primarily imposed for surveillance purposes. The decision to require licences is taken by the Government. Decisions on detailed requirements are taken by the government agency responsible for implementation.

Consistent with the basic policy preference for free trade under multilateral rules Sweden has resisted pressures to apply or enter into voluntary restraint arrangements on exports or imports in specific sectors or for specific products, whether government-to-government or industry-to-industry.

III. Wider economic needs, policies and objectives

The central goals for Swedish economic policy are full employment, high growth, stable prices, equitable living standards and external and regional balance.

In the early 1980s, the Swedish economy was out of balance in important respects. Economic growth was weak, industrial production and business investments stagnant, and inflation higher than in the rest of the OECD. The external deficit corresponded to almost 4 per cent of GDP and the budget deficit to more than 13 per cent of GDP.

In 1982, the Government launched a new economic strategy. The main ingredients were a devaluation of the currency to improve domestic savings and to assist in the transfer of resources from the non-competing sector to the competing sector.

This strategy proved to be successful in the short to medium term. By 1986, both the external deficit and the budget deficit had disappeared. The inflation rate had dropped to 5 per cent from almost 11 per cent four years earlier, and the level of industrial investments had almost doubled.

However, after 1986, problems have again become visible and additional ones have developed. Wages are increasing faster than in competing countries. Household savings have declined, partly due to deregulation of the domestic credit market in the mid 1980s. As a result, inflation has increased and the current account has deteriorated. Furthermore, productivity growth is low.

Considering these developments, the Government is now focusing economic policy on reducing price and cost increases, improving savings and increasing productivity growth. Full employment remains a central policy goal.

The planned reform of the system for agricultural support is expected to improve resource allocation and ease inflationary pressures.

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