

## 1. Introduction

### Summary

Wholesale and retail trade plays a major role in the Norwegian economy, employment and value creation. According to Statistics Norway, wholesale and retail trade employs around 376,000 persons (2017), corresponding to around 302,000 FTEs. The industry contributes to around 10% of value creation in mainland Norway, is the gateway to employment for many young persons and has a presence throughout the country. The industry's size means that it is also central to achieving climate and environmental goals and can be a driver for sustainable solutions, including through purchasing power in which particular requirements are imposed on manufacturers and transportation companies.

Wholesale and retail trade, often described as the wholesale and retail sector, is a service industry that organises logistics in the supply chain from goods manufacturers to consumers. This has traditionally been organised through a network of goods warehouses and retail outlets. Goods are now increasingly purchased from mobile phones and computers and delivered directly to the consumer. The sector often also covers wholesale trade, including the distribution of goods to professional actors. The industry comprises 72,100 businesses and is made up of large and small actors, including everything from national chains to corner shops.

Wholesale and retail trade is experiencing significant changes due to increased digitalisation and e-commerce, for example. Technological change is impacting the entire value chain and challenging existing business models as a consequence of more efficient logistics structures and new opportunities to communicate with customers. Of particular significance is a revolution in the trade in products that can be consumed and distributed digitally. When the goods themselves are digital, such as streamed music, then the physical stores can become redundant.

The greatest changes can be demonstrated by the fact that the annual retail fair NRF BIG Show in New York, which attracts around 35,000 participants, has become a fair in which the largest technology and software companies in the world are now some of the most important actors and contributors to policy formulation. New payment solutions, big data, artificial intelligence, personalised prices, automated warehouses and self-service stores are a few keywords. Technology is changing the way in which consumers purchase and is contributing to major social changes. Many in the industry perceive themselves as being in the middle of a technological upheaval in which many of the conditions for their enterprise are also changing.

The industry previously operated in largely protected markets but is now experiencing more competition from foreign actors. With the growth of new business models, this means that the Norwegian wholesale and retail sector is facing more of the same challenges as more traditional exposed industries. Thus, actors must adapt to a greater extent than previously in order to be competitive. The competition is demanding but it is also important to remember that Norway has a small, open economy and that our foreign trade has provided great benefits.

Compared to many other countries, Norway has high wage levels in most industries, not least those industries with a major presence of labour with little formal education. Thus,

Norway is a country in which businesses have major incentives to utilise labour-saving technology. This means that labour can be freed up for other purposes and that there is a requirement for new and different skills among employees. In recent years, growth in employment in wholesale and retail trade has levelled out, even though the population and household income have increased significantly. This is primarily an indication of productivity improvements within the industry. At the same time it can be demanding for the Norwegian economy to absorb this labour – which often comprises persons with relatively little formal education. For the Norwegian economy and value creation, it is important that this labour is retrained for other forms of productive work.

### *Value creation and restructuring*

Business and industry policy must make provision for the greatest possible total value creation in the Norwegian economy, within sustainable frameworks. The general framework conditions must contribute to the effective use of resources in society. Proper regulation of individual industries should be based on the characteristics and traits of the sector in question and the extent to which effective and accurate regulatory measures can be identified.

The government is prioritising tax and duty cuts for companies subject to Norwegian taxation in order to boost growth. Funding for commercially-driven research and innovation has increased, and the government has made provision for more rapid construction of road and rail infrastructure. The government has also invested in simplification and made provision for digitalisation to enable companies to spend their time on creating value and jobs to the greatest extent possible.

The government will make provision for increased competitiveness within wholesale and retail trade and the distribution of food and other commodities. Competition must be strengthened amongst both suppliers and chains.

The size of wholesale and retail trade means that even small fluctuations in productivity can lead to noticeable consequences for the Norwegian economy and value creation. A well-functioning wholesale and retail trade also safeguards vital functions as a connecting link between manufacturers and consumers or between manufacturers and companies and is therefore of significance to value creation in other industries.

With the significant changes that wholesale and retail trade is facing, it is only natural that the industry's framework conditions should be reviewed. Important framework conditions for wholesale and retail trade include tax and duty policy, competition policy, access to labour and the regulation of working time regulations, skills and education policy, trade policy, consumer policy, climate and environmental policy and access to good transport solutions. These must be seen in the context of topics such as technological development and new trade patterns, the importance of the industry as an employer and competition policy issues.

Wholesale and retail trade is centred around cities and densely populated areas, but is located throughout the country. From an urban development perspective, wholesale and retail trade plays a key role in creating attractive urban spaces. A city centre is more than just wholesale and retail but would be lost without it. It is hugely important that wholesale and retail trade participates in the planning processes that affect the industry. The government will support municipalities and private actors who wish to be at the forefront of city centre development.

New technological solutions have provided wholesale and retail trade with new opportunities to sell products in local, national and global markets. This means that parts of the industry are moving from the sheltered to the exposed sector. One driver behind this development is that consumers are increasingly importing goods directly from foreign stores or manufacturers. If Norwegian companies are to assert themselves in the international competition going forward, it is important that technology is used to reduce costs and equally important that we use technology to develop new business areas. To achieve this it is important that labour skills are further developed in order to meet such changes.

The government will prepare and implement a new skills reform to ensure that no one will become redundant and more people will be able to stay working for longer. Opportunities for continuing education in digital skills is a priority area.

The Norwegian model has contributed to a high level of knowledge and increased skills in the population at large. The social partners are important contributors. The tripartite dialogue contributes to increased motivation, efficiency and reduced restructuring costs in the Norwegian economy.

Increased international competition means that international regulations and framework conditions stipulated outside Norway's borders are of increasing significance. Norwegian enterprises that wish to succeed internationally must familiarise themselves with the prevailing regulations in the markets in which they wish to compete. The Agreement on the European Economic Area (EEA Agreement) is the most comprehensive international agreement that Norway has ever signed.

Regulatory developments taking place at the European level for joint solutions are of importance to economic operators in Norway. Many of these proposals are addressed in the White Paper. Examples include the new data protection regulation that entered into force in 2018 and the government's ambition to promote equal treatment of customers in the European e-commerce market by incorporating the geo-blocking regulation into Norwegian law. It is important that Norway participates in these processes and wields its influence when decisions are taken in order to ensure that the Norwegian wholesale and retail sector is equipped to compete in the single market.

As e-commerce increasingly takes place across national borders, the cost of sending parcels becomes a competitive element. The Universal Postal Union, UPU, regulates the prices of parcel post between member countries. The government will work actively in the UPU to ensure that the regulations concerning transactions between the designated postal service providers become more sustainable, cover costs and cause minimum distortion of competition.

Bilateral free trade agreements are of significance to the industry. More recent free trade agreements include provisions that seek to facilitate electronic commerce and digital transactions. The purpose of such provisions is not to harmonise national laws but to remove trade barriers and create greater confidence in cross-border electronic commerce. Issues that are typically dealt with in this context are consumer and data protection, provisions on electronic contracts and signatures, as well as exempting digital products from customs duties. Other related issues are how to address requirements for data localisation and cross-border data transfers.

The industry has to adjust. The transformation taking place in the industry can be compared with what the media industry and financial sector have experienced and continue to

experience as a consequence of the digitalisation of print newspapers and banking services. This has challenged the prevailing business models, working methods and competitive situation in the respective sectors.

The development also imposes new regulatory requirements. Stable economic development is essential to growth in exposed industries, and the government has taken this into account in the formulation of its fiscal policies. The development also shows that there is need for more technological-neutral regulations. A number of the current regulations may be disadvantageous from a competition perspective, and it is questionable whether they contribute to the desired restructuring of the Norwegian wholesale and retail trade and the economy.

Companies that operate in industries exposed to international competition often experience increased pressure on their margins. This means that they are more sensitive to regulations that contribute to weakening competitiveness than companies that operate in more protected markets, in which costs can often be transferred to the next link in the value chain. This has implications for the regulatory scope affecting an industry.

In the negotiations concerning the 2019 budget it was agreed to dispense with the tax and duty threshold for the import of goods from abroad from 1 January 2020. Dispensing with the tax and duty threshold means that Norwegian wholesale and retail trade will be better equipped to meet competition from foreign online retailers.

In the government's view the following trends will have significance for policy development going forward:

- A large proportion of trade will move to digital platforms, and a restructuring is anticipated in parts of the industry. The distinction between physical stores and online stores will become less relevant. Physical stores have an online presence, and companies that started as online stores have opened physical stores.
- E-commerce exposes wholesale and retail trade to more competition, and international regulations become more significant.
- The proportion of wholesale and retail trade employment in the Norwegian economy has fallen in recent years. Restructuring and streamlining will probably strengthen the development and change skills requirements. Young persons and persons with limited formal skills have traditionally constituted a large group in the industry. This is labour that society needs to resolve many of the challenges we will face in the coming years. A high level of employment is important both for value creation in the economy and for the sustainability of public-sector finances.

The government acknowledges the importance of a well-functioning wholesale and retail trade and wants to make provision for constructive restructuring in the industry within sustainable frameworks. This implies

- that regulations from the authorities make provision for the industry developing and utilising new business models
- that the Norwegian wholesale and retail trade is equipped to meet competition from foreign actors and utilise the opportunities that e-commerce offers to compete in the international market

- that the focus on digital skills – both in education and further education – continues so that Norwegian industry and wholesale and retail trade can develop and utilise new technology
- a stringent Competition Act that is effectively enforced by the competition authorities
- an innovation policy that contributes to new solutions that would otherwise not have been developed and which encourages increased competition and innovation
- that the industry develops sustainable business models and contributes to a circular economy and that consumers make eco-friendly choices

### *Regarding the preparation of the White Paper*

In Recommendation 345 S (2016–2017) and Resolution no. 762 (2016–2017) of 6 June 2017, the Storting requested the government to submit a White Paper on trade. The background to the resolution is a members' motion from Members of Parliament Geir Pollestad and Heidi Greni regarding a White Paper on trade and industry.

In preparing the White Paper, a number of meetings with key actors in the industry have been held on both a political and administrative level. Amongst these are the Enterprise Federation of Norway, the Norwegian Union of Commerce and Office Employees, the Norwegian Federation of Service Industries and Retail Trade, Initiative for Ethical Trade, Posten Norge, Innovation Norway, Statistics Norway and the Consumer Authority.

The framework conditions that are discussed and described in the White Paper come under the areas of responsibility of a number of ministries. The work has therefore involved many ministries, which have provided input and contributed to work on the White Paper.

Consultations have been held about, for example, the competitive situation in the grocery trade. Key actors from the grocery trade, the authorities and the food industry took part in the consultations.

Consultations have been organised with the social partners, represented by the Norwegian Federation of Service Industries and Retail Trade, the Enterprise Federation of Norway and the Norwegian Union of Commerce and Office Employees. The two last named – in collaboration with the Ministry – have also organised a separate consultation of significance to technological development for skills requirements in the industry and a dialogue meeting about how the industry can contribute to the green shift. A consultation has also been arranged on behalf of Oslo Commercial Association (OHF). The work has also received written input.

### *About the contents of the White Paper*

*Chapter 2* describes the significance of trade and industry to the Norwegian economy. Wholesale and retail trade is the largest service industry in the private sector. It employs around 306,000 people and contributed approximately NOK 240 billion in value creation in 2017. The chapter reviews the development in employment, value creation and productivity.

Over the last 30 years, wholesale and retail trade has largely followed the same economic fluctuations as the Norwegian mainland economy, although growth has been higher than is average in Norwegian industry. Historically, there has been a long-term connection between the number of people employed in wholesale and retail trade, the size of the population and collective household income. In recent years, however, growth in employment in wholesale

and retail trade has levelled out, despite the fact that both the population and household income have increased.

A trend highlighted in the chapter is the growth in e-commerce, particularly from abroad. From being a relatively protected industry, wholesale and retail trade has become increasingly more exposed to international competition.

Future growth in wholesale and retail trade in Norway depends on the number of citizens, the purchasing power of the population, what proportion of the purchasing power is used to purchase goods, and the extent to which consumers choose to shop in Norway or abroad, for example. The development in employment will also depend on productivity development in the industry.

The grocery trade, which is the largest single industry within wholesale and retail trade, is given particular attention in the chapter.

*Chapter 3* discusses restructuring and new business models in wholesale and retail trade. The Norwegian wholesale and retail trade has been through a long period of restructuring, which has contributed to increased growth in productivity. The industry is in a period of upheaval. The development of new technology – and the fact that wholesale and retail trade is using the technology – means that restructuring is happening at a fast pace and, in many areas, simultaneously.

The changes are being driven by increased e-commerce, for example. Major international companies such as Amazon and Alibaba are leading the way. New business models are being developed, logistics structures streamlined and competition from foreign actors is on the increase.

Previously, wholesale and retail trade's use of technology to increase productivity and efficiency has not been so visible to consumers. In the 1990s and the beginning of the 2000s, wholesale and retail trade increasingly started using technology in order to streamline wholesale and supplier side. Today, however, we note that technology is being used in many areas that are more visible and in direct interaction with customers. Digital technologies are being integrated in the entire value chain, and trading is increasingly taking place on digital platforms. Keywords are the Internet of Things, artificial intelligence, robotization and automation, and virtual reality.

Much of the restructuring within wholesale and retail trade focuses on developing business models that utilise the opportunities offered by new technology and changed patterns of behaviour among consumers. A trend highlighted in the chapter is that the distinction between physical stores and online stores is being erased. E-commerce also makes it easier to cut out traditional links in the value chain, and manufacturers can sell their goods directly to the customer. The use of payment solutions via mobile phones is increasing.

Digital solutions make it possible to connect marketing and the buying process in new ways, and digital customer information is a driver for innovation in business models. Companies that possess large volumes of data, good technology and the expertise to optimise individually adapted marketing, pricing and logistics have an advantage in the competition for customers.

*Chapter 4* discusses important framework conditions for wholesale and retail trade and principles for the government's business policies. Among the framework conditions described in the chapter are taxes and duties, access to labour, the importance of skills and education,

consumer policy, access to good transport solutions, land and town planning and the regulation of opening hour provisions. The overarching goal for industry policy is the greatest possible total value creation in the Norwegian economy, within sustainable frameworks. The government will pursue a policy that addresses and develops our competitive advantage, thereby making provision for a sustainable and adaptable wholesale and retail trade.

*The government will*

- pursue a predictable economic policy that promotes stable development in the economy
- monitor developments in the EU, which has resolved to dispense with the tax and duty threshold for goods purchased online from 3rd countries. Once it has been clarified which solutions the EU chooses to introduce, the government will assess whether similar solutions should also be introduced in Norway
- follow up items from the budget settlement for autumn 2018 concerning dispensing with the tax and duty threshold for the import of goods and return to the matter in the budget for 2020
- continue to improve the tax and duty system and implement tax and duty relief that makes provision for increased total value creation in the Norwegian economy. The tax and duty system shall also contribute to reducing Norwegian greenhouse gas emissions. In the national budget for 2019, the government proposes to further reduce income tax for companies and individuals to 22% and to reduce the chocolate and sugar tax to the price-adjusted 2017 level. The government has established a committee that will look more closely at taxes on both chocolate and sugar products and on alcohol-free drinks
- implement a new skills reform, Lifelong Learning, including supporting the development of flexible continuing education opportunities in digital skills
- establish a new educational programme (Vg1) for sales, services and tourism in vocational education as well as a separate second year (Vg2) for retail sales to ensure that vocational education better reflects the needs of wholesale and retail trade while helping to ensure that the educational objectives of trade schools can be more closely integrated with vocational education
- follow up the integration strategy that was presented in October 2018. The strategy provides direction for a cross-sector and inter-disciplinary initiative for faster and improved integration, with the objective of increasing participation in work and social life
- continue and develop inclusion programmes to help more people enter working life. The inclusion programmes are a collaboration between public and private sector actors. The goal is to get more people with reduced work ability and/or gaps in their CVs into ordinary work
- investigate the scope and character of organisational forms such as franchises, groups, etc. focusing on employer liability and employees' rights, as well as the position of the franchisee vs. the franchisor
- strengthen competitiveness in Norwegian industry by making provision for a high-quality modern transport system and effective and safe transport solutions. In the national budget for 2019, the government proposes to allocate NOK 65.2 billion to the National Transport Plan 2018–2029

- submit a White Paper to the Storting with the aim of boosting consumer policy, identifying challenges and promoting measures that can strengthen consumer rights. The government is aiming to submit the White Paper in spring 2019
- ensure equal competitive conditions and increased consumer protection digitally by proposing to increase funding to the Consumer Authority by NOK 6 million in 2019. The funds will, for example, be used to increase e-commerce initiatives
- be a driving force in the planning and development of attractive urban regions, cities and city centres with good framework conditions for wholesale and retail trade
- strengthen the work on guidance and dissemination of knowledge regarding city and city centre development, including the planning implications of changes within wholesale and retail trade
- support municipalities, industry actors and citizens who, through binding collaboration, wish to be at the forefront of city centre development, including strengthening city centres as an attractive arena for trade
- further develop the Merkur programme in order to make provision for optimal services for citizens, local industry and visitors
- look more closely at the scope of the actual use of return commissions in the tourism industry as a basis for the further assessment of issues and regulations, where applicable

*Chapter 5* describes the government's simplification work for business and industry. The government will continue to reduce costs to industry by simplifying reports, acts and regulations. Increased digitization in state-business interaction will result in significant savings going forward.

#### *The government will*

- follow up on Digital21 in 2019. Digital21 contains a number of proposed measures that will offer greater help to Norwegian industry in developing and utilising new knowledge and technology in line with increased digitalisation. Follow-up will be based on these recommendations. It is proposed that NOK 10 million in the budget for 2019 be allocated to follow-up of Digital21
- continue to reduce costs to industry by simplifying reporting regulations. The aim is to reduce annual costs to industry by NOK 10 billion in the period 2017–2021. This work will contribute to the simplification of wholesale and retail trade
- submit a strategy for small and medium-sized companies

In *Chapter 6* we look more closely at key framework conditions for trade across national borders, mainly focusing on trade policy and the EU's single market.

Norway has a small, open economy. Norway's prosperity and rate of employment depend on trade with other countries. Access to international markets and competition on equal terms is of great significance to industry. Good access to the product and services markets, and also to the capital and labour markets, are important factors for profitability and productivity. E-commerce provides consumers with new opportunities to import goods themselves, and gives Norwegian trading companies the ability to sell their goods on the global market. This means that wholesale and retail trade increasingly operates in markets subject to international competition.

Thus, international trade regulations are of great significance to wholesale and retail trade. Since 1995, the World Trade Organisation has played a key role in reducing trade barriers,



thereby making provision for an increase in global trade. Norway also has an extensive network of free trade agreements and negotiates with a number of important partners in order to ensure market access for Norwegian companies and increased predictability for the export and import of goods, trade in services and investments.

Through the EEA agreement, Norway is an integrated part of the EU's single market, with free movement of goods, services capital and persons throughout the entire EEA.

Participation in the EU's single market contributes to stable and predictable framework conditions and is of major significance to Norwegian industry. The EEA agreement gives Norwegian companies a home market that comprises all EEA member states.

Internationalisation through trade, investments across national borders and migration are sources of competition, larger markets and the transfer of knowledge and technology. This facilitates productivity growth and value creation, while also creating challenges and opportunities for Norwegian retailers.

#### *The government will*

- work to ensure that provisions which facilitate electronic commerce and digital transactions are included in the WTO framework and in free trade agreements
- work actively in the Universal Postal Union (UPU) to ensure that the regulations for payment between the designated postal service providers become more sustainable, cover costs and cause minimum distortion of competition
- investigate the need for an annual border trade barometer. The statistics also cover cross-border e-commerce involving goods and services
- contribute to a well-functioning single market for wholesale and retail trade by working actively for joint regulations for trade in services on a European level and application of uniform law in the EEA
- work to ensure that the goods package is formulated in accordance with Norwegian interests and through this promote more effective coordination of the inspection of goods in order to provide serious actors with good framework conditions
- monitor how the new privacy legislation works in practice, both for businesses and for consumers Key goals of the new legislation is to both strengthen the rights of individuals and their trust in industry
- reduce the opportunity for discrimination and promote equal treatment of customers in the single market incorporating the geo-blocking regulation into Norwegian law.
- ensure more effective enforcement of consumer protection regulations by adopting new provisions concerning European consumer protection collaboration in Norwegian law and prioritising Norwegian participation in such collaboration
- monitor the work of the European Commission's proposal for a scheme concerning inappropriate business practices on digital platforms
- monitor the work on the European Commission's proposal for changes to the EU's consumer regulations

*Chapter 7* showcases that significant research and innovation activity is taking place in wholesale and retail trade. The mobilisation of research and innovation projects in industry, strengthening of open programmes such as Skattefunn (R&D tax credits) and BIA (User-driven Research-based Innovation) and an increased awareness of service innovation in support structures have led to a significant increase in the use of support structures by wholesale and retail trade from 2005 up to the present time.

### *The government will*

- continue investment in industry-relevant research and innovation We will prioritise those industrial policy initiatives with the highest level of innovation and efficiency and continue to invest in broader national schemes
- conduct an overall review of business-orientated public funding
- collect annual data on allocations from support structures for research and innovation and assess how the support impacts different industries The data shall be made available for research and studies to a greater extent than previously
- implement research that shall investigate the effects of research and innovation projects in wholesale and retail trade
- Continue the Industrial PhD Scheme at the Research Council of Norway in order to stimulate researcher recruitment to wholesale and retail trade

*Chapter 8* reports on competition policy and certain consequences of technological development for competitive conditions. Measures for preventing competition restrictions are necessary to ensure that markets operate in such a way that society's resources are utilised effectively. The most important competitive regulations are described. Vertical competitive conditions play a role in wholesale and retail trade and are dealt with relatively extensively. The competitive situation in the grocery trade market and the government's work in this market are described.

### *The government will*

- submit a proposal for an act on good trade practice
- review measures for increased competition within the sale and distribution of food
- strengthen the Norwegian Competition Authority's enforcement of the Competition Act in the grocery trade sector

*Chapter 9* describes wholesale and retail trade's climate and environmental challenges and the government's policy for a sustainable industry. This sector is not responsible for any major direct climate and environmentally-harmful emissions on a national level. The transportation of waste is one of the most important areas in which trade can influence emissions both directly and indirectly. Wholesale and retail trade can also contribute to the green shift by promoting new business models and the circular economy by stipulating terms for the products that are sold, helping consumers make good environmental choices and facilitating sustainable consumption.

### *The government wants*

- Norway to be a pioneering country in the development of a green, circular economy that utilises resources better

*Chapter 10* describes economic and administrative consequences.