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TRADE POLICY REVIEW OF SWEDEN

Sweden's trade policies have undergone significant modification over the last few years, resulting from unilateral liberalization, participation in the European Economic Area (EEA) and a number of free-trade agreements, according to the GATT Secretariat's latest report on Sweden's trade policies and practices. Implementation of the Uruguay Round results and Sweden's entry into the European Union will further alter Sweden's trade régime.

The range of import licensing was considerably reduced in 1991 with Sweden's unilateral renunciation of the Multifibre Arrangement (MFA) and similar restraints, and further in 1992 with the elimination of restrictions on imports of leather shoes. However, licensing remains in place on imports from certain countries of "sensitive" goods, including iron, steel, ferro-alloys and some agricultural products. Sweden has used anti-dumping, countervailing and safeguard measures very sparingly.

Since 1990, agriculture in Sweden has been subject to phased deregulation which has brought greater market orientation to the sector. The functions of a number of market regulation associations have become redundant, although the Swedish Board of Agriculture has taken control of trading operations in grains and oilseeds. Variable levies remain in place but some reductions have been made. Sweden currently applies duty-free treatment, often in combination with tariff quotas, on its imports of a number of agricultural products under free-trade agreements, including with the Baltic States and central and east-European countries.

Under the Uruguay Round results, Sweden made a commitment to reduce its trade-weighted average industrial tariff by 33 per cent to 3.1 per cent, and to tariffy all variable levies in agriculture, bringing an increase in average m.f.n. tariffs for the sector but not in protection. The new Agreement on Government Procurement will increase the number of public entities whose purchases will be subject to multilateral rules.

In anticipation of accession to the European Union, and the full integration of Sweden's agriculture into the Common Agricultural Policy, the move towards agricultural deregulation slowed down in 1993: redemption prices for grains were increased; export subsidies for certain processed foods were introduced; and subsidies for the export of beef and pork extended.

Sweden's entry to the European Union on 1 January 1995 will require a number of modifications to its trade régime. Domestic prices for products originating among third-country suppliers are in many cases expected to rise due to generally higher EU tariffs and the passage through trade control systems technically more complicated than those currently applied in Sweden. Adoption of the EU's Generalized System of Preferences scheme represents a change from the unlimited duty-free access accorded by the present Swedish scheme. With the reintroduction of MFA quotas and other trade controls, the number of import licence applications in Sweden is expected to rise from a few thousand at present to over 60,000 a year.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Government of Sweden will be discussed by the GATT Council on 15-16 December 1994 under the Trade Policy Review Mechanism (TPRM). This is the second review of Sweden since the launching of the TPRM in December 1989.

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

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

4. The reports cover developments in all aspects of Sweden's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary observations from the Secretariat's report. Full reports will be available for journalists from the GATT Secretariat on request.

5. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Japan (1990 & 1992), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uruguay (1992) and Zimbabwe (1994).

TRADE POLICY REVIEW MECHANISM

SWEDEN

Report by the Secretariat - Summary Observations

Sweden's trade policy régime is generally open and liberal. In certain areas such as agriculture, textiles and clothing, Sweden has been in the forefront among OECD countries in taking measures towards deregulation and liberalization since 1990. Thus, Sweden's agricultural reform programme, adopted in 1990, aimed for deregulation of domestic markets although, with a view to membership of the European Union, the process has slowed more recently. Sweden abolished MFA and similar restrictions on imports of textiles and clothing in 1991 and has also liberalized imports of footwear. Participating in the creation of the European Economic Area (EEA), Sweden has become part of a market comprising more than 350 million people, allowing free circulation of labour, capital, services and goods covered by the Agreement.

The Economic Environment

At the time of Sweden's first Trade Policy Review in 1991, the economy showed signs of overheating. However, the slow-down in economic activity in most industrial countries at the beginning of this decade hit Sweden particularly hard; problems in tradeable goods sectors spread to domestically oriented sectors and triggered an abrupt end to the credit-driven expansion. Real GDP declined in 1991, 1992 and 1993. Nevertheless, conditions for exporting and import-competing enterprises brightened during 1992, as marked increases in labour productivity were combined with wage restraint. The sharp depreciation of the Swedish krona after its floating in 1992 set the stage for a significant revival in exporting industries in 1993 and 1994, when Swedish exporters appear to have recaptured market shares lost in the 1980s and gained further ground in overseas markets. The rise in imports has been more subdued, both because of the krona depreciation and the persistent weakness of domestic demand.

Sweden appears now to be emerging from its worst recession since the 1930s very much as a "dual economy", with prospering producers of tradeable goods and a current account surplus while domestic oriented activity is recovering more slowly. In the years to come, the Government will walk a fine line in reconciling efforts to reduce record levels of unemployment with measures to control its high fiscal deficit and maintenance of a non-inflationary monetary policy.

Institutional Framework

Parliament has ultimate responsibility for trade policy under the Swedish Constitution. The Trade Department, within the Ministry of Foreign Affairs, remains the centre of policy formulation, complemented by the National Board of Trade on a number of specific issues. No major changes have occurred in the tasks and functions of these two main administrative bodies responsible for trade policy issues since the initial review.

Changes have, however, occurred with respect to two autonomous agencies involved in the implementation of trade policy. Following a reorganization of institutions due to reforms in agriculture, the Swedish Board of Agriculture has been the expert agency on agricultural policy since 1 July 1991. On the same date, the Swedish National Board for Technical Development (NUTEK) was formed through the amalgamation of three agencies, with a view to managing industrial and energy policies more efficiently. The rôle of the Ministry of Industry was broadened after the general elections in

September 1991; the tasks of the new Ministry of Industry and Commerce include matters related to domestic trade and tourism, market and competition issues.

Trade Policy Features and Trends

The European Economic Area (EEA) Agreement entered into force for Sweden on 1 January 1994. Through this agreement, Sweden and four other EFTA countries, joined with the European Union to form an entity within which goods, services, persons and capital are to move freely under equal conditions of competition. EFTA participants have aligned themselves to the existing body of EU law in most areas concerned, notably with respect to competition policy, State aids, public procurement and harmonization of regulations related to goods and services. The EEA does not involve participation in a customs union, and border formalities, although simplified, still exist between Sweden and the EU Single Market. The EEA Agreement does not cover agriculture directly, but Sweden and the EU concluded a bilateral agricultural agreement applied since April 1993.

Evolution since the initial review

With effect from 31 July 1991, Sweden abolished all MFA and similar restraint agreements affecting imports of textiles and clothing, leaving tariffs as the only policy instrument affecting non-preferential suppliers. Sweden's import pattern has changed markedly as a result of the liberalization. Imports from South-East Asia and central and eastern Europe have grown sharply, while purchases from EU and EFTA countries have declined. Competition has increased both at the producer level and among importers, while consumers appear to be benefiting in terms of prices and wider product choice; estimates suggest that Swedish households saved some SEK 3 billion on purchases of textiles and clothing during the first year of deregulated imports. Import licensing on leather footwear was removed on 1 January 1992.

The EFTA countries concluded free-trade agreements with the Czech and Slovak Republics, Hungary, Poland, Turkey, Israel, Romania and Bulgaria in 1992 and 1993. Sweden concluded bilateral free-trade agreements with Estonia, Latvia and Lithuania in 1992. The agreements, covering trade in industrial goods, are supplemented by special arrangements concerning trade in agricultural products. A Free Trade Agreement and an Agricultural Agreement entered into force between Sweden and the Faroe Islands on 1 July 1993.

All these agreements generally provide free and unrestricted access to the Swedish market for manufactures and selected agricultural products; in agriculture, preferences are mainly implemented in the form of duty- or levy-free tariff quotas. These arrangements have brought a proliferation of differential tariff quotas and levy reductions, not accorded on an m.f.n. basis, into Sweden's trade régime over the last two to three years.

A new Swedish Competition Act, modelled on Articles 85 and 86 of the Treaty of Rome, entered into force on 1 July 1993, generally prohibiting anti-competitive co-operation between enterprises and abuse of dominant positions. Enterprises were given a six-month transition period to terminate or modify existing arrangements to qualify for individual or block exemptions. The enforcement agency in the area of competition, the Swedish Competition Authority, has rejected a number of applications for negative clearance or individual exemptions with regard to recommended price lists issued by trade associations for their members, formerly a common practice. Purchase cartels are, unless of minor importance, not allowed under the Competition Act.

Membership in the European Union will grant Sweden access to the political institutions of the Union, including the European Council, the Council of Ministers, the European Parliament, the

EC Commission and the European Court of Justice. According to the Swedish authorities, EU membership will give Sweden more influence over the regulatory framework affecting its economic and commercial life relative to participation in the EEA. Sweden is expected to be a net contributor to the EU budget; however, the charge on the government budget will be larger than for the nation as a whole since individuals and organizations will become eligible for payments under the Common Agricultural Policy and regional development schemes.

Type and incidence of trade policy instruments

Changes in trade-related legislation in Sweden during the last four years have mainly been related to the entry into force of the EEA Agreement. The main provisions of the Agreement were incorporated into Swedish legislation through the "Act on the European Economic Area" with an "additional package" of some 400 to 500 new legal acts approved by Parliament in late spring 1994.

Legal acts adopted by the European Union after 1 January 1994 are added continuously to the Agreement; new rules should, in principle, enter into force simultaneously in all participating countries. Sweden has been accorded transitional derogations under the EEA Agreement to allow rules stricter than EU standards with respect to motor vehicles, fertilizers and dangerous substances. In addition, technical discussions have been held regarding certain new rules related to veterinary regulations and the environment.

Tariffs, the principal import policy instrument affecting m.f.n. suppliers, are generally low. The simple average of m.f.n. tariffs in 1994 is 4.7 per cent. Rates are predominantly ad valorem, although specific or alternate ad valorem/specific (minimum or maximum) rates affect around 370 of the approximately 6,800 seven-digit lines in the Swedish tariff. Seasonal tariffs apply on imports of various fruits and vegetables. More importantly, variable levies, applied on some 440 tariff lines, represent the main form of border protection for more than 75 per cent of Sweden's production of basic commodities and basic foodstuffs.

M.f.n. tariffs are, on average, higher for manufactures than for agriculture. In practice, however, the majority of manufactured products enter free of tariffs since most imports originate in Sweden's free-trade partners. A potential exception to this rule is textiles and clothing where, as noted above, m.f.n. suppliers are gaining ground rapidly following the abolition of import restrictions.

Import licensing is maintained on imports, mainly from certain former State-trading countries, of "sensitive" goods, including iron, steel, ferro-alloys and selected agricultural products. Licences are generally granted automatically, but may be denied if import prices are considered unacceptably low. Sweden restricts trade with Angola, Haiti, Libya, Iraq, and the Federal Republic of Yugoslavia (Serbia and Montenegro) in accordance with decisions of the United Nations' Security Council. Sanctions against South Africa were lifted in 1993.

Pursuant to an understanding between the EC Commission and the Government of Sweden, new regulations will be introduced to replace the state monopolies on import, export, wholesale trade and production of alcoholic beverages with a licensing system from 1 January 1995. Remaining State-trading activities relate to the implementation of redemption schemes for grains and oilseeds; trading operations in these commodities have been executed by the Swedish Board of Agriculture following the abolition of all market regulation associations on 1 July 1991.

In 1990, Sweden increased indirect taxation significantly, to compensate for reductions in income taxes. In addition to the value added tax, the most important sources of revenue are taxes on energy,

alcohol and tobacco. Reform of the system has resulted in the elimination of some relatively low-yielding and administrati[illegible] burdensome taxes, while introducing selective taxes related to factors detrimental to the environm[illegible]. Energy taxes have been raised, but energy-intensive industries and commercial horticulture benefit from tax reductions.

Sweden adopted a new Public Procurement Act in 1992, principally in order to fulfil Sweden's commitments under the EEA Agreement. The Act applies to procurement by the State, regional and local entities with special provisions governing the award of public supply contracts, public works contracts, public contracts within the utilities sector and public service contracts. The Act was amended in December 1993, mainly to include provisions on public procurement under threshold values, and entered into force on 1 January 1994.

Sweden applies no anti-dumping or countervailing measures at present and has never resorted to safeguard actions under GATT Article XIX.

All exports to the Democratic People's Republic of Korea must be licensed; exports of scrap metals to countries outside the EU/EFTA area are licensed and restricted. Fish exported for sale in foreign auction centres is also subject to licensing. Sweden is not party to any export restraint arrangements. Anti-competitive behaviour by Swedish enterprises which affects international trade may be sanctioned under the EEA Agreement. Competition cases may be handled either by the EFTA Surveillance Authority or by the EC Commission, depending on which markets are affected. The Swedish Competition Authority has also been assigned specific tasks regarding the implementation of competition rules under the EEA Agreement.

Following several years of losses on export credit guarantees, the Swedish Export Credits Guarantee Board has, since mid-1990, distinguished between operations related to previously issued guarantees and "new" business. The accumulated deficit arising from "old" guarantees is to be restricted to the extent possible by loss-prevention actions and active recovery measures with any final losses to be charged to the State budget. Operations relating to "new" business should in principle be self-supporting. Outside the scope of other operations, a guarantee scheme with a ceiling of SEK 1 billion exists for Swedish exports to and investments in Estonia, Latvia, Lithuania and Russia. Government support to export promotion activities undertaken by the Swedish Trade Council is set to fall by 50 per cent under a three-year programme which began in 1992/93.

Sectoral development patterns

The recession has had a severe effect on the private sector: industrial output fell by nearly 10 per cent between 1989 and 1992. Restructuring and retrenchment is reflected in a rapid fall in employment, between 1990 and 1993, with the employment rate rising from 1.7 per cent to a record 8.2 per cent; in addition, job-retraining rose from about zero to some 6 per cent of the work force. However, the authorities have not addressed these difficulties by increasing selective aid; in fact, the few remaining firm- and sector-specific support programmes were eliminated during 1992 and 1993. The Government declared that financial assistance to enterprises should be minimized and would, to the extent such measures were still justified, be granted through industry-wide schemes.

Overall, State aid to Swedish industries has increased during the recession, from SEK 2.6 billion in 1990/91 to SEK 4.1 billion in 1992/93, mainly due to higher payments under vocational training and recruitment aid schemes designed to raise the possibilities for redundant labour to attain regular employment. Government funding for technical research and development programmes has also increased somewhat in recent years, while regional aid to enterprises has fallen.

Sweden's Parliament adopted a new food and agricultural policy in 1990, aiming for internal deregulation over five years. Guaranteed intervention prices were abolished, together with the administrative structures and regulatory measures employed to attain them, including market regulation associations previously administering export subsidies and producer levies in efforts to dispose of surplus production. New measures were accompanied by commodity- and sector-specific transitional arrangements to encourage retrenchment in sectors with excess production capacity.

Border protection, mainly in the form of variable import levies, was essentially retained, pending the outcome of the Uruguay Round, although levy amounts were reduced to take account of the expected lower domestic price level resulting from deregulated markets. Livestock farmers were to some extent compensated through headage payments, to be gradually reduced, and crop producers were encouraged by direct income payments to withdraw land from cultivation of price-regulated crops such as grains and oilseeds.

In anticipation of possible accession to the European Union and immediate full integration of Sweden's agriculture into the Common Agricultural Policy (CAP), the move towards deregulation has slowed. Redemption prices for grains have been increased; export subsidies for certain processed foods were introduced in 1993; and subsidies for the export of beef and pork have been extended. After several years of net capital outflows from agriculture, renewed interest in livestock production as from 1993 may have been influenced by factors such as the possible Swedish share of the EU milk quota. The land conversion programme was adapted to the set-aside programme of the CAP following the conclusion of Sweden's negotiations on the accession to the EU in March 1994.

Sweden's fisheries sector has been contracting for many years, affected by declining stocks of commercial species and market access constraints for the processing industry. Trade and support measures applied by Sweden until recently have mostly been eliminated under commitments made in the EFTA framework and the EEA Agreement. The agreements allow government assistance to rationalize and modernize the fleet and processing industries. Sweden faces no restrictions on its exports of fish and other marine products to other EFTA countries, with the exception of import restrictions on Baltic herring and salmon maintained by Finland. The EEA Agreement provides better access to the EU market, although the agreed tariff reductions do not include some products of major importance to Swedish processors, notably herring, salmon, mackerel and prawns.

Trade Policies and Foreign Trading Partners

Sweden participated actively in the Uruguay Round, attaching importance to the attainment of substantial results in all areas. The outcome provides improved access for Swedish goods and services on world markets and increased intellectual property protection.

Sweden's simple average tariff on imports of manufactures is set to decline from 5.2 per cent to 3.3 per cent when Uruguay Round tariff reductions have been fully implemented. Tariffs on agricultural products will initially rise, due to the tariffication of border measures, the simple average tariff rising from 2.6 per cent to approximately 21.5 per cent in 1995, an estimate due to the high incidence of specific rates. However, once agreed reductions have taken place, the simple average of estimated final bound rates is set to decline to 14.2 per cent on agricultural products. The incidence of bound Swedish tariffs will increase from just over 90 per cent to virtually 100 per cent as a result of the Uruguay Round; the only remaining unbound items concern fish and fish products.

Swedish legislation will also be amended in other areas as a result of the Uruguay Round. The new Agreement on Government Procurement will increase the number of public entities whose purchases will be subject to multilateral rules, although Sweden would have preferred full coverage

at all procuring levels, in line with existing Swedish procurement practices. Furthermore, Sweden will adopt new legislation on border measures against imports of counterfeit goods. Appeal procedures are to be introduced with respect to government decisions on anti-dumping and countervailing measures.

Since 1990, Sweden has moved closer to the European Union with the entry into force of the EEA Agreement and the application for EU membership lodged in 1991. The accession to the European Union was approved by a referendum on 13 November 1994. The conditions regarding future access to the Swedish market within the customs union are likely to differ from the Uruguay Round terms granted by Sweden prior to its EU membership.

Domestic prices for products originating among third-country suppliers are in many cases expected to rise due to generally higher EU tariffs and the passage through trade control systems technically different from, and more complicated than, those currently applied in Sweden. Adoption of the GSP scheme of the EU represents a major change from the unlimited duty-free access accorded by the present Swedish scheme. With reintroduction of MFA quotas and other trade controls, the number of licence applications in Sweden is expected to rise from a few thousand at present to 60,000 to 80,000 per year. The application in Sweden of existing EU anti-dumping measures from 1 January 1995 will contrast with the existing situation, in which Sweden applies no such measures.

TRADE POLICY REVIEW MECHANISM

SWEDEN

Report by the Government - Summary Extracts

Global Trade Policy Objectives

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. 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 protectionist pressures, and contributing to a further liberalization of world trade. The results of the Uruguay Round should help to stimulate trade and growth for both developed and developing countries.

The Government's overall policy objectives for international trade are: liberalization through multilateral negotiations and regional cooperation, supplemented by measures to increase domestic competition and maintain a downward pressure on prices. The results achieved in the Uruguay Round is important also in the sense that the regional integration which is taking place in many parts of the world will be complemented by increased integration at the global level.

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.

A large proportion of Sweden's foreign trade is conducted with western European countries: in 1993 they accounted for 70 per cent of exports and 72 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.

Recent Trade Policy Developments

After two years of negotiations between the EU and EFTA countries an agreement on an European Economic Area (EEA), characterized by the free movement of goods, services, capital and manpower within member countries, entered into force on January 1st 1994 in all these countries except Liechtenstein and Switzerland. Through this agreement a higher level of cooperation between the EFTA countries and the Community is established. There are however considerable differences between EEA and EU membership in mainly two respects - the range of cooperation and the influence on the decision making process. Outside the EEA area are important areas such as the common commercial policy, the common agricultural policy, EURATOM, development assistance, taxation and political cooperation. Only membership means full participation in the Single market and in the EC decision making process.

Against the background of the fast development in Europe which considerably changed the prerequisites for Sweden´s participation in a deeper international cooperation the Swedish Parliament, in 1990 declared, that Sweden should seek to become a member of the European Community. On the 1st of July 1991 Sweden´s application for membership was presented to the EC Council.

Negotiations on Swedish membership started in February 1993. On the 24 of June 1994 an Accession Treaty was signed. It was accepted by a Swedish referendum in November 1994. Sweden will become a member of the EU on the 1st of January 1995.

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 welcomes 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 also welcomes a fuller participation of these countries in world trade and its institutions.

During later years Sweden has concluded free trade agreements with Estonia, Latvia, Lithuania, Faroe Islands and together with other EFTA members, free trade agreements with Poland, Hungary, The Czech Republic and the Slovak Republic, Bulgaria and Romania as well as Israel and Turkey.

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 thereafter. The objective of industrial policy is to improve the business climate with general measures. State aid to industry has been cut down considerably in the 1980´s and sector specific aid has been abolished.

In the field of textiles and clothing all quantitative restrictions on imports were abolished on 1 August 1991. As from that date Sweden is no longer a member of MFA. Furthermore the former aid programme for the textile and clothing industry was put out of effect as from 1 July 1992.

The Swedish agricultural policy was until 1990 closely linked to the concepts of food security and assuring farmers a standard of living equal to that of comparable occupational groups. The present guidelines for the Swedish food policy were laid down by a parliamentary decision taken in 1990. The decision resulted in a radical shift in the policy. The present food policy is based on the principle that agriculture should be subject to the same conditions as other sectors of the economy. The farmers should only be paid for goods and services for which there is a demand. This shift in policy implied i.a. an elimination of the administered internal prices as well as the export subsidies. As concerns border protection it was decided that it should be reduced in response to the outcome of the Uruguay Round. However the Parliament decided in 1991 as well as in 1993 to reduce the border protection for certain agricultural products.

Environmental protection is a policy area of considerable importance in Sweden. Sweden has, along with the other Nordic countries contributed actively in the work done so far to analyse the linkages between environmental policy and trade policy and supports that further such work be carried out. The Swedish Government is in favour of enhanced international cooperation in order to promote sustainable development through trade. Measures necessary to protect and preserve the environment should not be incompatible with upholding an open and non-discriminatory trading system.

Free Trade Agreements with other countries

Sweden has within the framework of EFTA negotiated free trade agreements with **Turkey, Israel, Czechoslovakia, later the Czech Republic and the Slovak Republic, Hungary, Poland, Bulgaria and Romania**. The agreements with Turkey and Czechoslovakia entered into force during 1992, the other agreements during 1993 except for the agreement with Poland, which entered into force in September 1994.

Sweden has furthermore concluded bilateral free trade agreements with **Estonia, Latvia and Lithuania** respectively. They entered into force during the summer and autumn of 1992. These agreements include immediate abolishment of all tariffs and other obstacles to trade in industrial goods, certain provisions on rules of competition, state aid, intellectual property rights and cooperation, safeguard clauses and a general evolutionary clause. Even these free trade agreements are supplemented by specific bilateral agreements on agriculture. Through these Sweden abolishes customs duties and quantitative restrictions for a number of agricultural and processed agricultural products. The Baltic countries give Sweden tariff concessions for i.a. vodka and other spirituous beverages.

Sweden has also concluded a bilateral free trade agreement with the **Faeroe Islands**. This agreement contains i.a. immediate dismantling of tariffs and abolishment of quantitative restrictions - with certain exceptions - on industrial goods, rules of competition, provisions on State monopolies, State aid, public procurement and intellectual property rights and an evolutionary clause. A specific agricultural agreement includes Swedish tariff concessions for beer made from malt, waters and some other beverages. The Faeroe Islands allows free imports for most agricultural products.

Economic Developments

Economic policy is focused on the substantial reduction of unemployment during the remainder of the Nineties through the creation of new real jobs. The policy of structural reform and fiscal consolidation has created extremely favourable conditions for strong and stable economic growth in the future. As the recovery gathers momentum the positive effects of the structural reforms will become even more pronounced.

Sweden has endured a severe recession during which output fell for three consecutive years, 1991-1993, and unemployment and the public deficit reached record levels. This situation was largely self-induced and due to an inability to deal with the growing imbalances in the economy over the last two decades. During this period the public sector expanded rapidly at the expense of the business sector raising public expenditure and, concurrently, the tax pressure to world record levels. Simultaneously, wages and prices rose faster than elsewhere, further eroding Sweden's competitiveness.

Other important factors behind these developments were the deregulation of financial markets and the abolition of currency controls in the 1980's. In combination with the international economic up-swing, and the then prevailing tax rules, these reforms lead to a debt-financed consumption and investment boom. The result was a financial sector in crisis and households and enterprises - squeezed by high real interest rates and the new, less forgiving, tax laws - scrambling to reduce their debt burden.

Consequently, private consumption and investment declined dramatically. The above problems were compounded by the international recession.

After three years of decline the recovery has begun. In 1994, a continued dramatic rise in exports is expected to generate an increase of almost 2.5 per cent in the total production of goods and services (GDP). When domestic demand also starts to rise in 1995 GDP growth is expected to amount to some 3 per cent.

Swedish exports showed modest growth of not quite 2 per cent and ½ percent in 1989 and 1990 respectively before declining by more than 2½ per cent in 1991. During 1992 exports stagnated before taking off in 1993 when they grew by more than 7 per cent. Meanwhile imports have experienced a similarily erratic path. In 1989, the final year of the previous upswing, imports grew by more than 7 per cent. As the recession set in, the rate of growth fell to less than 1 per cent in 1990 and imports declined by roughly 5 per cent in 1991. A modest growth of 1 per cent was registered in 1992 before declining once again in 1993 by a ½ per cent.

The uneven behaviour of both imports and exports is largely explained by the domestic and international recession and the severe depreciation of the krona after it was floated at the end of 1992. As the economy now is poised for a strong externally led recovery both imports but particularly exports will increase sharply. This is due mainly to an expected increase in market share in the wake of the depreciation and substantial productivity increases in manufacturing. This constitutes a distinct break in a negative trend of continued market share losses prevalent since the beginning of the Eighties as Swedish export prices rose faster than import prices in Sweden's foreign markets. The expected increase in imports is largely fueled by export growth and thus a sizeable share of imports will consist of investment and input goods for industry.

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