Free trade agreements in a small, open country: the case of Norway

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Abstract

Negotiating free trade agreements (FTAs) has been a high political priority for Norway. Today it has agreements with 41 countries outside the European Union (EU) / the European Free Trade Association (EFTA), resulting in one the world's most extensive FTA networks. FTAs cover about 10% of Norway's trade – a share likely to increase in the future. These agreements eliminate tariffs on a substantial number of traded products, and have gradually become more comprehensive, covering an expanding range of non-tariff areas. Hence, they may have trade-promoting effects beyond tariff reductions as such. On the other hand, the non-tariff provisions often do not go further than what has already been dealt with in other international agreements or practised domestically, so their overall effect may be limited.

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Keywords: Free trade agreements, Tariffs, Non-tariff barriers, EFTA, Norway

Introduction

The WTO (2018a) *Trade Policy Review for Norway* (henceforth: TPR) contains much information of interest to anyone wishing to engage in trade with Norway or studying its trade policy. The TPR is long, with more than 150 pages of details. Although many of them are relevant, one may well ask whether they all belong in a *trade policy* review. For example, almost two pages are devoted to describing the Norwegian governance system, offering information like the fact that Norway has 428 municipalities which "have oversight of primary school education, senior citizen services, out-patient health services, zoning, economic development, and municipal roads" (p. 24).

However, little space is devoted to discussing a subject that is highly relevant: Norway's free trade agreements with countries other than members of the European Union (EU) or the European Free Trade Association (EFTA) – in this article referred to as *FTAs*. As a small country, highly dependent upon trade, Norway has a long history of outward orientation, and now has one of the world's largest networks of FTAs. Even so, only about half a page is devoted to discussing these in the TPR's section on *Regional and preferential agreements* (pp. 28–30). Also the previous review, WTO (2012), dealt only briefly with the subject.

Admittedly, further information is provided in various subsections throughout the TPR – most notably concerning provisions on tariffs and quotas for agricultural imports in the *Tariffs* section (pp. 43–54). But there is no overview of all the agreements with areas covered. A "table" in the appendix is said to list the agreements (referred to as Table A2.2, p. 30), but there in fact is no such table (the agreements are listed in the *Tariffs* section, however). In the entire Review, a mere three pages are devoted to Norway's FTAs.

In this article, I discuss the extent, comprehensiveness and possible impact of Norway's FTAs. Norway is an interesting case that may be particularly relevant for other small, open economies. Apart from the published sources referred to in the text, the paper draws on oral and written information, provided by Lars Erik Nordgaard of the Norwegian Ministry of Trade, Industry and Fisheries (henceforth: Nordgaard) in June 2019. Background information about trade policy priorities is provided in Section 2; Section 3 focuses on the FTAs, and Section 4 offers some conclusions.

Background: Trade policy priorities for Norway

The TPR starts with an overview of the Norwegian economy before proceeding to an in-depth review of trade policy issues. Briefly put: Norway is small, wealthy and open. It has a population of slightly more than five million; it's GDP per capita of US$ 75 200 is one of the world's highest, and total trade constitutes 63% of GDP.[1] The long coastline has made the sea crucial for the economy. Merchandise exports are heavily dominated by offshore-extracted crude oil and natural gas, currently accounting for about half of total exports. Seafood has always been important; its significance is growing, with a current share of more than one tenth of total merchandise exports. Services exports are largely sea-related as well, with maritime transport on top. Banking, especially maritime and energy-related, and telecommunications are also important. Norway's openness is reflected in its trade policy, where it pursues offensive interests in seafood and generally practises a liberal regime for non-agricultural imports: the simple average applied MFN tariff stands at a mere 0.5%. The country is also relatively open towards foreign investments and services. Agricultural imports, on the other hand, are a different story. Domestic production is politically important, but the climatic and geographical conditions are challenging. As a result, Norway has one of the most restrictive agricultural trade policies in the world, with simple average MFN applied tariffs for agricultural products amounting to 37.1%, and bound tariffs to a staggering 143.1%.

The Norwegian government emphasises three trade-policy cornerstones: "The World Trade Organization (WTO) agreements, the EEA Agreement and the EFTA free trade agreements" (from a summary of Meld. St. 29, 2014–2015 [White Paper to the Norwegian Parliament], p. 3). Table 1 shows the share of Norwegian trade accounted for by these "cornerstones".

Table 1. Norwegian merchandise trade accounted for by various groups of trade partners

Year	Direction	Trade	Value	Percent of trade accounted for by				
				WTO	EEA/EFTA	FTAs	UK	Potential FTAs
2007	Export	Mainland	416 221	97.2	70.4	5.3	9.0	4.7
2017	Export	Mainland	418 157	98.9	67.0	10.8	8.3	7.3
2007	Export	Total	989 523	98.4	81.7	2.5	26.2	2.2
2017	Export	Total	863 615	99.0	81.4	6.3	22.1	3.6

[1] "Trade" here refers to imports and exports of goods and services. All figures in this paragraph are from 2017.

2007	Import	Total	583 370	96.7	70.0	2.5	6.9	8.4
2017	Import	Total	684 331	99.7	60.4	12.6	4.7	13.4

Note: Author's calculations, based on trade data from Statistics Norway (SSB). Values in constant (2017) million NOK. Mainland export = total exports excluding crude oil, natural gas, natural gas condensates, ships and oil platforms. FTAs = Norway's free trade agreements with countries other than EEA or EFTA. The UK share is also part of the EEA share. Potential FTAs = agreements with Indonesia and Ecuador (signed, ratification pending); China, India, Malaysia, Vietnam, Argentine, Brazil, Paraguay and Uruguay (negotiations ongoing); Pakistan (negotiations likely to be initiated, but no formal decision taken as of June 2019). Sources: SSB, https://www.ssb.no/en/utenriksokonomi/statistikker/muh; WTO membership, https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm; EU membership, https://europa.eu/european-union/about-eu/countries_en#tab-0-1; existing and potential FTAs, Nordgaard, NFD (2019) and EFTA (2019). All links accessed 14.07.2019

Practically all of Norway's trade takes place within the WTO, and the TPR praises the country for being a strong supporter. Norway was among the founders of the precursor to the WTO, GATT, in 1947; it has an excellent record with respect to fulfilling its obligations, and has not been involved in many disputes. Given its limited influence on global trade policies, Norway has found it in its interest to have a rule-based multilateral system. However, for some time now, the WTO has been facing serious difficulties. The latest negotiation round has largely failed, and the USA has been blocking the appointment of new members to the Appellate Body, which will soon disrupt the dispute settlement mechanism (see Payosova et al., 2018, for a discussion). Combined with President Trump's emphasis on bilateral agreements, as opposed to pluri- or multilateral ones, these factors give little reason to expect that the WTO will regain its once-dominant position any time soon. That said, the organisation remains important in regulating world trade. Membership has grown steadily since it was founded in 1994, and now numbers 164. Some new initiatives have been successful, like the Trade Facilitation Agreement (TFA) and the revised Government Procurement Act (GPA) – a plurilateral agreement currently consisting of 48 WTO members.

Like many other Western European countries, Norway became involved in regional trade integration early on; in 1960, it was one of the founders of EFTA, which currently consists of Iceland, Lichtenstein and Switzerland, in addition to Norway. However, Norwegians have been sceptical about too much integration. Unlike several previous EFTA members, Norway has never joined the EU or its predecessors, rejecting membership in two referendums (1972 and 1994). On the other hand, all EFTA countries except Switzerland participate in the European Economic Area (EEA) – one of the most comprehensive trade agreements in the world. This integrates the three EFTA members into the EU internal market; there is extensive cooperation also in other areas, and the Agreement is continuously updated. Two areas where Norway has strong interests are partly exempted, however: seafood and agriculture. For these, bilateral agreements are in place. EU grants Norway preferential treatment for seafood, but tariffs are still above zero for several products. In turn, Norway grants EU (and EFTA) countries lower tariffs on certain agricultural products and several quotas with low or zero rates, but protection is still high: simple average preferential tariffs amount to 33.2% (TPR).

The EEA is by far Norway's the most important trade agreement. Together with Switzerland, it covers 80% of Norwegian export value and 60% of import value. Other agreements are also likely to have an impact, however. As of June 2019, Norway had 29 FTAs in force with 41 countries around the world, covering an additional 10% of trade. Melchior (2018) has shown that about half of all world trade takes place within free trade areas – thus, in a global context, Norwegian trade is extensively covered by trade agreements. Whereas the EEA is dealt with thoroughly in the TPR, FTAs are not. In the remainder of this article, I discuss the importance of Norway's FTAs in terms of the countries involved and how comprehensive they are.

Norway's Free Trade Agreements – do they matter?[2]

Partner countries

Table 2 shows Norway's FTAs as of June 2019.[3] The country mainly negotiates through EFTA, and such agreements have long been a priority. Like many other countries, Norway has increasingly emphasised FTAs since the turn of the century, due partly to deadlock in the WTO. See Baldwin (2011) or Melchior (2018) for the worldwide development of FTAs.

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[2] This section partly builds on Nordgaard, NFD (2019) and EFTA (2019), but the final text is the responsibility of the author.

[3] EFTA also had several earlier (now suspended) FTAs in place with countries that became EU members, most recently with 11 Eastern European countries: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (all suspended in 2004); with Bulgaria and Romania (suspended in 2007); and Croatia (suspended in 2013).

Table 2. Norway's free trade agreements in force as of June 2019

Partner	Year	Main areas covered in addition to tariffs					Sum main areas covered
		Services	*Procurement*	*Investments*	*Competition*	*IPR*	
Greenland	1985	0	0	0	0	0	0
Turkey	1992	0	0	0	0	1	1
Faeroe Islands	1993	0	0	0	0	0	0
Israel	1993	0	1	0	0	1	2
Morocco	1999	0	0	0	0	1	1
Palestine	1999	0	0	0	0	0	0
Mexico	2001	1	1	1	1	1	5
Jordan	2002	0	0	0	0	1	1
Macedonia	2002	0	0	0	0	1	1
Singapore	2003	1	1	0	1	1	4
Chile	2004	1	1	1	1	1	5
Tunisia	2005	0	0	0	0	1	1
South Korea	2006	0	1	0	1	1	3
Egypt	2007	0	1	0	1	1	3
Lebanon	2007	0	0	0	0	1	1
SACU	2008	0	0	0	0	1	1
Canada	2009	0	0	0	1	0	1
Albania	2011	1	0	1	0	1	3
Serbia	2011	0	0	1	0	1	2
Hong Kong	2012	1	1	0	1	1	4
Montenegro	2012	0	0	0	0	1	1
Peru	2012	1	0	1	1	1	4
Ukraine	2012	1	1	1	1	1	5
Central America	2014	1	1	1	1	1	5
Colombia	2014	1	1	1	1	1	5
GCC	2014	0	1	1	1	0	3
Bosnia and Herzegovina	2015	0	0	0	0	1	1

Georgia	2017	1	1	1	1	1	5
Sum		10	12	10	13	23	

Note. Agreements with countries other than members of the EU and EFTA. All agreements except for those with the Faroe Islands and Greenland were negotiated through EFTA. SACU = Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, Swaziland). GCC= Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates). Central America = Costa Rica, Guatemala, Panama. IPR = intellectual property rights. Year = year of enforcement. Sources: mainly the Design of International Trade Agreements database (DESTA) by Dür et al. (2014), where an area is reported as covered if the FTA contains “substantive provisions” (https://www.designoftradeagreements.org/media/filer_public/3a/5b/3a5b6e31-579c-470e-8d2a-82280ad52d81/depth_notes.pdf). In some cases, DESTA information is erroneous or lacking. For example, coverage of IPR is underreported, and some countries are not included. In such cases I have supplemented the data with information from Norwegian government (Nordgaard; NFD, 2019) and EFTA (2019).

Initially, EFTA closely followed EU as to the countries with which it negotiated, and the agreements were often very similar – the agreement with Mexico is a case in point. Recently, however, greater emphasis has been put on countries that are economically important for EFTA, regardless of EU priorities. In some cases, non-economic concerns have also mattered. Norway is a generous provider of development aid and involved in peace and reconciliation work in several countries,[4] and these priorities are sometimes reflected in the choice of FTA partners. Examples include Palestine and, to some extent, the Balkans (Nordgaard). Moreover, EFTA has been liberal in agreeing to lengthy transition periods for tariff reductions for developing countries, and some countries have been granted special agricultural export quotas to the Norwegian market.[5]

There is no reason to believe Norway will prioritise FTAs less in the future, at least not in the short run. Firstly, being a small country, Norway has limited ability to influence the WTO and its stagnation. Negotiating FTAs is an alternative solution – one has become increasingly relevant due to the exploding number of FTAs worldwide, which may cause trade diversion for countries who don't keep up. Indeed, Norway is currently negotiating with several countries, including large economies like China, India and Brazil;[6] and more are in the offing. Negotiations with Ecuador and Indonesia have been completed, but ratification is pending. However, Norway has no FTAs with important countries like the USA, Russia and Japan, and there are no immediate plans for negotiations.[7]

Secondly, Norway's trade with the EEA is falling (see Table 1) – and that share will plunge when (if) the UK completes its withdrawal from the EU. The UK is one of Norway's most important trading partners, even when disregarding oil and gas, and achieving an FTA with the UK post-Brexit is a high priority for Norway (WTO 2018b). Thirdly, although EEA still enjoys considerable support in the Norwegian population, and withdrawal appears unlikely, scepticism about the Agreement seems to be growing in certain groups,

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[4] https://www.regjeringen.no/en/topics/foreign-affairs/id919/

[5] These include Botswana, Egypt, Namibia, Swaziland and Ukraine.

[6] Norwegian negotiations with China are bilateral, and do not go through EFTA. Brazil negotiates through MERCOSUR, which includes Argentina, Paraguay and Uruguay as well.

[7] The Norwegian government has signalled that an agreement with Japan is highly desirable, especially since the latter has recently negotiated an agreement with the EU. Negotiations with Russia had started but put on hold after the Ukrainian crisis in 2013. With regard to Norway and the USA, an agreement will be highly relevant if a USA–EU agreement becomes a reality. However, this is uncertain: the Transatlantic Trade and Investment Partnership (TTIP) negotiations were paused in 2016, and preliminary talks concerning new negotiations, where difficulties can be expected, have just started.

including several powerful trade unions.[8] However, the UK's current difficulties in reaching a deal with the EU that is acceptable to the British public make it hard to believe Norway would be able to replace the EEA with an FTA that it considers better.

To return to Table 1: the last two columns show the share of Norway's trade accounted for by the UK, and by countries likely to become FTA partners in the coming years. If agreements were in place with all these today, FTAs would cover approximately 30% of all Norwegian trade. Further, coverage would increase to more than 85%, should the EEA be replaced by an ordinary FTA. It seems unlikely that all this will happen, but the thought experiment is useful for indicating how the current share of Norwegian trade covered by FTAs may expand.

Comprehensiveness

Market access for merchandise trade is an important issue in all Norway's FTAs; indeed, that was the primary focus of the earliest ones. All the FTAs admit free trade in most manufactured products, and generally grant good market access for seafood, although tariffs sometimes remain on certain products. Trade in agricultural products, however, is often quite restricted. Generally, negotiations are split in two, where processed products (soup, for example) are negotiated through EFTA. Trade is relatively liberalised, with EFTA sometimes granting partners similar preferences as the EU. In contrast, basic or unprocessed products (milk, for example) are dealt with in separate bilateral agreements, where Norwegian protection is still high. Even though many tariffs have been eliminated through the WTO, Melchior (2018 p. 12) concludes that many FTAs around the world yield significant additional tariff cuts. For Norway, the average share of exported products to non-FTA and non-EEA/EFTA countries that are subject to tariffs is 32%, whereas it is only 7% to FTA countries. For imports, the corresponding figures are 30% and 9%.[9] Hence, FTA-tariff eliminations apply to a substantial number of traded products.

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[8] See e.g. https://www.aftenposten.no/norge/politikk/i/4dkd7o/EOS-striden-i-LO-trappes-opp-Fellesforbundet-kan-ende-opp-med-a-si-nei (in Norwegian. Accessed 14.07.2019)

[9] Figures calculated by the author based on tariff data from The World Integrated Trade Solution (WITS) database (https://wits.worldbank.org/) and Norwegian trade data from SSB (https://www.ssb.no/en/utenriksokonomi/import-and-export-all-countries-and-commodity-numbers-1988-2018) for 2017 (figures for exports regard mainland exports). 6-digit Harmonised System (version 2002) product aggregation level was used. I first calculated the average share of products that were subject to tariffs for each country and then the overall average, only for products where trade was positive.

However, tariffs are only part of the story. FTAs worldwide have covered an increasing number of non-tariff areas since the turn of the millennium (see e.g. Baldwin, 2011; Melchior, 2018), and Norway is no exception. Market access for services was early introduced as a priority. Coverage also expanded to areas like investments, public procurement, intellectual property rights (IPRs), competition, standards, trade facilitation and, since 2010, sustainable development. Furthermore, all EFTA's FTAs have rules for dispute settlement, but these have not been used thus far.

Table 2 shows information on the coverage of five of these areas. The data are taken mainly from the DESTA database; and, as can be seen, only three of Norway's FTAs do not cover any of the areas, whereas six cover all of them. There is a clear positive correlation between the year in which the agreement entered into force and number of areas covered (correlation coefficient approx. 0.53), but there are some notable outliers. The agreement with Mexico was early, but broad; and those with the Balkans relatively narrow even though some of them, like that with Bosnia-Herzegovina, have entered into force only recently. However, as mentioned above, other concerns than strictly economic considerations may have played a role here; Norwegian exports to the Balkan FTA-partners is marginal, constituting only 0.04% of the total. It should also be noted that future agreements may not be as comprehensive as those negotiated recently, as most of the low-hanging fruits have now been taken – many of the remaining countries are less oriented towards free trade (Nordgaard).

Most agreements are regularly updated administratively in areas such as customs, rules of origin and related areas (Nordgaard). However, international trade is continuously changing. Services constitute an increasing share of trade, and many goods contain a significant services component. Goods as well as services are often supplied through commercial presence in the destination country, and technological change has made extensive globalisation of value chains possible. Therefore, FTAs seem set to become less relevant over time. Even so, only one of EFTA's current FTAs – the oldest, with Turkey – has so far been thoroughly expanded.[10] The new agreement covers various non-tariff areas, including services, IPRs, competition and procurement, but has not yet entered into force. Revisions of more FTAs are on the cards. Renegotiations are ongoing with SACU and will be initiated with Chile in autumn 2019 (Nordgaard). Generally, EFTA prioritises renegotiating FTAs that are economically significant for the members, and where the partner has formed an agreement with the EU after that with EFTA. Renewal is then particularly important to ensure EFTA the same market

[10] The EFTA Agreement itself was updated in 2001, and now includes services.

access as the EU. This is an issue with SACU, for example, and makes renegotiation of the Canada FTA highly relevant (Nordgaard). It should also be noted that several recent FTAs contain an “MFN clause” guaranteeing the same treatment as other countries in any future FTAs.

But do non-tariff provisions in FTAs really matter? Generally, the agreements are consistent with and build on WTO agreements like the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS), in addition to plurilateral initiatives like the Government Procurement Act (GPA). The structure and content are similar, albeit sometimes with adjustments. Moreover, as pointed out by Melchior (2018, chap. 5), all members of the Organisation for Economic Co-operation and Development (OECD) have, for long, gone through a process of increasing, unilateral and binding liberalisation of investments and with that, also Mode 3 services trade (that is, services supplied through commercial presence in the destination).[11] Melchior shows that, with a few exceptions, most FTAs around the world do not contain regulations that go much deeper than those already existing in the WTO or the OECD. In other words, many FTAs may not be as deep-going as they appear.

To a certain degree, this is also the case for EFTA’s FTAs. Services provisions, for example, typically build on GATS. However, commitments to reductions of trade barriers (bindings) are often made in more sectors – also in FTAs with non-OECD partners like Colombia, Hong Kong, GCC, Singapore and Ukraine. Importantly for Norway, market access is often granted for maritime and financial services. However, such provisions often reflect pre-existing domestic practices (Nordgaard). Thus, the FTAs may not imply major changes in market access in practice. This is consistent with findings of Miroudot and Pertel (2015): that countries often have more liberal policies than what their bindings in GATS indicate (also see Melchior, 2018).[12]

Similarly, public procurement provisions often replicate those in the GPA. The FTAs can still matter, however. The GPA covers only a subset of WTO members, and sometimes a non-GPA FTA partner agrees to treat the EFTA countries as it would have, had it been a GPA member. The agreements with Colombia and Peru are

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[11] Also see http://www.oecd.org/investment/investment-policy/codes.htm. The OECD consists mostly of wealthy countries from Western Europe and North America, in addition to Australia, Japan and New Zealand, but, for instance, also Israel and Chile are members. See http://www.oecd.org/about/members-and-partners/.

[12] There are some exceptions. For example, in the agreement with the Philippines, EFTA granted facilitation of temporary work permit application procedures (Mode 4, in GATS terms). This is an important issue for developing countries (Nordgaard).

clear examples here.[13] Including procurement in FTAs may also be a way for non-GPA countries to test out GPA provisions on a smaller scale. Colombia, for example, participates in the Government Procurement Committee as an observer, and may join in the future. Ukraine was not part of the GPA when the FTA with EFTA entered into force, but accessed later – in 2016.

Concerning intellectual property rights (IPRs), Norway is not very offensive and follows a soft line towards developing countries. Hence, few FTAs have provisions that go significantly beyond TRIPS, even though the vast majority of them cover IPRs (Nordgaard).

Two of the five areas shown in Table 2 are outside the WTO mandate: investments and competition. Investments provisions generally concern establishment and/or promotion and advocate non-discrimination between domestic and partner-country investors. But again, provisions often reflect domestic practices that are already in place. Investment protection is generally not covered in the FTAs – this is a subject for bilateral investment treaties (BITs) of which Norway only has a few (early) ones. But there are exceptions: its agreements with non-OECD countries Singapore and Ukraine include some provisions on protection, and this is an important topic in the ongoing negotiations with China (Nordgaard). Concerning competition, FTAs typically emphasise exchange of information and the importance of domestic legislation on competition, but provisions are often not very binding.

Summing up, it appears several FTAs do not go much deeper in non-tariff areas than what had already been agreed in WTO, and when they do, they often merely replicate commitments in other international agreements or pre-existing domestic practices. Thus, even though two-thirds of EFTA's FTAs cover at least one important non-tariff area, such coverage might not affect trade to any great extent.

There are counter-arguments to this view, however. Firstly, FTAs make trading relations more committing and more transparent, as forums for raising trade-related issues are established. For example, delays in customs may represent significant costs for exporters, and such problems may be dealt with through discussions in FTA joint committees. Therefore, even the narrowest FTA may have effects beyond those from tariff reductions as such. Secondly, FTAs tie the partners to the mast by making future reversions of already-undertaken trade liberalisation difficult. Thirdly, a few of EFTA's FTA partners are in fact not members of the

[13] GPA participants: https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm

WTO.[14] Moreover, it is worth noting that FTA dispute settlement mechanisms may prove important in the future, as the WTO Appellate Body is likely to be put out of play soon. Indeed, some studies have found that FTAs have trade-promoting effects beyond those from tariff reductions (see, for example, Medin, 2019, on Norwegian seafood export). In addition, the comprehensiveness of the agreements may matter (Kohl et al., 2016). The literature is not conclusive, however, and many studies have the weakness of addressing *correlation* and not *causation* (Baier et al., 2018; Kepaptsoglou et al., 2010; Kohl, 2013).

Conclusions

This article has discussed an area only superficially covered by the WTO's *Trade Policy Review for Norway* (2018a): Norway's extensive network of trade agreements with countries other than the EEA or EFTA. These account for an increasing share of Norwegian trade, currently amounting to 10%. Further agreements are in the offing, and thus the share is likely to increase further. Tariff eliminations in the FTAs apply to a significant number of traded products, and the agreements include an expanding number of non-tariff areas. Together, these facts make it likely that such agreements will play a more important role for Norway in years to come. However, non-tariff provisions often simply mirror already established domestic practices, making it difficult to know how much such provisions actually matter for trade promotion. That, then, is a question for future research.

[14] As of July 2019, this was the case for Bosnia-Herzegovina, Lebanon, Palestine and Serbia.

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