

European Internal Market and Norwegian Trade

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Norway's trade with the countries that constitute the European Economic Area (EEA) has increased considerably in absolute numbers, since Norway as a member of the EEA gained access to the internal market from 1994. Relative to Norway's trade with the rest of the world, the trade with the EEA countries has, however, decreased slightly. In 1993, the last year before the EEA agreement came into force, imports from the countries that now constitute the EEA comprised 67.4 per cent of total imports and in 2002 67.0 per cent. For total exports the portions were 78.8 in 1993 and 75.6 in 2002. Large increases in exports of oil and gas have given Norway a huge and growing trade surplus with the EEA during the period. Concerning the traditional commodities, however, there has been an increasing deficit versus the EEA.

Through the EEA agreement in 1994, Norway joined the EU's internal market for all products, except for agricultural and fish products, for which less liberal agreements apply. The internal market comprises the 15 EU countries and three of the EFTA countries, Norway, Iceland and Liechtenstein. Tables 1a and 1b show the development since 1990 of Norwegian exports and imports. In 2002, Norwegian exports to the internal market amounted to NOK 364 billion and imports to NOK 185 billion.

The figures 1a and 1b reveal that since 1993, the relative importance of the trade with the EEA has slightly diminished. We observe that the share of exports to countries outside the EEA went up by 3.2 percentage points in 2002 compared to 1993. Figures for imports show an increase of 0.3 percentage points in the same period. When comes to the trade with traditional commodities¹, exports to the EEA countries constitute only 68 per cent of total trade with traditional commodities in 2002 against 75 per cent in 1993, i.e. a 7 percentage points fall. Corresponding figures for imports show a decrease of 0.1 percentage points, see figure 2.

These developments reflect, *inter alia*, the fact that the EEA agreement did not change the tariffs much for trade within the EEA. The free trade agreements, in force from 1973, already eliminated most tariffs on industrial products between Norway and the member states of the European Community (EC). The only significant remaining tariffs by 1993 were on agricultural and fish products. The free trade agreements also formally prohibited use of non-tariff barriers to trade. However, the EEA agreement contributed to enforce these principles more effectively, through establishing a common set of rules for free competition and effective enforcement procedures. Since Norway started to implement tariff reductions according to the agreements of the World Trade Organization (WTO), the relative favoring of the EEA countries has gradually diminished after 1995. This also contributes to explain the development of the trade shares.

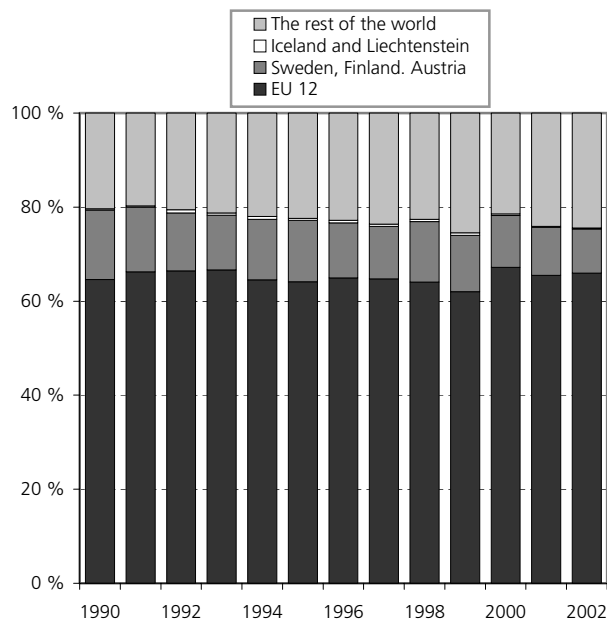
Growing trade surplus with the EEA

Norway has enjoyed a trade surplus with the EEA countries throughout this period. The main reason for the improved trade balance with the EEA is a growth in the value of exports of crude oil and natural gas to the EEA. From 1993 to 2002 the export value of mineral fuels, lubricants and related materials increased by 136 per cent, from NOK 103 billion to NOK 242 billion, mainly due to higher oil prices.

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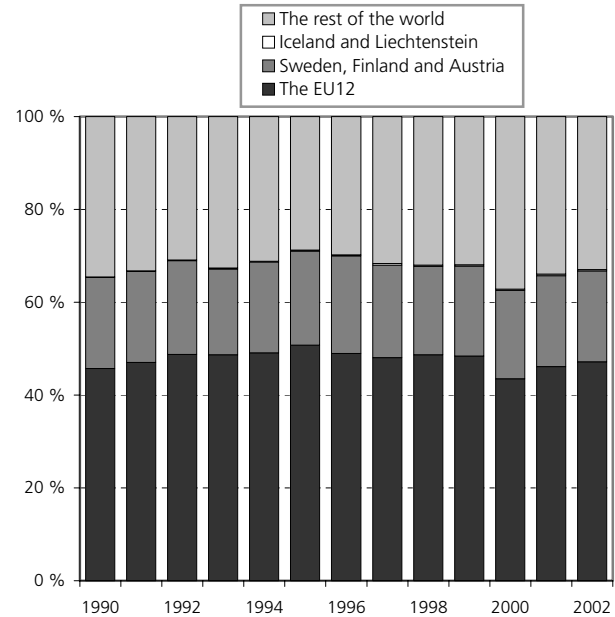
¹ The figures are exclusive of ships and mobile oil platforms, the same as traditional goods on the import side. For exports, traditional goods are also exclusive of crude oil, natural gas and from 2001 condensates.

Figure 1a. Exports. Portions



Source: Statistics Norway.

Figure 1b. Imports. Portions



Source: Statistics Norway.

Table 1a. Norways exports to the countries in the EEA and the rest of the world. 1990-2002. NOK Million. Value in current prices

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total exports	211579	220316	218374	226626	244475	265883	320128	342421	304653	355171	520814	529964	481475
The EU12	136752	145943	145073	151004	157774	170584	207914	221570	195152	220218	349852	347171	317603
Sweden, Finland and Austria	31163	30235	26890	26335	31523	34614	37459	38432	39107	42638	57479	53897	45282
The EU15 estimated until 1995	167915	176178	171963	177339	189297	205198	245373	260002	234259	262857	407331	401068	362885
Iceland and Liechtenstein	531	599	1514	1166	1407	1061	1719	1546	1558	1957	1735	1323	1033
The EEA-countries	168446	176778	173477	178505	190704	206258	247092	261548	235817	264814	409065	402390	363918
The rest of the world	43133	43538	44897	48121	53771	59625	73037	80873	68836	90357	111749	127574	117557

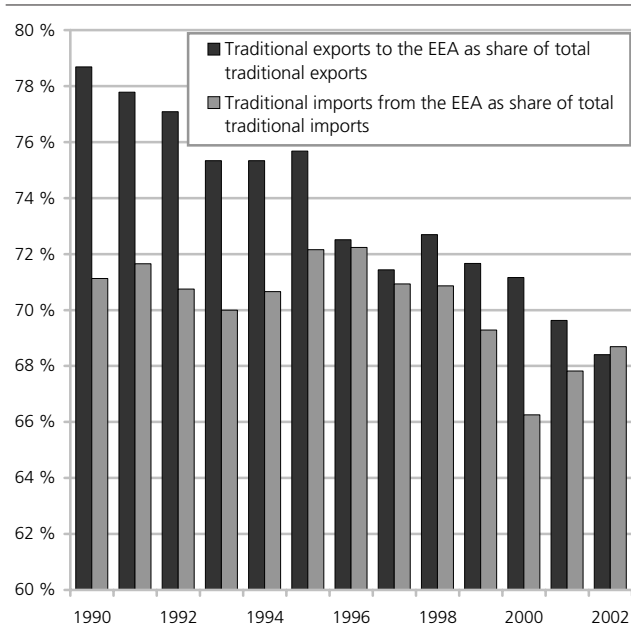
Table 1b. Norway's imports from the countries in the EEA and the rest of the world. 1990-2002. NOK Million. Value in current prices

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total imports	169 998	165 181	161 931	170 991	192 963	208 626	229 720	252 232	282 638	266 677	302 852	296 156	275 975
The EU12	77 749	77 661	79 004	83 231	94 718	105 831	112 479	121 284	137 713	129 101	131 888	136 727	130 156
Sweden, Finland and Austria	33 370	32 443	32 647	31 595	37 769	42 347	48 277	50 250	53 724	51 735	57 498	57 922	54 013
The EU15 estimated until 1995	111 119	110 104	111 650	114 826	132 487	148 178	160 755	171 535	191 437	180 835	189 386	194 649	184 169
Iceland and Liechtenstein	173	140	254	378	296	393	518	772	779	747	825	1 066	830
The EEA-countries	111 292	110 243	111 904	115 203	132 783	148 571	161 274	172 306	192 217	181 582	190 211	195 715	184 999
The rest of the world	58 706	54 938	50 027	55 788	60 180	60 055	68 447	79 926	90 422	85 095	112 641	100 441	90 976

The surplus has been stable or growing except for the periods 1997-1998 and 2001-2002. The significant decline in 1998 was due to the oil price collapse combined with high imports. A sharp upturn until 2000 is mainly due to higher oil prices together with a rise in the exchange rate (NOK/USD). Since the year 2000 our surplus with the EEA has decreased because of lower oil prices. A considerably stronger NOK against the US dollar after 2001 has enhanced this.

Trade deficit with the EEA for traditional goods

When we consider traditional commodities, only, there has been an increasing trade deficit with the EEA countries from 1990 to 2002, see figure 3. The deficit increased after Norway was committed to the EEA-agreement. The average annual deficit for 1990-1994 was NOK 26.3 billion and increased by 71 per cent to NOK 45.0 billion during the period 1994-2002. The trade balance development is due to a 60 per cent

Figure 2. Portions of Norway's total imports and exports of traditional commodities from and to the EEA countries

Source: Statistics Norway.

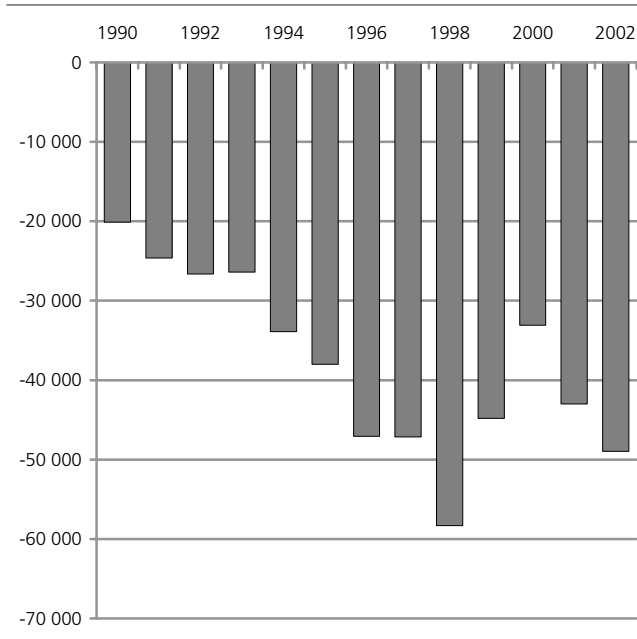
increase in the exports of traditional goods to the EEA countries and a 66 per cent increase in the corresponding imports from 1993 to 2002.

The composition of the trade with the EEA countries is also somewhat changed. Concerning imports, the portion of the commodity section machinery and transport equipment increased by as much as 7 percentage points from 1993 to 2002, whereas manufactured goods decreased by 4 and 3 percentage points, respectively. As regards exports, machinery and transport equipment increased the most, by 6 percentage points, reducing inter alia the food share and the manufactured goods share by 3 and 1 percentage points, see figure 4a and b. There is little evidence that this development is significantly explained by lower tariff rates.

Trends in EU trade show a reduction of Norway's shares

Figures from Eurostat² show that Norway has lost market shares in the EU markets since 1990. Norway's portion of the EU's³ total imports – from countries outside the EU – was 4.6 per cent in 1990 and 4.3 in 2001. The annual average for the period 1998-2001 was 4.1 per cent.

The decrease in Norway's portion of EU's import occurred in spite of the fact that Norway's share of the EU's total import of oil and gas increased from 47.9 per cent in 1990 to 53.6 per cent in 2001. We do, however, see a reduction in Norway's shares of the EU's import of goods for all the other SITC sections.

Figure 3. Norway's trade balance with the EEA in traditional goods. Value in current prices. NOK Million

Source: Statistics Norway.

The commodity sections for manufactured goods show a fall of as much as 7.2 percentage points.

The import portion for the commodity section machinery and transport equipment has also decreased, something that indicates that Norway's increase of exports to the EEA of such products has to do with the fact that the EU in general demanded more in 2001 than in 1990, and not that Norway had become a more important country for the EU concerning imports of such goods. As a comparison, Poland's, Czechoslovakia's and Hungary's shares of the EU's total import of the commodity section machinery and transport equipment have increased by as much as 25.8, 36.8 and 49.6 percentage points, respectively.

The EU's import shares from and export shares to European countries outside the EU have increased, especially for imports. The European non-member countries increased their portion of EU's total imports from 25.2 per cent in 1990 to 29.2 in 2001, i.e. by as much as 4 percentage point. The portion from Iceland decreased by 0.1 percentage points whereas Liechtenstein's portion remained the same and virtually zero during the period. Consequently exports from countries outside the EEA constitute the EU's increased share of imports from European non-member countries.

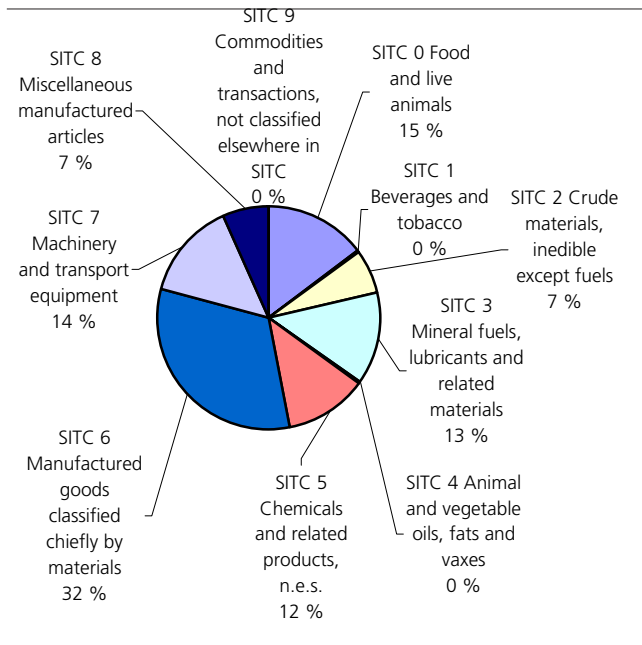
Fish exports to the European Union (EU) have decreased the last two years

The tariff rates for Norwegian fish and fish products are regulated by type of species. Some of the fish species like cod, haddock, saithe, and halibut and "black"

² External and intra-European Union trade — Statistical yearbook. Data 1958-2001. EUROPEAN Commission/ Eurostat

³ EU 15 (= EU 12, Sweden, Finland and Austria) estimated back to 1990

Figure 4a. Traditional goods. Norwegian exports to the EEA. 1993



Source: Statistics Norway.

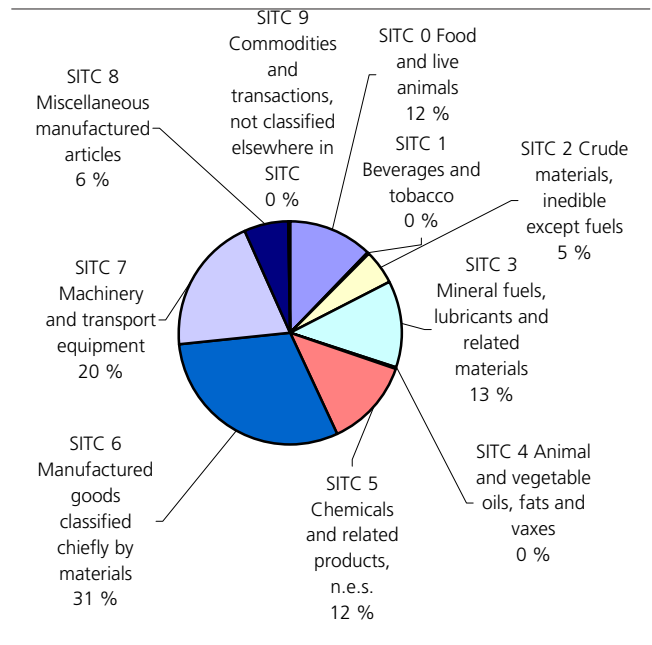
(Greenland) halibut have free access to the EU market. Still, there are no tariff reductions for species like salmon, mackerel, herring, shrimps (prawns) and crustaceans. The special terms for salmon, that is fresh as well as frozen, are part of the so-called “salmon agreement”. For species beyond the already mentioned, the tariff is reduced by 30 per cent from the original tariff rates. The degree of processing of the fish determines the size of the remaining tariff rates.

Despite these tariff reductions – exports of fish to the 12 original EU countries flattened out from 1994 to 1997. While total exports of these products to Sweden, Finland and Austria increased slightly, there was a relatively strong increase of exports of fish to the rest of the world from 1995 to 2000. After 2000 and until today the value of exports of fish products to both the 12 original EU countries and the total of the 15 EU countries has decreased, but remained relatively constant concerning exports to the rest of the world.

Conclusion

The trade with the countries that are part of the internal market is very important to Norway, but the EEA countries’ contribution to our total trade has shown a slight decrease after we joined in 1994. The decrease is quite noticeable when it comes to exports of traditional goods. This development partly reflects the fact that the trade conditions within the EEA were fairly

Figure 4b. Traditional goods. Norwegian exports to the EEA. 2002



Source: Statistics Norway.

liberal already prior to the EEA agreement. In addition, the relative favoring of the EEA countries has diminished as the WTO agreements have gradually been implemented since 1995.

Furthermore, the composition of this trade has changed. The most striking change is a strong increase in the portion of our imports and exports of machinery and transport equipment.

Figures from Eurostat show that Norway’s portion of the EU’s total imports has declined in spite of the fact that Norway’s share has increased considerably in EU’s oil and gas import. In the same period, the EU’s import shares from and export shares to European countries outside the EEA have increased especially for imports. The lower shares of Norwegian exports going to the EEA, especially of traditional commodities, thus reflect, *inter alia*, the lower Norwegian market shares within the European Union.