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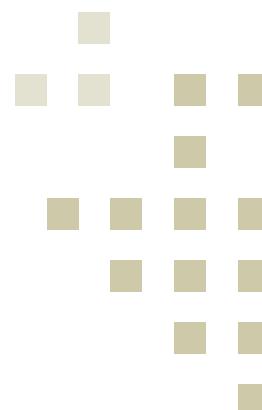
## The future of Norway's GSP system

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# The future of Norway's GSP system

**Arne Melchior**

## **The GSP project**

This is the main report from a project on the Norwegian GSP system, undertaken by the NUPI for the Ministry of Foreign Affairs in 2004-2005. The report is published simultaneously in Norwegian (NUPI Paper No. 680a; "Norges tollpreferanser for import fra u-land"). The following papers are also available:

- \* Maurseth, P.B., Trade and development – a selective review, NUPI Paper No. 681.
- \* Maurseth, P.B., Norway's trade with developing countries, NUPI Paper No. 682.
- \* Melchior, A., GSP in the "spaghetti bowl" of trade preferences, NUPI Paper No. 683.
- \* Melchior, A., The Norwegian import regime for agriculture, NUPI Paper No. 684.
- \* Melchior, A., Trade policy differentiation between developing countries under GSP schemes, NUPI Paper No. 685.

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## Preface

Following tender in 2004, NUPI (the Norwegian Institute of International Affairs), Department of International Economics, was asked by the Norwegian Ministry of Foreign Affairs to undertake an assessment of Norway's Generalised System of Preferences (GSP) for imports from developing countries. About the background and terms of reference, see Appendix A.

This main report, which is published simultaneously in English and Norwegian, provides a comprehensive review of the GSP system, including options for change. In addition, five background papers analyse in more depth selected issues that are important for the conclusions (see titles on cover page).

As part of the project, we have interviewed a number of parties involved:

- Staff in multilateral organisations such as UNCTAD and the WTO.
- Representatives of developing countries.
- Norwegian Customs and Excise.
- 27 Norwegian importers.

In Appendix B, a list of interviewees is presented. The Norwegian importers were interviewed with the premise of anonymity, and their names are not included. These interviews were mainly for firms in the field of food and agriculture. We thank all the interviewees for spending their time and sharing their knowledge and experience with us.

We have also been in contact with and received information from other parties involved, e.g. the EU Commission, the World Bank, Statistics Norway, the Norwegian Agricultural Authority and Norwegian Customs and Excise (in addition to the interview). We thank all those who have provided information or shared their views and knowledge with us.

Kyrre Stensnes worked as a research assistant to undertake interviews with importers, and has written Appendix F in the Norwegian version of this report, with a summary of these interviews. Stensnes has also contributed to the translation of this report. We thank him for his effort.

We thank the Ministry of Foreign Affairs for the financial support for the project, and for the constructive and good cooperation along the way. We have also appreciated that the Ministry has provided full independence in terms of the analysis undertaken and the policy recommendations provided. We thank the Norwegian Delegation in Geneva for assistance related to meetings.

The views expressed are those of the authors only. The responsibility for remaining errors rests on us.

Oslo, 22 August 2005.

Arne Melchior  
Project Manager

Per Botolf Maurseth  
Head of Department

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## Summary of main conclusions

For manufactured goods, market access for developing countries in Norway has improved considerably during the last decade, due to general tariff cuts as well as improvements in the tariff preferences for developing countries (GSP, the Generalized System of Preferences). For manufactured goods, tariffs for GSP beneficiaries now remain only for 80 out of more than 6000 tariff lines. Twenty years ago, suppliers of e.g. clothing in Western Europe had zero tariffs and a tariff advantage of around 20% compared to developing countries. This advantage is now reduced to 2-4% on average. This improvement in market access has been accompanied by considerably increased imports from developing countries; with the largest expansion by China.

While Norway currently has one of the most liberal import regimes for manufacturing in the OECD, the pattern is diametrically opposed in agriculture. Our calculations indicate that 28% of the applied tariffs for agricultural products in Norway are above 100%, and the simple tariff average is close to 100%. Developing countries obtain a modest 10-15% tariff rebate under GSP. Tariffs are on average somewhat lower for products exported by developing countries, but on the whole, protection in agriculture remains high also for developing countries.

The Least Developed Countries (LDCs) have zero tariffs with no quantitative restrictions for all goods including agriculture. The evidence shows that the costs of initiating trade with LDCs are higher and frequently prohibitive; hence little imports have been generated even in cases where LDCs have tariff preferences at several hundred per cent. Some success stories exist, however: Imports of clothing from Bangladesh, flowers from Africa and some feedstuff have increased due to GSP. Botswana and Namibia are treated almost as LDCs even if they are middle-income countries, and imports of meat from these countries have been allowed under special quotas.

For manufacturing, the report recommends that tariffs be reduced to zero on an MFN basis; i.e. for all countries. Such a reform implies that the control of the origin of goods is no longer required, and this implies a significant simplification and cost reduction. This is important for developing countries, and especially the small ones. Small countries that do not have their own production of fabrics and yarn, may currently frequently not use GSP for clothing due to the rules of origin.

For agriculture, complete free trade is not on the current agenda and the report discussed a GSP model where tariff reductions are differentiated according to country and product groups.

Under the WTO, discrimination between developing countries beyond LDCs is possible only if this is based on objective criteria. We suggest that differentiation with three different tiers of developing countries. The

poorest group, receiving the most generous tariff reductions, should include more than the LDCs. This is motivated by

- the fact that more than 4/5 of the world's poor live outside the LDCs, and the latter constitute a small share of the developing world
- the wish to provide market access to countries with a larger supply capacity
- the wish to sustain broader competition and thereby avoiding that GSP generates non-sustainable trade that does not survive when other suppliers obtain better market access
- to soften the impact of thresholds between country groups that are to some extent arbitrary
- to avoid future problems of "preference erosion", with the possible implication that countries with mega-preferences delay improvements in market access for other developing countries.

We therefore suggest that the poorest group should be widened beyond the LDCs, to include other low-income countries. At the other end, the report suggests that high-income countries are "graduated" and lose their GSP benefits.

It is therefore suggested that GSP beneficiaries are grouped in three tiers, mainly corresponding to low income, lower middle income and upper middle income. The "second poorest" countries also need market access in support of development and poverty reduction. Meaningful tariff preferences should therefore also be granted to lower middle income countries such as China and Brazil.

For the Norwegian GSP system, this would imply that some richer countries such as Korea and Hong Kong are graduated from GSP, that Russia and other countries in the former Soviet Union are given GSP, and that Botswana and Namibia are treated along with other countries at their respective income levels (upper, lower middle income). For some of the affected countries (Korea, Botswana, Namibia), EFTA is currently negotiating free trade agreements that may regulate future trade. For countries that do not export agricultural goods, market access for goods will be secured via zero MFN tariffs for manufactures.

For agriculture, we suggest that the poorest group should obtain zero tariffs for all products. The upper middle income countries should face *ad valorem* rather than specific tariffs, and tariffs should be reduced in order to eliminate the "water in the tariffs". The GSP system should to the largest extent possible be based on *ad valorem* tariffs rather than specific tariffs and tariff rate quotas (TRQs).

For the intermediate group of developing countries, GSP tariff reductions should be scaled across products. A main criterion should be the importance of different products for developing countries and the trade-creating impact of tariff cuts. The study indicates that in agriculture, the scope for increased imports from developing countries is largest for (i) feedstuff, (ii) meat, and (iii) selectively other products such as e.g. preserved or frozen vegetables, or some processed food. More detail is provided in the study.



More liberal imports of feedstuff and meat will have a significant impact on Norwegian agricultural production, and the scale of liberalisation is a political decision. Imports of feedstuff could have a positive impact on agriculture except grain production by cutting costs significantly. It will however affect grain production negatively, and GSP reforms could be phased in gradually.

The study recommends that in agriculture, the use of TRQs is eliminated or at least reduced over time. If TRQs are “successful” so that prices are bid up, they signify a new form of taxation of imports. Hence *ad valorem* tariff reductions should be the preferred form of GSP, although TRQs could be used if necessary in order to secure a gradual increase in market access. Reforms in GSP have to be considered in the light of WTO negotiations, where we do not yet know the results.

In order to increase the benefits of GSP for developing countries, the study recommends that efforts should be made to increase transparency and predictability of the system, for example by better information and less use of tariff suspensions or tariffs that vary over time. There is also a need to increase competition among importers in some fields of agriculture, and this is implicitly addressed in the proposals concerning wider country groups and the use of *ad valorem* tariffs rather than TRQs.

With tariffs that vary across countries, there is a motive for trade deflection, or cheating with declarations of origin. Importers may also classify goods erroneously in order to avoid tariffs. We discuss possible statistical methods to detect such practices, as a basis for the control activity.



# Introduction

## *1. GSP, SDT, MFN, WTO...?*<sup>1</sup>

The *Generalized System of Preferences* (GSP) is one of the main tools for providing better treatment of developing countries in the world trade system. In the trade-technical language, such trade advantages are called *Special and Differential Treatment* (SDT). Under GSP, members of the World Trade Organization (WTO) are allowed to reduce tariffs for developing countries below the normal rates. Hence if e.g. there is a 10% tariff for imports from the USA, the tariff for developing countries may be zero. GSP therefore violates the *Most Favoured Nation* (MFN) principle of the WTO, which says that different trade partners should have equal treatment. This violation is however accepted in the WTO rules.

While GSP is legal according to WTO rules, it is unilateral – i.e. granted by donor countries but not negotiated with the recipients. While GSP has to adhere to some guidelines set by the WTO, donors are free to define the country and product coverage as well as the terms. A consequence is also that donors may change or withdraw concessions under GSP.

## *2. Norway's GSP system has improved radically for textiles, but is still limited for agriculture.*

As one of the first countries, Norway established its GSP system in 1971, with comparatively generous tariff reductions for most manufactured goods. For the “sensitive” imports of textiles and clothing, however, tariff reductions under GSP were much more limited. Since clothing is one of the most important sectors in the exports of developing countries, this exception seriously limited the advantages of GSP. Textile imports from developing countries were also limited by quotas, which were quite restrictive during the 1980s. From 1986 onwards, quotas were gradually lifted until the last one disappeared in 2001. During the last decade, GSP for textiles and clothing has also radically improved; and free trade for clothing is now in sight.

Another “sensitive” product group is agriculture. For agriculture, 1995 was a watershed due to the “tariffication” agreed in the Uruguay Round of trade negotiations that established the WTO. Before 1995, trade protection in agriculture largely rested on quantitative restrictions, but from 1995, these were replaced by tariffs. While tariffs are low for some tropical goods and items not produced in Norway, they are very high for other

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<sup>1</sup> In Appendix E, a list of abbreviations is available.

products. After 1995, the GSP system was revised to match the new tariff system, but for ordinary developing countries, tariff cuts under GSP have been modest. Norway is one of the OECD countries with highest protection in agriculture, and a core issue is whether this policy is to be continued.

In Appendix C, a brief chronology of the Norwegian GSP system is presented, and a brief reference to some earlier studies.

### ***3. The Least Developed Countries face no tariffs at all, but few of them are able to exploit this advantage.***

Under the GSP system, it is allowed to provide even better treatment for the Least Developed Countries (LDCs), compared to ordinary developing countries. The LDCs obtained zero tariffs for all goods under the Norwegian GSP system already in 1976. Due to quantitative restrictions in agriculture, tariff concessions in this field were however of limited value. After 1995 with the new tariff system, some agricultural tariffs were re-introduced also for LDCs. These were once more eliminated on 1 July 2002, when the LDCs obtained zero tariffs for all goods – however subject to surveillance and a safeguard clause for grains and feedstuff. In general, however, LDCs lack capital, skills, infrastructure and technology, and they have only to a limited extent been able to exploit the favourable trade rules granted by Norway (and some other industrial countries).

### ***4. How should the GSP system be improved?***

This study is commissioned by the Ministry of Foreign Affairs, which has asked for an assessment of the system and recommendations for future changes. A summary of various policy statements in this context, and some of the guidelines for the study, is provided in Appendix A. In general, the assessment is rooted in the general objective of continuously improving trade conditions for developing countries.

In the current situation, an important issue is whether developing countries should be granted better market access in agriculture. This is a core issue in the current “Doha Development Agenda” round of trade negotiations in the WTO, and a related issue is whether such improved market access should be granted through GSP. A political premise set by the Government is however that core parts of Norwegian agriculture should continue to be protected. In this report, we therefore do not examine the option of complete agricultural liberalisation, but options for gradual increases in market access.

A second issue is how to respond to the performance of LDCs, which have only to a limited extent been able to exploit the trade opportunities granted in the current system. The Ministry has explicitly asked for a consideration of such country differentiation under GSP. Should “LDC treatment” be given to more developing countries? In the study, we also address various administrative aspects of the GSP system.

### ***5. Some conclusions are supported by background studies***

This main report from the GSP project contains a comprehensive examination of the Norwegian GSP system and concludes with policy recommendations. On some core themes, separate papers support the analysis:

- The share of trade from developing countries is comparatively low for Norway, and this share is sometimes used as an indicator of trade openness. This is however questionable unless we correct for geographical factors; if you are surrounded by developing countries, you import more from them. Maurseth (2005a) uses a “gravity model” to correct for geography, and examines whether Norway’s imports from developing countries is high or low, internationally compared.
- The impact of GSP depends on the relative advantage for developing countries compared to other suppliers. In the case of Norway, this is particularly important since  $\frac{3}{4}$  of trade is covered by free trade agreements (FTAs). Melchior (2005a) examines the relative advantage of GSP versus free trade agreements and MFN trade rules, in a comparative study of the EU, USA and Norway.
- The evaluation of GSP in agriculture is complicated by Norway’s extensive use of so-called specific tariffs; e.g. the tariff for bovine fillets is 107 NOK/kg under GSP. In order to undertake a comprehensive analysis of tariff levels and compare different products, we need to express tariffs in percentages of the import price. Such *ad valorem equivalents* (AVEs) for agriculture are calculated in Melchior (2005b), and used for an examination of the tariff regime.
- Given that the issue of country differentiation under GSP is an important issue in the study, Melchior (2005c) examines criteria for differentiation, the WTO-legality of discrimination under GSP, and the role of different country groups for trade, development and poverty reduction.
- Finally, Maurseth (2005b) examines the core issue about whether trade is good for economic growth and development. While it is unambiguously true that rich countries trade more, the causal relationship between trade liberalisation and growth is more mixed. An econometric analysis is undertaken to check e.g. whether import liberalisation and access to foreign markets have different implications for growth.

Important conclusions from these studies are referred to throughout this main report, but the interested reader may find additional material in the studies. In addition, there are some table appendixes, e.g. more detailed tables on agricultural tariffs, which are not published but available upon request for interested readers. A more extensive analysis of the tariff regime for textiles is also available upon request.

# On the impact of GSP

## *6. After more than 30 years of GSP, its benefits are still disputed.*

Ever since its inception in the early 1970, the benefits of GSP have internationally been questioned and disputed. The main criticisms have been:

- GSP is limited by exceptions and limitations for the products of particular interest to developing countries (see e.g. Nicolaides 1985).
- GSP beneficiaries are frequently at a disadvantage compared to free trade agreements, which cover an increasing share of trade (see e.g. Hoekman et al. 2005).
- The benefits of GSP are undermined by restrictive Rules of Origin (RO) so that countries lose their tariff advantages unless they are able to make the intermediate goods (e.g. textile yarn and fabrics) themselves (see e.g. Mattoo et al. 2003).
- GSP benefits are undermined by other restrictions such as textile quotas, health and technical standards etc., that limit imports (see e.g. OECD 2005).
- Due to their unilateral nature, GSP benefits are uncertain and trade are not willing to invest in new trades since they know that tariff reductions may be withdrawn (see e.g. UNCTAD 1999).
- GSP can only work by giving some developing countries better trade terms than others, hence potential gains for some only come at a cost for others (see e.g. Nicolaides 1985).
- A more recent critique is that due to “rent-sharing”, a significant part of the tariff rebate is captured by importers in rich countries rather than exporters in poor countries (see e.g. Olarreaga and Özden 2005, Silva 2005).

Finally, there are “political economy” arguments that are derived from some of the former critiques:

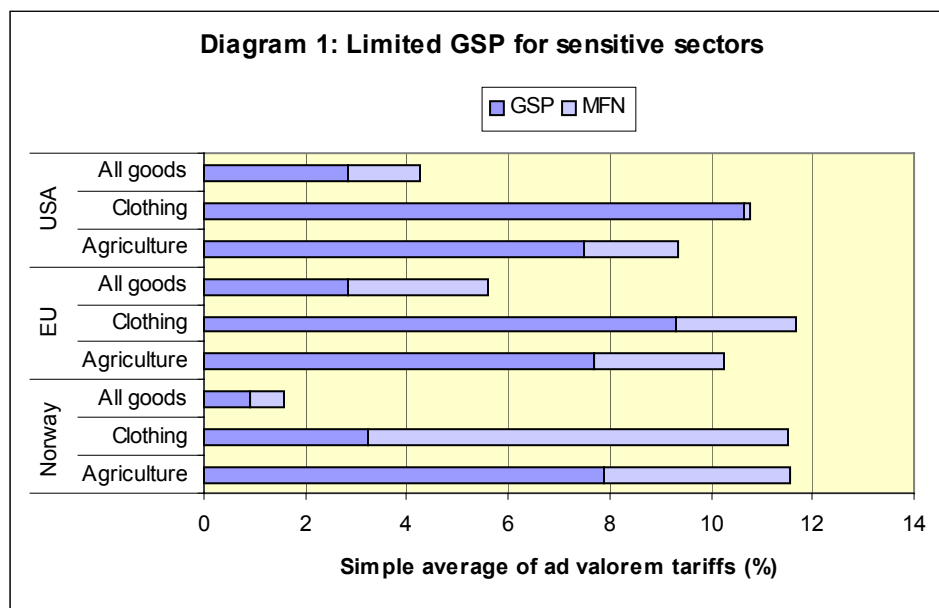
- Since GSP will never become generous enough for political reasons, developing countries should opt for multilateral trade liberalisation for sectors of particular interest to them, rather than GSP (Nicolaides 1985, Hoekman et al. 2005).
- Beneficiaries of GSP will become reluctant to multilateral trade liberalisation that will undermine their privileges, and this will hinder trade liberalisation to the benefit of other developing countries (see Davenport 1992, Özden and Reinhardt 2003).
- GSP is a “lightning rod” that serves as a response to political pressure for better treatment of developing countries, by undertaking unilateral and limited improvements in market access rather than serious and binding concessions that will increase trade (see e.g. Melchior 2005c).
- Since GSP is not binding and unilateral, rich countries will use GSP to put pressure on poor countries to give something in return (see e.g.

Özden and Reinhardt 2004). Poor countries should also for that reason opt for binding multilateral rules (see e.g. Whalley 1990).

In spite of this massive list of criticisms against GSP, there has been limited conclusive evidence to settle the questions. Recently, however, independent research as well as work undertaken at UNCTAD, WTO and OECD has shed more light on the issues.

**7. It is a valid critique that GSP is limited, but this is not necessarily an argument against GSP as such.**

It is true that the impact of GSP is limited by country and product exceptions. Diagram 1, based on Melchior (2005a) shows the simple average of *ad valorem* tariffs for all products and some selected sectors in the GSP systems of the EU, USA and Norway:<sup>2</sup> MFN tariffs are those that apply to countries that have no preferences; i.e. the “ordinary” tariffs. Here we consider the *applied* tariffs; these may be lower than the *bound* tariffs (the ones that are e.g. subject to negotiations in the WTO).



Clothing and agriculture are sectors of particular interest to developing countries, but here tariffs are much higher than the average for all products, and GSP is limited. For Norway's imports of clothing, GSP has been considerably improved in recent years. A few years ago, the picture for clothing was more similar to the pattern observed for the USA and the EU in the diagram, with high tariffs even under GSP.

The diagram also serves to illustrate that agriculture is a sensitive sector with higher tariffs and limited GSP. In this case, however, the use

<sup>2</sup> See Melchior (2005a) for data sources and details. Tariffs are for 2003 for the EU and Norway, and 2004 for the USA.

of *ad valorem* tariffs in the diagram underestimates the tariff level. This is most severe for Norway, where we shall show later that the true tariff average, when specific tariffs are accounted for, is close to 100% for Norwegian agriculture.

For the EU and USA GSP systems, successful exporters are also hit by country and product “graduation”, where by GSP benefits are removed if they become more competitive. OECD (2005) presents a useful analysis of country and product graduation in agriculture, for the EU and U.S. GSP systems. In the EU system, country graduation is based on income level and the trade balance in manufacturing vs. the EU, and product graduation occurs if a developing country obtains a particularly high market share for a product. Özden and Reinhardt (2004a, b) show that if developing countries are no longer eligible for GSP, their export performance is systematically better. For this reason, they conclude, “nonreciprocal preference programs have failed. Developing countries would be better served by full integration into the reciprocity-based world trade regime”.

While there are strong reasons for multilateral liberalisation in sectors of particular interest to developing countries, limitations of GSP nevertheless do not necessarily provide an argument against improving current GSP systems. An alternative implication of the limitations of GSP is that these limitations should be removed or reduced. In this report, we suggest such improvements. An alternative approach would be to say “we should not improve GSP, in order to push developing countries to engage more seriously in WTO negotiations”. We believe that concerns for development should override these “tactical” considerations, and that improvements in the Norwegian GSP system can serve development.

### ***8. Recent evidence also confirms that restrictive rules of origin (RO) limit the use of GSP.***

Rules of origin (RO) under GSP specify what kind of processing of a good that is required in order to obtain preferential treatment. Such rules are needed in order to avoid transshipment of goods in order to exploit preferences, or so-called “trade deflection”.<sup>3</sup> Strict RO may limit the utilisation of GSP. According to some authors, strict RO constitute a major reason why USAs special preferences for Africa (African Growth and Opportunity Act, AGOA) has not yet had a stronger impact on trade (Mattoo et al. 2003, UNCTAD 2003), and the same is suspected for EUs special preferences for the LDCs (Everything But Arms, EBA) (Brenton 2003).

The impact of RO shows up mainly in two ways: RO implies a transaction cost related to certification of origin. Various estimates exist; frequently that the transaction cost is in the range of 2-5% of the product price (see e.g. Estevadeordal and Suominen 2004 for a review). In

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<sup>3</sup> For a technical overview, see Estevadeordal and Suominen (2004). For a discussion, see also Anson et al. (2003).



addition, strict RO may imply that cheap imported inputs have to be replaced with more expensive domestic inputs. According to UNCTAD (2003), improvements in RO are one of the main ways of improving the utilisation of as well as the benefits from GSP (see also Brenton and Manchin 2003).

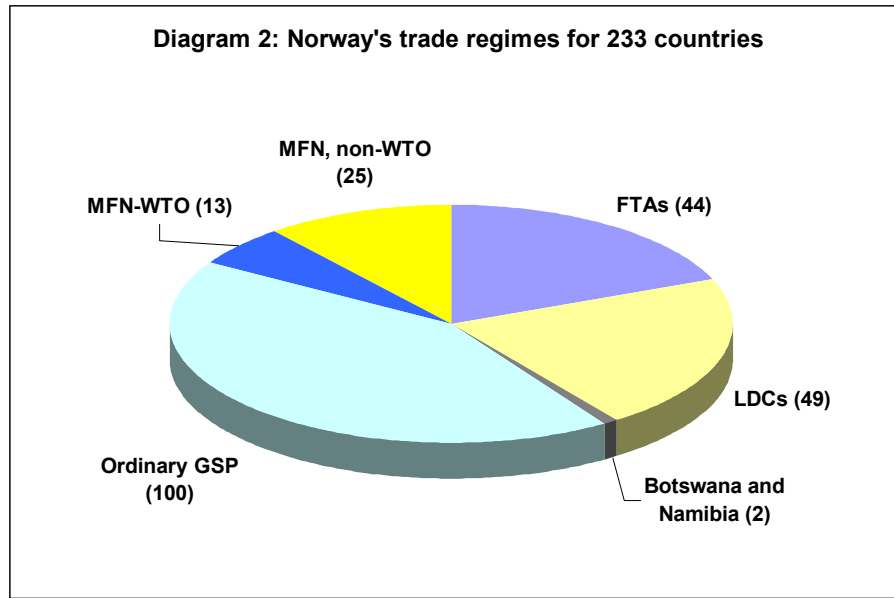
A revealing illustration of RO is the “double processing rule” for clothing: For knitted clothes, it is not sufficient to produce the good from yarn: In order to be considered as originating in the country for the purpose of GSP, the yarn also has to be made in the country concerned; hence yarn production as well as the knitting has to be undertaken domestically. Similarly, woven clothes cannot be made from imported fabrics; in order to obtain GSP benefits, the country needs its own production of fabrics. This is less of a problem for large countries such as China or India, but for small developing countries this is indeed a limitation. For example, RO is probably the reason why Bangladesh claims GSP treatment for only 81% of its exports to Norway (see GSP utilisation tables in Appendix D). For LDCs, rules of origin is likely to be a greater problem than for other developing countries (UNCTAD 2003).

If the preference margin due to GSP is just a few percentage points, it may be the case that the costs of RO are larger than the GSP benefit. This is one of the reasons why utilisation of GSP increases with the margin of preference (OECD 2005). In fact, a tariff rebate of less than 3-5% may actually be worth nothing at all.

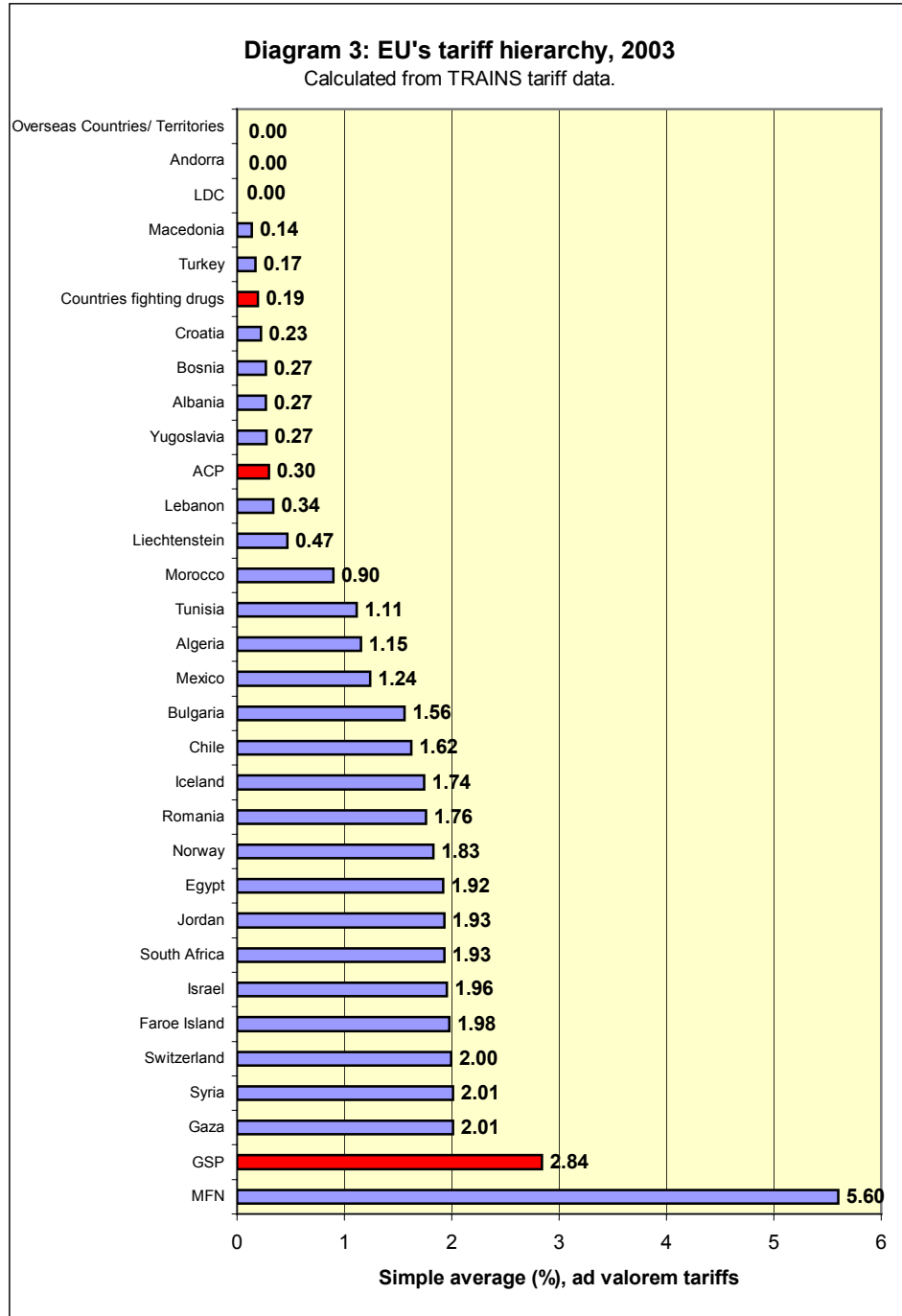
Also in the case of RO, however, the limitations of GSP may be an argument for improving it rather than to abandon it. Less restrictive RO should therefore be a purpose.

***9. Almost  $\frac{3}{4}$  of Norway's imports is covered by free trade agreements (FTAs). The impact of GSP therefore cannot be understood without taking into account the FTAs.***

Diagram 2, from Melchior (2005a), shows that GSP is only one out of several different trade regimes.



Ordinary GSP covers 100 countries, and “extended preferences” that are even better, are given to the LDCs, Botswana and Namibia. Norway has FTAs with 44 countries, and only 13+25 out of the 233 trade partners do not have any trade preferences. This multitude of trade regime is even more visible in the EU trade regime. Diagram 3, also from Melchior (2005a) shows average tariffs for EU's various trade regimes. MFN here again indicates the applied tariffs for countries with no trade preferences.



Even if GSP cuts tariffs by half on average, many countries are even better off. On top of the hierarchy, we find the extended preferences granted by EU to

- the LDCs, under the Everything But Arms (EBA) initiative
- the ACP (African, Caribbean and Pacific) countries under the Cotonou Agreement

- Pakistan and eleven countries in Latin America under the “Countries fighting drugs” regime.<sup>4</sup>

Between these extended preferences and ordinary GSP we also find a number of FTAs with better trade conditions than GSP.

While many countries are covered by GSP and extended preferences, some of them are small so the share of trade covered by such preferences is more limited. Table 1 shows the share of trade covered by the various regime types, for the EU, USA and Norway.

**Table 1: Norway, EU and the USA; % shares of imports covered by different trade regimes (using 2003 import data)**

	Norway	EU – individual country	EU together	USA
Free trade agreements	74.2	72.5	22.8	33.0
Extended preferences	0.7	1.9	5.4	4.0
Regular preferences	10.8	12.0	33.6	9.5
MFN-WTO	12.0	13.6	38.1	51.9
Other	2.4	0.0	0.1	1.6
Sum	100	100	100	100

Source: Melchior (2005a).

In all cases, extended preferences account for a modest share of trade, and regular preferences are more important. MFN-WTO trade constitutes more than half of U.S. imports, and 38% for the EU if only extra-EU trade is considered. If intra-EU trade is included, however, the MFN-WTO share drops to 14% for the EU, close to the 12% figure for Norway.

Table 2 shows the relative tariff reduction under the various regime types:

<sup>4</sup> Following a WTO dispute on this regime, see Melchior (2005c), it was abandoned on 1 July 2005 as part of the renewal of EU's GSP regime.

<b>Table 2: The hierarchy of trade regimes in the EU, USA and Norway (average of <i>ad valorem</i> tariffs)</b>			
	<b>EU</b>	<b>USA</b>	<b>Norway</b>
MFN-WTO	5.60	4.26	1.58
GSP	2.84	2.82	0.90
LDC	0.00	1.98	0.00
Extended GSP	0.26	1.80	0.12
FTAs	1.30	0.46	0.95
<b>Expressed in % of the MFN tariff:</b>			
	<b>EU</b>	<b>USA</b>	<b>Norway</b>
MFN-WTO	100	100	100
GSP	51	66	57
LDC	0	46	0
Extended GSP	5	42	8
FTAs	23	11	60
Source: Melchior (2005a).			

The pattern that emerges from this, is that:

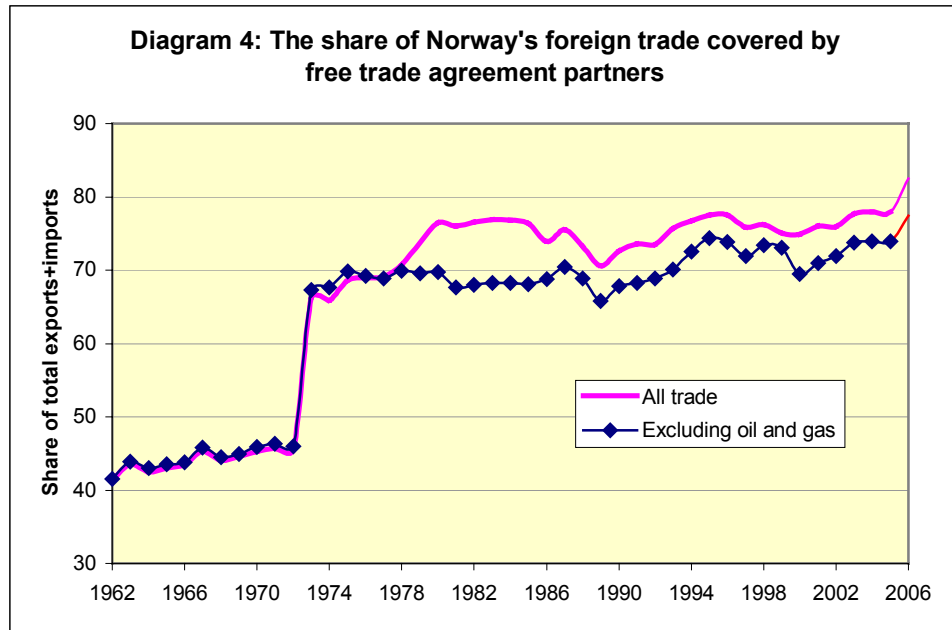
- In all three countries, ordinary GSP implies on average less than 50% tariff cuts. In % of the MFN tariffs, the reduction is grossly similar in the three countries – with somewhat more modest cuts in the USA.
- In Europe (EU and Norway), extended GSP is generous by providing almost complete tariff elimination, but in the USA this is not the case. The difference viz. the USA is however exaggerated here, since AGOA includes non-automatic additional preferences for textiles that have not been taken into account in the figures above.
- For the USA, FTAs is the most beneficial tariff regime, while in Norway, FTAs are not much better than ordinary GSP. This is due to recent improvements in the Norwegian GSP system. The EU is in-between.

As shown by Melchior (2005b), including specific tariffs in agriculture does not change this ranking of regimes for Norway very much. When comparing tariff levels across countries, however, the picture is changed by agriculture; the low tariffs for Norway in Table 2 mainly reflect manufacturing and the relatively more liberalized parts of agriculture.

***10. Contrary to what we might expect, the share of FTAs for Norway has not increased that much over time.***

When Norway established its GSP system in 1971, it was already a member of EFTA, and the FTA with the EU (then EEC) followed in 1973. The share of trade covered by FTAs then jumped to 70%. As shown in Diagram 4, this share has not increased very much later:<sup>5</sup>

<sup>5</sup> Data source: Trade data from COMTRADE. Overview of FTAs: Own dataset.



With growing intra-EFTA trade in the 1960s, the FTA trade share climbed to above 45%. After the FTA with EU was signed, the share of trade covered by FTAs remained stable at around 70% until the early 1990s. The extension of new FTAs in Central and Eastern Europe contributed to an increase in the share; this was however dampened by a falling share for Western Europe in world trade (see Melchior 2003). The diagram also shows the projected share in 2006 if all current FTA negotiations succeed. Adding significant countries such as Canada and Korea, this would bring the share above 80% (with oil and gas included).<sup>6</sup>

***11. The trade-promoting impact of GSP is lower if other trade partners have even better market access under FTAs, but GSP is still an advantage.***

Even if Norway's GSP system has been comparatively generous, it has implied partial rather than complete tariff elimination. Furthermore, neighbours in Western Europe obtained even better market access through FTAs. As a consequence, imports from developing countries (DCs) were less stimulated than it would have been in the absence of FTAs. There is in fact no empirical analysis that attempts to measure the impact of GSP using data that fully accounts for FTAs. Such an analysis is a demanding task requiring extensive data for a long period. This is probably a main reason why, to our knowledge, limited evidence exists on the issue, even if the point has been acknowledged (see e.g. Hoekman et al. 2004) and some

<sup>6</sup> EFTA's negotiations with Korea were successfully completed on 8 July 2005, but the agreement will enter into force later.

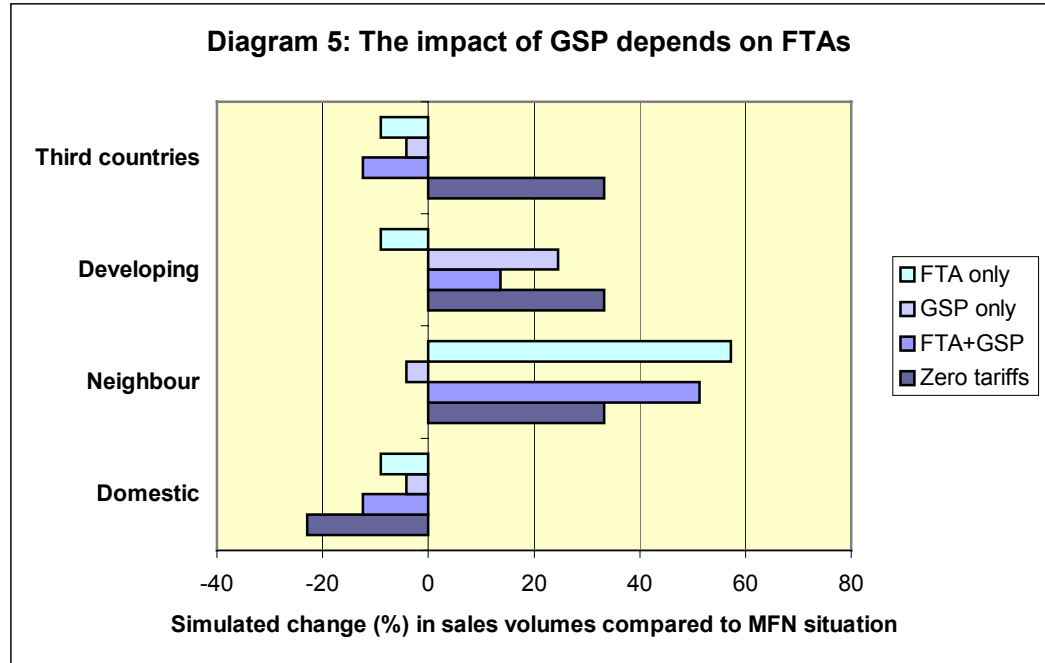
effects are implicit in numerical simulation models (so-called Computable General Equilibrium or CGE models).

Hence the impact of GSP depends on the *relative* position compared to other suppliers. As a theoretical illustration of the point, we use a simple demand model to simulate the demand shift due to tariff preferences. We simulate the following scenarios:

<b>Table 3: The demand impact of tariff changes: Scenarios used in numerical simulation</b>					
	Original MFN	GSP only	FTA only	FTA+GSP	Zero MFN
Domestic	0	0	0	0	0
Neighbour	20%	20%	0	0	0
Developing	20%	10%	20%	10%	0
Other	20%	20%	20%	20%	0

If we introduce GSP in a situation where no other suppliers have preferences, we may compare “original MFN” and “GSP only”, and it is evident that GSP is a clear improvement. If, however, neighbours have free trade as in “FTA only”, the impact of GSP will be different and “FTA+GSP” is the relevant scenario. In order to illustrate these effects, we use a numerical model and compare the scenarios, also including the option of free trade for all suppliers. We use a standard demand model and simulate the change in demand for the four suppliers.<sup>7</sup> Diagram 5 shows the percentage change in the different scenarios – all compared to the “original MFN” situation:

<sup>7</sup> We use a CES demand function with an elasticity of substitution between suppliers at 3. The qualitative impact does not depend on the magnitude of the elasticity, although the scale does.



On the whole, the situation with GSP+FTA resembles the trade policy situation for Norwegian manufacturing during the period from 1971 until approximately 1995. DCs had complete tariff elimination for many goods, but for core products such as textiles and clothing, GSP was limited. As shown in Diagram 5, the trade impact of such partial preferences were limited because trade liberalisation was deeper within the FTAs. In order to understand the trade impact of GSP we cannot compare with the MFN situation, but with the “FTA only” situation. Hence without GSP, DCs would have lost market shares. Even if the trade impact of GSP is modest compared to the MFN situation, it is larger when we consider the effect of the FTAs. Hence even if the benefits of GSP are undermined by the FTAs, the developing countries would have been worse off without GSP. Observe also that among the scenarios illustrated, free trade for all suppliers is the best option for developing countries.

### ***12. Trade may be limited by product standards, but this does not invalidate GSP***

It is also true that product standards and health regulation in agriculture may limit trade. For agricultural goods, OECD (2005) suggests that veterinary standards may be important for explaining why GSP did not have a stronger impact on trade. Even if this may be true, it is not an argument against tariff preferences. Although there is general agreement about the problems related to standards and compliance by poor countries, the argument may have been oversold, as some countries are actually capable of penetrating markets even with strict standards. Jaffee and Henson (2005, 111) conclude “the picture for developing countries as a



whole is much less pessimistic than that widely presented by the standards-as-barriers perspective”.

The evidence from interviews with importers conducted in this project also suggested that standards represent a manageable problem for many ordinary developing countries, but a severe problem for the LDCs. To a large extent, the latter do not have the infrastructure, institutions or skills needed to comply with rich-country standards. For other DCs, standards may be a challenge, but one that is possible to manage.

***13. Tariff preferences matter, unless other GSP-related barriers nullify the benefits.***

Since some of the literature on GSP is a tale of pessimism and discontent, it is appropriate to remember the simple fact that prices matter, and tariffs still matter. If GSP gives a relative price improvement of 10%, it may be undermined by other trade-limiting factors, but the developing country is still better off. Only if the costs related to RO and other administrative costs for GSP are larger than the preference margin, will the GSP be of no value and the traders may choose not to use it. If the preference margin exceeds these costs, the impact should be significant even if the evidence presented to this effect is still limited. Even if the effects of GSP are undermined by standards, FTAs and other factors, tariff preferences may still be of value.

Other research on the impact of tariffs also renders it likely that GSP has had a significant effect. Due to better availability of trade and tariff data, recent research has shed new light on the magnitude of import demand elasticities. For such elasticities there is considerable variation across sectors and countries; Kee et al. (2004) e.g. find an average across sectors for Norway at  $-1.93$ . The implication is that a 10% tariff preference in Norway will on average boost demand by around 20%. But if all your neighbours have a preference of 20%, however, the impact may be modest, as illustrated above.

OECD (2005) e.g. shows that in cases when the preference margin is substantial, utilisation rates are also high.<sup>8</sup> Hence if GSP improves the relative price of a supplier significantly, this matters unless the advantage is nullified by rules of origin or other non-tariff barriers related to GSP itself. If GSP is limited and other suppliers have much better access, such as for e.g. textiles in the USA and the EU, it is no surprise if the impact is hard to measure. On the other hand, it is likely that the performance of GSP beneficiaries would have been even worse without GSP.

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<sup>8</sup> OECD (2005) also shows that many beneficiaries are eligible for different schemes and this explains why they do not use all of them. For example, Bangladesh alone represents 63% of imports under EBA (Everything but arms) because other LDCs use the ACP regime instead. Some earlier studies did not take into account this, and reached too pessimistic conclusions.

***14. For the LDCs, pessimism may be better founded.***

Above, we have argued against the widespread pessimism related to GSP: Tariff preferences may be of value even if trade is impeded by other factors. It is possible that even better trading arrangements could be made, but this does not “invalidate” GSP. With respect to the extended preferences for LDCs, however, the pessimism seems to be better founded. About preferences for LDCs, UNCTAD (2003) concludes “Beyond some relative success stories, the picture is dismal”. This impression is supported by OECD (2005). Several studies conclude that restrictive RO are a major problem for LDCs (see references above).

The interviews conducted with Norwegian importers for this study generally suggested that LDCs and DCs were perceived as two different worlds; with the former frequently lacking the skills, infrastructure, institutions and investment needed to succeed. As we shall show below, the experience with Norway’s imports from LDCs also points to a few success stories, but otherwise modest progress.

Due to this “dismal” picture, it is widely accepted that the poorest countries need much more than market access in order to succeed. Trade-related aid is therefore important for these countries. This has also been acknowledged by the Norwegian Government, e.g. in a report to the Parliament (St.meld. nr. 35, 2003-2004), and trade-related aid to e.g. the agricultural sector is currently stepped up.

Private companies have also engaged in long-term projects to improve the supply capacity of LDCs: The major grain company Norske Felleskjøp has initiated a project to increase imports of animal feed (soya) from Mozambique. The first shipment recently arrived, and after critical inspection by the Norwegian Food Safety Authority it was finally allowed to enter. The project has been supported by aid.

In this report and in the project in general, we do not examine trade-related aid, but it should be observed that this is an important aspect, particularly but not exclusively related to the poorest countries.

***15. Concerns for preference erosion should not undermine multilateral negotiations, and GSP should be designed to minimize these problems.***

A serious concern about GSP is that beneficiaries may become more eager to protect their own trade privileges than to promote trade that may benefit other developing countries. This concern has been expressed for a long time (see e.g. Michalopoulos 1985), and according to Özden and Reinhardt (2004a) the impact was present already in the Tokyo Round negotiations of GATT in the 1970s. It has certainly been present later, and in the current WTO round, preference erosion is a major issue. Özden and Reinhardt (2003) provide empirical evidence to the effect that GSP actually makes developing countries less liberal in trade policy. With respect to preference erosion, the fear has been that multilateral trade

liberalisation will undermine trade preferences and create losses for the beneficiaries.

The “preference erosion” debate has been particularly lively related to EU preferences for the ACP countries. The conflicts about “dollar bananas” from South America and “ACP bananas” have raged for years; apparently the signing of the Rome Treaty in 1957 was delayed due to bananas. Recently, a fear of preference erosion due to reforms in EU agricultural policy has been expressed. Some African countries have extended preferences for sugar, and will be hit by reforms that allow the large sugar producers such as Brazil to enter. Melchior (2005c) reviews some attempts to quantify the impact. Mauritius, Guyana and Swaziland. face relatively large losses due to sugar reform. On the other hand, the impact on the world economy is small and some other developing countries stand to gain when the currently distorted world market for sugar is reformed. The biggest winner is Brazil, but also countries in Sub-Saharan Africa may gain. Francois et al. (2005) show that losses due to preference erosion is primarily related to the EU preferences. Some results may however exaggerate the losses since they do not take into account that preferences are not fully utilized, and furthermore that some of the gains from preferences are captured by importers rather than exporters (*ibid.*, see also Olarreaga and Özden 2005, Silva 2005).

For these reasons, concerns for preference erosion should not be allowed to block or hinder multilateral liberalisation that may benefit development in general, and other developing countries. The results of Anderson et al. (2005) suggest that Sub-Saharan Africa may gain more from WTO agricultural reform than other developing countries, in spite of terms of trade losses. The results also indicate that increased trade between developing countries is important for the development impact of the current round, and that developing countries therefore should undertake liberalisation themselves. A proposal is that trade-related aid could be given in exchange for such commitments by the developing countries.

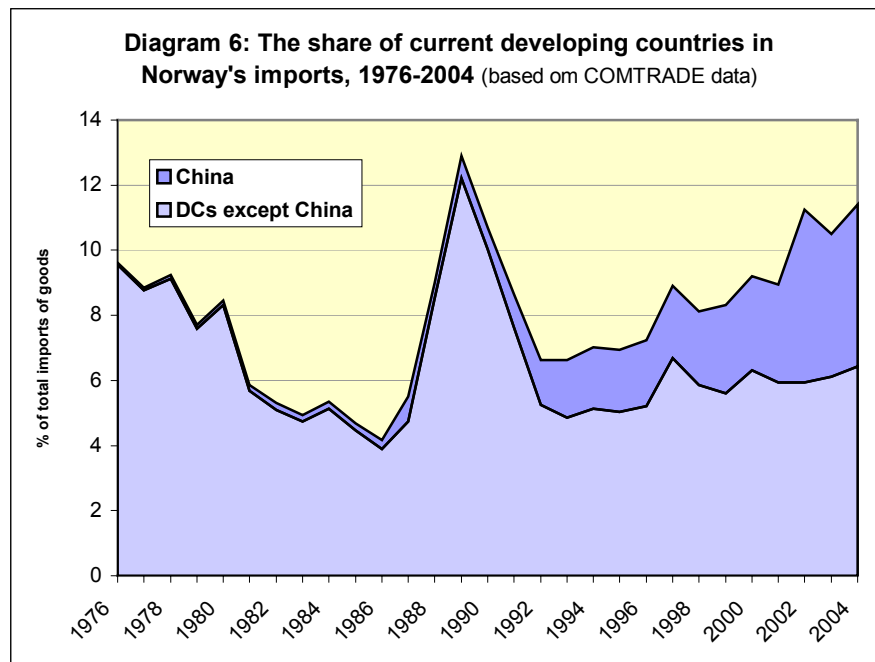
In spite of such calculations, the potential losers may not be convinced. The political economy arguments against GSP are real, and so serious that future GSP systems should be designed to reduce such problems. Mega-preferences to a handful of countries should be avoided, so that traders face real competition that prepares them for competition from other developing countries. Helping the poorest should not be done at the expense of the second poorest (see Melchior 2005c).

## Norway's imports from developing countries

*16. Norway's import share from developing countries has increased considerably over the last 10 years, mainly due to China.*

Norway has a comparatively generous GSP system for manufacturing, but has this led to increased imports? As also shown by Maurseth (2005a), Norway has a lower share of imports from developing countries than OECD in general. During the last decade, this share has however increased considerably. Diagram 6 shows the share of developing countries in Norway's imports of goods 1978-2004.

When presenting such a long time series for imports, a special problem is how to define developing countries. Singapore was clearly a developing country some years ago, but today it is a high-income country and it is questionable to call it DC. In the graphs, we have used the current OECD list of Official Development Assistance (ODA) recipients as the developing country definition. This excludes countries such as Singapore, Hong Kong, Israel and Korea, which were clearly developing countries some years ago.<sup>9</sup> It should therefore be observed that the graphs show the share of *current* developing countries.



<sup>9</sup> See Melchior (2005c) for a discussion about DC definitions.

For some years, especially around 1990, trade data are strongly influenced by trade in second-hand ships for registration and tax purposes. The peak around 1990 is due to this. For example, Norway imported ships for more than 900 million USD per year from the LDC Liberia in some years around 1990, due to changes in Norway's laws for registration of ships. In Diagram 6a we also show the trade shares with ships and boats excluded. Note that trade in new ships and boats is then also excluded. This gives a more appropriate picture of the development of "normal" trade.

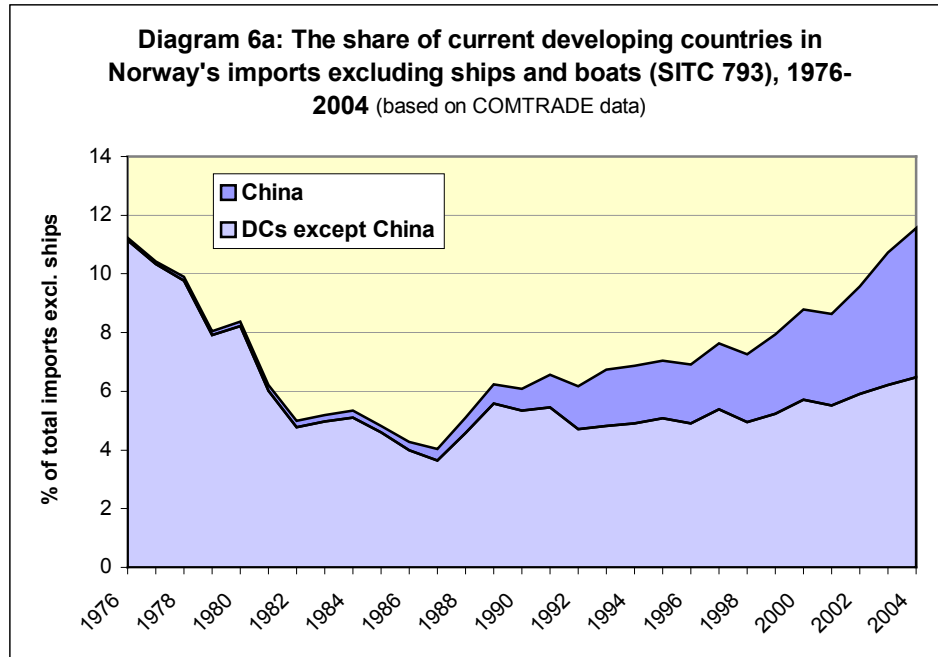


Diagram 6a shows more smoothly that:

- Before 1990, the share of current developing countries in Norway's imports decreased steadily and quite dramatically. The main reason was Norway's increasing oil production: In 1976, more than half of Norway's imports from developing countries was oil, and almost half of Norway's oil imports originated in developing countries. A less important, and partly corresponding, reason is that in the late 1970s and late 1980s, the EU share of imports increased. Increasing imports from newly industrialising countries in Asia, such as Singapore, Hong Kong and Korea are also an explanation.
- The trend was reversed around 1990. After that, current developing countries except China have increased their share, to 6.4% in 2004. Import growth from China has accelerated much faster, to a share of 5% in 2004. Hence the combined share for developing countries in Norway's imports is currently 11.4%. See also Maurseth (2005b) for a closer analysis.

The 1990s is therefore a period of globalisation, with more trade with non-European countries.

***17. Norway's share of imports from developing countries is low in international comparison, but if we correct for geographical location, Norway's trade with developing countries is "normal".***

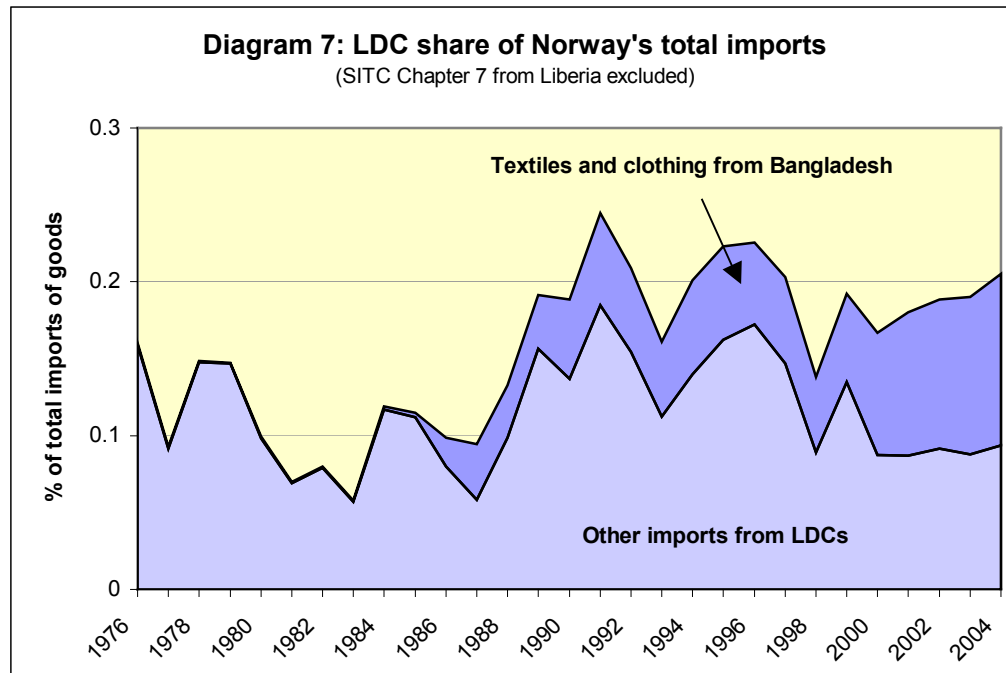
A share of imports from developing countries at 11.4% in 2004 is less than half of the corresponding share for OECD-24, i.e. the original "rich man's club". In 2004, this share was at 24.2%, using the same (relatively narrow) developing country definition.

Cline (2002) and Birdsall and Roodman (2003) used imports from developing countries (as a share of GDP) as an indication that Norway had a more restrictive trade policy. While agricultural protection was the main reason why Norway dropped down the "development friendliness" ranking, low trade with developing countries was a secondary reason (ibid.). Drawing such conclusions about trade policy from trade shares is however not warranted, since different aspects affect these shares. The magnitude of imports from developing countries depends not only on trade policy, but also industrial structure, geographical location and history. For example, some EU countries have large imports due to colonial ties in the past, and Denmark imports sugar for processing since this can be exported with EU subsidies. In the case of Norway, the elimination of oil imports is a conspicuous example showing that trade depends on industrial structure.

Geography also matters strongly because if a country is surrounded by developing countries, it will have a higher share of trade with such countries. Using a "gravity model" to correct for this, Maurseth (2005a) finds that Norway is a normal trader in this respect. The propensity to trade with developing countries also varies strongly among EU countries, but France and Germany stand out with relatively large trade with developing countries.

**18. Norway's imports from the Least Developed Countries (LDCs) are small, with textiles and clothing from Bangladesh as the largest component.**

In the analysis of imports from LDCs, we exclude imports of second-hand ships from Liberia, which dwarf all other trade with the LDCs, especially around 1990. For the rest, the trend has been as shown in Diagram 7.

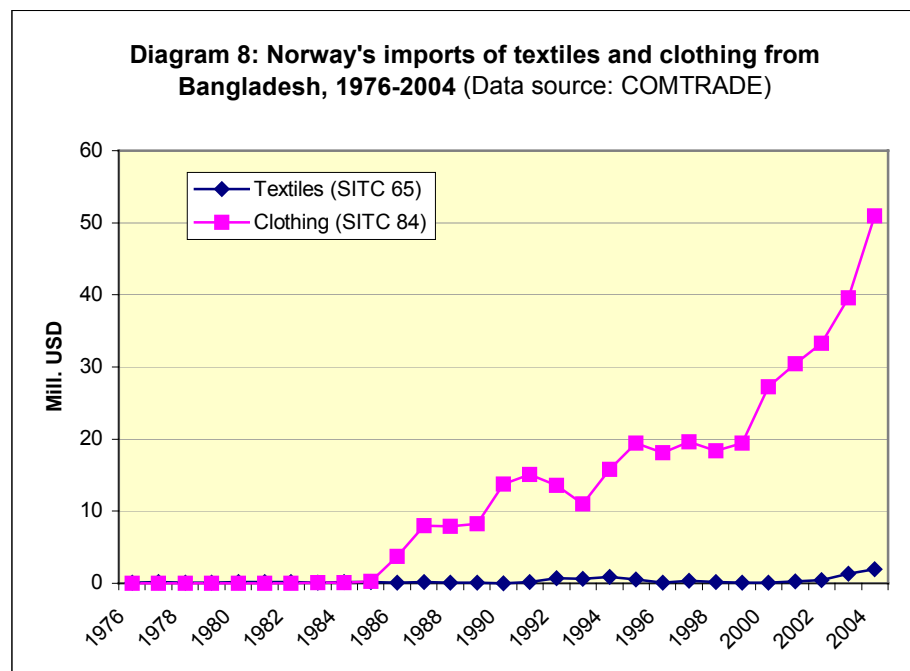


Hence the import share for LDCs also declined until the late 1980s, whereafter it increased. There main reason for the increase was growth in the imports of textiles and clothing from Bangladesh, but other imports from LDCs have fluctuated around a 0.1% share. Imports of cut flowers from African LDCs have increased, and there have been some imports of oilseeds, and sugar for animal feeding. The share of LDCs in Norway's imports is currently 0.2%, while the LDCs have a share of world exports around 0.6%. For more evidence, see Maurseth (2005a) and Melchior (2005c).

It is likely that clothing imports from Bangladesh has been stimulated by GSP, since Bangladesh has benefited from zero tariffs, as a least-developed country. The absence of quotas has also been important. As we will show in the following, the relative market access for other developing countries has also improved quite sharply for manufacturing over the last decade. Although we do not present a causal or econometric analysis of the issue, it is likely that this improvement has stimulated trade. The growth in China is however another important reason, which has only a little to do with Norwegian GSP.

**19. For textiles and clothing, the tariff preference for Bangladesh in Norway has been eroded, but this has apparently not been a problem.**

Preference erosion has also been a theme related to the elimination of textile quotas, where some countries fear losing market shares to China and other strong suppliers after 1.1.2005 (see e.g. Mlachila and Yang 2004). The case of Norway's imports from Bangladesh is an interesting case, since imports have increased rapidly in spite of the preference erosion. From the mid-1980s, other suppliers were restrained by MFA textile quota agreements while Bangladesh could expand freely. In addition, Bangladesh had zero tariffs as an LDC. The phasing-out of Norwegian textile quotas during the 1990s, and the reduction of Bangladesh's tariff preference due to tariff reductions for other suppliers (see more evidence below), has certainly led to a strong erosion of the Bangladesh preference. As shown in Diagram 8, however, imports of clothing from Bangladesh have not slowed:



Clothing imports have continued to accelerate, so here there is no sign of adverse effects.<sup>10</sup> Hence at least in the case of Norway, the fear of losses

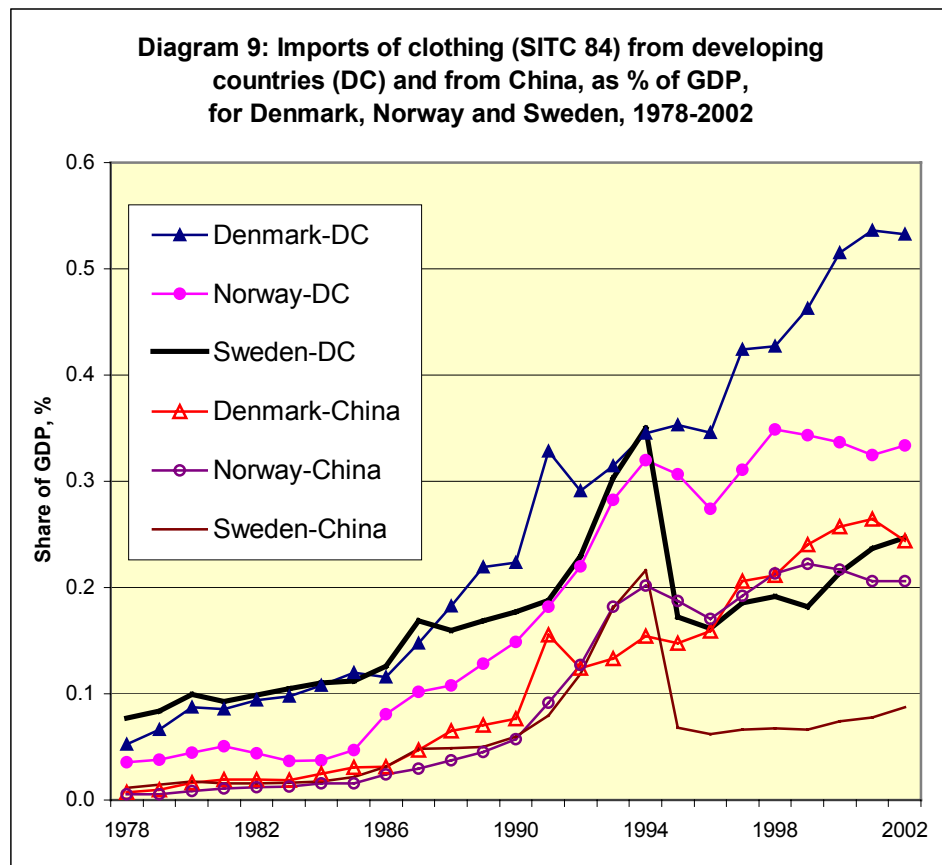
<sup>10</sup> Bangladesh export data for SITC 84 Clothing are available from the COMTRADE database for 2001 and 2003. These suggest that there has not been a sharp import increase. We do not have an explanation of this. Given that Bangladesh ranks high on international lists of corruption, the possibility of re-routing of goods from other countries could be checked, or false declarations on the origin of goods. We do not, however, have any evidence suggesting that this is the case.



from preference erosion due to the elimination of textile quotas has not materialised.

**20. Clothing imports from developing countries have increased considerably for all the Scandinavian countries...**

A core sector related to GSP is clothing. Diagram 9 shows imports per capita of clothing from developing countries and from China, for Norway, Denmark and Sweden. Clothing has traditionally been a “sensitive” sector with respect to imports from the South, so imports should be strongly affected by trade policy.

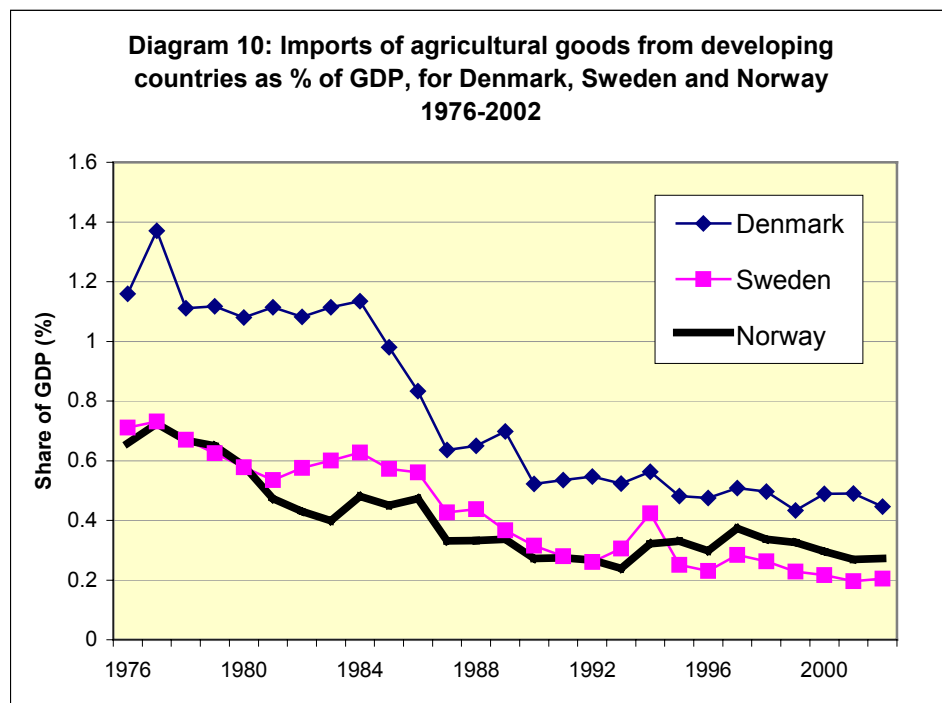


The shares have increased continuously over time, but with Denmark continuously on top. Tariff reductions and the easing of quotas may have played a role, but growing supply capacity in e.g. China also mattered. Sweden suffered from a transitional drop after EU membership in 1995, illustrating that Sweden had a more liberal import regime before membership. The share of developing country imports into Sweden is now again increasing after the transitional shock. In the mean time, Norway has taken over the second place among the three Scandinavians in terms of developing country imports. Considering that Norway has a very high

GDP per capita due to the oil wealth from the 1970s, the diagram may understate the growth in Norway's imports from developing countries.

### 21. ... but imports of agriculture have a falling share.

For agriculture, the pattern is different not only because of Norway's level of protection, but also because agriculture has generally not been liberalised in FTAs. Some partial liberalisation has been undertaken in the agreement with the EU, but in general, there has traditionally not been a large preference margin in favour of the free trade partners. Norway's imports of some tropical products was liberalised at an early stage, and traditional imports of agriculture from developing countries has existed for a long time. Over time, however, imports of agriculture from developing countries have declined as a share of GDP. This decline is shown in Diagram 10.



Agriculture is a declining sector in terms of its share of world GDP, and this is also reflected in imports: The share has declined steadily over time for all three Scandinavian countries. Also in this case, Denmark has the highest share, but Norway has passed Sweden in the last part of the period, in spite of the more restrictive trade policy in Norway. This illustrates that import trends over time are affected by a number of factors, and it is therefore not easy to distinguish the impact of trade policy and GSP from other aspects. Growing imports of manufactured goods, and (relatively) declining imports of agricultural goods, are affected by trade policy, but also more fundamental changes.

## GSP for manufacturing

*22. During the last 10 years, the relative advantage of FTA partners relative to GSP has been almost fully eliminated for manufacturing.*

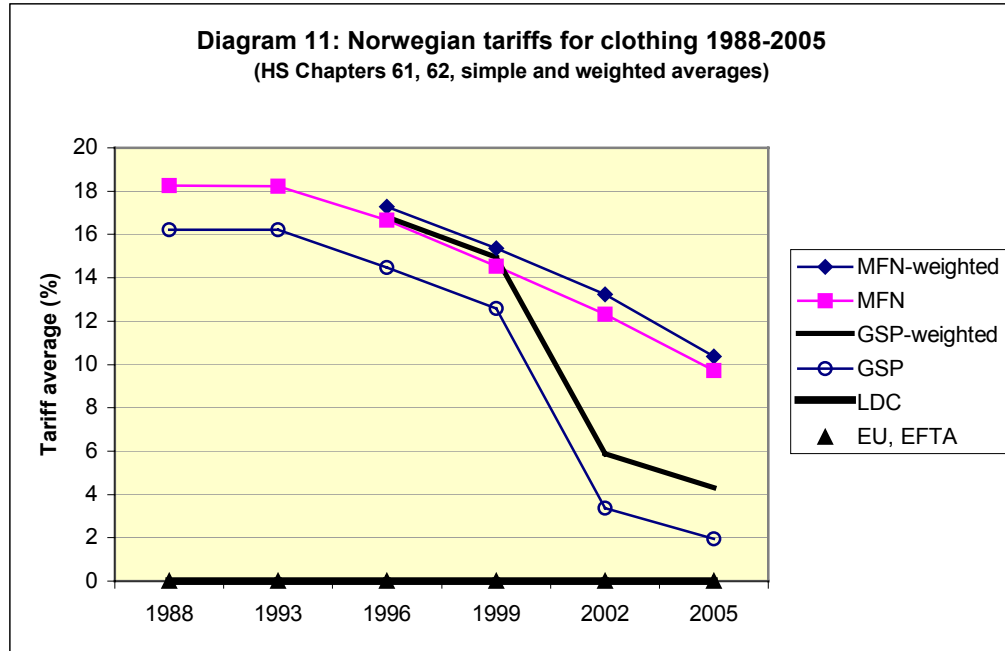
During the last ten years, the trade policy situation for Norwegian manufacturing has moved towards “zero MFN” as illustrated in Diagram 5. This has occurred due to the following causes:

- MFN tariffs have been reduced due to the Uruguay Round of the WTO.
- The Norwegian Government has autonomously undertaken significant reductions in MFN applied tariffs.
- GSP benefits have been extended to more products.

Since 1995, more than 3000 manufacturing tariffs have been eliminated. In 2005, MFN tariffs remained for only 322 of totally more than 6000 tariff lines in manufacturing, in the textile and clothing area. For these 322 lines, GSP implied complete tariff elimination for  $\frac{3}{4}$ . Hence for developing countries, tariffs remained for only 80 tariff lines in manufacturing. While the average for these 80 lines is 10%, the simple average for clothing is 2%. Weighted by imports from developing countries, however, the average is higher, at 4.3%. Diagram 11 shows this radical change over the last ten years, for clothing (HS chapters 61 and 62).<sup>11</sup> Weighted averages are only presented for 1996-2005.

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<sup>11</sup> Tariff data from the UNCTAD database TRAINS have been used for 1988. Results for the period 1995-2005 are based on a background note that analyses textile tariffs in greater detail. Interested readers may obtain this upon request.



Under the European FTAs, clothing tariffs were zero already in the 1970s, and this also applied to the Least Developed Countries (LDCs) under GSP. Until the late 1990s, these two groups had a substantial tariff preference compared to ordinary DCs as well as third countries such as the USA, that were subject to MFN tariffs. In 2005, however, the MFN tariff average had been cut to 10% and the GSP average to 2% (simple average) or 4.3% (trade-weighted average). Hence the relative price has changed considerably to the advantage of ordinary developing countries.

***23. The most significant “preference erosion” has therefore been to the advantage of developing countries.***

As noted earlier, there have recently been complaints that the trade preferences of developing countries have been or may be eroded by multilateral trade liberalisation. In this debate, it is frequently forgotten that multilateral liberalisation also erodes the trade preferences due to FTAs between rich countries. In the case of Norway and clothing, there was an intra-European tariff preference of almost 20% in the late 1980s, and this has now been cut to 2-4%. It is true that LDCs preferences have also been eroded, but LDCs represent a tiny fraction of trade while intra-European trade has a large share. Furthermore, we have seen that clothing imports from Bangladesh have not suffered from preference erosion. The economic significance of eroding the intra-European preferences is therefore much larger. Since trade under ordinary GSP is more than 15 times larger than under the LDC scheme, this improvement of market access for a number of DCs is an important improvement in the

Norwegian trade regime. In the perspective of global development, preference erosion should be promoted rather than feared.

***24. The elimination of textile quotas has increased the impact of GSP.***

In the case of binding quantitative restrictions (quotas), it may be the case that tariffs have no impact on the traded quantity – in that case the tariffs only affect the distribution of rents between traders and the treasury of the importing country. In such a situation, the impact of tariff cuts through GSP may be to transfer income from the treasury to the trading firms. If GSP is to promote imports from developing countries, it should not be combined with tight quantitative restrictions.

During the 1980s, Norway had one of the most restrictive quota regimes for clothing in the world (see Melchior 1993). From the mid-1980s, the quota regime was gradually liberalised, until the last quota disappeared in 2002. Hence quotas have not undermined the improvements in GSP over the last 10 years.

Contrary to the EU and the USA, Norway does not apply product-specific “graduation” (taking away GSP benefits when DC market shares pass certain thresholds), and it does not practice contingent protection such as anti-dumping. Hence for manufacturing, the Norwegian import regime is truly and increasingly liberal. As illustrated in Diagram 5, the introduction of zero MFN tariffs is likely to be an improvement for DCs.

***25. ... but restrictive rules of origin may be a serious problem for small developing country suppliers.***

The problem of RO has already been observed. RO are made less strict by *cumulation*, whereby inputs imported from certain countries are accepted. In Norway's GSP system there are three types of cumulation:

- *Bilateral* cumulation implies that inputs from Norway are treated among the “domestic” components when RO are applied.
- *Diagonal* cumulation implies that inputs from the EU, EFTA and Switzerland are also accepted.
- *Regional* cumulation implies that inputs from regional blocs are accepted; this applies so far only to ASEAN.

Such rules of cumulation may have a significant trade-creating impact and reduce the RO burden (Augier et al. 2005). For small developing suppliers beyond FTAs, however, this is no solution.

In order to practice diagonal cumulation as well as rules for transit, the Norwegian RO have to be harmonised with those of the EU and Switzerland. This is not a strict legal requirement, so differences may exist. Harmonisation is nevertheless a clear ambition. European harmonisation is also good in order to reduce the complexity of the trade systems; too complex RO may act as a non-tariff barrier to trade.

In its current reform of the GSP system, the EU plans a reform also of its RO. Instead of using process rules such as the ones described for textiles and clothing, the EU will increasingly apply value criteria; i.e. rules specifying the share of domestic value added. It is too early to conclude whether this will imply any significant liberalisation of the RO.

Laos, a Least Developed Country, has recently obtained an exception to the RO so that e.g. single processing of textiles and clothing is sufficient to obtain GSP benefits. This applies in coordination between Norway and the EU. There is currently no signal that such exceptional treatment will be extended to other countries.

***26. Zero MFN tariffs eliminate the need for controlling the origin of products, and therefore have an important simplifying impact.***

The Norwegian Government has signalled the intention to eliminate all tariffs for manufacturing. An important additional effect of this is to eliminate the need to control the origin of goods. For the clothing items where MFN tariffs are 10% but GSP tariffs are zero; there is currently an “additional tax” related to RO. Hence the GSP tariff preference is not actually 10%, but less. The problem is larger for small developing countries without their own yarn and fabric industry. The same applies for LDCs for the products where they have a preference compared to ordinary DCs. The “preference erosion” if MFN tariffs are reduced to zero is therefore less than the “nominal” preference margin. While 3-5% is a standard estimate on the administrative costs of RO, small countries may

on top of this simply be unable to use GSP because they cannot comply with RO. Demanding that small poor countries should establish their own industry for yarn and fabrics in order to export clothing to Norway is unreasonable.

***27. For these reasons, reducing the remaining manufacturing tariffs to zero is an efficient way of further improving market access for developing countries as well as LDCs, and simplifying the trade system.***

Given that  $\frac{3}{4}$  of imports face no tariffs, concerns for Norwegian production is not a major concern in this context. The remaining Norwegian textile and clothing industry hardly relies on tariffs in order to survive.

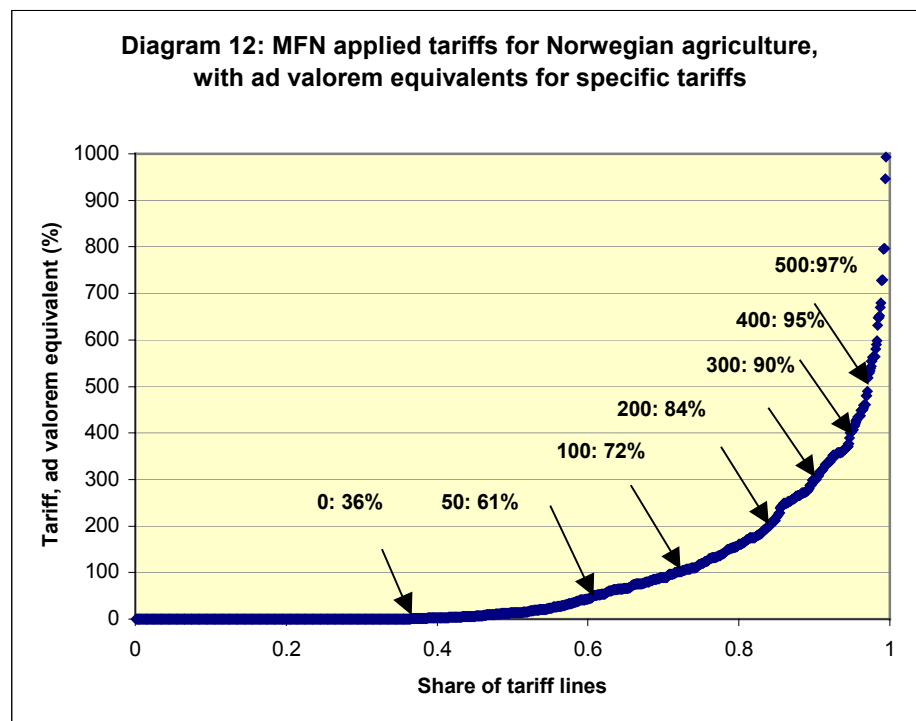
In recent years, trade liberalisation for textiles and clothing has significantly contributed to lower price growth in Norway, and thereby increased consumer welfare. This final step in liberalising textile and clothing imports may add further to this gain, although it is likely that the major benefits have already been reaped.

***28. On GSP for manufacturing, our main policy recommendation is therefore to improve market access by eliminating all tariffs and making GSP as well as the corresponding RO redundant.***

## Trade policy for agriculture and food

### 29. For agriculture, Norway is far from full liberalisation...

For manufacturing, Norway has a low MFN tariff level; significantly lower than e.g. the USA and the EU, and a comparatively generous GSP system. For agriculture, however, this is not the case. Although Norway has a liberal trade regime for certain tropical products, the overall level of protection is high. In Melchior (2005b), *ad valorem* equivalents of the specific tariffs are calculated. Diagram 12 shows the distribution for MFN *applied* tariffs. As we shall see later, the applied tariffs are in many cases lower than the *bound* tariffs, that are subject to WTO negotiations. Later, we shall also illustrate GSP and other preferential tariffs. Detailed tables with the individual tariffs are available for interested readers upon request.



Hence 36% of the tariff lines in agriculture are zero, but the distribution is a “viking ship” where some tariffs are extremely high. For example, 10% of the tariff lines are above 300%. The highest is above 4000%, according to the calculations, for a type of animal feedstuff.

The *ad valorem* equivalents of specific tariffs depend on the prices used in the calculations. For agricultural products in general, Norwegian import prices are generally higher than world market prices. This may partly be because of demand for quality products, but this is likely also an



impact of the tariff regime itself. High specific tariffs increase the protective impact versus low-cost suppliers and switches imports towards high-price items. For example, under the minimum access quotas for meat, imports are mainly of high-price items such as tenderloin. For these reasons, *ad valorem* tariff equivalents are generally higher when Norwegian import prices are used, compared to the case with world market prices. We obtain an average for MFN applied tariffs in agriculture at 73-103%, depending on the calculation method. If individual tariffs are weighted by DC exports, the tariff average drops to 54-74% - showing that tariffs are particularly high for products from temperate agriculture. On the other hand, if DCs have prices below the average, the protective impact of specific tariffs may be even higher than our calculations suggest.

***30. .... hence we explore options for partial liberalisation.***

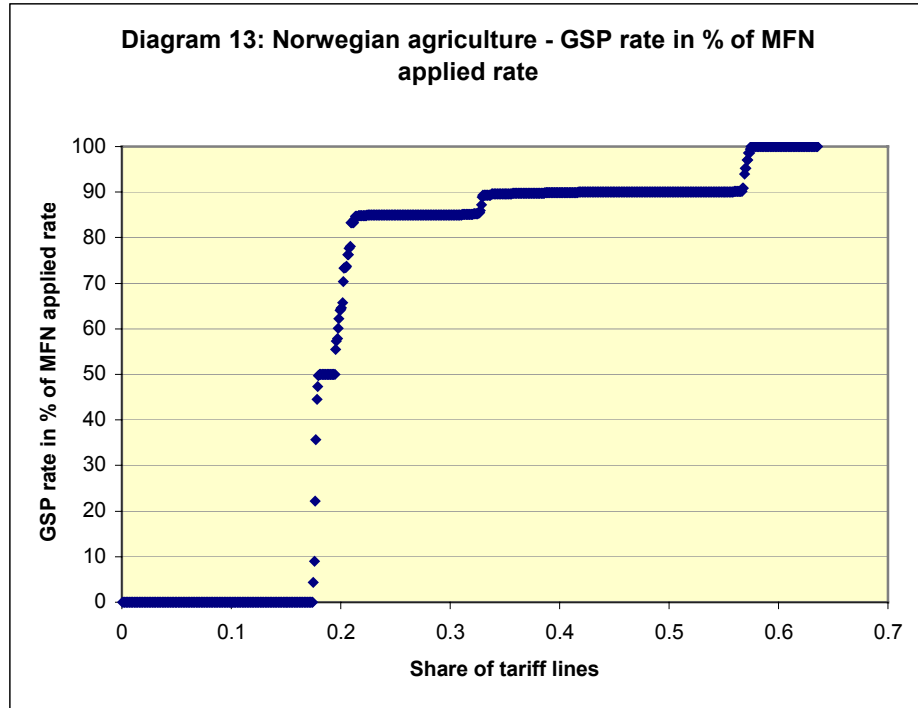
The Government has stated that it will consider reforms that maintain protection for core parts of Norwegian agriculture (see Appendix A). For manufacturing, zero MFN tariffs will eliminate all issues related to the design of GSP and its administration. For agriculture, however, only a partial increase in market access is on the agenda. Hence we have to address issues related to

- product coverage
- differentiation between groups of developing countries
- administrative features, including the use of tariff rate quotas.

***31. GSP for agriculture is currently unlimited for LDCs, but limited for developing countries in general.***

The LDCs obtained zero tariffs for agriculture already in 1976 (see Appendix C), but the impact of this was limited since before the Uruguay Round (UR), protection in agriculture was based on quantitative restrictions rather than tariffs. Due to “tariffication” in the UR, GSP became more important. Tariffs for LDCs were re-introduced in 1995 for some goods (grains and feedstuff), but these were again abandoned from 1 July 2002. There is however a surveillance system for these goods; so protection may be reinstated if imports from LDCs threatens the “market balance”. There is not automatic licensing, but importers have to apply in advance, within certain deadlines. So far, however, the safeguard clause has not been invoked.

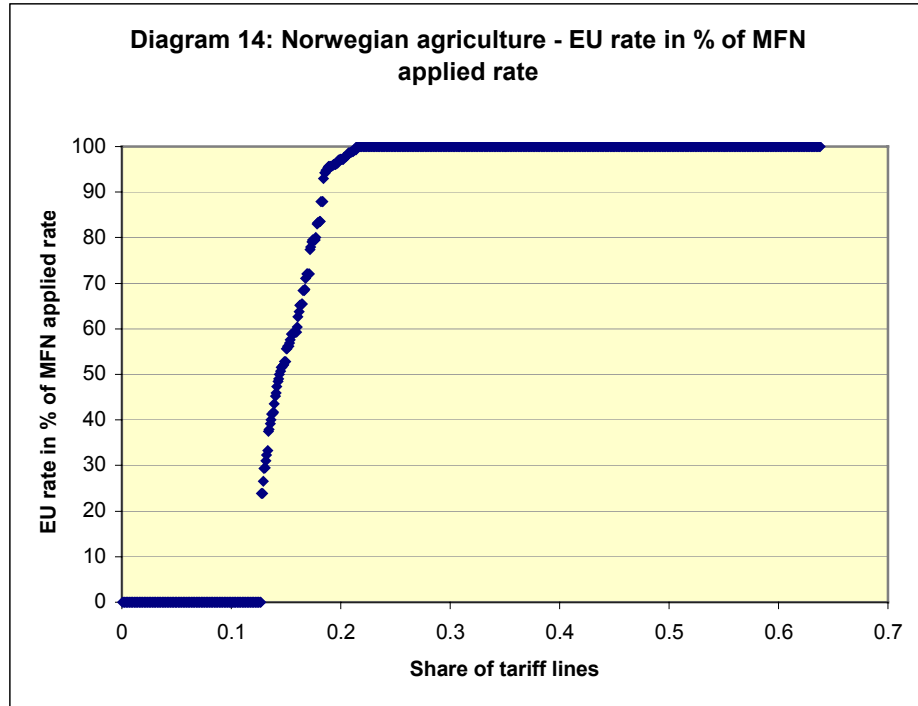
For the 64% of the tariff lines in agriculture that are not zero for all suppliers, Diagram 13 shows how much tariffs are reduced in % due to ordinary GSP.



For 18% the tariffs are fully eliminated, but the most common reduction is 10-15%. As a result, the tariff average under GSP is cut by a modest 10-15 percentage points. The GSP tariff average in agriculture is thereby in the range 62-90%, or 46-63% if weighted by developing country total exports (to all countries) of the goods.

***32. For agriculture, free-trade preferences are limited.***

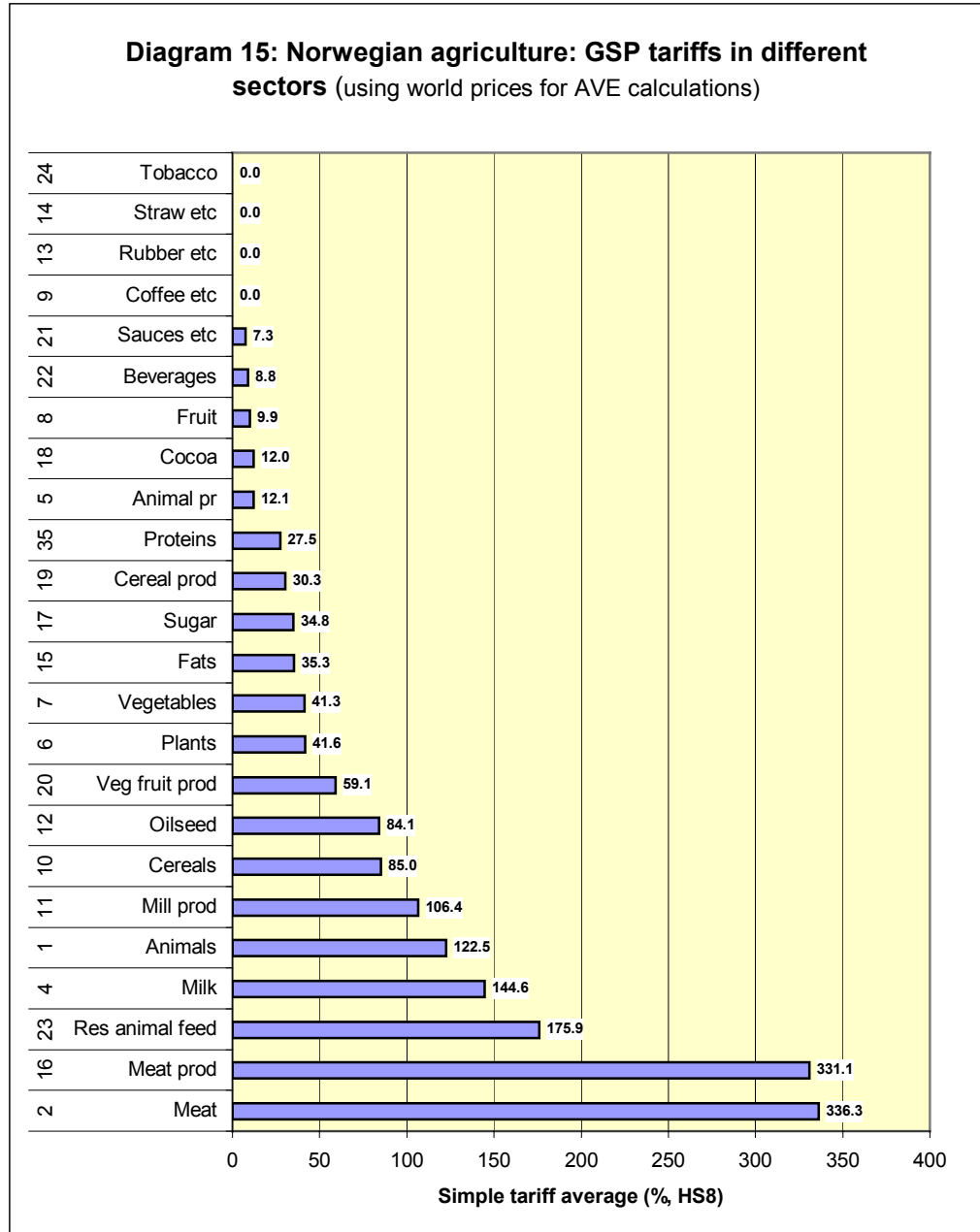
As noted above, GSP for manufacturing was introduced in a situation where (from 1973) more than 2/3 of imports faced zero tariffs due to FTAs. For agriculture, however, FTAs are not very generous and the average tariff for the EU is in fact above the GSP level. Diagram 14 shows EU tariffs, in % of the MFN tariff.



For many goods, there is no tariff reduction at all. This is modified by TRQs (tariff rate quotas) that increase EU's market access, but it remains nevertheless true that Norwegian agriculture is protected also within the FTAs. For agriculture, therefore, GSP may be better than FTA rather than worse. This is however also an issue of political economy; if Norway provided much better market access for DCs in agriculture, it is likely that e.g. the EU would push for better access also under the FTAs.

### ***33. Protection is particularly high for meat, dairy products, grains and feedstuff***

Diagram 15 shows average GSP tariffs for various HS Chapters in agriculture.



Protection is highest for meat and meat products, but also high for dairy products, grains and feedstuff. For some goods that are important for developing countries, such as coffee, fruit etc., tariffs are zero or moderate. For fruit and vegetables, protection is often seasonal so market access is better in parts of the year.

### ***34. Agricultural exports are important for developing countries***

In the current WTO Round of trade negotiations, it has become clear that a reduction of industrial country protection in agriculture is a major demand from the developing world. Although the interests of developing countries vary and some are net importers, there is on the whole no doubt that better market access in agriculture will stimulate development. Calculations by e.g. Anderson et al. (2005) suggest that complete elimination of trade barriers in agriculture would render an income gain of 300 billion USD. Although 2/3 of this gain would accrue to rich countries, the gain relative to GSP would be larger for developing countries. As noted already, Sub-Saharan Africa would be better off in spite of a terms of trade loss.

Aksoy and Beghin (2005, 3) conclude that “a strategy based on agricultural commodity exports is likely to be impoverishing in the current agricultural policy environment.” In a changed policy environment, however, developing countries stand to gain: “Agricultural liberalization would create winners and losers. The studies conclude that reform would reduce rural poverty in developing economies, both because in the aggregate they have a strong comparative advantage in agriculture and because the agricultural sector is important for income generation in these countries.” (ibid.)

The world markets for some important goods such as sugar and cotton are deeply distorted by subsidies in rich countries. Although Norway is not the culprit in these cases, and has an open market for some agricultural goods from developing countries, there are some areas of major interest to developing countries where Norway's protection is high.

Compared to manufacturing, agriculture is less concentrated among developing countries. For example, Tables D1-D3 in the Appendix show that of the imports that received GSP treatment in Norway in 2002, 70% came from China. For agriculture, South Africa had the largest share with 18%.

**35. For developing country interests, Norwegian protection for feedstuff and meat is particularly serious**

It is difficult to estimate the potential increase in imports from developing countries in a situation where many tariffs are prohibitive. If a tariff at 500% is reduced to 300%, the trade impact is likely to be moderate. In order to obtain a crude indication of the trade potential in spite of this, we undertake the following experiment: We assume (i) that only tariff reductions below 100% have any effect, (ii) that all tariffs are reduced to zero, and (iii) weight the ensuing tariff reductions by developing country exports. We then assume that trade growth is proportional to these tariff reductions, and calculate the share in trade growth for each sector. Table 4 shows the results. Tables D4 and D5 in the Appendix show current imports from developing and Least Developed Countries, respectively.

The ranking following from this table is the following:

1. Product classes related to feedstuffs are most important. In Melchior (2005b) it is shown that for sectors 15, 12, 10 and 23 on top of the list above, tariff protection is mainly for feedstuff. These four sectors add up to 48% in the table above.
2. The second most important product group is meat, with a share of 14% of the trade potential.

In addition to these main groups, there are scattered possibilities for e.g. frozen vegetables, plants and flowers and some processed food.

An accurate estimate of the trade potential is very difficult to make. We emphasize that the calculation above is not intended as an estimate on trade growth, but a crude illustration of the relative importance of different

**Table 4: An illustration of the relative importance for developing countries of Norway's trade protection in different sectors**

HS Chapter	Short description	Relative importance
15	Fats	15.8
2	Meat	14.3
12	Oilseed	12.8
10	Cereals	12.5
23	Residual animal feed	6.6
7	Vegetables	6.3
20	Veg. and fruit products	5.4
16	Meat products	4.4
17	Sugar	4.2
4	Milk/ dairy products	4.1
6	Plants	3.4
8	Fruit	2.8
1	Animals	2.7
11	Mill products	1.4
22	Beverages	1.1
19	Cereal products	0.8
35	Proteins	0.6
21	Sauces etc	0.4
18	Cocoa	0.2
5	Animal products	0.1
9	Coffee etc	0.0
13	Rubber etc	0.0
14	Straw etc.	0.0
24	Tobacco	0.0

sectors in this context. It is a crude illustration because (i) the prohibitive tariffs differ across sectors; (ii) Norwegian demand may be different from world demand; (iii) supply and demand elasticities differ across products, and the import demand elasticity is likely to be larger than one; and (iv) in a more liberal trade environment, the supply capacity of developing countries may change.

***36. Increased GSP in agriculture will affect Norwegian production.***

For meat, there is for several species large supply from developing countries. For bovine meat, current imports have already illustrated the potential of South American suppliers, e.g. Brazil, Argentina and Uruguay. Also for feedstuff, there are several available products, supplied by many different countries. As noted by Econ Energi (1995), many of the feed inputs are easily substitutable. Products have to be in conformity with animal health regulations, but this is not an insolvable problem except for the very poorest countries.

Hence for meat as well as feedstuff, increasing market access under GSP is a trade-off between concerns for developing countries and their export interests, and concerns for Norwegian agriculture. With the current gap between domestic and world prices, there is no doubt that free imports of meat from developing countries would threaten to eliminate a considerable part of Norway's meat production. Similarly, full liberalization of imports of feedstuff is likely to cause a sharp reduction in Norwegian grain production. Feedstuff and grain production are closely related so that it may be difficult to have very different import regimes for the two.

Freer imports from developing countries will not necessarily be a threat to all parts of agriculture. For example, dairy production is important for regional agriculture, but better market access under GSP is not likely to cause a flood of imports.

***37. Lower grain prices will reduce costs in the rest of agriculture, but put cereal production under pressure.***

On the other hand, lower prices for animal feed could reduce costs and this would be an advantage for dairy as well as other animal farming. Forage ("kraftfor") constitutes around 15% of total costs in agriculture according to some estimates, and liberalization of imports could cut prices by more than half (see Melchior 2005b for more evidence). This would lead to a substantial reduction in costs.

Grain production is part of the so-called "channeling policy" initiated around 1950. This had the purpose of increasing grain production in the most fertile agricultural areas in South East Norway, and thereby "leave room" for livestock and other agriculture in the peripheries. The policy has been partly successful but also very costly; not only due to grain

production costs but also because input costs in other agriculture and the processing industry are driven up.

While a considerable share of the domestically produced grain has been for animal feed, the domestic supply of food grain has increased over time, however with strong variations between years. Food grain production has been stimulated by a price differential between food and feed grain that is above the one prevailing abroad. The Government has therefore signaled that this price differential is to be reduced.

Even if feed grain and oilseeds are more important for developing countries than food grain, it may be difficult to have completely separate and different regimes for food and feed grain. This would require strict quantitative regulation with large annual changes in import quotas, and this would not be very development-friendly. Hence we assume that grain production in general will be affected by liberalisation. More than 80% of this production is currently in South East Norway. The impact for the peripheral regions will mainly be indirect; if livestock production in South East Norway increases over time, it has to be accompanied by a reduction elsewhere. Such a structural transformation could however reduce costs in Norwegian agriculture significantly. This would occur in three ways; (i) by cutting direct subsidies to cereal production, (ii) by reducing input costs in other agriculture, and (iii) by exploiting scale economies in bovine farming. The average number of cows in Norwegian dairy farms has now increased from 13 to 16, but a further increase is warranted in order to raise efficiency.

If feedstuff imports are liberalized, it would also be necessary to adjust other aspect of agricultural policy. For example, if grain production in South East Norway is reduced, an issue is whether the milk quota system should also be adjusted. It is beyond the scope of this study to address these issues, and we recommend that a more specific examination is undertaken later, using a numerical model that appropriately captures the regional and economic implications. For cereals, it is also necessary to reassess arguments related to “preparedness for conflict”: Embargos during the First World War and the Napoleon wars had severe consequences for Norway, and such risks are still used as an argument for cereal production today. Today, traditional wars with sea embargos in the North Sea are less likely, and this argument for protection should be weaker. A serious assessment is however beyond the scope of this report.

Hence import liberalisation vis-à-vis developing countries may have important consequences for Norway’s agriculture, and it is a political decision whether and to what extent such a structural transformation of agriculture is to be undertaken.



## Differentiation between countries in the GSP scheme

### *38. Allowing free imports from the Least Developed Countries is no threat...*

Import liberalization for LDCs has had modest effects in Norway as well as internationally. For Norway, imports of clothing from Bangladesh and cut flowers from Africa have increased due to zero tariffs without quotas for the LDCs. While these successes are important, it is nevertheless telling that almost no agricultural products have entered from LDCs, even when other suppliers are blocked with mega-tariffs of several hundred percentage points. Except for grain and oilseeds, there is no safeguard mechanism or uncertainty about market access. Importers have had the time since July 2002, or even back to 1976, to find LDC products that could be imported with sizeable preferences. The fact that so little has happened, is the best proof that if we want trade, we have to look beyond the LDCs.

### *39. LDCs should be helped, but more than 4/5 of the world's poor are in other countries that also need our support.*

LDCs constitute a small share of the developing world, and also the part where measures related to international trade will be least efficient. Table 5 shows the economic magnitude of some categories of developing countries.<sup>12</sup>

Category (based on 2002 income data)	Imports	Exports	Agric. exports	Income (GNI)	Income (PPP)	Population	Poor 1\$	Poor 2\$
LDC (50)	0.7	0.6	0.7	0.5	1.8	11	17	13
Low income (61)	2.5	2.4	2.9	2.7	9	37	69	59
1000\$ (67)	8	9	8	7	23	60	92	88
Low + Lower middle (117)	15	17	20	14	37	79	98	98
+Upper middle also (154)	24	26	30	19	43	84	100	100
+High-income non-OECD + Korea (182)	34	37	32	22	47	86	100	100

<sup>12</sup> For details and data sources, see Melchior (2005c), which also contains more detail on options for country classification.

Hence LDCs constitute 0.5-0.7% of the world economy but 13-17% of the world's poor.<sup>13</sup> If we add only 11 more countries to obtain the low-income category, we include e.g. India, Pakistan and Nigeria, and all shares multiply by four, approximately. Using a 1000\$ BNI per capita threshold instead, we include China, and the shares are substantially raised. Adding the whole lower middle income group (including e.g. Brazil), almost all the world's poor are included, and the share of the world economy is 14-20%. With a very broad definition of developing countries, they include 22-34% of the world economy.

For classifying countries with respect to GSP, income may be supplemented by other criteria. For example, the International Development Association (IDA) provides a list of countries that may receive loans from the World Bank on particularly favourable terms. This list largely corresponds with the low-income group, but also includes some severely indebted countries such as Indonesia.

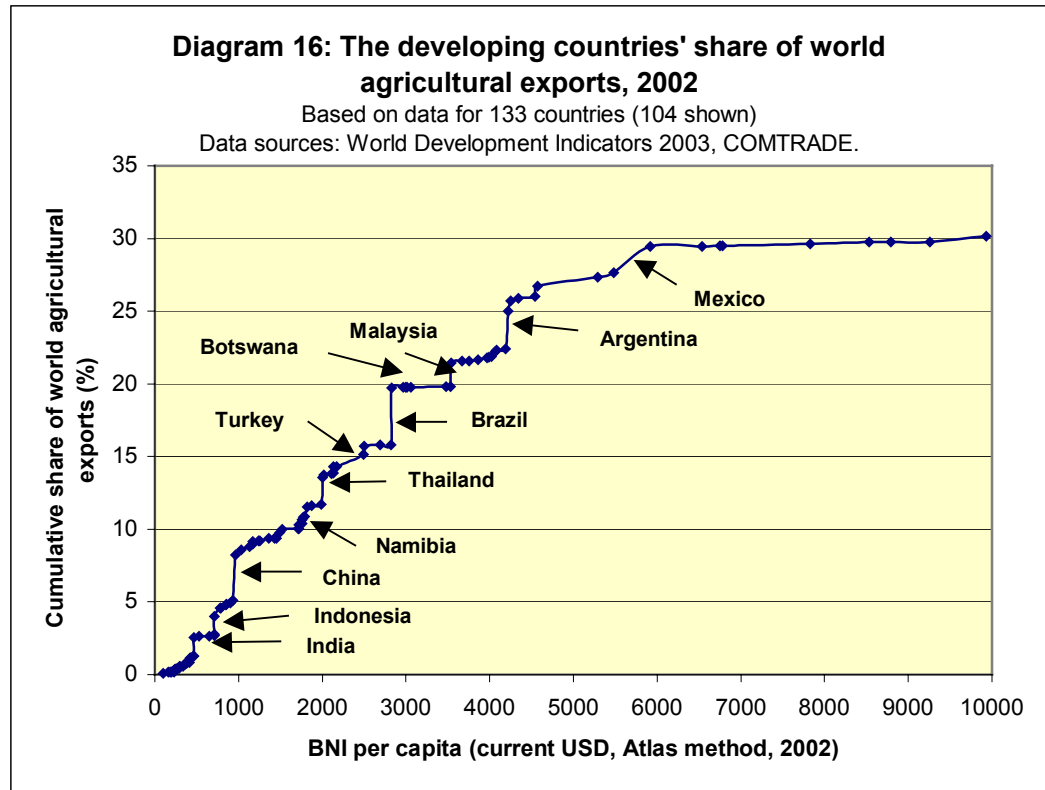
Given that LDCs constitute a modest part of the developing world, and since the impact of trade measures has been limited for these countries, an excessive focus on LDCs should be avoided. This implication it not that LDCs are less important or that they should not be helped, but that we should have a broader approach. Other groups should also be considered as candidates for extended market access. For promoting development and reducing poverty, trade policy should be used where it is most efficient for these purposes.

#### ***40. Several developing countries export agricultural goods***

A visualization of what GSP for different country groups may imply in terms of import competition, is provided in Diagram 16, which shows the cumulative share of world agricultural exports for the developing countries. In the diagram, countries are ranked by their income level (BNI per capita, with the poorest to the left).

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<sup>13</sup> The shares of poverty may be slightly higher since data coverage is more limited for the LDCs; we therefore write "more the 4/5" in the sub-heading.



Brazil, China and Argentina are the largest developing country exporters of agriculture, but the curve increased steadily until an income level around 5000\$, so there are many exporters, especially among low-income and lower middle income countries. Among the upper middle income countries (3036-9385\$ with 2002 data), there are some large exporters but not many. Given that Mexico has a free trade agreement with Norway, the issue of GSP for agriculture is how many countries along this ladder that we are willing to let in. As seen from Table 5, all the groups have legitimate needs in terms of development and poverty. According to the data underlying Diagram 16, Botswana and Namibia are both lower middle income countries. According to the most recent World Bank classification (summer 2005), Botswana has even climbed up to the *upper* middle income group.

#### ***41. Differentiation between groups of developing countries is possible***

While the EU and the USA practices GSP with considerable differentiation beyond LDCs (see Melchior 2005a), the Norwegian system is simpler with the special treatment of Botswana and Namibia as the only special category. According to a recent WTO report (see Melchior 2005c for a discussion), differentiation between different groups of developing countries is possible, but has to be based on objective criteria so that any developing country fulfilling these criteria is eligible. We interpret this decision in the sense that pure income criteria, or criteria related to e.g.

debt, are acceptable – although we are not in the position to issue a legal guaranty.

#### ***42. “Mega-preferences” to LDCs only should be avoided***

According to Melchior (2005c) “mega-preferences” only to the LDCs should be avoided, in order to (i) stimulate competition among countries and between traders, to avoid non-sustainable trade (and subsequent adjustment problems) as well as monopoly situations; (ii) to avoid that better market access for other developing countries is hampered by problems of “preference erosion”; (iii) to provide market access to developing countries with a larger supply capacity; (iv) to soften the impact of thresholds and group delineations that are always to some extent arbitrary. Fairness is also a valid reason for improving market access beyond LDCs.

Currently, worries that multilateral liberalisation will undermine the preferences of LDCs and (for the EU) the ACP countries threaten to delay important reforms in the EU sugar regime, as well as tariff reductions in the Doha Round. We argue that GSP systems should be designed in order to avoid, to the extent possible, this kind of “trade policy lock-in” in the future.

#### ***43. A possible scheme of differentiation under GSP.***

A possible option is to have the following hierarchy of preferences:

- Step 1: LDC, low income and IDA countries.
- Step 2: Other lower middle income countries, and severely indebted upper middle income countries.<sup>14</sup>
- Step 3: Other upper middle income countries.

The economic magnitude of these groups is evident from table 5, and the major suppliers involved, are evident from Diagram 16.<sup>15</sup> For Norway, the implication of such a scheme would be:

- To include Russia, and the FSU in the GSP scheme, based on their income levels.
- To eliminate the special treatment of Botswana and Namibia. Trade arrangements for these countries may also be taken care of in the planned FTA with SACU.
- According to this approach, Hong Kong, Korea and a number of high-income non-OECD countries would lose their GSP benefits. On the other hand, the majority of these countries do not export much agriculture and if MFN tariffs are reduced to zero for all manufacturing, their market access will be secured. Hence zero MFN tariffs for manufacturing is important in order to avoid negative political reactions to this approach to differentiation.

<sup>14</sup> An example of an upper middle income country that is severely indebted, is Argentina.

<sup>15</sup> See Melchior (2005c) for more information on the IDA category.

**44. For agriculture, GSP has to be adapted to the outcome of the WTO negotiations**

If the “Harbinson proposal” in the WTO negotiations is implemented, illustrative calculations suggest that it may lead to an average cut of around 40% in Norway’s MFN applied tariffs. This is however uncertain, and depends on e.g. to what extent sensitive products may be kept out, or whether a tariff cap is decided (a tariff maximum). A tariff cap at 100% has recently been proposed, however with strong opposition from Norway.<sup>16</sup> It is also unclear whether specific tariffs will be converted to *ad valorem*. Mandatory increases in minimum access (currently 5% of consumption) might be expected. The future design of GSP will depend on these elements.

Another issue is whether reforms in GSP may be used in order to fulfill liberalisation requirements in agriculture that follow from the WTO negotiations. It is likely that this will be an element, but the specific results will determine how this may be done. Since we do not have the answer on these issues now, we have to present options that have to be adjusted to the WTO outcome.

**45. As the highest GSP tariff level for agriculture, *ad valorem* tariffs could be introduced, and mega-tariffs as well as “water in the tariffs” should be eliminated for all developing countries.**

For agriculture, gains will be limited if e.g. the mega-tariff of 4892% AVE (for meal and pellets of meat and meat offal, HS 2301 1000) is reduced by 50%. GSP should offer a real increase in market access rather than cuts above the prohibitive levels.

For the upper middle income countries, *ad valorem* tariffs could be introduced for all agricultural goods. In all these tariffs, the “water in the tariff” should be taken out, for tariff lines where it exists. This should lead to tariff levels substantially below many of the AVEs that we have calculated. As noted, the level also has to be considered in the light of the outcome of the current WTO negotiations.

Switching from specific to *ad valorem* tariffs implies that products in the lower price range may be imported. In the current system, the high specific tariffs tend to promote imports of only high-priced items. For example, the WTO beef quotas are used to import containers of tenderloin from Brazil and some other countries. While there has been talk about Norwegian agriculture producing high-value added “niche products”, the specific tariffs may generate more competition in exactly these segments.

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<sup>16</sup> See press release from the Ministry of Foreign Affairs, 29 July 2005, “G10-landene fastholder motstanden mot tolltak i WTO-forhandlingene”.

This, in addition to predictability and transparency, is an argument for a change to AV tariffs in the GSP scheme.

***46. The GSP tariffs for agricultural goods may then be reduced further in two steps; one for the poorest and another for the second poorest countries.***

The scaling of tariff reductions is then a political issue. In the report, we have presented a ranking across products and across country groups. One should aim at zero tariffs for all products for the low-income group, and partial reductions for the second poorest countries. Big suppliers in the lower middle income group such as Brazil would not obtain free trade, but still be able to sell their products in Norway.

Given that GSP reforms may affect employment in agriculture, reforms may be phased in over time. Due to the substantial amount of “water in the tariffs”, for example, it is difficult to foresee the quantitative impact of liberalisation for many products. Importers are willing to pay tariffs + auction quota prices at 140% for some types of meat, but for other products, the prohibitive tariff may be much lower. Due to the uncertainty, stepwise introduction of reforms may be warranted. This will also vary across products: Liberalisation of canned peas may require no transition period, but complete opening of the grain markets do.

An issue is to what extent tariffs should be supplemented by tariff rate quotas (TRQs). If TRQs are “successful”, with competition among importers and meaningful quota prices, their result is to collect a new form of tariff, to the treasury. Concerns for predictability and a simpler trade regime suggest that TRQs should preferably be phased out and replaced by ordinary *ad valorem* tariffs. TRQs could however be used selectively in order to make transition gradual. It would then be important that quotas are large enough to allow commercial quantities from several large importers. Some of the current TRQs are, according to importers, far too small for this purpose.

***47. A stylized example of agricultural liberalization.***

Table 6 provides an illustration of a possible GSP regime in agriculture, for different products:

Country group:	Product examples			
	Peas	Feedstuff	Meat	Milk
Low income + IDA + LDC	0	0	0	0
Other lower middle	100% tariff cut	50% tariff cut	30% tariff cut	10% tariff cut
Upper middle	<i>Ad valorem</i> tariffs with modest liberalization beyond “post-Doha” effective level			
Rich	MFN applied tariffs after the Doha Round			

The ranking of products has to be studied further, in more detail. As an unprinted appendix we provide a list of 228 products where (i) the current GSP tariff is non-zero, and (ii) developing countries have a share above 20% of world exports at the 6-digit classification level. This list includes products from a number of agricultural chapters.

The figures presented in Table 6 are merely illustrations; the scale of tariff reduction is a political decision. Hence the purpose of Table 6 is to illustrate a possible structure of a renewed GSP system for agriculture. In the table, there are no TRQs since the GSP system should to the largest possible extent be based on *ad valorem* tariffs. In case this is politically impossible, some of the liberalization could be undertaken in the form of substantially enlarged TRQs. The current TRQs should also be reviewed, and we have included peas in the table as an example of an item that could be liberalised and the current TRQ abandoned. To the extent that TRQs are maintained, the need for allowing commercially viable quantities is also crucial. According to importers, some of the current TRQs are too small in this respect.

## Administrative features

### *48. Norway should cooperate with the EU in order to improve rules of origin.*

For clothing, the “double processing” requirement is a restriction that limits the export possibilities of GSP beneficiaries; especially small countries without their own production of yarn and fabrics. As noted above, zero MFN tariffs for clothing is the most expeditious way off eliminating this restriction. As long as this is not the situation, ways should be explored to alleviate the problem. Due to the rules for cumulation, Norway has to coordinate steps in this field with the EU. In the current system, Laos has obtained a special exception on rules of origin. An interesting example internationally is the Apparel Protocol of AGOA (the U.S. preferential scheme African Growth and Opportunity Act), which relaxes the RO for AGOA beneficiaries. Norway should work with the EU in order to simplify the current rules and make them less restrictive. In principle, a single processing requirement could be introduced, or the value criteria in the new EU system could be adapted so that single processing is allowed. Furthermore, the documentation requirements could be simplified, by the extended use of self-declaration, as already proposed by the Norwegian Customs and Excise. This procedure is used for small shipments already.

Rules of origin constitute a technically complex issue that can take the breath out of any generalist. Nevertheless it is quite important in trade policy and may have severe consequences for the trade of poor countries. In Norway, RO are mainly handled as a technical matter, by the Norwegian Customs and Excise. While we do not question their expertise in the field, we recommend that the relevant ministries in Norway give more priority to the issue. Facing an important reform in the EU that Norway probably has to follow, Norway should examine the issue and present its views.

### *50. It should also be controlled whether the current rules are followed.*

While the ambition should be to simplify and liberalise RO, it has to be controlled that there is no trade deflection and that certificates of origin are not falsified or issued inconsistently, e.g. in regimes with high corruption. According to Norwegian import statistics, imports from Bangladesh have e.g. increased sharply after 2000, while according to Bangladesh export statistics, this has not been the case (see Melchior 2005c). We do not claim that there has been corruption in the issuance of certificates of origin in Bangladesh, but mention this as an example of procedures for control: Check the consistency of statistics, and check discrepancies to explain the



gaps. According to Norwegian Customs and Excise, implementation of RO is currently not a major problem. It may be added, however, that if the paper and stamp is right, Norwegian authorities have little possibility to check that they were appropriately issued.

**51. Erroneous classification may be an increasing problem.**

It is well known that with tariffs that vary sharply across individual products, it may be tempting for importers to change a digit here and there in the classification number, and thereby avoid tariffs. According to Norwegian Customs and Excise, such cases constitute an increasing share of problems faced in the customs administration. A technique for controlling this, in addition to standard sampling, is again to compare import statistics in Norway with export statistics in the country of origin. Some research in the field confirms the presence of such practices, using this type of data (Fisman and Wei 2001).

**52. Several beneficiaries do not use the Norwegian GSP system**

The beneficiary country must have completed certain formalities, e.g. by providing information about competent authorities, stamps etc.. This is probably not a big burden, but its fulfillment is not automatic. Currently in Norway, the statistics are as follows:

	Ordinary GSP			GSP for LDCs		
	Number of countries	Share of trade entitled, %	Average imports (mill. USD) 2004	Number of countries	Share of trade entitled, %	Average imports (mill. USD) 2004
Completed formalities	67	92.4	77.2	29	86.0	3.6
Not completed	39	7.6	1.0	20	14.0	0.9
Total	106	100		49	100	

Source: Norwegian Customs Tariff, internet version April 2005, trade data from COMTRADE.

Hence approximately 60% of the countries entitled to GSP had actually fulfilled the administrative formalities. 39 countries entitled to ordinary GSP, and 20 countries entitled to LDC-GSP had, by April 2005, not completed the formalities. Norway's imports from the countries not fulfilling GSP formalities were however small; with average imports in 2004 at one million USD.

There are several possible reasons why countries have not completed the formalities, for example

- they did not know about the Norwegian GSP system

- they only exported goods for which tariffs are zero, or so low that there would be little to gain from GSP
- they did not have the administrative capacity
- Norway is a too marginal market
- they knew that they would not fulfil the RO requirements for goods they could export..

Most of these reasons probably mattered. We will not make any attempt to quantify the importance of each. It is not necessarily a “scandal” that countries have not used their rights under the Norwegian GSP system – for a small country far away from Norway it may be rational to drop this, if trade is small or the trade potential is limited for goods for which GSP matters. Recent studies have also shown that if the preference margin is small, exporters may choose to export under MFN tariffs in order to avoid the transaction costs related to GSP (OECD 2005). If e.g. countries do not export clothing or agricultural goods, they have no reason to bother about Norwegian GSP. On the other hand, it is important that information about the Norwegian system is good enough.

Over time, it seems that the LDCs have become better with respect to completing the formalities: In 1993, only around half (25 of 49) had done so. At that time, 72 ordinary developing countries have sent the documents; i.e. some decline.<sup>17</sup> This may be explained by the reasons above.

### ***53. Information in English about GSP could be improved.***

In English, a brochure is available. This has not always been the case in the past, and is an improvement. On the other hand, the customs tariff is not available in English, and this limits the transparency of the system and implies that exporters have to rely on importers for all information. For the allocation of rents and the bargaining position of developing country exporters, such information is important. The information technology systems of Norwegian Customs and Excise will be changed from the fall of 2005, and it is being considered whether an English version of the customs tariff should be made available later. This would be an advantage, by increasing the accessibility of information on tariffs and GSP. English-language tariff files are sent every year to WTO and UNCTAD and thereby already exist, and it should be possible to make this available on the internet.

Information about GSP via diplomatic channels and internationally accessible websites should be reconsidered. In particular, internet-based information should play a more important role. For example, UNCTAD could create a portal where links to nation-specific information is accessible. UNCTAD has made useful handbooks on some GSP systems (not the Norwegian, though). Given the frequent changes in GSP systems

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<sup>17</sup> Based on Norwegian Customs and Excise, 1993, *Generelle tollpreferanser for import av varer fra utviklingsland*.

and the multitude of schemes, an idea is that UNCTAD puts more emphasis on developing a system where web links play a more important role. We have not considered such options in detail, and just raise this as a possible idea.

We are unable to tell whether lacking information is a reason why some countries do not fill in the forms that are needed in order to obtain GSP.

#### ***54. Strange information practices for grain and oilseeds.***

When zero tariffs without quotas for all goods were introduced for the LDCs from July 2002, the last cluster of products to be included was grains and oilseeds. There is however a surveillance system, with deadlines for application three times a year, and a safeguard clause that may be invoked if the “market balance” is threatened. For e.g. wheat (HS 1001), the ordinary tariff is 2.13 NOK/kg, while for LDCs it is zero, subject to the surveillance system. There is in principle two ways of communicating this: (a) The tariff for LDCs is zero, but there is a surveillance system so that tariffs may...; or (b) The tariff for LDCs is 2.13, but it may become zero if the importer applies... Most people would think that option (a) is the plausible one. This is the version in the GSP brochure, and in various communications in Norwegian from the Norwegian Agricultural Authority. Due to the latter, well-informed importers in the field will know that the tariff is zero. If a new trader checks the web-based customs tariff, however, he or she will read that the tariff for LDCs is actually 2.13. There is no footnote or reservation telling that the tariff is actually zero. According to the Norwegian Customs and Excise, this is a technical matter since zero tariffs are only granted upon application. We still consider the practice to be strange, and that it implies a risk of wrong information. From interviews, we also noted that some importers were not sure that all tariffs for LDCs were zero.

#### ***55. The safeguards for LDCs should be reformed***

In spite of substantial tariff preferences, LDCs are unable to sell much to Norway as well as other countries. If they ever succeed; should safeguards for grain and feedstuff then stop them immediately? As part of the GSP reforms, the current safeguard arrangement for LDCs should also be reviewed. Given that the threat from LDCs is limited, it should preferably be removed. Removing the tri-annual deadlines and having automatic licensing by the date of application would also be a step forward.

#### ***56. In agriculture, the tariff system should be made more transparent***

The current tariff system in agriculture has some features that could be simplified in order to facilitate trade. First, administrative tariff changes over time actually amounts to a variable-levy system that creates

uncertainty for traders. Importers have start-up costs in new trades, and have to calculate how much to invest. This is particularly true for poor and remote countries, where start-up costs may be higher. Uncertainty about tariffs may deter entry in such markets. It might be better with tariffs that are not changed frequently by administrative decisions. Second, the current system of individual tariff reduction by administrative decisions is also not so transparent: Although we can read from official documents about the number of tariff decisions, their impact is less visible. Some importers had also experienced that the notice as well as the duration for tariff reductions were too short, so it was impossible to benefit from them. It would be an advantage to eliminate this practice to the extent possible, and introduce permanently lower tariffs for products where such administrative tariff suspensions are important. With large tariff wedges, there are also large values involved, and it would be an advantage to make this system more transparent. In this respect, the auction system in agriculture should be commended for its transparency, although collusive behavior may be a problem in some cases.

If the frequent administrative changes in agricultural tariffs are abandoned, a possibility is also to transfer the administration of agricultural tariffs to Norwegian Customs and Excise, from the Norwegian Agricultural Authority.

### ***57. Some problems also exist with RO in agriculture.***

Compared to clothing, where the double processing requirement is a severe restriction RO are generally not such a severe problem in agriculture. Some problems nevertheless exist. According to some importers, a considerable share of food imports from developing countries passes through entrepôts such as the Netherlands, where they may be repacked. RO are mostly clear about which forms of handling of the goods that are allowed, but some borderline problems exist and there have been conflicts in the field. The importers perceived the RO and administrative requirements as a burden that they had to spend resources in order to learn and master. While some firms reported problems, others stated that their requirements for documentation of origin were generally followed, and they did not make deals with firms that did not follow these requirements strictly. It may be the case that flowers from developing countries are re-bundled with flowers from other origins, but we do not have specific information about problems with GSP origin in these cases.

### ***58. Veterinary control and the EU system***

EU veterinary rules imply that only some countries are approved as e.g. meat exporters, and this also limits Norway's possibilities under GSP. This has also limited imports of honey from LDCs. The message from importers is pretty clear: Veterinary issues is a major problem with LDCs, but mostly manageable for ordinary developing countries although it

requires an effort. Given the importance of EU regulations for Norway's imports from poor countries, the EU decision-making process should be followed closely. It is generally important to secure that veterinary decisions are never unduly influenced by business lobbies with an interest for protection.

***59. The tariff structure should be as simple as possible***

For a reform of the GSP system, specific considerations have to be made for individual products, beyond the scope of this study. Whatever considerations, however, it should be an objective to have a simple tariff structure, instead of a pattern where all tariffs are different.

***60. International harmonization and binding rules should be pursued.***

In Melchior (2005a) it is shown how a variety of different preferences creates a "spaghetti bowl" of regimes. For GSP, it may be a non-tariff barrier in itself if all countries develop their own rules, and these rules vary across export countries. Harmonisation of rules internationally is therefore a good idea, also for GSP.

The need for internationally accepted rules is also one reason why we have not pursued the idea of linking GSP to the adherence to particular governance criteria. One of the critiques of GSP has been that industrial countries use it to promote particular interests. Özden and Reinhardt (2004a) maintains that the USA has been particularly active in this sense, and the new GSP regime of the EU also provides better preferences for countries that have ratified a list of international standards, on labour and human rights and the environment. We have not proposed that Norway should make its own list; it seems preferable that such clauses should be better coordinated internationally.

Otherwise, it is a possibility that WTOs regulations on GSP become further clarified. GSP-like arrangement in other fields than tariffs may also become more important over time, and should be addressed by the WTO. As an example, intellectual property rights might be less strict for the poorest countries, e.g. with shorter patent duration.

Finally, a possibility is that tariff regimes that differentiate between groups of countries according to development levels could be negotiated in the WTO and become binding. This is however not politically feasible at the moment, and it is therefore easier to make a "development-friendly" tariff system via GSP. This is the purpose of the proposals presented here.

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## Appendix A: The background for the project.

In two previous reports to the Storting; St.meld. 19, 2003-2004 (“the globalisation report”) and St.meld. nr. 35, 2003-2004 (“the development report”)<sup>18</sup>, the Norwegian Government had given signals relevant to assessment of the GSP system. The assessment of the GSP system was signalled in the development report: “As a supplement to the general tariff reductions resulting from the new round of negotiations in the WTO, it will be in the interest of developing countries that we, from the Norwegian side, undertake further improvements in the GSP system. The Government will therefore initiate an assessment of the GSP system in order to consider whether it is possible to simplify and improve the current regulations.... A change in the number of beneficiary countries will be considered; whether developing countries outside the LDC group should be offered larger tariff reductions than they obtain in the current system; and whether the administrative requirements and routines should be simplified. The assessment will be seen in context with the current WTO negotiations.” (p. 45) The development report (ibid.) referred to, and the “globalisation report” (p. 37) reiterated the earlier stated purpose of eliminating the remaining tariffs for manufactured goods – stated in the budget proposition in 2002 (St.prp. nr. 1, 2002-2003, B.innst.S. nr. 1, 2002-2003). Given that these remaining tariffs mainly apply to exports from developing countries, concerns for development was a main argument. In the globalisation report, it was also stated “The Government will take into consideration agricultural products of special interest to developing countries as part of the ongoing round of negotiations as well as through improvements in the Generalised System of Preferences (GSP).” (p. 38) “The Government believes the time has come for considering more closely the concept of development in the WTO so that special arrangements better serve the poorest countries.” (p. 44) “... secure that import protection still safeguards Norwegian production in vital areas, and at the same time give developing countries outside the LDC group better trade conditions in the form of some increase in market access for agricultural goods” (p. 48).

The terms of reference for the study<sup>19</sup> specified aspects to be covered by the study. It is stated that “It is particularly the issues related to beneficiary countries, including questions concerning phasing-out/graduation, preference margins, administrative routines and rules of origin that are relevant elements to be considered in the assessment of the Norwegian system. In addition, an introductory examination of more principal issues should be undertaken, including:

- To what extent do preference systems promote development, compared to general liberalisation that apply to all countries?

<sup>18</sup> See references, Ministry of Foreign Affairs (2003, 2004) for complete titles.

<sup>19</sup> Ministry of Foreign Affairs, 2004, Konkurransgrunnlag til kontrakt vedrørende gjennomgang av den norske GSP-ordningen (2000/00782).

- Is development better promoted by giving free market access only to the LDCs, or should similar market access be granted also to low-income countries or all developing countries?
- Can preference arrangements promote or hinder trade liberalisation within and between developing countries?
- To what extent is erosion of preference margins a real problem for developing countries?
- Do preferences generally contribute to a lock-in of countries' industrial structure and ensuing problems of adjustment, or to the development of competitive industries?"

## **Appendix B: Names of persons interviewed**

Assistant Commercial Attaché Ganef Judawati, Permanent Mission of the Republic of Indonesia to the United Nations and other international organisations, Geneva

Commercial Attache Alfons Samosir, Permanent Mission of the Republic of Indonesia to the United Nations and other international organisations, Geneva

Economic Minister Md. Motaher Hussain, Permanent Mission of Bangladesh, Geneva

Hans-Peter Werner, Counsellor, Development Division, WTO, Geneva

Harish Iyer, Economic Affairs Officer, Development Division, WTO, Geneva

Jiang Liyong, Attache, Permanent Mission of the People's Republic of China to the World Trade Organisation, Geneva

Patrick Rata, Counsellor, External Relations Division, WTO, Geneva

Pierre Encontre, Economic Affairs Officer, Special Programme for Least Developed, Landlocked and Island Developing Countries, UNCTAD, Geneva

Said El Hachimi, Counsellor, External Relations Division, WTO, Geneva

Sjur Klætte, Norwegian Customs and Excise

Stefano Inama, Senior Expert, UNCTAD, Geneva

Svein Grønlie, Norwegian Customs and Excise

Ulf Hoberg, Norwegian Customs and Excise

Xuewei Feng, Legal Affairs Officer, WTO, Geneva

In addition, representatives of 27 Norwegian importing firms were interviewed. These were interviewed under anonymity and their names are not included.

## Appendix C: The Norwegian GSP system: A brief chronology

Norway was among the first industrial countries to establish a GSP system, in September 1971 (effective from 1 October 1971). For manufactured goods, a characteristic feature has been the use of complete tariff elimination for goods covered by the system, and not partial reductions, as more commonly used by the EU and the USA. For manufacturing, the product coverage has been extensive from the very beginning, and the exceptions – mainly in the field of textiles and clothing – were listed in a so-called “negative list”. Clothing products were also subject to import quotas. These were quite restrictive in the 1980s, but gradually lifted during the late 1980s and the 1990s. With binding quotas, GSP might have no impact on trade but transfer tariff revenue from the government to exporters or importers.

The negative list has been reduced over time. In the 1980s, some products were added on extended negative lists for Bulgaria, Hong Kong, Korea, Macao and Romania. These extended lists were not motivated by “graduation” (more advanced countries losing their benefits); they were due to the transition from a system with extensive import controls (for Korea, Romania, Bulgaria), or due to protection interests (Hong Kong, Macao).

In general, GSP benefits have been withdrawn when Norway has negotiated free trade agreements with countries concerned. For example, FTAs with Bulgaria and Romania were implemented in 1993, and GSP as well as the extended negative lists were withdrawn.

For agriculture, the GSP system before the implementation of the Uruguay Round results was based on a “positive list” of products with GSP. Norwegian agricultural protection in this period was based on quantitative restrictions, so tariffs were lower than post-UR. The UR led to “tariffication”, and high tariffs were introduced. With this system, GSP implied partial tariff reductions, plus tariff cuts within tariff rate quotas (TRQs). A particular feature of the Norwegian system has been that Botswana and Namibia have been treated “almost” as LDCs. Botswana was one of the original LDCs but graduated during the early 1990s. Namibia was a candidate but never obtained LDC status.<sup>20</sup>

The LDCs obtained zero tariffs for *all* goods (agriculture and manufactures) already in 1976.<sup>21</sup> After the UR, however, tariffs were re-introduced for grain, feedstuff and oilseeds. From 1 July 2002, these tariffs were again eliminated, however subject to a surveillance system for these goods. Under this system, importers have to apply for an import license in advance, currently with deadlines three times a year.

Throughout the history of the Norwegian GSP system, there have been several changes in product coverage. The product coverage of the system

<sup>20</sup> See e.g. UN General Assembly Resolution A/RES/45/198, 71st plenary meeting, 21 December 1990.

<sup>21</sup> See e.g. Eide (1980).

at various points in time is documented in GSP handbooks for various periods. Important changes occurred

- in 1995, with the new system for agriculture
- in 1998, when the rules of origin were partially harmonised with the EU system
- in 2000, when the product coverage for manufacturing was considerably extended.

In addition, there are continuous changes in the list of countries that have implemented the system by providing documentation about certifying authorities etc. Useful sources of information about the GSP system, in addition to the GSP handbooks, are

- numerous communications from Customs and excise Norway on the implementation
- the annual budget propositions from the Ministry of Finance, on tariffs and taxes
- propositions to the Parliament on particular issues (e.g. agriculture in 1995)
- in the TRAINS database of UNCTAD, Norwegian GSP tariffs are included for some years.

Over time, the Norwegian GSP system has been subject to regular scrutiny by Norwegian researchers:

- Eide (1980, 4) concludes that “GSP was granted for goods for which the development potential was limited and the impact of the system over the first 5-6 years has been minimal”. He also noted that for items on the “negative list”, GSP beneficiaries faced higher tariffs than EFTA and (being implemented at the time) the EU. He advised that the “negative list” for manufactured goods should be reduced.
- Grooss et al. (1991) provided an overview of Norwegian import regulations at the time, and e.g. noted that importers in agriculture were “satisfied” in spite of the quota restrictions. The authors interpreted this as an indication to the effect that the importers could gain some of the rent created by quotas.
- Econ Energi (1995) examined the scope for increased agricultural imports from developing countries in the post-UR system. They assumed that full GSP for agriculture would have dramatic consequences for Norwegian agriculture, and therefore was not politically feasible. On imports from LDCs they concluded (p. 259) “If the LDCs are the only ones to obtain significant tariff preferences, the short-run impact on imports of agricultural goods from developing countries will be modest. The LDCs have a limited export potential for most of the goods where Norwegian tariffs will be high under the new GATT agreement. Quality requirements and badly functioning distribution systems will also limit exports to Norway. There are however some exceptions; i.e. goods for which imports from the LDCs are expected to increase due to tariff elimination. Examples of such exceptions are forage products from African countries and some processed agricultural goods.” For developing countries in general, the

analysis concluded that the potential impact of GSP was greatest for forage products, which are supplied by a number of developing countries and consist of a large number of different products that may be easily substituted. According to Econ, the Norwegian forage price might be cut by 60%. This would have a positive impact on animal farming, although Norwegian cereal production would be reduced.

- Wiig et al. (2002) considered the import potential under GSP for Norway's main aid recipients. They observed that 80% of the imports from aid cooperation recipients subject to GSP treatment originated in China, and therefore raised the question about whether the Norwegian GSP was too broadly focused (p.47). The study also contains a comprehensive examination of import possibilities for particular products, supported by interviews with importers. According to the report, there was a considerable import potential particularly for textiles and agricultural goods.

Country	Rank	GSP eligible as % of dutiable imports	Imports received GSP, value	%of dutiable imports received GSP	Utilisation (received GSP/ eligible)	Rest dutiable	%share of import value with GSP	Cum. share
		%	Mill. NOK	%	%	%	%	%
SOUTH AFRICA	1	99	136.3	89	89	1	17.6	17.6
ARGENTINA	2	100	86.1	71	71	1	11.1	28.7
BRAZIL	3	88	74.2	42	48	2	9.6	38.3
* NAMIBIA	4	100	62.7	99	99	0	8.1	46.3
THAILAND	5	99	59.7	75	76	1	7.7	54.0
CHINA	6	81	51.4	62	76	13	6.6	60.7
CHILE	7	100	37.8	77	77	0	4.9	65.5
* TANZANIA	8	100	28.5	100	100	0	3.7	69.2
* BOTSWANA	9	100	28.0	100	100	0	3.6	72.8
CYPRUS	10	100	22.9	100	100	0	3.0	75.8
PHILIPPINES	11	99	21.8	94	95	1	2.8	78.6
PAKISTAN	12	99	21.3	53	53	1	2.7	81.3
KOREA	13	97	18.4	96	100	1	2.4	83.7
KENYA	14	100	16.8	98	98	0	2.2	85.9
INDONESIA	15	98	15.0	97	98	1	1.9	87.8
INDIA	16	93	12.5	58	63	2	1.6	89.4
EGYPT	17	100	9.1	64	64	0	1.2	90.6
GUATEMALA	18	100	7.9	93	93	0	1.0	91.6
PERU	19	5	7.5	4	93	43	1.0	92.6
* ZAMBIA	20	100	6.6	100	100	0	0.9	93.4
COSTA RICA	21	100	6.0	82	82	0	0.8	94.2
COLOMBIA	22	100	5.2	68	68	0	0.7	94.9
* YEMEN	23	100	4.9	66	66	0	0.6	95.5
* ETHIOPIA	24	100	4.7	100	100	0	0.6	96.1
ZIMBABWE	25	100	3.4	95	95	0	0.4	96.6
ECUADOR	26	99	3.4	97	98	0	0.4	97.0
MALAYSIA	27	92	3.2	91	99	5	0.4	97.4
* UGANDA	28	100	3.2	100	100	0	0.4	97.8
HONG KONG	29	43	2.5	32	75	38	0.3	98.1
IRAN	30	98	2.1	49	50	2	0.3	98.4
<b>LDCs</b>		<b>100</b>	<b>134.5</b>	<b>99</b>	<b>100</b>	<b>0</b>	<b>17.3</b>	
<b>All GSP beneficiaries</b>		<b>82</b>	<b>775.4</b>	<b>64</b>	<b>77</b>	<b>6</b>	<b>100.0</b>	

Note: Based on calculations undertaken by Statistics Norway.

<b>Table D2: Utilisation of Norway's GSP system for manufacturing (HS 25-99) in 2002</b>								
Country	Rank	GSP eligible as % of dutiable imports	Imports received GSP, value	%of dutiable imports received GSP	Utilisation (received GSP/ eligible)	Rest dutiable	%share of import value with GSP	Cum. share
	No.	%	Mill. NOK	%	%	%	%	%
CHINA	1	72	3027.8	58	80	10	69.5	69.5
* BANGLADESH	2	100	216.0	81	81	0	5.0	74.4
INDIA	3	59	202.3	43	73	26	4.6	79.1
HONG KONG	4	62	161.4	42	67	15	3.7	82.8
KOREA, REP.	5	72	142.8	61	85	4	3.3	86.1
THAILAND	6	58	101.1	44	76	12	2.3	88.4
PAKISTAN	7	60	88.2	54	90	25	2.0	90.4
VIETNAM	8	44	75.6	28	64	39	1.7	92.1
INDONESIA	9	43	60.3	33	77	16	1.4	93.5
SINGAPORE	10	97	49.0	93	96	0	1.1	94.7
MALAYSIA	11	85	38.5	67	79	1	0.9	95.5
BAHRAIN	12	100	34.1	100	100	0	0.8	96.3
SRI LANKA	13	91	31.4	60	66	7	0.7	97.0
IRAN	14	100	27.8	68	68	0	0.6	97.7
TUNISIA	15	42	19.7	21	49	46	0.5	98.1
* LAO PDR	16	100	19.6	92	92	0	0.5	98.6
PHILIPPINES	17	59	9.4	42	72	2	0.2	98.8
EGYPT	18	81	8.0	64	79	5	0.2	99.0
MACAU	19	48	7.4	19	40	50	0.2	99.1
BRAZIL	20	42	5.5	37	88	2	0.1	99.3
SAUDI ARABIA	21	100	4.7	80	80	0	0.1	99.4
MAURITIUS	22	48	4.4	43	90	46	0.1	99.5
SOUTH AFRICA	23	64	4.4	33	53	1	0.1	99.6
LEBANON	24	82	2.4	80	98	9	0.1	99.6
CYPRUS	25	99	1.8	65	66	1	0.0	99.7
* NEPAL	26	100	1.6	81	81	0	0.0	99.7
MALTA	27	26	1.4	14	54	16	0.0	99.7
PERU	28	19	1.4	16	81	13	0.0	99.8
COLOMBIA	29	95	1.3	71	75	0	0.0	99.8
ECUADOR	30	93	1.1	86	93	3	0.0	99.8
<b>LDCs</b>		<b>100</b>	<b>239.4</b>	<b>69</b>	<b>69</b>	<b>0</b>	<b>5.5</b>	
<b>All GSP beneficiaries</b>		<b>69</b>	<b>4357.6</b>	<b>54</b>	<b>78</b>	<b>9</b>	<b>100.0</b>	

Note: Based on calculations undertaken by Statistics Norway.



<b>Table D3: Utilisation of Norway's GSP system for all goods (HS 1-99) in 2002</b>								
Country	Rank	GSP eligible as % of dutiable imports	Imports received GSP, value	%of dutiable imports received GSP	Utilisation (received GSP/eligible)	Rest dutiable	%share of import value with GSP	Cum. share
	No.	%	Mill. NOK	%	%	%	%	%
CHINA	1	72	3079.2	58	80	10	60.0	60.0
* BANGLADESH	2	100	216.0	81	81	0	4.2	64.2
INDIA	3	60	214.8	44	72	24	4.2	68.4
HONG KONG	4	62	163.9	42	67	15	3.2	71.6
KOREA, REP.	5	74	161.2	64	86	4	3.1	74.7
THAILAND	6	68	160.8	52	76	10	3.1	77.8
SOUTH AFRICA	7	97	140.6	84	87	1	2.7	80.6
PAKISTAN	8	68	109.4	54	79	22	2.1	82.7
ARGENTINA	9	99	86.4	71	71	0	1.7	84.4
BRAZIL	10	84	79.7	42	49	2	1.6	86.0
VIETNAM	11	45	77.5	29	64	38	1.5	87.5
INDONESIA	12	47	75.3	38	81	15	1.5	88.9
* NAMIBIA	13	100	62.7	99	99	0	1.2	90.2
SINGAPORE	14	97	50.9	92	95	0	1.0	91.1
MALAYSIA	15	85	41.7	69	80	1	0.8	92.0
CHILE	16	100	38.1	76	76	0	0.7	92.7
BAHRAIN	17	100	34.1	100	100	0	0.7	93.4
SRI LANKA	18	91	32.4	60	66	6	0.6	94.0
PHILIPPINES	19	79	31.1	68	86	2	0.6	94.6
IRAN	20	100	29.9	66	66	0	0.6	95.2
* BOTSWANA	21	100	28.9	100	100	0	0.6	95.7
* TANZANIA	22	100	28.7	100	100	0	0.6	96.3
CYPRUS	23	100	24.7	96	96	0	0.5	96.8
TUNISIA	24	43	19.9	20	48	45	0.4	97.2
* LAO PDR	25	100	19.6	92	92	0	0.4	97.6
EGYPT	26	91	17.1	64	70	3	0.3	97.9
KENYA	27	100	16.9	98	98	0	0.3	98.2
PERU	28	5	8.9	5	91	39	0.2	98.4
GUATEMALA	29	100	8.0	93	93	0	0.2	98.5
MACAU	30	48	7.4	19	40	50	0.1	98.7
<b>LDCs</b>		<b>100</b>	<b>373.8</b>	<b>77</b>	<b>77</b>	<b>0</b>	<b>7.3</b>	
<b>All GSP beneficiaries</b>		<b>71</b>	<b>5133.0</b>	<b>55</b>	<b>78</b>	<b>8</b>	<b>100.0</b>	

Note: Based on calculations undertaken by Statistics Norway.

HS	Brief description	Mill. USD			Share of total imports in each chapter		
		1996	2000	2004	1996	2000	2004
01	Live animals	0.0	0.0	0.1	0.0	0.2	0.8
02	Meat and edible meat offal	7.7	6.4	27.5	18.8	23.4	42.5
04	Dairy prod; birds' eggs; natural honey	2.5	0.4	0.7	9.1	2.0	1.5
05	Products of animal origin, nes or	3.3	3.7	16.4	24.7	15.2	47.1
06	Live tree & other plant; bulb, root	7.3	8.7	11.5	8.0	9.6	8.3
07	Edible vegetables and certain roots	6.9	8.0	16.4	5.6	7.1	8.2
08	Edible fruit and nuts; peel of citrus ..	107.4	81.3	166.6	40.6	36.7	42.8
09	Coffee, tea, matn and spices.	112.1	75.7	64.0	85.8	77.6	69.2
10	Cereals	6.7	16.3	22.3	5.2	35.6	30.2
11	Prod.mill.indust; malt; starches;	0.6	0.7	0.7	2.0	2.8	1.5
12	Oil seed, oleagi fruits; miscell gr	21.3	88.1	125.7	16.5	79.2	73.6
13	Lac; gums, resins & other vegetable	1.2	1.9	2.5	11.7	10.1	10.2
14	Vegetable plaiting materials; veget	0.3	0.2	0.3	34.2	19.7	48.1
15	Animal/veg fats & oils & their ...	44.5	40.3	50.6	37.8	37.3	19.6
16	Prep of meat, fish or crustaceans,	6.6	7.4	8.5	11.7	15.0	10.5
17	Sugars and sugar confectionery.	4.8	6.3	6.2	3.1	5.9	4.5
18	Cocoa and cocoa preparations.	0.1	0.0	0.6	0.1	0.0	0.4
19	Prep.of cereal, flour, starch/milk;	1.0	1.5	5.4	0.8	1.0	1.8
20	Prep of vegetable, fruit, nuts or o	44.0	29.7	32.5	38.1	28.2	22.6
21	Miscellaneous edible preparations.	3.2	1.3	3.5	2.6	1.0	1.7
22	Beverages, spirits and vinegar.	13.0	20.0	25.2	8.1	10.0	6.8
23	Residues & waste from the food indu	16.2	33.7	51.2	9.9	17.1	17.9
24	Tobacco and manufactured tobacco	8.2	10.1	15.7	13.5	18.1	15.3
35	Albuminoidal subs; modified starches	0.2	0.4	0.7	0.4	0.9	1.2
Total - agriculture		419.2	442.1	654.9	18.6	21.8	19.3

Note: Data from COMTRADE.

**Table D5: Norway's imports of agriculture from the Least developed countries, 1996-2004**

HS	Brief description	1000 USD			Share of total imports in each chapter		
		1996	2000	2004	1996	2000	2004
01	Live animals			2	0.0	0.0	0.0
02	Meat and edible meat offal		2		0.0	0.0	0.0
04	Dairy prod; birds' eggs; natural honey		184	148	0.0	0.9	0.3
05	Products of animal origin, nes or				0.0	0.0	0.0
06	Live tree & other plant; bulb, root	2064	5793	6622	2.3	6.4	4.8
07	Edible vegetables and certain roots	24	16	104	0.0	0.0	0.1
08	Edible fruit and nuts; peel of citrus ..	75	77	77	0.0	0.0	0.0
09	Coffee, tea, matn and spices.	4589	1535	2401	3.5	1.6	2.6
10	Cereals				0.0	0.0	0.0
11	Prod.mill.indust; malt; starches;				0.0	0.0	0.0
12	Oil seed, oleagi fruits; miscell gr	146	320	90	0.1	0.3	0.1
13	Lac; gums, resins & other vegetable	819	389	724	8.1	2.0	2.9
14	Vegetable plaiting materials; veget	0			0.0	0.0	0.0
15	Animal/veg fats & oils & their ...		19	1	0.0	0.0	0.0
16	Prep of meat, fish or crustaceans,	2	95	108	0.0	0.2	0.1
17	Sugars and sugar confectionery.	1445	74	13	0.9	0.1	0.0
18	Cocoa and cocoa preparations.				0.0	0.0	0.0
19	Prep.of cereal, flour, starch/milk;	4		0	0.0	0.0	0.0
20	Prep of vegetable, fruit, nuts or o	0		30	0.0	0.0	0.0
21	Miscellaneous edible preparations.	0			0.0	0.0	0.0
22	Beverages, spirits and vinegar.	0	2		0.0	0.0	0.0
23	Residues & waste from the food indu				0.0	0.0	0.0
24	Tobacco and manufactured tobacco	661	1344	1681	1.1	2.4	1.6
35	Albuminoidal subs; modified starches				0.0	0.0	0.0
Total - agriculture		9829	9852	12000	0.4	0.5	0.4

Note: Data from COMTRADE.

## Appendix E: Abbreviations used

Note: The list also includes some abbreviations used in other publications from the GSP project.

ACP	African, Caribbean and Pacific countries (ca. 80) involved in EUs Lomé and Cotonou Agreements that involve preferential schemes for these countries
AGOA	African Growth and Opportunity Act (U.S. preferential scheme for African countries)
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing made during the Uruguay Round of the WTO. Under ATC, textile quotas under the MFA agreement would be phased out during 1995-2005.
ATPA	Andean Trade Preference Act – U.S. trade preferences for the four Andean countries Bolivia, Colombia, Ecuador, Peru, in 2001 overtaken by ATPDEA.
ATPDEA	Andean Trade Promotion and Drug Eradication Act – includes U.S. trade preferences for the four Andean countries Bolivia, Colombia, Ecuador, Peru, see also ATPA
AVE	Ad Valorem Equivalent – term used when a specific tariff (e.g. 10 NOK per kilogram) is converted into % of the price
CBERA	Caribbean Basin Economic Recovery Act (U.S. measures for the Caribbean). See also CBTPA.
CBTPA	Caribbean Basin Trade Partnership Act – extends U.S. preferences for the Caribbean beyond CBERA
CIA, CWF	Central Intelligence Agency (of the USA, useful data source on small countries), CIA World Factbook
COMTRADE	Trade database supplied by the United Nations Statistical Office
CPIA	Country Policy and Institutional Assessment – procedure at the World Bank for analysing the quality of governance. Annual CPIA indexes are made for IDA countries.
DAC	The Development Assistance Committee of the OECD
DC	Developed Country (abbreviation used here to save space)
EBA	Everything But Arms (EU preference scheme for Least Developed Countries)
ECOSOC	United Nations Economic and Social Council
EEA	European Economic Area – agreement between EU and Norway, Iceland and Liechtenstein that extends the European Internal

	Market to these countries.
EFTA	European Free Trade Association
EUR-Lex	EU database on legal documents related to the EU
EVI	Economic Vulnerability Index – measure used as a criterion for making the list of Least Developed Countries
FSU	Former Soviet Union
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services – sub-agreement under the WTO covering trade in services
GATT	General Agreement on Tariffs and Trade – sub-agreement under the WTO covering trade in goods
GDP, GNI	Gross Domestic Product – a measure of a nation's value added. Today, GNI (Gross National Income) is now more commonly used and this includes income from residents abroad.
GSP	Generalized System of Preferences
GTAP	Global Trade Analysis Project – database and simulation model for international trade analysis, based at Purdue University, USA
HAI	Human Asset Index – measure used as a criterion for making the list of Least Developed Countries
HIGHINC	Sometimes used as abbreviation for High Income Countries
HIPC	Highly Indebted Poor Countries
HS	Harmonised System – classification system for tariffs and trade. There are different (HS1988, HS1996 and HS2002).
IBRD	International Bank for Reconstruction and Development – another name for the World Bank
IDA	International Development Association – part of the World Bank supplying loans to the poorest countries. In this project, IDA frequently refers to the list of countries qualifying for IDA borrowing terms (currently 81 countries)
IMF	International Monetary Fund
LDC	Least Developed Countries (note that some years ago, the abbreviation LLDC was common)
LDC-GSP	GSP tariffs applying to the Least Developed Countries
LIC	Low Income Country (used here, not generally applied)
LICUS	Low Income Countries Under Stress (World Bank terminology related to poor countries in conflict etc.)
LLDC	Landlocked Developing Countries (note: LLDC was formerly

	used as an abbreviation for Least Developed Countries)
LMC	Low and Middle Income Countries, according to World Bank classification
MFA	Multi-Fibre Agreement – standard nickname on the GATT “Arrangement Regarding International Trade in Textiles”. In the 1960s, there were cotton agreements, and with MFA in the 1970s, other fibres were included – hence the nickname
MFN	Most Favoured Nation – i.e. used for trade rules that apply equally to different countries, as opposed to preferential trade rules
MFN-WTO	Used for MFN trade rules for WTO members, when some country has other rules for non-WTO members
NOK	Norwegian Kroner (currency)
OA	Official Aid – OECD DAC category for countries not included in the ODA list (see ODA)
OCT	Overseas Countries and Territories – 20 areas with a special relationship to the EU (mainly sparsely populated, some former colonies)
ODA	Official Development Assistance – term used for country classification with respect to aid; ODA countries exclude most high-income countries. The ODA group is defined by the Development Assistance Committee (DAC) of the OECD
OECD	Organisation for Economic Co-operation and Development
OECD24	The first 24 members of the OECD (EU-15, USA, Canada, Japan, Australia, New Zealand, Norway, Iceland, Switzerland, Turkey). Later members are Poland, Slovakia, Czech Rep., Hungary, Mexico, Korea.
OJ	Official Journal of the European Communities
PRSP	Poverty Reduction Strategy Paper – document prepared in the World Bank process for aid and debt relief for the poorest countries
PSE	Producer Subsidy Equivalents – measure of total support, used particularly in agriculture
RO	Rules of origin
SACU	Southern African Customs Union, involves South Africa, Botswana, Lesotho, Namibia and Swaziland
SDT	Special and Differential Treatment – term used for favourable provisions for developing countries in the WTO
SIDS	Small Island Developing States

SITC	Standard International Trade Classification
TRAINS	Trade and tariff database from UNCTAD
TRQ	Tariff Rate Quotas – particularly used in agriculture, implies e.g. that tariffs are zero or reduced up to some quota (quantitative ceiling) and higher if the quantity exceeds this limit
UMC	Sometimes used as an abbreviation for Upper Middle Income Countries
UN	United Nations
UNCTAD	United Nations' Conference on Trade and Development
UR	The Uruguay Round that led to the creation of WTO (World Trade Organization), i.e. a multilateral negotiation round under the GATT
WITS	World Integrated Trade Solution – software for retrieving and using trade and tariff data, supplied by the World Bank and UNCTAD
WTO	World Trade Organization

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