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### TRADE POLICY REVIEW MECHANISM

#### SWEDEN

#### MINUTES OF MEETING

Chairman : Mr. Rubens Ricupero (Brazil)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. In his introduction, the Chairman recalled the objectives of the Trade Policy Review Mechanism as contained in the Council Decisions of 12 April 1989 (L/6490). In accordance with these decisions, the Council's work was to be based on two reports, one prepared by the Government of Sweden (C/RM/G/5) and the other by the Secretariat (C/RM/S/5A and 5B). The report by Sweden followed the outline format agreed for country reports by the Council in July 1989 (C/M/235). The Secretariat has sought clarification from Sweden on the factual information contained in the first six chapters of its report. One contracting party had given advance notice in writing to the Secretariat of points it wished to raise at the meeting. These had been passed on to the Swedish delegation.

2. The Chairman recalled that the discussions should focus on four broad headings: an appreciation of the full range of Sweden's trade policies and practices; the relevant background, in particular the wider economic and developmental needs and the external environment; the impact of Sweden's trade policies and practices on the functioning of the multilateral trading system; and general comments by way of assessment and evaluation.

3. The Chairman thanked the two discussants who had agreed, in their personal capacity, to assist the Council in its deliberations. One useful new feature of the proceedings was the circulation, prior to the meeting, of a joint statement prepared by the discussants indicating points which, in their view, would be worth particular attention (C/RM/W/2). He invited Ambassador Hawes to open the discussion and Mr. Stancanelli to make supplementary remarks.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF SWEDEN

4. The reason for our being here today may be attributed to one of the positive results so far of the Uruguay Round, namely the Trade Policy Review Mechanism which has been established as a result of the negotiations within the FOGS Group. Let us hope that this is an indication of how the results of the Round as a whole will be.

5. I would first of all like to thank the Secretariat for the good report, and for the extensive work undertaken in putting it together. The report provides a good survey of Swedish trade policy, its objectives and the means of achieving these. It is, I think, unavoidable, when for the first time putting together a report of this kind, that there are some errors and omissions, at least as we see it. I will only mention one or two of these, since they are of principal interest. The rest we regard as minor and will be discussed bilaterally with the Secretariat. I would also like to express my appreciation for the efforts made by the Chairman and the discussants to familiarize themselves with Swedish trade policy, and I hope we will be able to have an extensive and fruitful discussion on the subject.

6. Sweden fully supported the introduction of the TPR Mechanism, as a means of increasing transparency in international trade policies and strengthening the monitoring of fulfilment of GATT obligations among the contracting parties. Some improvements can probably be made, but this is not the time to discuss those. Let me just, however, compliment the Secretariat on its decision to spread the review session over two half days instead of one whole day. I think it is to the benefit of all participants in this exercise that the country under review has the possibility, when needed, to consider overnight some of the more specific questions posed.

7. Let me now turn to today's issue and make some comments to the extensive report prepared by the Secretariat. First, some words about Swedish trade policy. Sweden is a small country, highly dependent on foreign trade. Imports and exports account for more than half of our Gross Domestic Product, and one of the reasons for the relative successes of Swedish industry is that it has been able to act in an integrated international market, and not been restricted to a small domestic market. Consequently, Sweden today ranks as number fifteen amongst the world's trading nations.

8. Our main trading partners are to be found in Europe. In 1988, more than 70 per cent of our exports and imports respectively went to or came from Western Europe. Being a founding member of the European Free Trade Association (EFTA) and having a free trade agreement with the European Economic Community and the European Coal and Steel Community, this is a logical consequence. The issue of 1992 and a common internal market for the European Community is, of course, an important question for Sweden, and we participate actively in the discussions between the EEC and EFTA on the creation of a European Economic Space. The Swedish Parliament took a decision in 1988 that Sweden should aim for as close a co-operation as was possible with the EEC, while fully respecting Sweden's policy of neutrality and non-alignment.

9. All this may sound as if Sweden does not much value trading with the rest of the world, and prefers to regionalize its trade within the framework of free trade agreements. Let me state emphatically that this is not the case. On the contrary, we see the multilateral trading system as an important and necessary framework for regional agreements. The purpose of regional arrangements is not to block out other trading partners, but to promote productivity and enhance prosperity globally.

10. For an export- and import-oriented country such as Sweden, free trade must be and is one of the guiding principles of our trade policy. This not only benefits our exports. We regard it as just as important from a macroeconomic point of view that we have keen import competition to encourage domestic industry to use their resources in the most effective way. There are several reasons why it is necessary to expose Swedish industry to world market forces. The first is that this is perhaps not the only, but certainly the best way, to get the allocation of resources right in the Swedish economy. Another is that this is to the benefit of Swedish consumers - if a small market like Sweden's were highly protected, our consumers would certainly pay higher prices for goods of lower quality. In the long run, it is also in the interest of Swedish exporters. Swedish exporters would not be effective unless they had access to the best possible inputs, and that is only possible if they have access to the free importation of industrial inputs. These are the main reasons why Swedish Governments have always promoted a multilateral rules-based system for world trade and for our active engagement in the present and previous GATT rounds.

11. It is our firm belief that no country, small or large, benefits from an international trading system where unilateralism rules and the power of the stronger decides who governs the international markets. We therefore find it extremely important that one of the results of the ongoing Uruguay Round will be better, more adequate rules which will be respected by all contracting parties. Sweden has entered into the Uruguay Round with the objective that this should lead to a global liberalization of trade. We are aware that this may lead to conflict with various domestic interest groups, but it is my Government's firm view that this is necessary and in many cases beneficial, in order to achieve healthier and more market-oriented trade, as well as the more efficient use of a country's resources.

12. Sweden is consequently interested in having the whole world as a market for imports as well as for exports. An important factor in our trade policy has been to make developing countries more involved in world trade. We believe that this is necessary in order to promote their development process. Our implementation of the GSP system in 1972 (and I would like to underline that Sweden has a very generous GSP system) and our contribution in different multilateral co-operation organizations should be seen in this light.

13. Trade between Sweden and the developing countries may not be as large as desired. This probably can, to some extent, be explained by the fact that Sweden does not have a colonial past and therefore lacks some of the "natural connections" that some of our fellow countries have. For example, Swedish export companies do not usually have extensive service systems in

developing country markets. Another explanation is, of course, the geographical one of being located rather far away from most developing countries. Another has to do with distribution systems. For example, Sweden buys a lot of tropical food products from wholesalers in Rotterdam. These products originate in developing countries but show up in the trade statistics as imports from the Netherlands. Finally, one should probably add that most of Sweden's bilateral aid is not tied to Swedish products and that, of course, diminishes Swedish exports to developing countries.

14. Imports to and exports from Sweden are essentially unrestricted. The weighted average level of Swedish tariffs is low, approximately 3.5 per cent, and the tariffs are GATT bound for 95 per cent of imports. Variable levies are, however, applied to imports of a number of agricultural products. In general, quantitative restrictions are not applied. Licensing requirements are mainly imposed for surveillance reasons and Sweden has resisted pressures to apply or to enter into voluntary restraint agreements on imports or exports.

15. Anti-dumping has become an increasingly important element in GATT countries' trade policies. Sweden for its part has been very restrictive in using the anti-dumping provision in the GATT and has never used countervailing duties.

16. Let me make one small addition since it is related to something we find inadequate in the report. In our interest to expand free trade, we have a great interest in improving the rules governing government procurement. In that respect we think there is a small misunderstanding in the Secretariat's report. To avoid such a misunderstanding, I would like to underline that all procurement by central Government bodies is subject to the provisions laid down in the Swedish Government Procurement Ordinance. There are no exceptions. Formulations in Paragraphs 226 and 529 might indicate that there are exceptions. That is not the case.

17. The Secretariat has in its report put quite some emphasis on Swedish trade restrictions in agriculture and textiles. I have no major objections to the factual statements in the report, but I would like to underline that both of these sectors are the subject of extensive reforms. The Swedish Government has, in a Bill supported by Parliament, expressed its intention to abolish all quantitative restrictions on textiles and clothing when the present extension of the Multi-Fibre Arrangement expires on 31 July 1991. All countries concerned have been informed of this and, with most of them, the present agreements have been adjusted accordingly. The intention therefore remains to conclude these agreements by the end of July 1991. On footwear, quantitative restrictions will be removed by 1993.

18. Agricultural policy has traditionally been influenced by non-trade concerns, such as food security, income parity goals and regional considerations. A comprehensive bill is, however, right now being debated in Parliament and will be voted on this coming Saturday. The aim of the Bill is to fundamentally reform domestic food policies; existing support systems have been found too costly to consumers and to the national budget without adequately achieving their stated objectives. The Government's proposal includes the termination of the present price support system and the phasing out of export subsidies. It will, if accepted, be implemented

gradually from 1 July this year over a five-year period. Border protection as such is not affected by the present reform, but will be adjusted according to the agreements reached within the Uruguay Round.

19. In this context, I would also like to elaborate briefly on Swedish industrial policy. Large efforts were made by the Swedish Government during the 1970s and 1980s to assist in the restructuring of Swedish industry. Ten years ago, Government subsidies were an important element in the Government's policies. The attitude today, however, is very restrictive towards support for ailing industries. The Government has developed a much tougher attitude towards subsidies altogether. It is in our own interest to concentrate on the industries where we have a competitive advantage, and we believe that market forces should decide the allocation of industrial output.

20. Here, I would like to clarify one other point in Table 4.7 of the Secretariat report, where figures seem to indicate that Government subsidies for steel and, in particular, shipbuilding, have increased. It is perhaps known to some that in the mid-1970s Sweden had five large shipyards and was, if I remember correctly, the world's second largest shipbuilder, I think second only to Japan. As a consequence of the oil crisis, the industry ran into severe problems. At first the Government supported these industries rather handsomely, and the cost of these subsidies increased quite considerably. However, all new support has been abolished, and there is neither the intention nor even the possibility of resuming it, since none of the five shipyards exist today. One has shifted production to catering to the off-shore oil industry, a second produces a limited number of submarines for military purposes, and the other three shipyards have been shut down completely.

21. We have also seen a reduction of more than one-third in Sweden's steel capacity, from 7.3 million tons of raw steel annually in the mid-1970s to 4.6 million tons now. This should be seen as a substantial contribution on Sweden's part to the solution of the global over-capacity facing the steel industry. And again, there are no new subsidies being given to the steel industry. What is recorded as increases in Table 4.7 are simply bookkeeping consequences of decisions that were taken quite a number of years ago. So there is no intention of renewing this subsidy scheme. The same is true for, and I think a question has been asked about this by Australia, the pulp and paper industry. There is no intention of reviving Government aid to this industry.

22. Let me now come to a few final words, Mr Chairman. I would in concluding refer to what Ambassador Yerxa said in his introductory comments to the trade policy review of the United States. He said, "...the important question to ask ourselves is what is the trend in the trade policies of the countries under review? Are they moving in the direction of trade liberalization or are they turning inwards, and are the members of the GATT moving in the direction of fulfilling the GATT's original purpose?" I fully agree with the view that we should not waste too much time considering specific details in the contracting parties' trade policies, but we should look at the direction in which they are moving. Concerning Sweden, I think that Ambassador Yerxa's questions can be answered positively. The trend in Sweden's trade policy is towards greater

liberalization. We are reducing or eliminating industrial support; we are accepting to negotiate liberal multilateral disciplines for agriculture; we have taken a unilateral decision (sometimes unilateral action is good) to phase out restrictions in textiles.

23. Sweden has been a member of the GATT since 1950. We have participated actively in all negotiating rounds and are a signatory to all MTN codes. It is therefore my view, which I hope will be shared by you after this exercise, that Sweden is fulfilling its obligations under the GATT.

III. STATEMENT BY THE FIRST DISCUSSANT

24. What I must say at the outset is how much I appreciated the opening statement made by Ambassador Anell.

25. I think it would be evident from what I am about to say that both Ambassador Anell and I have been walking somewhat in the footprints of the Secretariat because, although there may be different points of emphasis and differences in order, a number of the issues that he focused on also came very much to my attention. In that regard, I think the documentation that we have before us provides a very useful mix of factual information, commentary and analysis. As with the reports furnished for the reviews which inaugurated the Trade Policy Review Mechanism last December, the Secretariat is to be commended for its efforts in bringing this material together in a way which should facilitate examination and discussion by this meeting. No doubt the Secretariat has also been assisted greatly by co-operation from the relevant Swedish authorities. But I think in approaching the discussion of both reports on Sweden, we find that the Secretariat has already focused our attention on several key features of Sweden's economic and trade performance, as well as on related considerations, which serve to shape and/or which are serving to shape Sweden's trade policy.

26. It is evident that Sweden's economy has undergone considerable structural change in recent years, with the contribution to GDP of agriculture, forestry and fishing declining to around 3 per cent, mining and manufacturing contributing now around 25 per cent, and a rapid growth in private sector services which now contribute around 62 per cent. Sweden, of course, is a country with a very strong public sector framework, although various efforts at deregulation are underway. Key Government objectives include maintenance of full employment - here I would remind those who may not have noted it that the unemployment rate in Sweden is 1.4 per cent - and a universal welfare system. So as well as a strong public sector involvement in the economy, there is a rapidly expanding private services sector. I think one area which might warrant further consideration is the rôle of the public sector in the Swedish economy, in particular, when considering Sweden's export and import policies against the background of strong Government regulation of the economy and the pursuit of other social objectives. These include regional development and to what Ambassador Anell has already referred to as non-trade concerns, a term which I think is familiar to people engaged in negotiations on agriculture.

27. The documentation refers to a pattern of economic adjustment assistance to specific manufacturing sectors in the 1970s and 80s, usually at times of crisis as experienced, for example, in shipbuilding, iron and steel. It is noted that the assistance provided under such programmes has declined substantially in the past decade and it would appear worth considering the reasons for, and the trade impact of, the Government's changing approach to adjustment assistance, and its existing policies regarding sector specific assistance during times of severe economic down-turn. Again I think Ambassador Anell may have somewhat anticipated elements of the discussion that could take place in this area.

28. We see reference in the reports to a recent slowing of economic growth, serious capacity constraints, an overheating economy with relatively high and accelerating inflation rates, declining international competitiveness, a large and increasing current account deficit and a large and rising external debt. Against this background, policies implemented by the Swedish Government include measures aimed at dampening demand and improving productivity and growth, by moderating wage increases and the removal of structural impediments.

29. Now in this context, it is clear that trade policy reform occupies a very important place on the national economic agenda. In particular, attention is drawn, and has already been drawn by Ambassador Anell, to programmes of trade liberalization in areas of high protection, such as agriculture, textiles, clothing and footwear. In considering the measures undertaken in order to restore balance to its economy, it is therefore instructive to note that Sweden has embarked upon structural and trade policy reforms and macroeconomic adjustments, instead of resorting to trade restrictions towards its trading partners. The report highlights very clearly the importance of international trade to the Swedish economy; merchandise imports and exports account for about half of Sweden's GDP. Features of Sweden's trade include a long-term trend towards exports of highly-processed goods, and indeed engineering products account for over 50 per cent of total exports. However, despite substantial growth in exports in recent years, Sweden's ranking in world merchandise trade has slipped from twelfth place to fifteenth in terms of exports, and major Swedish export industries are reported to have lost market share.

30. Sweden's trade is highly concentrated. Some three-quarters of merchandise trade is conducted with the countries of EFTA and the EEC, the latter accounting for over one-half. The United States has less than 10 per cent of the total and developing countries, as a group, slightly less than the United States' share, despite Sweden's system of tariff preferences for developing countries which provides across-the-board duty-free treatment for least developed countries. This strong regional orientation and further development of preferential trade and economic flows is something that will be picked up by my co-discussant, Mr Stancanelli.

31. It is evident that tariffs are the principal instrument of import protection in Sweden. Applicable rates are generally low, averaging around 5 per cent on an m.f.n. basis. In the case of manufactures, the tariffs for around 96 per cent of all items are bound. However, as the reports indicate, and as has been pointed out by Ambassador Anell himself, there are some important departures from the "tariffs-only" régime; in the case of agriculture and textiles we see quantitative restrictions and generally higher tariffs, and in agriculture there is a comprehensive system of variable levies, as well as additional seasonal tariffs for fruit and vegetables. There is also a lower level of tariff obligations in that sector.

32. However, as mentioned earlier, agriculture and textiles, clothing and footwear are sectors where the Government has identified the need for reform as part of moving towards a more efficient allocation of resources.

And it would be useful to hear more from the Swedish delegation concerning the details and objectives of reform programmes in these areas.

33. There are, of course, many other aspects of Sweden's trade policies which merit consideration. Participants will no doubt have their own views on these. It is of interest that Sweden has evidently made little use of, and has rarely been engaged by, GATT dispute settlement procedures. It has had limited recourse to anti-dumping action and has never, it would seem, taken account of countervailing measures. And perhaps all of this speaks well of Sweden's capacity to settle disputes by diplomatic channels. We read in Sweden's own report that it has resisted pressures to apply, or enter into, voluntary restraint arrangements on exports or imports in specific sectors or for specific products, whether by government-to-government or industry-to-industry arrangements. It would be of interest to learn more of the origins of these pressures and the product areas to which they relate.

34. Those are the initial comments that I would wish to make on Sweden's report. I think I could generally agree, however, that the trend which Ambassador Anell spoke of in his own conclusion is one that would seem, at least to me, evident from a reading of those reports. There is a trend towards increasing liberalization, reductions in sector-specific assistance and as well, an attempt at policy reforms aimed at securing or encouraging a better allocation of resources against an economic background which, quite evidently, contains a number of points that give rise to concern on Sweden's own part.

IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

35. I should like to begin my comments by stressing the importance of the documents prepared by the Government of Sweden and by the Secretariat, and thanking Ambassador Anell for his remarks on Sweden's trade policy. We see this as an important contribution to the exercise of assessing and evaluating Sweden's trade policies, and of examining its impact on the international trading system.

36. In his remarks, Ambassador Hawes basically took account of the relationship between trade policy and the broader aspects of macroeconomic policy. He also referred to particular aspects of trade policies aimed at achieving a better allocation of resources, and at integrating Sweden more fully into the international economy. These are important points for focusing the discussion on the most significant issues for the objectives of this meeting. I shall try to supplement what Ambassador Hawes has said with a number of points relating to specific aspects of trade policy, as well as to Sweden's participation in the multilateral trading system and in the Uruguay Round of multilateral negotiations.

37. It appears from the reports prepared by the Government of Sweden and the Secretariat that import protection is provided essentially by tariffs, the simple average of which is less than 5 per cent. However, in some areas, besides special régimes for agriculture and textiles, specific tariffs are applied which are substantially higher. These include certain chemical products, electric light-bulbs, tyres, fish and shellfish, fruit and other products. A licensing system to control or monitor sensitive imports is also in force. In addition to agriculture and textiles, this system applies to imports of steel, footwear, fish, fruit and to imports from certain countries where state trading has predominated. Broadly speaking, this system consists of the application of quantitative restrictions on imports. The Secretariat report mentions that in some areas of technical and sanitary regulations, Sweden imposes stricter requirements than those applied by other contracting parties. This is the case, for example, with requirements concerning quality, packaging, labelling, hygiene and sanitary standards. There is also a reference to the application of the Government Procurement Code, which was clarified in Ambassador Anell's statement. However, this reference makes it clear that there would be little coverage or that participation of non-national suppliers would be significantly limited in public sector procurement.

38. Thus, taking account of the foregoing, it might be interesting to have further details concerning the following aspects. What are the criteria determining the application of specific tariffs and licences for individual imports, and is any change envisaged as a result of the ongoing process of economic reform? Secondly, to what extent do technical, safety and sanitary regulations differ from international standards or, where the latter do not exist, from the less strict standards applied by countries where conditions are similar? Furthermore, is it considered necessary to promote greater harmonization at the international level as a means of minimizing the effects of such regulations on trade? With regard to the Government Procurement Code, it might be interesting to have further details concerning the grounds for restricted foreign participation in public sector purchases, if that is indeed the case. With respect to the

multilateral trading system and Sweden's participation in it, and particularly in the Uruguay Round, it would be interesting to look at the aims of such participation, and its linkages with regional trade or economic integration, stabilization of raw material or commodity prices, and the participation of developing countries and the impact of the Uruguay Round.

39. Foreign trade accounts for a high share of Sweden's gross domestic product: exports represented 27.4 per cent and imports 25.1 per cent of its GDP, which amounted to \$178 billion in 1988. Exports and imports of services were also large: \$9.66 billion for exports, and \$12.3 billion for imports. This fact, and the country's limited share in the world gross product of 0.8 per cent and in international trade of 1.6 per cent explain, as Ambassador Anell stressed, the importance which Sweden attaches to a strengthened and open multilateral trading system in which all parties obey the rules. According to the report submitted by the Government of Sweden, its trade policy objectives are the liberalization of world trade and increased competition in the domestic market. Facilitating the participation of developing countries in trade and stabilizing commodity prices are also mentioned as important objectives.

40. Besides the issues relating to sectoral policies in specific areas such as agriculture and textiles to which Ambassador Hawes referred, it would be interesting to consider the following aspects which, to some extent, appear to be in conflict with the above-mentioned objectives. The first of these is the impact of regional integration on trade. The bulk of Sweden's trade by value, 72 per cent of exports and 73 per cent of imports, is with European countries, on the basis of total liberalization of trade in industrial products as provided for under the integration treaties with the EEC and the European Free Trade Association. Negotiations will continue in the near future on the construction of a European Economic Space, with a view to the gradual removal of obstacles to trade and to the movement of factors of production. Bearing in mind that between 1978 and 1988, Sweden's foreign trade grew at a similar rate to that of world trade and the share of European countries in that trade increased from 68.8 per cent to 72.1 per cent of total value, while that of developing countries dropped from 13.4 to 8.5 per cent, it is clear that there is a trade-displacement effect which could be attributed to the above-mentioned situation of preferences or integration.

41. This also leads to a number of questions. For example, to what extent is this trend or the regional structure of trade being influenced by the decreasing importance in practice of the most-favoured-nation principle for Sweden's imports and exports or, in other words, by the fact that most trade follows preferential channels? Are there any studies by governmental or independent organizations that have evaluated this and analysed the impact on trade of the construction of the European Economic Space? How can the fact that trade is increasingly channelled through integration agreements be reconciled with the objective of strengthening the multilateral system? And with a view to that objective, i.e. the strengthening of the multilateral system, how does Sweden visualize the movement towards a system primarily or exclusively governed by the most-favoured-nation principle, i.e. the principle of non-discrimination?

42. Another important point concerning the developing countries is how the downward trend in the developing countries' share of Sweden's foreign trade can be reversed? Taking account of their competitiveness, what general and sectoral measures could be drawn up for this purpose within the economic reform programme and the Uruguay Round of negotiations? With regard to the stabilization of commodity prices, as stressed in the Government's report, Sweden attaches particular importance to price stabilization as a means of promoting the export earnings of developing countries. A number of academic studies and reports by international organizations show that a major, if not the main cause, of fluctuating and deteriorating raw material prices is the isolation of the most important consumer markets. This circumstance reduces the volume of internationally-traded products; as a consequence, any more or less significant variation in supply or demand gives rise to large fluctuations which could be substantially cushioned, or softened, by a bigger and more open international market. The report appears to refer to the need for possible commodity stabilization agreements to be based on realistic assumptions, in other words, to take account of the market situation. This would also raise a number of questions. How does Sweden visualize the achievement of more stable commodity markets that would promote greater receipts for exporting countries? What rôle in attaining this objective is attached to greater access to the main consumer markets, and how could the reform of agricultural policy in Sweden contribute to this objective?

43. The last point I wish to mention in supplementing Ambassador Hawes' remarks is the impact of the Uruguay Round. As stated in the report by the Government of Sweden, it has from the outset supported the Uruguay Round as a means of broadening and strengthening the General Agreement, countering protectionist trends and contributing to the further liberalization of trade. In this context, it would also be important to refer to how the Government of Sweden considers the Uruguay Round could facilitate the development of its own economic reform programme aimed at a better allocation of resources in the Swedish economy, and whether this programme is in any way linked, at least in some sectors as Ambassador Anell seemed to suggest, with the success of the Round. In what sectors is growth limited by the existence of trade barriers? What contribution could Sweden make to the global and sectoral liberalization of trade?

44. These are some of the aspects which I consider of particular interest and concern in connection with Sweden's trade policy. I should like to stress once again the importance of the reports prepared and of the statement by the delegation of Sweden, and to express my agreement with Ambassador Hawes that the objectives and trend do indeed appear to point to a favourable contribution by Sweden to the multilateral trading system generally, and to a more stable and predictable trading environment.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

45. Members of the Council complimented Sweden for its decision to be one of the earliest countries to be reviewed under the Trade Policy Review Mechanism, and expressed their gratitude to the discussants for their perceptive comments and introductory remarks. They thanked the Swedish Government and the Secretariat for the standard and coverage of their reports which they believed provided an informative framework within which to conduct the review.

46. The representative of the European Communities referred to the long-standing, close and very firm trading relationship between Sweden and the EC, and the intention to deepen further this relationship through the development of a European Economic Space (EES) between EC and EFTA trading partners. He noted the importance Sweden attached to the parallel development of global and regional trading opportunities.

47. While Sweden's impact on international trade was relatively small in absolute terms, it had nevertheless made a considerable and beneficial contribution to the multilateral system through acceptance of GATT principles. Sweden had signed all GATT codes emanating from the Tokyo Round, and this had added a high degree of predictability and transparency in the implementation of its trade policies.

48. The representative of the European Communities commended Sweden for its generally low tariff rates and low overall incidence of tariff escalation. The level of bound tariffs in agriculture, although considerably below that of industrial goods where tariffs are almost completely bound, was nonetheless significant. Although there had been a decline in the importance of import licensing, he thought there remained scope for Sweden to rationalize further its import licensing system. He sought comments from Sweden on this aspect, including on the Swedish practice of charging a fee to issue import licences.

49. The representative of the European Communities recognized the considerable efforts made by Swedish industry throughout the 1970s and 1980s to adjust to longer-term structural changes. He was pleased that the current macro-economic problems confronting Sweden, such as high and rising inflation, declining international competitiveness, a large and increasing current account deficit and growing external indebtedness, were being tackled using macro-economic policies like tighter fiscal and monetary policies, along with more direct action on freezing prices and rents. He urged Sweden to examine further ways of increasing developing countries' share in its imports which, mainly due to historical factors, was relatively low. In this context, he referred to the GSP scheme and the declared intention of the Swedish Government, endorsed by Parliament, to remove quotas from textiles.

50. The representative of the European Communities invited Sweden to examine further the impact of its technical standards on international trade. These tended to be very stringent and, in some cases, went beyond existing international standards. They had been the cause of certain problems between Sweden and the Community.

51. Commenting on Sweden's frequent justification of particular trade measures on national security grounds, he sought clarification from Sweden on how the notion of national security was defined and applied in practice.

52. Additional information was requested by the representative of the European Communities on the evolution of Sweden's trade policies with Eastern and Central European countries, including its Frontier Trade Agreement with the Soviet Union; the effects of monopolies on the sale and distribution of pharmaceuticals and alcoholic beverages, together with the justification for uneven levels of assistance between highly substitutable beverages; and the "special duty" which may be imposed on imports to safeguard domestic producers in special circumstances.

53. The representative of Tanzania expressed gratitude for Sweden's enlightened policies towards developing countries which had facilitated their integration into the multilateral system. In his opinion, the rather poor trade performance of Sweden with Africa mainly reflected the current situation in Africa. He expressed the hope that industrial countries would follow Sweden's lead and remove quotas on textiles, clothing and footwear.

54. The representative of Canada, expanding on questions submitted to Sweden, asked whether Sweden's commitment to create a European Economic Space would mean the termination of certain regional trade barriers, such as those on most agricultural and fishing products. Canada was encouraged by Sweden's proposed agricultural reform. He sought additional details on the effects of the reform package for the Swedish system of variable levies, and whether future reform depended solely on the outcome of the Uruguay Round. He asked whether Sweden was considering relaxation of its long-standing import licensing requirements for certain fish. The Canadian representative also enquired if Sweden intended to introduce public reviews of the domestic costs of trade policies.

55. Referring to Sweden's conditional prohibition on imports of coniferous lumber from several countries (including Canada), the Canadian representative asked how Sweden could ensure that health requirements, justified on scientific grounds, were implemented in a manner which had the least possible impact on trade. He also sought information on whether Sweden favoured closer harmonization of its plant health regulations with those of the EC.

56. As in Sweden, environmental protection was important in Canada and he believed that the links between environmental and trade policies would become an increasingly important area of debate. He sought elaboration from Sweden on its experiences in this regard, in particular, with the use of the concept of an "acceptable degree of risk" associated with imports of certain products.

57. The representative of Japan referred to Sweden's efforts towards trade liberalization, as illustrated by its low average tariffs, the very high level overall of tariff bindings, and its proposals to liberalize trade in textiles, agriculture and marine products. He commended Sweden's support for the multilateral trading system, its strong commitment to strengthening this system and its active participation in the Uruguay

Round. Sweden's decision to liberalize trade in textiles and clothing had helped create a favourable climate for textile negotiations in the Round.

58. With respect to preferential rules of origin under the EFTA Convention and Sweden's free trade agreement with the EC, the Japanese representative expressed the hope that the application of additional supplementary rules for determining "sufficient processing" (e.g. permitting only a certain percentage of input materials from a third country) would not create any protectionist effects on trade.

59. The representative of Australia, noting Sweden's strong bias towards preferential trade with EC and EFTA countries, called for a closer examination by the GATT of the trade creating/trade diversion effects of regional arrangements, together with their implications for the m.f.n. based multilateral system. Australia viewed the TPRM as one means by which surveillance along these lines could be exercised.

60. In addition to seeking information on the trade implications of Sweden's regional agreements, such as the facilities used by the Swedish Government to analyze these effects and whether the proposed creation of a European Economic Space should be seen as a halfway house to EC membership by Sweden, the Australian representative drew attention to other questions provided in advance to Sweden. These covered aspects of the proposed reforms in textiles, clothing and footwear and agriculture, such as the binding of these reforms, the link between them and the Uruguay Round negotiations, and whether Sweden intended to reduce border protection (including variable levies) in the context of the Uruguay Round.

61. The Australian representative, referring to the pattern of economic adjustment assistance in Sweden in the 1970s and 1980s, sought clarification of the present policy approach towards the provision of this assistance. He asked what arrangements existed to decide on or review sector-specific programmes, especially during times of crisis. He also asked whether any other major industries, apart from shipbuilding and iron and steel which continue to receive assistance from previous restructuring programmes, currently receive structural adjustment assistance, and whether any such assistance was envisaged for the pulp and paper industry to assist structural change or to reduce environmental problems.

62. The representative of the United States agreed that Sweden's trade policies were moving in a positive direction. He applauded Sweden's proposed agricultural reforms, which were a major improvement on its historical and highly protective agricultural policies. He hoped that these would inspire its Nordic and Western European neighbours. He also commended Sweden for its unilateral decision to liberalize trade in textiles, clothing and footwear, which should not only improve the welfare of Swedish consumers, but also increase substantially the trade prospects for developing countries.

63. He referred to questions submitted in advance to Sweden covering the planned agricultural reforms; regional trading relationships and negotiations to create a European Economic Space; and Sweden's restrictive foreign investment régime. He wondered to what extent the planned reforms in the agriculture and textile sectors would be affected by Sweden's

eventual integration with the European Communities if the European Economic Space was created.

64. He referred to Sweden's vigorous and constructive interest in the GATT and the Uruguay Round, despite powerful forces drawing it increasingly into the EC's regional trading orbit. He expressed the hope that the negotiations on the European Economic Space would not alter fundamentally Sweden's view on the merits of the multilateral trading system. Sweden's policies had clearly moved away from its contradictory, highly protectionist trade policies of the past.

65. The representative of India complimented Sweden for the positive nature of its recent reform proposals; in particular, the intended elimination of quotas on textiles and clothing after the expiry of MFA IV, irrespective of the outcome of the Uruguay Round. These measures were being contemplated at a time when the economy was overheating with relatively high and accelerating inflation rates, declining international competitiveness, a large and increasing current account deficit and rising external debt. He referred to Sweden's good multilateral record, and noted that Sweden had never imposed countervailing duties and had used anti-dumping measures sparingly.

66. However, one aspect of concern to India was the low share in Swedish imports of trade from developing countries. He pointed out that many developing countries would not be able to take advantage of the proposed elimination of quantitative restriction. Imports from most developing countries would continue to be dutiable at relatively high rates and would not therefore be able to compete with duty-free imports from EFTA and EEC countries. India hoped that Sweden would be able to address these concerns during the Uruguay Round.

67. The representative of Yugoslavia shared the European Communities' view that Sweden's trade policies were generally in line with GATT rules and disciplines. Sweden's approach to the Uruguay Round was positive, as evidenced by its decision to abolish quotas on textiles.

68. He requested additional details of the impact on Sweden's imports of its tightened macro-economic policies as well as the influence on trade policies of its high level of foreign debt. While he welcomed Sweden's limited use of anti-dumping action, the use of technical barriers and standards, such as phytosanitary or sanitary regulations, were a concern to his country, as was the low share of Swedish trade with developing countries. He also sought details of the application of voluntary export restraint measures in different sectors by Sweden.

69. The representative of Norway, speaking also on behalf of Finland and Iceland, referred to the highly valued and important relationships between the Nordic and EC countries. Mention was made of Sweden's dependence on foreign trade, its open and predictable trading régime, and its active support for a multilateral rules-based system.

70. While accepting that one important role of the TPRM was to identify areas of trade policies where changes were needed, the Norwegian representative was surprised that the Secretariat report had devoted so

much space to detailing restrictions prevailing in the Swedish market, notably in the textiles and agriculture sectors. He felt that there was a risk that too much emphasis on specific areas could detract from the overall picture, especially if most focus were placed on the past rather than on the future. The Nordic countries also rejected any implicit scepticism towards Sweden's support for the m.f.n. principle contained in paragraph number 517 of the report by the Secretariat.

71. While supporting the positive trends in Sweden's trade policies and acknowledging Sweden's intention to pursue policies based on free trade, the representative of Hungary referred to a number of areas of concern to his country where Sweden had adopted measures to protect certain sectors. These included high variable levies and export subsidies which made Swedish agriculture one of the most heavily supported in the world, and problems of access to the Swedish market for textiles, clothing and footwear. He welcomed Sweden's decision on agricultural reform, but indicated that the reform needed to be broadened to include substantial reductions in border measures. He referred to Sweden's bilateral quotas on Hungarian exports of footwear. Hungary would be raising a number of matters bilaterally with Sweden. The existence of particular trade policies in Sweden towards a group of countries categorized as "state-trading countries" had no foundation in GATT terms. He hoped that Sweden would terminate these policies.

72. Referring to Sweden's emphasis on regional liberalization, the Hungarian representative expressed the hope and expectation that arrangements to be concluded between EFTA members and the EC would pave the way for greater European integration and the creation of a free-trade area in which Hungary could benefit.

73. In a second statement, the first discussant emphasized that reforms proposed by Sweden in agriculture and textiles, clothing and footwear followed a realization by the Government that traditional protectionist policies in these areas had failed to meet their domestic objectives. He therefore wondered what internal debate had preceded these proposed policy reforms, and noted that the final outcome on border protection for these sections depended on the outcome of the Uruguay Round negotiations. GATT would need to focus more closely in future on questions relating to regional trading blocs and, in particular, the trade creation/trade diversion effects of preferential trading arrangements.

74. The second discussant stressed certain conflicts which he saw could arise between policies of macro-economic adjustment designed to correct imbalances in savings and investment levels, such as high interest rates through tight monetary policies, and the micro-economic objectives of improving the economy's allocation of resources. Noting that developing countries as a group had lost ground over the past 10 years in their share of Swedish foreign trade, he referred to the significant impact which regional trade associations were having on the multilateral trading system, and upon the possibilities of expanding global trade. He foresaw the need for much discussion within GATT in the future on the interrelationships between regional integration and efforts to strengthen the non-discriminatory multilateral trading system.

VI. RESPONSES BY THE REPRESENTATIVE OF SWEDEN

75. Responding to the points made, the representative of Sweden said that the exploratory phase of talks on the creation of a European Economic Space (EES) were over, and it was expected that on 18 June the EC Council of Ministers would agree to begin formal negotiations for a treaty which it was hoped would enter into force on 1 January 1993. The treaty was expected to include provisions for freedom of movement of goods, services, capital and labour, as well as covering co-operation in such fields as education, research and development, environmental and social policies. Agriculture was not to be included in the scope of the negotiations. While Sweden hoped to obtain the best result possible within the EES the question of EC membership was not relevant at this stage.

76. Sweden saw no conflict between its regional and global trading policies. Rather, Sweden's view was that they were both mutually supporting means of liberalizing international trade. The Swedish representative added that although a number of studies on the trade creation/trade diversion effects of regional trade agreements were available, the results were, in his view, inconclusive.

77. In Sweden, trade policy was the fundamental basis on which macro- and micro-economic policies were founded. Domestic economic policies were based on the assumption that Sweden would remain an open market economy, and would continue to pursue a liberal trade policy. There had been and still were a few exceptions; but an open trade policy, which exposed domestic industry to international market signals, was seen as a primary means of improving domestic resource allocation and the structure of the economy. Sweden had learnt an expensive lesson from trying to shelter the shipbuilding industry from world market signals in the 1970s.

78. While monetary policies had perhaps borne too much of the burden of adjustment in Sweden, the unattractive alternatives had meant that this had to be accepted. High interest rates, inflationary pressures, and inflows of capital were signs of an overheated economy with very full employment. Over-full employment caused a number of problems; but full employment was perhaps the most important policy objective in Sweden.

79. Sweden was undertaking major macro-economic adjustment measures. These included important income tax reforms, which were expected to improve labour supply, and rationalization of the public sector which was currently much larger in Sweden than in other OECD countries.

80. Until 1988, five objectives had governed Swedish agricultural policies. The first was food security, related to national security policies. The second was a set of consumer goals, including high quality food at reasonable prices and diversity of supply. The third - income parity - sought comparability between farmers' incomes and those of other small entrepreneurs. The fourth was an environmental objective; that the impact on the environment should be acceptable, and policies should safeguard genetic species or genetic diversity. A fifth objective was related to regional policy; agriculture was to contribute to an even distribution of welfare and to support weak regions.

81. It had become obvious that these policies did not achieve their objectives, and that they could be achieved more effectively by other means. For example, the same level of food security was obtainable through lower levels of production supplemented by stockpiling of imports. The market regulations in force severely reduced the influence of consumer demand on producer behaviour. Inflation in the food sector was also higher than in other OECD countries. Sweden also saw the difficulties of influencing farmers' incomes through price regulation because of capitalization of assets and leakage effects, and realized that high support prices stimulated the use of fertilizers and other chemicals with adverse effects on the environment and the soil. Finally, it was clearly shown that price control placed 90 per cent of the support in the southern and central regions of Sweden, which were not high-priority targets for regional policy.

82. The question of reforming agricultural policies had been intensely debated in Sweden over the past 10 or 15 years, and it had become quite clear that something new must be tried. A working party was therefore established in 1988 which, in a report presented in 1989, proposed a number of major reforms. These included internal deregulation; more targeted measures related to landscape conservation and support for weaker regions in the north of Sweden, which focus not only on agriculture but seek to support other activities in these regions; and more specific measures to deal with the food security problem. At the same time, the working group clearly referred the issue of border protection to the Uruguay Round negotiations.

83. As was normal in Sweden, this proposal had been the subject of widespread review by a number of authorities and interested organizations. It was only in April this year that the Government presented a reform bill, which contained elements following very closely the report of the working group. These included a phasing out of internal market regulations, including export subsidies, over five years starting on 1 July 1990; targeted budget finance programmes to achieve food security, conservation of the landscape and regional goals; and proposals for the active promotion of alternative land use, for example, forest plantation, energy production and wetland reconstruction. The basic principles of the Bill, including a timetable for phasing out export subsidies, had been endorsed by the Standing Parliamentary Committee on Agriculture.

84. The Standing Parliamentary Committee had made the following statement on the GATT negotiations:

"The Nordic countries in common have taken the standpoint that most export subsidies should be abolished. There are strong interests in the GATT representing another view on export subsidies. The European Community for example had claimed that there are other forms of support that have the same trade distorting effects as export subsidies. It is thus difficult to draw any certain conclusions concerning the result of the negotiations. In the opinion of the Committee, the basic principle of reciprocity that the Committee has underscored in an introductory paragraph on the level of border protection, should be valued also regarding this issue. The Committee is, however, in this context not prepared to suggest any

deviation from the line of negotiation that Sweden has chosen with respect to export subsidies. A pre-condition for this standpoint is that the continued GATT negotiations are successful with respect to trade distorting support."

Parliament was expected to take a decision, including the above-mentioned time schedule for the phasing out of export subsidies, on Saturday 9 June.

85. In this connection, the representative of Sweden emphasised that the level and form of border protection would be a matter for negotiation in the Uruguay Round. The Nordic countries had said that tariffication was a feasible alternative to other forms of border measures. The element of border protection, including the question of variable levies, was thus subject to negotiation in the Uruguay Round. The question of licences for fish imports, although not necessarily part of agriculture, was also for Sweden an intrinsic part of the Uruguay Round negotiations.

86. In addition to radical reform of the world's agricultural policies, the Swedish representative stated that Sweden's other major objectives of the Uruguay Round are to achieve substantial reductions in tariffs and increased tariff bindings, especially from developing countries; phasing out of the MFA; extending the coverage of the Code on Government Procurement; and strengthening the rules on anti-dumping and countervailing action.

87. The representative of Sweden said that all forms of government aid to specific enterprises or specific branches, with a few exceptions, had ceased. In general, the Government now provided general support for infrastructure in certain regions, for education and for research and development. In addition, active labour policies had historically been part of Sweden's overall policies, with the aim of improving labour mobility and assisting in retraining of displaced workers. Government aid as a share of gross domestic product had decreased very radically during the 1980s; it was unlikely that any other industrial country could show the same degree of decline. All support to "crisis" industries, primarily shipbuilding and steel, had ceased. The money shown in the statistics are consequences of earlier credit guarantees to shipbuilders or simple bookkeeping consequences of earlier payments. The only programmes still in existence were relatively minor assistance for the woodworking and textiles industries. No new kinds of support were envisaged. He noted that employment in the Swedish shipbuilding industry had diminished from 31,500 in 1975 to 4,500 at present, while in textiles the number of people employed had fallen by 10,000 people during the 1980s.

88. Existing support programmes to industry, including assistance to research and development, to infrastructure and the regional support programme, were reviewed and assessed every three years.

89. In answer to questions concerning the extent to which Sweden's technical, safety and health regulations differed from international norms, and how far Sweden had taken action to promote harmonization at the international level to minimize possible trade distorting effects of these regulations, the representative of Sweden emphasised that Sweden did, as far as possible, apply international standards. It was impossible to give

any quantitative measures of the extent to which Sweden deviated from international norms. Sweden was a signatory to the Agreement concerning Technical Barriers to Trade, and an active member of all the international standardizing bodies listed by the TBT Committee. All Swedish standards were applied in a non-discriminatory fashion, according to the strict provisions of the Code. Testing might, however, be applied in a discriminatory fashion due to the situation in different countries. This was fully in line with the Code.

90. In the particular area of agriculture, which was not satisfactorily covered by the TBT Code, products from different countries might be treated differently in order to prevent the spread of disease. This should not be regarded as any kind of discrimination regarding products imported into Sweden. Sweden also participated actively in the Uruguay Round negotiations on sanitary and phytosanitary standards. He hoped that the Round would bring satisfactory solutions to these problems.

91. The representative of Sweden recognized that Sweden applied higher standards in the realms of environmental protection or safety than those applied in other countries. All Swedish political parties felt strongly about this issue, and Sweden was trying to convince other countries to improve their norms in this area in order to protect the environment, both domestically and globally. Environmental problems could not be treated as technical trade problems. However, in this connection, he noted three ways in which trade policies could be influenced by environmental concerns. First, import restrictions on environmentally dangerous products under GATT Article XX(b) would probably increase as individual sources of pollution were mastered and the focus was shifted to the much greater, but much more diffused, pollution caused by using and discarding everyday products. Secondly, trade policy measures might be used to reinforce international agreements in the environmental field, primarily focusing on global pollution issues. The Montreal Protocol on CFCs was a good example. Thirdly, environmental measures might, unfortunately in some cases, be used for protectionist purposes. The concern was to define legitimate uses of these environmental issues. That definition must take account of the new problems which had emerged in recent years, and which could not have been foreseen by the drafters of the General Agreement in 1947. Sweden had not yet formulated any definite stance on these issues, but felt that more international discussion was needed, so as to move in a direction which would reflect appropriately the interests of all countries and all sectors of society.

92. The concept "accepted level of risk" was, for Sweden, an indispensable tool in the limited area of sanitary and phytosanitary regulations. In other areas, such as for industrial products, Sweden did not see it as particularly desirable.

93. The representative of Sweden said that, as far as he was aware, no particular criteria were applied for the use of specific tariffs. They were applied in some instances when ad valorem tariffs could not easily be used, for example, when the price of imported consumption goods, such as vegetables, was not known at the time of crossing the border. Specific rates, as well as ad valorem rates, were subject to negotiation in the

Uruguay Round and formed part of Sweden's tariff proposal in the negotiations.

94. Import licences were used basically for surveillance and monitoring. On manufactures, they were applied to textiles, clothing and steel. Import licences on textiles would be removed when Sweden's MFA restrictions were phased out in 1991. He recalled that this was a unilateral decision taken by the Swedish Parliament, and was not related to the Uruguay Round. With the removal of licences for textiles, he thought that the system of import licence fees might cease because the range of activities covered would be too limited. Fees were intended to cover administrative costs; if the cost of collecting the fees became higher than the revenue from them, they would probably cease.

95. Unlike some other countries, Sweden had no particular institution with the main task of assessing the impact of trade or other policies. However, a number of institutions, such as universities or independent research institutions took great interest in this, while specific Royal Commissions had been appointed to review and assess policies in certain areas; one example already mentioned was the assessment of Sweden's agricultural policies. In addition, every three years a medium-term forecast was made for the Swedish economy; within this, studies on the effects of trade policies and trade liberalization were generally commissioned. The possible effects of Sweden's participation in the European Economic Space (EES) had been examined using the same methodology as was used by the Community itself to analyse and assess the economic consequences of creating the internal market. A number of reputable studies also existed on the economic costs of Sweden's agricultural policies and protection of textiles. While, therefore, there was no lack of information on the costs of particular policies, this was done on a rather ad hoc basis, and not by any particular institution charged with this particular task.

96. Sweden had been requested to conclude a "voluntary" export agreement on speciality steel, and had also had some contacts of the same nature over machine tools. The representative of Sweden noted that Sweden refused to participate in voluntary export restraint agreements. In the case of speciality steel Sweden, when refusing to take part in such an agreement with one contracting party, was faced with an additional tariff on the product; and a standstill notification against the same contracting party in the Surveillance Body met with the reply that since Sweden had not agreed to voluntary export restraints it had to accept higher tariffs. The message appeared to be that, if rules were not to be broken in one area, they would have to be broken in another. He noted that, since some of these restraint arrangements were quite attractive to industry, grey area measures could only be contained if contracting parties refused to participate in them and raised these issues before GATT as they should be brought.

97. The Swedish representative said that the Swedish Government Procurement Ordinance covered procurement by all central government entities. Foreign suppliers were free to participate on the same conditions as Swedish firms. Guidelines, based on the same basic principles as those contained in the Ordinance, were also applicable to

regional and local public entities; the largest of these entities applied to a large extent, de facto, the same conditions as central government bodies.

98. There were many reasons why, in all countries, only a minor part of total public procurement was traded across borders, and why only a minor part of public purchasing in all participants was covered by the GATT Code on Government Procurement. The Swedish authorities were working actively to enlarge the coverage, inter alia, with the sectors mentioned in Paragraph 225 in the Secretariat report, namely the Swedish State Railways, State Power Board, National Telecommunications Administration, as well as to cover regional and local public entities. Foreign suppliers accounted for 55 per cent of all Swedish procurement under the GATT Code, a high percentage in comparison with other countries. The corresponding share of foreign suppliers in total Swedish public procurement was unknown, but was believed to be rather high. The high share of foreign suppliers in Swedish procurement under the Code showed that there were important business opportunities to be gained through an enlargement of the Code.

99. Replying to a question on the definition of "national security" used by Sweden in relation to trade, the Swedish representative said that there was no particular definition. National security had hardly ever been used by Sweden for protectionist purposes. There had certainly been national security reasons underlying policies regarding agriculture, textiles and a number of other areas. Sweden had found these policies to be ineffective. Border protection was an ineffective and costly way to achieve national security objectives. The conclusion had been reached that it would be much more effective to combine smaller domestic production with stockpiling of necessary inputs.

100. Swedish State monopolies for the distribution of alcoholic beverages and pharmaceuticals were run on a commercial basis and in a non-discriminatory fashion. The proof was that Sweden had a very wide diversity of wines, liquors and pharmaceuticals. There were specific reasons for the existence of these monopolies: fiscal, and more importantly, social policy objectives in the case of alcohol, and quality control and anti-counterfeit objectives on pharmaceuticals, together with the high Government subsidies benefiting consumers of pharmaceuticals.

101. The representative of Sweden referred to a question concerning the application of duties in "special circumstances" by the Swedish Government. He said that tariffs could only be imposed by Parliament. When Parliament was not in session, the Government was empowered to introduce a new duty if special circumstances required it; however, the duty must be approved by the new session of Parliament as soon as possible. Moreover, he emphasized, any such action would be subject to multilateral disciplines, for example, under Article XIX of the GATT. As far as he was aware, this provision of Swedish law had not been used since 1958. He recalled that Article XIX had never been used by Sweden.

102. Replying to a question on supplementary rules of origin, the Swedish representative said that Sweden would not use these rules in a protectionist manner. The negative effects on the Swedish economy of doing

so would be considerable. This should be the best guard against such misuse.

103. Sweden's debt problems had been dealt with rather effectively over the last ten to fifteen years. Following large scale borrowings in the late 1970s, both from domestic and foreign sources, public debt reached a peak in the early 1980s. Since then, the domestic public deficit had been reduced dramatically; Sweden now had a small budget surplus, and the overall domestic public debt level had been considerably cut. Similarly, public foreign debt had been markedly reduced. The reason why total foreign debt had increased over the last year was because of borrowings by Swedish enterprises in the international capital market. High domestic interest rates had attracted loans into Sweden, aided by the desire of Swedish enterprises to borrow substantially in order to acquire foreign firms. Sweden was quite confident that it would be able to finance its public debt in the future, and certainly did not intend resorting to any kind of balance-of-payments provisions in GATT.

104. The Swedish proposal for the Uruguay Round tariff negotiations covered all industrial products in HS Chapters 25 to 99. Textiles and clothing were therefore included in the proposal. If the Uruguay Round tariff negotiations were successful, these would be reduced according to the agreed formula.

105. Referring to Sweden's trade with central and Eastern European countries and its trade policies regarding these countries, the representative of Sweden said he was encouraged by the developments in Europe and the improved prospects for increased trade between Sweden and these countries. Sweden, along with other EFTA members, had concluded declaration of co-operation agreements with Hungary, Poland and the Czech and Slovak Federal Republic which would be announced shortly. He also added that Sweden supported in every respect Eastern European countries' wishes to renegotiate their status in GATT, and supported the observer status of the Soviet Union.

106. Responding to questions from the discussants and participants on Sweden's trade with developing countries, the Swedish representative said that Sweden had a long history of trying to increase the trade performance of these countries. He referred to the generous GSP Scheme operated by Sweden which provided all least developed countries duty-free access to the Swedish market without exceptions, and the Import Promotion Office for Products from Developing Countries which promotes Swedish imports from developing countries. Sweden also continued to participate in many international commodity schemes designed to stabilize world prices and export receipts of developing countries, although there had been some bad experiences with certain schemes that had gone beyond mere stabilization and attempted to raise prices above market levels. Sweden thought that issues on price stabilization were best handled by UNCTAD or the Common Fund, and consequently was very reluctant to have these matters incorporated in GATT.

107. Finally, the representative of Sweden provided details of Sweden's coastal and border agreement with the Soviet Union which, on the Swedish initiative, was signed in 1986. Its intention was to facilitate border

trade. The trade covered by the agreement had increased quite rapidly, to reach one billion Swedish crowns in 1939. There was a great imbalance in favour of the Soviet Union; exports from the Soviet Union amounted to seven hundred million Swedish crowns while the Swedish exports were slightly more than three hundred million crowns. The agreement covered goods produced in the border area north of Moscow and the Baltic States over and above the Soviet plans. Local producers were able to keep a larger part of the export revenues than would have been the case if these goods were covered by the long-term plans. On the Swedish side, the border area had not been defined and thus covered all of Sweden. Swedish exports were basically machine products, while Soviet exports were basically raw materials, with some textile and wood products.

108. Thanking the Chairman and the discussants, the representative of Sweden said that the review has been a very useful experience. Sweden had taken a great interest in the Trade Policy Review Mechanism, which would be a very important institution in a future strengthened GATT. As could be expected, the review process had not yet found its final format. The present experience would be used to discuss later how the review mechanism, which Sweden regarded as worth maintaining, could be better structured.

VII CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

109. Reviews undertaken in the framework of the Trade Policy Review Mechanism are aimed at providing a collective and comprehensive evaluation by the Council of the full range of trade-related policies and practices operating in each contracting party, and of their impact on the functioning of the multilateral trading system. My closing remarks are not intended to substitute for the appreciation by the Council of Sweden's trade policies and practices, but rather to emphasize what I see as some of the salient points coming out of this review.

110. The Council discussed Sweden's trade policies in the context of its overall economic situation, characterized by overheating of the economy, with high inflation and a growing current account deficit. Members commended the Swedish Government for dealing with these problems through macro-economic policy instruments and trade liberalization, rather than the use of trade-restrictive measures.

111. Council members noted that the trend of Sweden's trade and industrial policies was generally in the direction of greater liberalization. Members recognized the substantial winding-back, during the past decade, in financial assistance to major industries suffering from structural adjustment pressures.

112. The high degree of openness to international trade of the Swedish market for most industrial products was acknowledged. Tariffs were generally low and almost completely bound. Sweden had never imposed countervailing duties and had made very little use of anti-dumping action. Quantitative restrictions on industrial goods were largely limited to textiles and clothing, as well as to footwear from some sources. Council members were encouraged by the Government's decision to abolish all quantitative restrictions on textiles and clothing by August next year (at the expiration of MFA IV), and quotas on imports of leather footwear by 1993.

113. Members also viewed favourably Sweden's recent announcement to phase in, over five years, domestic regulatory reforms in agriculture. Additional information was sought concerning the scope and timing of the reforms, the linkage between domestic regulatory reform and improved market access and, in this context, the rôle of the Uruguay Round in promoting the process of agricultural reform in Sweden.

114. While acknowledging these features and the prospective improvements in Sweden's trade policies and practices, several areas of concern were identified by Council members. These included:

- (i) The distorting effects on agricultural trade of Sweden's current farm support policies, such as variable levies for many products, quantitative restrictions on fish and the high seasonal tariffs on fruits and vegetables. Reference was also made to the burden on consumers of maintaining domestic prices well above international levels by such means. It is not clear how far the domestic regulatory reform would affect this

situation. It was, however, noted in this connection that export subsidies would be progressively phased out.

- (ii) The relatively low level of bindings in agriculture due mainly to the system of variable levies. The desirability of binding the trade measures implemented as part of the agricultural reform process was emphasized.
- (iii) The adverse impact of specific and alternate tariff rates in certain areas, such as tyres and certain chemicals, on the stability and predictability of access to the Swedish market.
- (iv) The fact that, after the removal of quantitative restrictions, tariffs on textiles, clothing and footwear would remain well above rates for most other imports and bilateral quotas on footwear would remain.
- (v) The trade restrictive effects of the distributive and sales systems for pharmaceuticals and alcoholic beverages. The question of justification for different levels of protection across highly-substitutable alcoholic beverages was raised.
- (vi) The impact on trade of health, safety and technical regulations or standards which remain in some areas more stringent than international norms. Specific questions addressed the prospects of closer harmonization of plant health regulations with those in the EC, in particular, with regard to coniferous timber.

115. Council members sought further clarification from Sweden in a variety of other areas. The use of the national security provisions as a justification for trade measures was noted. Information was sought on the definition of national security used by Sweden as a factor affecting international trade. Questions were raised concerning the circumstances in which a "special duty" could be levied to safeguard domestic producers. Further details were requested concerning the restraint arrangements which affect Swedish exports or imports, including details on the products and trading partners concerned. Members encouraged the Swedish Government to consider the possibility of introducing its own regular public reviews of trade policies.

116. Many members drew attention to the high proportion of Sweden's trade conducted under regional preferential arrangements, and asked how the relatively small and declining share of Sweden's merchandise trade receiving m.f.n. treatment could be reconciled with Sweden's concern to promote non-discrimination and multilateralism in international trade. Concerns were raised about the actual and potential trade diversion resulting from these arrangements. In this context, further information was sought concerning Sweden's interests in efforts to create a European Economic Space. Sweden was asked whether it saw this initiative as a step towards full EC membership.

117. Members noted the small and declining share of developing countries in Sweden's trade, and observed that many sectors of interest to developing

countries had been subject to high protective barriers. Specific mention was made of the fact that Sweden's regional arrangements provided better access to the Swedish market for European countries than was provided by Sweden's GSP scheme for the majority of developing countries. This, combined with the high protection provided to textiles, clothing, footwear and agricultural products was, it was suggested, contributing to the low share of developing countries in Sweden's total merchandise imports.

118. In reply to these comments, the Swedish representative said that trade policy changes were part of a broader attempt to increase the flexibility and efficiency of the Swedish economy. Tax reform, designed to make the supply of labour more rewarding, and rationalization of the public sector were other elements in this process. Structural adjustment policies had moved away from sector-specific assistance to more general support through provision of infrastructure and support for education, research and development. Programmes remained only for the woodworking and textile industries, and existing payments to other sectors reflected outstanding commitments under previous arrangements. Currently, there were no new programmes of structural assistance to any major industry and none was planned.

119. The trade liberalization measures scheduled for the textiles and clothing sectors were taken unilaterally by the Swedish Government and were not linked to the Uruguay Round negotiations. The level of tariffs for textiles and clothing would be established under the Uruguay Round procedures. The reductions were covered by Sweden's formula offer. With regard to agriculture, while it was Sweden's intention to reduce border protection in agriculture, the extent to which this would be possible would also depend on progress in the Uruguay Round.

120. Agricultural reforms were motivated by the realization that earlier approaches had not achieved their defined domestic objectives, such as food security, supply of high quality products at reasonable prices, income parity for farmers and regional and environmental goals. A decision on the reform of domestic regulations by Parliament was imminent.

121. All central government entities were covered by the Government Procurement Ordinance, under which foreign suppliers were free to participate on the same basis as Swedish firms. Guidelines based on the same principles applied to regional entities.

122. Sweden's broader objectives in the Uruguay Round regarding market access included reductions in tariffs and non-tariff measures, the phasing out of the MFA, radical reform of world trade in agriculture, an extension of the coverage of the Agreement on Government Procurement, and strengthened rules in the fields of subsidies, countervail and anti-dumping. Sweden also expected the Round to result in higher levels of commitment and stronger participation by developing countries in the trading system, including increased binding of tariffs. Beyond the Uruguay Round, the linkages between environmental concerns and trade policies would need intense international discussion.

123. Sweden saw no conflict between regional and multilateral trade liberalization, which it considered as mutually supportive. In his view,

empirical evidence on the trade diverting and creating effects of regional arrangements was inconclusive. While supporting the concept of a European Economic Space, Sweden did not regard a possible EC membership as an issue at present. He also mentioned current efforts by Sweden to cooperate more closely with countries of central and eastern Europe, including the 1986 border trade agreement with the Soviet Union and more recent cooperation efforts with Hungary, Poland and the Czech and Slovak Federal Republic.

124. The representative of Sweden referred to positive features of Sweden's trade policies towards developing countries, including the fact that all imports from least-developed countries entered Sweden duty free. Sweden would continue to explore ways by which the share in Sweden's trade of developing countries could be increased, and referred to a number of factors unrelated to trade policies, which might explain Sweden's relatively low level of trade with these countries.

125. In general, many members of the Council noted that the discussion had made an important contribution to the understanding of Sweden's trade policies and practices. The Council welcomed Sweden's increasing emphasis on measures designed to improve the overall flexibility and competitiveness of the economy, as against policies of sectoral support and protection at the border. Members commended Sweden for its recent efforts towards trade policy reform in agriculture, textiles, clothing and footwear, encouraged Sweden to implement the announced changes and to continue on this course. Members expressed the hope that Sweden's preoccupation with expanding trade with its European neighbours would not detract from its efforts to promote global trade expansion in the framework of the GATT system.