

Tariffs as protectionist policy - An analysis of Norwegian agricultural protection and its political and economic impact

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Introduction

Free trade has long been the gold standard of economics in the question of how one should deal with trade between countries. It has been the norm and even the rule in international agreements that one should not put tariffs on other countries' goods to give one's own country an advantage. Despite this, Norway and many other countries continue to protect its agricultural sector, with Norway having tariffs on foreign dairy and meat being imported into Norway and subsidizing domestic production. In this article, I will discuss, from a political economic perspective, the advantages and disadvantages of such a trade policy. In the article I argue that in the case of Norwegian agriculture, the economic arguments for free trade does not outweigh the security risks it presents and the ramifications on the Norwegian economy and culture that a weakening of the agriculture sector might lead to.

The article is structured by first discussing the case, showing an overview of the Norwegian agriculture sector and the subsidies and tariffs on goods. Then I will discuss different economic and political theories that help explain both the arguments for and against a protection of the agriculture sector. This includes Ricardo's theory of comparative advantage, as well as externalities and market failure. Then I will discuss these theories up against the case.

Case

Norway is integrated in the globalized world, both economically and financially and is dependent on the rest of the world to supply much of its consumption to keep the welfare of its citizens at the level it is today. The strong integration through both international and regional agreements are a big part of why this is possible. Since the introduction of GATT, the tariff rate has gone down drastically, to now stand at a weighted mean of around 2.6 % (World Bank, 2016). While most Norwegian industries adhere to the international standard of free trade, the Norwegian agriculture sector is exempt and helped along with both tariffs on international competing products and subsidies for farmers. This difference brings the question of why agriculture is unique.

The Norwegian agriculture sector has some unique characteristics compared to other European countries. Norway, due to its unique geography and climate, is not particularly suited to agriculture, and is not competitive with European agriculture in terms of cost in a free market without tariffs. In addition, Norwegian consumers expect certain foods that have

always been Norwegian to stay that way. When the German grocery store chain Lidl tried to enter the Norwegian market in 2004, it didn't go as planned. While having more than competitive prices, the store used different brands than Norwegians were used to, and the store had to give up their pursuit in Norway after only gaining a market share of 1-2% (Eide, 2010). Agriculture is also a large part of Norwegian culture. In a time where most of society is urbanised, the agriculture sector helps promote the districts and keep the part of Norwegian culture that stems from here from eroding. The protection of Norwegian agriculture is not only a way to keep the industry competitive, but also a way to protect Norwegian cultural heritage. (Daugstad et.al., 2006)

The first facet of the protection of the agriculture sector is subsidies. Subsidizing farmers for their production output is important, because it incentivizes farmers to produce goods in a market where food is expected to be cheap. Commonly the foods farmers produce are the kind people buy in the daily, and is therefore important to keep affordable. Yearly these subsidies amount to around 17 billion kroners (Regjeringen, 2019). These deposits are necessary for farming being a sustainable profession, and to keep prices from going up.

The second facet is putting tariffs on foreign goods. The tariffs on agricultural products in Norway generally consist of three parts. There are high tariffs on meats, dairy and corn, as well as fruits and vegetables that are also produced in Norway. In addition there are moderate tariffs on certain processed foods. This includes pizza, baked goods, soups and ice cream. All these products are products that Norwegian farmers and companies produce. The tariffs are therefore of a protective nature, put in place so that Norwegian products can compete with a foreign competition that are offering better climate conditions for growing crops and lower wages for the workers. (LMD, 2020; Landbruksdirektoratet, 2021)

Theoretical framework

In this section, I will cover three economic and political theories that will help explain why protection of agriculture might or might not be advantageous. The first theory is the theory of comparative advantage. I will then show how market failure and externalities can have an influence in not choosing free trade.

Ricardo's theory of comparative advantage

The theory of comparative advantage shows that in cases where one actor has the absolute advantage in the production of one or more goods, there will still be an incentive to trade with

each other (Hunt et.al., 1995). If country A has an absolute advantage in producing both Good 1 and Good 2 over Country B, there will still be an advantage for both countries to trade with each other. Country B can specialize in the good that it is most efficient at producing comparative to the other nation, and trade with Country A for the other good, rather than producing a bit of both goods and not trading. (ibid)

Market failure and externalities

The free market does not always solve problems that arise. Certain tasks in society, the market solutions tend to not produce the pareto-optimal solution to the problem. In these areas the market experiences market failure. A common source of market failure is externalities. Externalities refers to hidden costs and benefits that do not directly fall on the producer of the good. The market has a tendency to purely base the value on the exchange price and the production cost, but this does not always take into account the whole problem. One common example of an externality is greenhouse gas emissions. To counteract the market not taking into account the cost greenhouse emissions have on the planet, one can put carbon taxes on products, disincentivizing producing them if there exists a valid alternative. (Bator, 1958) There is consensus amongst economists that market failure needs to be accounted for. Though there are differences in the degree of it being a problem as well as on which remedies should be put in place to solve the market failures.

Discussion

Why should Norway have an agriculture sector?

The first question one needs to ask oneself is if Norway should have an agriculture sector at all. The subsidies put in place costs the country 17 billion kroner per year. The tariffs on agricultural products cost the Norwegian consumers unknown amounts as well, because of higher product prices. Why is it so important to keep the sector alive at all if it cannot compete?

The most used argument that we find when the issue is debated is the need for food security. Having a self-sufficient food supply is necessary in times of crisis. Crisis situations often cause countries to move towards more protectionist policies, and not having a self-sufficient food supply can cause serious problems in regards to keeping the nation from famine. A nation's main task is to ensure the security of its citizens, and a self-sufficient food supply is an important part of the security.

In political science and in economics the discussion of self-sufficiency in the food sector is often seen in relation or rather in opposition to free trade and globalization. In this way, if a country is seeking self-sufficiency, one often thinks of this country as protectionist and isolationist. Food policy doesn't have to be this black and white, though. Clapp (2017) argues for a more open discussion, where a broader array of solutions can be brought to the table. Every country is different, with different climate, geography, food sources, food consumption and food culture. This also means that the optimal solution to self-sufficiency in food is different depending on the country. The protection of domestic food production should never be a rejection of food trade. An example of this in practice is that the consumer should be able to choose between locally produced cheese (domestic production) and foreign cheese products (traded from abroad). This keeps the best of both worlds. Meanwhile for products not produced locally, there doesn't have to be tariffs, as it is not a threat to the local production. Taking a glance at the current policies of Norway, they seem to align closely with this way of thinking.

Furthermore, while there is a need for food security, this need doesn't mean that the country has to account for all of its food consumption. It is possible to adjust both the production and the consumption when you enter a crisis period. Instead of eating more meat and vegetables that are not found in Norway, one can move towards more local consumption, like fish, corn and potatoes. There are quotas on how much fish that is sustainable to fish, but this can temporarily be increased given a crisis. If the necessary preparations and plans are made in case of a crisis, there should not be much of a risk for Norway when it comes to food security. This is however a hypothetical argument, and the preparedness for a crisis might change drastically if the production of food is changed due to lower tariffs and subsidies. It takes time to scale up food production and a change in consumption might be met with public dismay.

Another argument for keeping the Norwegian agricultural sector is that Norway values the districts, and deems it important to keep the districts an attractive place to live. For a long time, there has been an active district policy to employ people in the districts. The agriculture sector is an important employment sector in the districts, and a shrinking of this sector will most likely cause a shift towards urban areas. This is not in line with the current policies.

A frequently used term in food security academic literature is food sovereignty. While initially being a concept concerning the importance of a country being self-sufficient, it has

moved towards concerning the rights of the individual farmer and groups of farmers to produce what they want to produce and with the methods they want to. This has been seen as an important tool to promote social inequality and democratic action, especially in developing countries. In the Norwegian case, it is important for Norway to keep the option of being able to produce what they want and with the methods they want. The agricultural subsidies and tariffs on goods, allows this reality. (Agarwal, 2014)

These arguments all point in the direction of keeping the Norwegian agricultural sector. The downside to not having it is too stark, compared to the economic cost of having a subsidized and protected sector. Given that a Norwegian agricultural sector is necessary, how can the country ensure the most efficient economic outcome? In this section different externalities related to subsidies and tariffs will be discussed and how to deal with them.

Creating the most efficient economic outcome

It is important to create efficient economic outcomes. Society is limited by a certain amount of productivity potential, and wasting this by not employing good economic policies certainly leads to less welfare for each individual. Tariffs and subsidies are important tools to ensure this. Though, generally classical economic theory is pro- free trade. According to Ricardo's theory of comparative advantage, free trade is seen as mutually beneficial for all parties. Therefore an economist might want to cut the tariffs on agricultural goods, as this would lead to a more efficient economic outcome. Subsidies can distort international trade, as subsidies can lower the price of agricultural products when selling to a secondary country, with what is called export subsidies. This can cause the first country to outcompete a secondary market that without the subsidies would be competitive.

African agriculture provides an example of this happening. In the Doha round of negotiation in the WTO, West African nations pushed for a decrease of export subsidies, import tariffs and strict food standards on agricultural products in developed and developing countries. Agriculture is a big part of the economy in African nations, and the export of its products presents a possibility to lift people out of poverty, develop their economies and become more integrated in the international system. Due to its geography and production costs African nations can often compete with European, American and Asian products, were it not for protectionist policy. The UN has been critical of this practise for a long time, as a thriving agricultural sector could be a driving force to lessen the global north-south divide. (Kennedy et.al, 2007)

There is however a trade-off with decreasing export subsidies. While the products that African nations do produce give a net positive impact on the African economies, they are also dependent on importing other foods. These foods will become more expensive if western export subsidies disappear. As African nations are generally net importers, this means that a loss of export subsidies is thought to have a cost on African consumers that are higher than the gains for the agricultural sector. (Kennedy et.al, 2007; Nuetah et.al., 2011)

To bring this back to the case of Norway, while there is a case to be made for subsidies and tariffs distorting the global price of foods, and therefore ‘sabotaging’ the more competitive foreign products, other countries also gain from export subsidies. In 2015, as part of the WTO agreement, the Solberg government decided to slowly phase out export subsidies on dairy products, cutting Norwegian subsidies by around 500 million kroner a year (NTB, 2015). This has shrunk the demand for milk by around 10 percent, giving the farmers’ organizations and cooperatives the need for adjusting the production (Becker, 2019). Furthermore, the generalized system of preferences (GSP) in Norway has somewhat counteracted the problem of outcompeting lesser developed countries. It is a system that prefers imported goods from the poorest countries by lowering the rate of tariffs on these goods, compared to goods from developing and developed countries. This allows the poorest nations that are dependent on the profitability of their agricultural sector to get a competitive advantage over richer nations. (Knutsen, 2013)

Another externality one can take into account is the GHG emissions. Norway has set its sights on reducing its emissions by 55 percent by 2030 (compared to 1990). The Norwegian agricultural sector is 9 percent of the current GHG emission in Norway (Rivedal, 2021). To achieve the goal by 2030, the agricultural sector would also need to see a decrease. One way of achieving this is to reduce capacity. This would only shift the production elsewhere, so it is not seen as a good option. Norway does have stricter environmental regulations than most other countries, giving lower use of pesticides. There have been findings that suggest GHG emissions would not change drastically with a reduction in agricultural subsidies (Laborde, 2021), partly due to tariffs increasing prices on high-emission products and partly due to transportation emissions. These findings are not specific to Norway. More research is needed to determine the full impact on Norway specifically.

Conclusion

In this article the Norwegian agricultural subsidies and tariffs has been found to be mostly justified. The effect of a complete stop in subsidies and tariffs, will have an impact on the profitability of the sector, leading to a shrinking of the sector. This will cause layoffs, a probable migration from district to urban areas, increased security risks concerning food security and a loss of culture. While there is a case to be made for an efficiency boost of the economy, this is not enough to outweigh the problems that will arise with the loss of subsidies. The GSP system makes sure that vulnerable economies, that are dependent on its agricultural exports, still have options in regards to keeping low or zero tariffs, while keeping high toll barriers on developed countries to disincentivize these compared to their Norwegian counterparts.

It is important to note that the subsidies and tariffs only cover certain goods that Norway itself produces, and there is not an ambition for Norway to become completely self-sustainable. Should this be necessary in the future, there are options in regards to shifting production and consumption, so that the Norwegian diet shifts to more Norwegian grown food, but there isn't such a need at the present.

There needs to be more research on the environmental impact of the Norwegian agricultural sector, compared to other countries. This is an important externality in determining the societal worth of keeping production in Norway. Additionally, the effects of agricultural subsidies on social dumping and poverty prevention needs to be examined further, as there is still much to be answered as to the effects for developing countries. Furthermore, there needs to be additional analysis on how future developments in the agricultural sector might lead to changes in the economic efficiency of local agricultural production. There are projects on vertical farming, increased automation and genetic modifications that might and will change the sector drastically. The agricultural policies of Norway need to adjust to keep up with these changes.

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