Third Annual Report

of the

European Free Trade Association

for the Period 1st July, 1962 - 30th June, 1963

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Geneva - July 1963

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PART I

GENERAL SURVEY

The twelve months covered by this report, the third year of EFTA's existence, saw a remarkable advance towards the achievement of one part of the Association's objectives. By the end of 1962 the intra-EFTA tariffs on industrial goods had been reduced by 50 per cent. In May, 1963, decisions were taken which will mean that by the end of 1966 all obstacles to the free movement within EFTA of goods covered by the Convention will have been abolished.

The aim of the EFTA countries to work together to promote the creation of a large unified European market which would be outward-looking towards the rest of the world was not changed by the interruption of the negotiations between the United Kingdom and the European Economic Community. That breakdown, the causes of which are general knowledge and need no elaboration here, meant that the negotiations of Denmark and Norway and the preparations for negotiations of the other EFTA countries with the Community were also suspended. Austria, however, decided, with the understanding of the other EFTA countries, to explore further the possibilities of finding an arrangement with the Community which would solve its particular difficulties arising from the fact that the Community is the main outlet for its exports.

The members of EFTA are convinced that they have a positive contribution to make to the advance of unity in Europe and to a liberalization of world trade. In the present circumstances the best way to further their common objectives is the strengthening of the cooperation among themselves. It was in this spirit that the Ministers of the EFTA countries held two important meetings, in February in Geneva and in May in Lisbon, to decide on the future course of action of the Association.

It was indeed an appropriate moment for such a review from many points of view. At the end of 1962, two and a half years after EFTA's coming into existence, the halfway point in the elimination of tariffs on industrial goods had been reached. This result had been achieved two years ahead of the timetable prescribed in the Stockholm Convention. Though this had not given rise to any noticeable difficulties it

was logical to examine, at that stage, all the fields of action covered by the Stockholm Convention. This seemed all the more appropriate since the EFTA countries had not felt it necessary to try to settle in advance all the problems involved in the creation of a free trade area. They had preferred to deal with them in a practical way as they arose, rather than theoretically in advance.

The progressive elimination of tariffs and quantitative restrictions means that other obstacles to trade gain in relative importance. The decisions taken in Lisbon—which are set out in detail in Part II—therefore provide for further action in a number of fields. One of the most important steps was the setting up of an institutional framework for dealing with the problems of technical and economic development in Member States. The Lisbon decisions also relate to the agricultural sector where measures were taken to further trade between Members, both on a multilateral and a bilateral basis; and, in addition, the necessary machinery for the annual review provided for in the Convention has been set up. With regard to fish and other marine products some bilateral measures have also been taken with a view to expanding trade. The EFTA countries have furthermore decided to support the initiative taken by the United Kingdom in calling a conference of Western European countries as a means of finding a broad solution to the problems of the sea-fishing industries in general.

The most important result of the Lisbon meeting was no doubt the decision to shorten the transitional period provided for in the Convention. With a few limited and precise exceptions free trade in all the goods covered by the Convention—and many prepared or manufactured foodstuffs are included as well as all industrial products—will be realized by the end of 1966. By then all tariffs, quantitative restrictions and other barriers to trade in these goods between the Member States will be finally eliminated. This is three years earlier than the date foreseen in the Convention. As important as the shortening of the timetable itself, is the fact that industries are now able to undertake their forward planning on the basis of a firm timetable, giving them certain knowledge of the character and timing of the future steps towards the establishment of the free market among the Member States.

The successful implementation of the Stockholm Convention during the first half of the transitional period and the settlement of the main problems now foreseeable in the second stage mean that we can look with confidence to the future development of EFTA. Another cause for satisfaction is the smooth cooperation with Finland which, in its capacity as Associate, has assumed substantially the same obligations in relation to the greater part of her trade with the EFTA countries. In accordance with the Association Agreement with Finland, the EFTA countries have offered to make all the decisions adopted in Lisbon operative between Finland and EFTA, and it is expected that appropriate decisions will be taken at the Ministerial Joint Council Meeting in Helsinki on 13th September, 1963.

The fact that the realization of free trade is now within sight will no doubt provide a further stimulus to trade between the Member States. This is important not only in the interest of creating a wide and flourishing market of 90 million consumers within the Association but also to provide a strong base from which the EFTA countries will be able to continue to play their full part in the development of multilateral trade throughout the world. Indeed, the expansion of world trade remains one of EFTA's main aims. In this spirit EFTA has welcomed President Kennedy's initiative for across-the-board tariff negotiations within the GATT. It is the declared policy of the EFTA countries to participate actively and fully in these negotiations, which have gained even greater importance in the present situation.

PART II

INTERNAL ACTIVITIES OF THE ASSOCIATION

Reduction and Elimination of Import Duties

EFTA's tariff reductions reached the 50 per cent level on 31st October, 1962, in the case of five Member States and the remaining two countries followed suit on 31st December, 1962. This meant that the EFTA countries had halved their duties in trade between them two years in advance of the date prescribed in the timetable of the Stockholm Convention.

Portugal, which for certain imports is allowed to reduce duties at a somewhat slower rate than the general timetable of the Convention, had reduced those duties by 30 per cent on 1st January, 1963.

Denmark, which in her negotiations for membership of the EEC sought special arrangements for a limited range of industrial goods, had for this reason obtained an exception for these goods from the EFTA tariff reduction from the 70 per cent to the 50 per cent level. After the Danish negotiations were suspended at the end of January, 1963, Denmark brought this arrangement to an end with effect from 1st March, 1963.

At the Ministerial meeting in Lisbon in May, 1963, it was decided that the timetable for the elimination of the remaining 50 per cent of import duties on industrial goods should be finally and definitively settled. The final elimination of duties will take place on 31st December, 1966, *i.e.*, three years ahead of the date in the timetable of the Convention 1st January, 1970. The elimination will take place in four steps, three of 10 per cent each to be taken on 31st December, 1963, 1964 and 1965 respectively, and a final reduction of 20 per cent at the end of 1966. Manufacturers and traders are now able to plan ahead on a firm basis.

In connection with this decision, Ministers took note of the wish of the Austrian Government to reserve the possibility of referring to the Council certain specific problems which might arise for Austria from the new shortened timetable. Ministers agreed to give sympathetic consideration to any proposals which Austria might put forward.

In view of the special difficulties of Norway arising from its size, sparse and scattered population and difficult communications and the

special hardship problem which was foreseen by the Norwegian Government for a limited range of small domestic industries, arrangements were agreed under Article 20 of the Convention whereby Norway could follow the original timetable for tariff reductions for a small number of products accounting for some 3 per cent of Norway's total imports from her EFTA partners.

Liberalization of Quantitative Import Restrictions

Only a few of the EFTA Member States maintain quantitative import restrictions on industrial goods and only for a very limited number of commodities. At the Lisbon meeting the date for the elimination of such restrictions was brought into line with the date for the final tariff elimination, the 31st December, 1966.

Other Trade Barriers in the Industrial Sector

Progress was also made in the dismantling of other barriers to trade in industrial goods. Member States must according to the Convention either eliminate the protective elements in their revenue duties according to the same timetable as the one which applies to import duties, or eliminate them in one operation before 1st January, 1965. The countries which have chosen the latter method have now either taken or initiated the action necessary for the elimination of the protective elements well before 1st January, 1965. The majority of Member States have completed the elimination of the protective elements in their internal taxation systems. Duties and quantitative restrictions on exports have been eliminated in accordance with the provisions of the Convention.

Drawback

Many countries allow exporters a duty refund—or other duty relief—(the so-called drawback), in the case of export of articles which wholly or partially consist of imported dutiable goods. Under the Convention Member States may from 1st January, 1970 refuse to give Area tariff treatment to goods which have benefited from drawback in other Member States.

During the period under review the problems arising in connection with a decision to abolish drawback were examined and it was found that a number of issues would have to be settled. These implications will be studied further and a report is to be presented to the Council by the end of 1964, at the latest. A decision on the rules to be applied regarding drawback after 1st January, 1967, when tariffs will be finally eliminated shall be taken before the end of 1965. Member States have agreed that they will accept a decision in this matter which corresponds to the wish of the majority of them.

The Origin System

In accordance with the arrangements for keeping the origin system under constant review, so as to ensure its continued smooth working and its appropriateness to practical circumstances and needs, a small number of changes were introduced, *e.g.*, concerning goods exhibited at trade fairs in non-Member countries, and subsequently consigned to a Member State. Small changes were also made in the rules regarding documentary evidence of origin.

The validity of certain qualifying processes which under the Convention were valid only for a limited period were extended to 31st December, 1963. In the meantime it will be considered whether these processes should be made permanent. Member States are ready to make any of the rules in question permanent, unless a majority of Member States oppose such a decision.

The Rules of Competition

Under the Convention Member States shall ensure the abolition of discriminatory practices by public undertakings which afford protection to domestic production or in other ways frustrate the benefits to be expected from the removal of trade barriers. At the Lisbon meeting it was agreed that such practices should be abolished at the latest on 31st December, 1966, thereby bringing this date into line with the decision as regards the final date for elimination of tariffs and quantitative import restrictions.

The Convention requires that the Council shall review the provisions dealing with restrictive business practices by 31st December, 1964, at the latest. In Lisbon it was decided that experts from Member States should meet to carry out this review on the basis of facts. They will also consider the procedure to be followed in dealing with specific cases of restrictive practices which may be raised under the general consultations and complaints procedure, provided for in Article 31 of the Convention.

A study on similar terms will be carried out by another group of experts from Member States in respect of the provisions of the Convention dealing with restrictions on establishment in a Member State of economic enterprises having the nationality of other Member States.

Difficulties in Particular Sectors

Article 20 of the Convention contains provisions to deal with difficulties in particular sectors experienced by Member States as a result of the progress of economic integration. In such cases Member States may be relieved of certain of their obligations under the Convention in respect of imports of goods affecting the sectors which experience difficulties. At the Lisbon meeting it was agreed that Article 20 should be examined with a view to solving two different problems. The first is to determine whether the accelerated timetable for tariff reductions

necessitates that any new provisions to deal with difficulties in particular sectors arising after the elimination of tariffs should be introduced earlier than the date prescribed in the Convention, 1st January, 1970. This examination shall be concluded before 1st January, 1966, *i.e.*, one year before tariffs are finally eliminated. The second question is whether any further or different provisions from those in Article 20 are needed to deal with problems which may exist at present as a result of the progress of economic integration. A study of this question is to be initiated in the autumn.

Trade in Agricultural Products

In the agricultural sector the objective of the Association is to facilitate an expansion of trade which will provide reasonable reciprocity to those Member States whose economies are largely dependent on agricultural exports. The Council is to keep the provisions on trade in agricultural goods under review and it shall once a year examine the development of trade in these goods and consider what further action shall be taken in pursuit of the objective of the Association in this field.

At the Lisbon meeting, a procedure for this annual review was agreed. The review is to be carried out each year before the end of July, beginning in 1964. An Agricultural Review Committee was set up to assist the Council in this task.

At the same time agreement was reached that a certain number of items should be deleted from the list of agricultural goods (Annex D to the Convention) with the effect that these goods will be given the full free trade Area treatment. Those proposals for deletions from Annex D on which agreement was not reached at Lisbon are to be studied further with a view to deletion from Annex D or other action facilitating an expansion in trade.

An examination will be made of the problem caused by the fact that certain agricultural goods which enter into products to which the provisions for free trade apply have to be bought by manufacturers in some Member States at domestic prices significantly higher than world prices. A report on ways of solving this problem, including the possibility of applying compensatory levies will be submitted to Ministers at their next meeting in September.

Besides the multilateral action set out in the foregoing Member States have concluded a number of additional bilateral agreements under which they have granted one another concessions in the field of trade in agricultural products.

Fish and Other Marine Products

In this sector the objective of the Association is similar to that applying in the agricultural sector: to facilitate an expansion of trade in fish and other marine products which will provide reasonable reci-

procity to Member States whose economies depend to a great extent on exports of those products.

There is a growing recognition that the problems in this sector go beyond those resulting from the application of tariffs and quantitative restrictions. There is for instance a serious problem of over-fishing of some species in the North Sea and the North-Eastern Atlantic. These are problems which concern also a number of non-Member countries fishing the same waters. There is also the question of access to fishing grounds and to fishing markets. Ministers considered when they met in Lisbon, that the solution of these and related problems could usefully be pursued on a broader European basis and for this reason they expressed great interest in the United Kingdom's initiative in calling a Conference of Western European countries to be held in the autumn of 1963. A meeting of EFTA fishery experts took place in Geneva in June, 1963, to prepare for this Conference.

In view of the fact that the Fisheries Conference may provide the solution to a number of questions which would otherwise be dealt with within the framework of EFTA, the further examination of trade in fish and other marine products which was started in 1961, is for the time being left in abeyance.

However, a number of specific unilateral measures were announced by Ministers in Lisbon to facilitate trade in fisheries products. The United Kingdom will accelerate the reduction of import duties on certain fisheries products so as to achieve the elimination of these duties by the end of 1964 and the Swedish Government will reduce and in some instances eliminate by 1st September price regulation fees and import levies on certain fish products.

Economic Development

In addition to the steps which have been taken for the energetic implementation of the various provisions of the Convention, the need has become apparent for certain supplementary measures, of a positive and direct character, to enable all Member States to achieve the full benefits of the free trade area. In particular, there are disparities between the levels of economic development in the different parts of the Association which, in themselves, can amount to an unseen obstacle to the full and balanced expansion of trade and of economic activities generally.

Problems of this kind received special consideration in Lisbon, and a number of measures were agreed which, as a whole, represent a significant new departure in EFTA's activities.

The measures in question were both unilateral and multilateral in form. Unilaterally, the United Kingdom agreed to open the London capital market to other Member Governments and the Swedish Government declared its readiness to facilitate the access of other Member States to capital available in Sweden; Switzerland has always granted special facilities to other Member States for access to the Swiss capital market.

As regards multilateral action, an Economic Development Committee will be established. This Committee will examine such questions relating to economic development as the Council refers to it and will report to the Council after each of its meetings, making recommendations if it thinks fit. The Committee is to make a general report before 1st July, 1964, setting out all the proposals submitted to it and its own recommendations on them. These recommendations may include detailed suggestions as to the ways and means of promoting or facilitating collaboration between Member States in financial, technical and practical matters. Each Member State will be represented on the Committee, and it is intended to associate businessmen and others with special knowledge and experience, with its work. The first meeting of the Committee is expected to take place in the autumn.

Consultation on Questions of Commercial Policy

At the Ministerial Meeting in Geneva in February, 1963 it was decided to initiate a study of procedures whereby Member States might consult more actively about questions of commercial policies so as to lend support to one another where possible and to avoid unnecessary inconsistencies. Heads of Delegations of EFTA countries to the GATT have consulted together regularly since the birth of the Association. This arrangement has become of particular importance after the initiative taken by the United States for across-the-board tariff negotiations which according to the decision taken at the GATT Ministerial meeting in May, 1963, are to begin in Geneva on 4th May, 1964. The EFTA countries have expressed their will to contribute to a successful outcome of these negotiations. Besides the consultations on GATT questions EFTA Delegates in Geneva also regularly consult each other on other questions of a trade policy nature.

Consultation on Economic and Financial Policies

Member States agree that EFTA should avoid duplicating the work of any other organizations in this field, in particular that of the OECD. The necessary working arrangements have been made to ensure EFTA co-ordination wherever necessary in preparation of meetings of OECD's Economic Policy Committee.

The General Consultations and Complaints Procedure

Article 31 of the Convention provides for a general consultation and complaints procedure under which Member States may refer to the Council any question of actions by another Member State frustrating the benefits to be expected under the Convention. During the period under review such a matter was brought before the Council for the first time in the Association's history. The question was, however, settled between the parties so that no need arose for the Council to take action under the formal complaints procedure.

ORGANIZATION OF EFTA

The Council

The governing body of the Association is the Council composed of representatives of the Member States. The Council meets at Ministerial or at official level, *i.e.*, the heads of the permanent Delegations in Geneva. A permanent working group of Deputies meets to prepare Council meetings.

At Ministerial level the Council held three meetings; in Oslo on 22nd October, 1962, in Geneva on 18th-19th February, 1963, and in Lisbon on 9th-11th May, 1963.

The Office of Chairman of the Council is held by each Member in turn for a period of six months. The Norwegian representative held the Chair from 1st July, 1962, and the Portuguese representative from 1st January, 1963.

The Consultative Committee

The Consultative Committee was established in February, 1961, to provide a link between the executive organ of the Association and leading personalities representing different sectors of economic life, including labour, in the Member States. The representatives are appointed by Governments, and up to five members from each country may attend a meeting.

The fourth and fifth meeting of the Committee took place during the period under review. The fourth meeting was held in Oslo on 4th-5th December, 1962, and the fifth meeting in Lisbon on 6th-7th June, 1963. In accordance with established practice the Chairman of the Council at Ministerial level took the chair at these meetings.

The Consultative Committee which has proved a useful instrument for furthering the co-operation on EFTA matters between governments and private interests has become even more important in the present situation. A large part of the fifth meeting was therefore devoted to a review of the Committee's function. A group of the members will in co-operation with the Secretariat study this question further with a view to discussion in the full Committee at its next meeting which is scheduled to take place in October this year.

The Economic Development Committee

An Economic Development Committee was established at the Ministerial Meeting in Lisbon in May, 1963.

Technical Committees

The Customs Committee. The Customs Committee established in June, 1960, acts as a forum for comparing the views and experiences of administrations on the application of the Convention provisions concerning EFTA tariff treatment and origin and advises the Council on the practical measures for implementing these provisions. The Committee held four meetings during the period under review.

The Committee of Trade Experts. The commercial and trade aspects of EFTA tariff treatment and origin other than questions of customs administration, are dealt with by this Committee, which was established in September, 1960. It met five times during the period.

The Agricultural Review Committee. This Committee was also established at the Ministerial meeting in Lisbon in May, 1963. The Committee is to assist the Council in carrying out the annual review of trade in agricultural goods in accordance with Article 25 of the Convention.

The Budget Committee. The Budget Committee, established in July, 1960, held two meetings during the period.

The budget for the financial year 1963/64 has been established at Sw. Frs. 3,643,000. The scale of contributions is determined by reference to Member States' gross national product at factor cost, no Member being required to contribute more than 30 per cent of the expenses of the Association. The United Kingdom contribution to the EFTA budget is 30 per cent, Sweden's 22.11 per cent, Switzerland's 16.09 per cent, followed by contributions from Denmark (10.08 per cent), Austria (9.51 per cent), Norway (8.24 per cent) and Portugal (3.96 per cent).

Ad hoc Working Groups. During the period the following *ad hoc* working groups met.

- Working party on export duties, quantitative export restrictions and internal taxes;
- Working party on the marketing of agricultural goods in Finland;
- Working party on administrative arrangements which restrict or impede intra-EFTA trade;
- Working party of experts on Annex D (The list of agricultural goods annexed to the Convention);
- Working party for the annual review of import quotas;
- Working group of experts in preparation for the Conference of West European Fishing Countries.

The Secretariat

The permanent secretariat in Geneva is headed by Mr. Frank E. Figgures, Secretary-General, Mr. Knut Hammarskjöld, Deputy Secretary-General and Mr. Charles Müller, Assistant Secretary-General. At the end of the period under review the staff totalled 50 persons, about half of them in the professional grades.

The Secretariat is organized in five departments:

(i) Trade Policy Department;
(ii) General and Legal Department;
(iii) Economic Department;
(iv) Press and Information Department;
(v) Administration and Finance Department.

As part of the Press and Information Department, the Secretariat maintains an Information Office in Washington, D.C.

RELATIONS WITH OTHER ORGANIZATIONS

Inter-Governmental Organizations

EFTA has continued its relations with a number of other inter-governmental organizations, including the OECD, GATT, the Council of Europe, the International Monetary Fund, the Regional Economic Commissions of the United Nations, the Customs Co-operation Council and the Latin-American Free Trade Area. Contact is maintained by exchange of information and attendance by EFTA observers where necessary.

GATT

EFTA maintains close links with the GATT. At the 20th session of the Contracting Parties a second report on the progress made in implementing the Stockholm Convention was presented.

Council of Europe

Observers from the EFTA Secretariat follow the discussions of the Consultative Assembly and those of the joint meetings of the European Parliament and the Consultative Assembly. Several EFTA Ministers have participated in the meetings of the Consultative Assembly. Switzerland became a member of the Council of Europe in May, 1963.

OECD

The Secretary-General regularly attends meetings of the OECD Council at Ministerial level and his representatives attend meetings of other OECD bodies.

Working arrangements have been established between the OECD and EFTA, particularly as regards statistical matters, in order to avoid duplication of work.

Non-Governmental International Organizations

EFTA maintains informal relations on an *ad hoc* basis with a number of non-governmental international organizations, many of which have formed special EFTA groups. Secretariat observers participate in certain meetings of such organisations and information is exchanged with them.

PART III

ECONOMIC DEVELOPMENTS IN EFTA 1962-1963

In 1962, for the second year running, the pace of economic growth in Western Europe slowed down perceptibly, but the slow-down in the rate of expansion was smaller than in 1961. The combined national output of the industrial countries of the region rose by about 3½ per cent, on average, against 4½ per cent the previous year. Within EFTA the fall in the rate of growth was not very substantial in Switzerland but reached more sizeable proportions in Austria, Norway, Sweden, Finland and the United Kingdom. In Western Europe, only Denmark and France achieved a faster rate of growth last year than in 1961. The growth rate of the EEC as a group also slowed down in 1962.

Growth of Total Output and Industrial Production

TABLE I: GNP at Market Prices (at 1954 prices)

Millions of National Currency	1959	1960	% Change on year earlier	1961	% Change on year earlier	1962 [1]	% Change on year earlier	Compound Rate of Annual Growth 1959-62
Austria	115,300	124,800	8.2	131,300	5.2	133,700	2.3	5.1
Denmark	32,604	35,057	7.5	36,696	4.7	38,520	5.0	5.7
Norway	25,249	26,749	5.9	28,488	6.5	29,457	3.0	5.1
Portugal	58,765	63,545	8.1	68,438	7.7	n. a.	n. a.	
Sweden	49,465	51,460	4.0	54,691	6.3	56,605	3.5	4.6
Switzerland	31,500	33,940	7.7	36,930	8.8	39,515	7.0	7.8
United Kingdom	20,113	20,966	4.2	21,595	3.0	21,660	0.3	2.5
Finland	10,518	11,472	9.1	12,220	6.5	12,612	3.2	6.3
U.S.A.	430,100	441,200	2.6	449,400	1.9	473,200	5.3	3.2
E.E.C. [2]	145,200	155,900	7.4	164,100	5.3	171,500	4.5	5.7

In EFTA and also in Finland economic activity continued at a high level with the pattern of expansion differing widely between individual countries. The gain in the real gross national product of Switzerland and Denmark was above the average rate of growth of the industrial

[1] Provisional.
[2] In U.S. dollars.

countries of Western Europe as a whole. Table I shows the yearly percentage change in volume of national production in each of the EFTA countries, Finland, the United States and the European Economic Community in the past three years as well as annual compound rates of growth during this period. From this it can be seen that growth rates for most EFTA countries in recent years have been of the order of about 5 per cent. The exceptions have been the United Kingdom with a substantially lower rate and Switzerland where the rate of expansion has been appreciably faster.

TABLE II:

General Index of Industrial Production in EFTA Member States and Finland

1953 = 100

Monthly Average	1959	1960	1961	1962	% Change 1962 on 1961	% Change 1962 on 1959
EFTA	125	134	136	138	1.5dl	10.4
Austria	163	180	187	192	2.7	17.8
Denmark [2]	137	149	158	dl	(6.0) [2]	(21.0) [2]
Norway	136	151	161	168	4.3	23.5
Portugal	155	172	186	n. a.	n. a.	n. a.
Sweden	127	135	142	145	2.1	14.2
Switzerland [4]	—	—	—	—	—	—
United Kingdom	120	129	130	131	0.8	9.2
Finland [5]	100	114	125 [1]	131 [1]	4.8	31.0
United States	116	119	120	130	8.3	12.1
EEC	153	171	182	194	6.6	26.8

Western European industrial production rose by about 4½ per cent last year—approximately the same rate of advance as in 1961. In EFTA the pace of expansion was more modest with a rise in the combined industrial output of the Member countries of only 1½ per cent—the same as a year earlier. This figure is, however, strongly influenced by the low rate of increase in the United Kingdom. The seasonally adjusted index of production shows that in Britain industrial output rose steadily in the first six or seven months of the year and then levelled off or declined slightly during the remainder of the period. For some EFTA countries, notably the United Kingdom, one reason for this development was that exports, which had got off to a good start in the first half of 1962, did not rise after the middle of the year. Part of the explanation for this can be found in the slower growth of industrial production in the rest of the world outside Europe, which was chiefly due to a levelling off in the United States, and the slackening in the growth of world trade. The seasonally adjusted index of industrial output in Sweden was steady

[1] Provisional.
[2] Based on new calculations of the Danish Statistical Office.
[3] Estimates based on national accounts statistics.
[4] No index of industrial production is compiled.
[5] 1959 = 100.

for the first six months of 1962 and then accelerated slowly, whereas in Norway output grew from quarter to quarter.

Table II shows the development of industrial production over the last four years in individual EFTA countries and the Association as a whole. Indices of industrial production for Switzerland are not available, but it is known that the manufacturing output of Switzerland continued to expand vigorously in 1962.

Changes in Demand

One of the most noteworthy features of the economic development of Western Europe last year was the change which occurred in the pattern of growth of final demand. The driving force behind the overall expansion in the first three years from 1959 on seems to have been the very high rate of investment in machinery and equipment, new plant and residential construction. In 1962 fixed investment lost its place as the main source of expansion in the region as a whole. As the rate of rise of other components of final demand—consumption and exports—showed little change, the weakening of private investment demand was therefore the main cause of last year's slower growth of total output. Fixed capital formation remained the most dynamic element of final demand only in Norway and France. Everywhere else private consumption and public expenditure made the most important contributions to the expansion of total output.

The rate of growth of fixed investment fell in all the industrial countries of Western Europe last year with the exception of Denmark. The average increase in 1962 was about 4 per cent compared with a rise of nearly 9 per cent in 1961. Within EFTA the fall in the rate of growth was lowest in Norway and Sweden, while in Austria and Britain the absolute volume of gross fixed investment actually fell below the level of a year earlier. In Denmark, however, the rate of increase of fixed investment was higher last year than in 1961.

Activity in the house-building sector was fully maintained at the previous high level and the number of dwellings under construction did not fall in any country of the region. In fact in most of them investment in housing rose, especially in Sweden (+9.5 per cent) and the United Kingdom (+3.2 per cent). Also the number of completions in two EFTA countries, Britain and Denmark, was higher than in 1961.

There were steep absolute declines of fixed investment in machinery and equipment in the United Kingdom and Austria between the beginning and the end of 1962. The fall in the United Kingdom was 12 per cent in real terms for the year as a whole, and in the second half was 18 per cent lower than in the corresponding period a year earlier. In Sweden, despite the release of blocked investment funds accumulated in earlier years, investment in manufacturing fell slightly—by about 3 per cent—during 1962. In Norway, on the other hand, there was

an increase of investment in this category (not including ships) of about 12 per cent last year. This meant that the growth rate was about three times higher than in 1961—when it had been comparatively low.

The expansion of total consumption expenditure continued at the same high rate of the previous year—within the range of a 5-7 per cent annual increment—and nearly everywhere rose as fast or faster than national output. In general private consumers' expenditure was the most buoyant element of consumption demand, but in most EFTA countries there was a distinct slow-down in the rate of expansion.

With the exception of the United Kingdom and Finland, the rate of growth of public authorities' current expenditure on goods and services was maintained throughout the Area.

Recent Economic Trends in Member Countries and Finland

In a number of important respects economic developments in individual EFTA countries differed widely during the past twelve months. Economic policies followed by governments varied between measures to restrain demand and attempts to moderate price rises of the kind introduced in Switzerland, Denmark, Norway and Finland; steps designed to ease previously imposed restraints which had proved reasonably successful in achieving their objective, such as the wage and price freeze agreed between unions and employers in Austria in July, 1962; and phased action to stimulate demand and reflate the economy once it became evident that this was needed—as in Sweden and the United Kingdom during the period under review.

Economic expansion in *Austria* slowed down in 1962. The rate of growth of the gross national product was only 2.3 per cent—considerably less than in previous years. The main reason for this development was the slackening growth of overall internal demand, and especially investment demand. A contributing factor was the weakening of export demand, affecting in particular the two most important Austrian export industries—iron and steel, pulp and paper. The increase in industrial production in 1962 was much smaller than in the two preceding years. The indications are that this trend is still continuing. Industrial output rose only 1 per cent in the first quarter of this year compared with an increase of 3 per cent during the corresponding period a year earlier. The most likely outlook for 1963 is that private consumption and public expenditures will rise fairly substantially, but as yet there seem to be no signs of any major improvement in the demand for investment goods and exports. In the second half of last year the authorities put a price/wage freeze into effect and this combined with the slower growth of economic activity appears to have had a moderating influence on wage movements. There was a large balance of payments surplus in 1962 in spite of a small deterioration in the balance of trade, the larger deficit on merchandise account being amply offset by a rise of net earnings from tourism.

In *Denmark* the main problem in recent years has been one of continuing price increases accompanied by a steady deterioration of the balance of payments. In 1962 the pressure of demand was even greater than in the preceding years, consumer prices climbing by a further 9 per cent of which, however, 2 per cent are attributable to the introduction of a turnover tax last August. The main causes of this development have been a sharp increase in money incomes far in excess of the advance in output, and a marked change in the overall budget position of the state from a large surplus in 1960-1961 to a sizeable deficit in the fiscal year ending 31st March, 1962. In order to relax demand pressure and to restore a more reasonable balance in the economy, policy measures were taken in the summer of 1962, including a strengthening of the budgetary balance and steps to check the high level of activity in the building and constructional sectors. As a result of this, the overall balance of the budget for 1962-1963 seems to have a surplus of nearly the same size as that of 1960-1961, and the current account of the balance of payments has recently been stabilized. The outlook for the future depends on the success of the Government's programme of stabilizing all incomes (with some modifications) in the coming two years. This was passed by Parliament at the end of March.

The trend towards slower growth appeared also in *Norway* last year. Although the investment boom of recent years has passed its peak, the increase in the volume of fixed investment was still almost 8 per cent, which is one of the highest rates recorded in Western Europe for 1962. This result was obtained in spite of a more restrictive credit policy put into operation by the monetary authorities. Investment in ships increased only slightly, but the volume of construction went up by over 6½ per cent and investment in machinery and transport equipment, other than ships, rose again strongly by about 12 per cent. On a seasonally adjusted basis industrial production increased only slightly during the first half of the year; both the export industries and those producing mainly for the home market were affected. The increase in industrial production was resumed from the third quarter. Unemployment remains low, but a small increase in the number out of work was observed in the spring of 1963. In Norway too, pressure on wages and prices has continued. Only the prices of the important Norwegian export commodities—for example sulphite pulp, paper, aluminium and iron ore—have followed a downward trend. So have freight rates, with the exception of a temporary increase in tanker freights in the first quarter of 1963. World demand for the output of many of the traditional Norwegian export industries has been less buoyant and some of these industries have experienced difficulties. The deficit of the current balance of payments was in 1962 on a record level for the third year in succession.

Although statistical material on the economy of *Portugal* for 1962 is not yet available, the indications are that the rate of growth of national output slowed down last year. Agricultural production increased

compared with a year earlier, but industrial output was little changed. The latest returns show that since the beginning of this year the steady growth of inductrial production has been resumed. Exports were substantially higher in 1962, and imports were much reduced, the percentage rise in exports being about the same as the percentage fall in imports. As a result of this and a favourable trend on capital account the balance of payments improved.

Measured in constant prices the *Swedish* gross national product rose by 3½ per cent in 1962. This increase is close to the average annual rate of growth in the post-war years, but is somewhat lower than the target figure suggested in the latest Survey of Long Term Economic Development for the period 1960-1965. The principal feature affecting the pattern of growth in the Swedish economy last year was the marked shift in the direction of the expansionary forces from private consumption and business investment to residential building and expenditure in the public sector. The volume of private investment in 1962 was only 1½ per cent higher than a year earlier. In view of this slackening-off a number of carefully selected measures to stimulate investment demand were taken. The most important of these were the release of investment funds for industrial building projects and the removal of certain government restrictions concerning loans for house-building, followed later by the provision of further funds for the purchase of machinery and equipment.

Although the partial recovery of building activity helped to maintain a high level of employment during the latter half of the year, total industrial production rose only slightly. At the same time, however, foreign demand for Swedish products rose rather rapidly between 1961 and 1962. In the first quarter of 1963 industrial production increased by 2 per cent compared with the corresponding period in 1962. Forecasts for 1963 predict a quicker growth both in gross national product and in industrial production than in 1962.

The pressure for wage increases is still strong, but the rise in consumer prices has for a number of years been remarkably moderate compared with the development of incomes generally and of wage costs in particular. The overall picture of the Swedish economy at the present time is neither one of widespread inflationary tendencies nor one of marked insufficiency of total demand.

The rapid and sustained expansion of economic activity in *Switzerland* moderated somewhat in 1962. Although there is still a strong impetus to expansion, rates of growth in some parts of the economy are falling slowly. The propensity to invest remains remarkably high and exports continue to do well.

In the present phase of the expansion the Swiss authorities have been primarily concerned to deal with its inflationary repercussions, rather than with its effect on the balance of payments on current account. The trade deficit in 1962 was more than double that of 1960.

Currently the object of economic policy is to reduce the large inflow of capital and to neutralize its effect on domestic liquidity so as to prevent it from generating additional inflationary pressures. This is being done through voluntary co-operation between the National Bank and the financial institutions.

There was a continued large influx of labour from abroad—the number of foreign workers employed in the country at mid-February this year was over 512,000, compared with more than 445,000 at the same date in 1962; this represents a rise of 15 per cent and compares with one of 27½ per cent between February, 1961 and the corresponding month a year later (in August, 1962 it was over 644,000). This and the sharp rise in imports helped to relieve the pressure on domestic resources. As a result costs and prices have moved rather more vigorously than previously.

The Federal Government considers the strain on resources still so great and views with anxiety the growing dependence of the Swiss economy on foreign workers that it decided in March, 1963 to intervene in the labour market. Following consultations with the trade unions and employers' associations and also the farmers, a decree of the Swiss Government was put into force which restricts the admission of foreign workers by allowing employers to engage new foreign labour only on condition that they agree not to enlarge their labour force before the end of next February.

The expansion of economic activity expected in the *United Kingdom* last year did not materialize. At the beginning of 1962 the outlook seemed promising, but it became evident that the earlier forecasts would not be realized. Government policy was consequently changed from disinflationary measures, brought in to deal with the balance of payments crisis in the middle of 1961, to active stimulation of demand.

Developments in the first half of 1962 were favourable. There was a sharp rise in demand and output. Exports rose by 4 per cent between the fourth quarter of 1961 and the second quarter of 1962 and the balance of payments on current account continued to improve. Industrial production by the middle of the year had regained the ground lost in the second half of 1961. But already unemployment fell a good deal less in the first six months of last year than the normal seasonal decline and the pressure of demand for labour clearly lessened.

In the second half of the year the trend changed and production and exports stopped rising. In part this was due to the slowing-down of the growth of world production and trade. An additional reason was the not unexpected but quickening fall in investment throughout manufacturing industry. Unemployment increased during the year and was further adversely affected by the severe winter weather in the early months of 1963. Until recently, therefore, there was a considerable reserve of labour and a substantial margin of spare capacity in British manufacturing industry.

During the year both public authorities' current expenditure on goods and services and public investment increased significantly, particularly investment in local authority housing and public services.

The latest indicators on the performance of the British economy suggest that a broadly-based expansion is now under way again. Led by the boom in the motor industry and by rising public investment, an improvement in output has taken place. The seasonally adjusted index of industrial production has made a rapid recovery, rising by 4 points in February and another 5 points in March to a level only just below the peak of last summer. In the first quarter of this year United Kingdom exports seasonally adjusted were 6½ per cent more than in the corresponding three months period a year ago.

Following a period of very rapid economic expansion between 1959 and 1961 during which the *Finnish* gross national product grew in volume by 6, 9 and 6½ per cent in the three years, a definite tendency towards a slowing down in the rate of growth became apparent last year. Total production expanded only just over 3 per cent in 1962, and developments during the year have brought to the fore the existence of sizeable difficulties—signs of which were noticeable a year earlier—in some fields of economic activity.

The principal aim of economic policy last year has been to ease the pressure of internal demand. Costs rose and the balance of payments began to come under strain. Although a considerable increase in imports helped to offset the inflationary effects of excess demand at home, the cost of living index rose notwithstanding by approximately the same amount as during the three preceding boom years taken together. The increase in the price level of home produced goods and imports taken together in 1962 is estimated at somewhat above 3½ per cent. As this corresponds closely to similar increases in many other Western European countries it was less damaging from the point of view of the competitive ability of the Finnish economy in overseas markets than would otherwise have been the case. There was a lack of balance in the money market between the supply of savings and the demand for loanable funds with the result that the liquidity position of the commercial banks and other financial institutions was severely strained. The situation has been aggravated by the weakened propensity to save on the part of the general public. The main reasons for this seem to have been the rising trend in the cost of living and misunderstanding regarding the nature of the new currency reform. The monetary authorities have introduced specific measures to check increases in bank advances. This was done by limiting rediscounting facilities with the Central Bank, which has forced the commercial banks to cut down the volume of their lendings.

The trend towards a growing budget deficit in the first half of 1962 was countered with the help of the stabilization programme introduced in May, 1962. Notwithstanding these measures, however, the deterioration of the budget continued. Although the approved budget for

1963 envisages a smaller deficit, actual expenditure is likely to exceed original estimates. Various new measures are being considered to raise revenue in the current year.

With expansion continuing, all be it at a slower pace, and the difficulties encountered by the forestry and its related processing industries on world markets, the Finnish import surplus in 1962 was appreciably larger than a year earlier. Total exports increased, but the expansion was not sufficient to cover the growth of imports. Forecasts for 1963 indicate a smaller increase in the volume of gross national product than in 1962. Exports are expected to be only slightly higher in volume than in 1962 and imports considerably lower. According to the forecasts the volume of public investment will increase markedly, whereas the volume of private investments is expected to fall this year.

EFTA'S TRADE IN 1962/1963

International trade has continued to expand. In 1962 the value of world exports, excluding Eastern countries, reached 123,500 million U.S. dollars, the highest ever to be recorded. The rate of growth exceeded slightly that of the preceding year. Western Europe's exports increased a little faster than did world exports; more than half of the rise in world exports were accounted for by OECD-Europe. The greater part of the increase can be attributed to trade among Member States. On the import side Western Europe absorbed 5,200 million U.S. dollars of the total of 7,700 million U.S. dollars, at which the increase in world imports was valued in 1962.

World trade increased more in volume than in value terms. Prices of manufactures seem to have continued to rise, whilst prices of primary products weakened again by one point.

EFTA's World Trade

EFTA's world trade* increased approximately in line with the rise of total international trade. The total exports of the EFTA countries also rose by a little less than 5 per cent in 1962, which in turn is somewhat below the rate of increase of the year before. These exports reached (including Finland) the value of 21,527 million dollars, bringing EFTA, after the European Economic Community, into second place before the United States, which in 1962 exported goods to the value of 21,360 million dollars.

The imports of the EFTA countries (including Finland) from the world increased at almost the same pace as their world exports. They rose by 4.6 per cent, which compares with a 2.3 per cent increase in 1961. These imports (including Finland) amounted in 1962 to 25,830 million dollars which corresponds to a fifth of total world imports. This figure is considerably above the United States' world imports, which reached 16,249 million dollars. Even if intra-Area trade is deducted, the Association's total imports from outside the Area (including Finland) are still about 4,000 million dollars higher than United States' purchases abroad.

* Unless otherwise stated, EFTA always refers to the seven countries only. EFTA's World Trade includes intra-Area trade.

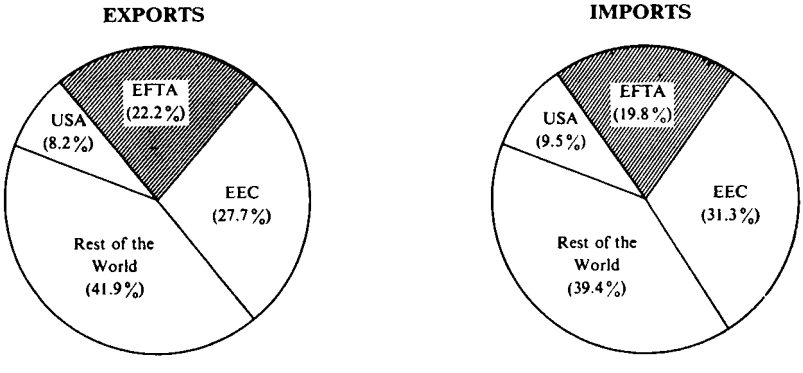
In the first quarter of 1963 exports continued to grow at the same rate as during the whole year 1962, *i.e.*, by 5 per cent. Imports, on the other hand, rose only by about 1 per cent in the first quarter of 1963, which is considerably less than the overall figure for 1962.

EFTA's terms of trade improved again for the fifth consecutive year in 1962. This, however, is only valid for EFTA as a group, and mainly due to the improvement of the British terms of trade. In other Member countries, as for example in Sweden, and to a lesser degree also in Norway, the terms of trade deteriorated.

The 4.7 per cent rate of growth of EFTA's foreign trade is an aggregate figure which veils the development in the trade of the single countries. In particular, the large weight of the United Kingdom in the total (this accounted for over half of EFTA's world trade) tends to mask the changes. In fact, only Austria shows a rate of expansion in trade similar to that of EFTA as a group. Portugal stands out in so far as it increased its world exports by 11 per cent (more than any other Member country of EFTA) and reduced its imports in the same period by 10 per cent. No other EFTA country reported decreases in its imports, all of them increased their purchases from the world, particularly Denmark which bought 14 per cent more goods than a year earlier. The average rates of growth in world exports and world imports of the Continental EFTA countries are +7.0 per cent and +7.1 per cent respectively.

Europe is by far the most important market of EFTA. Half of its total exports go to countries of this continent and the share of imports is practically the same. Since the rates of growth in EFTA's trade with Europe have in the last years always surpassed the rates of growth of EFTA's world trade, the proportion of Europe in EFTA's trade has constantly risen at the expense of the rest of the world.

Direction of EFTA's * Total Trade 1962



* Including Finland.

In 1962 slightly more than a quarter of EFTA's total exports went to countries of the European Economic Community and a fifth constituted intra-Area trade. The EEC is also the most important trading partner of EFTA as regards imports. About 30 per cent of all goods imported into the Area came from the Community. The Federal Republic of Germany was EFTA's leading supplier and buyer.

The share of Europe is particularly large in the export trade of Austria and Denmark, where it amounted in 1962 to 86 per cent and 80 per cent respectively. The proportion is relatively small in the United Kingdom despite the important rôle trade with Europe plays in the total trade of this country.

All Western European countries with the sole exception of the Federal Republic of Germany, reported import surpluses in 1962. This is a typical feature in the trade of Western European countries which—with two exceptions—are traditionally net importers. Throughout the last decade only German and French trade showed export surpluses, all the others, including EFTA countries, bought more from abroad than they sold there.

The whole deficit in the trade balance of the countries of OECD Europe amounted to about 7,500 million U.S. dollars, of which 4,200 million U.S. dollars fell to the share of EFTA.

After three consecutive years with export surpluses—mainly due to the German trade performance—the European Economic Community in the year 1962 had an import surplus. It reached almost 1,500 million U.S. dollars.

As regards EFTA, the decrease in the British, Portuguese and Norwegian import surpluses did not offset the large increases in the Danish and Swiss surpluses.

In the last ten years exports of EFTA as a group always covered roughly four-fifths of the group's import requirements; the percentage was 83 in 1962. Only Portugal and Norway report divergent figures. The two countries export about 60 per cent of the value of their imports. In general, these percentages are not disquieting, for they reflect the structure of the foreign trade of EFTA countries. The deficits are to a great extent balanced by tourist incomes, shipping returns and other current account receipts in the respective Member countries.

Manufactures, including chemicals, again played the most important rôle in EFTA's Foreign trade. In the first nine months of 1962 these products accounted for three-quarters of the Member countries' total exports. Within this group of commodities chemicals registered the highest rate of growth, followed by machinery and transport equipment. Approximately one half of these goods went overseas and the balance to Western Europe.

On the import side manufactures, including chemicals, formed almost half of all imports, food, beverages and tobacco 25 per cent, and the remainder fell to the share of raw materials and mineral fuels. Whilst purchases of chemicals and manufactures rose slightly, imports

of food, fuels, machinery and transport equipment increased considerably. The figures for beverages, tobacco and raw materials are below those of the corresponding period a year earlier. Although EFTA imports most of its food, fuel and raw materials from overseas countries, it nevertheless, bought also considerable quantities, namely over 30 per cent of these products from Western Europe. Machinery, transport equipment and chemicals were imported practically entirely from European and American OECD sources.

Intra-EFTA Trade

Trade among EFTA Member countries continued to expand, although the rates of growth have levelled off in the course of the last three years. Intra-Area trade, measured in exports, rose by 6 per cent in 1962, or 234 million U.S. dollars, and thus rose faster than EFTA's world trade. All Member States contributed to the expansion. Switzerland achieved the highest rates of growth both in exports and imports. In absolute terms Denmark had the greatest rise in imports from EFTA countries (121 million U.S. dollars) and the United Kingdom in exports to them (84 million U.S. dollars). Portugal is the only Member country whose imports from EFTA declined, which is in line with the general decline in Portugal's total imports.

Total intra-Area exports amounted to 4,073 million U.S. dollars in 1962, half of which fell to the share of the Scandinavian countries and roughly one-third was the proportion of the United Kingdom's trade.

Because of its extremely high increase in imports, Switzerland's export surplus with the rest of the EFTA countries was virtually wiped out and changed to a minor deficit. On the other hand, the Area exports of the United Kingdom, which so far had been a net importer, increased at such a rate that the country attained an export surplus. Thus only the United Kingdom and Sweden are left with trade surpluses vis-à-vis EFTA; all the other countries reported trade deficits in their intra-Area trade.

Percentage changes in Intra-EFTA Trade
(1962 on one year earlier)

EXPORTS		IMPORTS
10.9	Austria	7.8
9.9	Denmark	17.4
0.3	Norway	3.5
5.9	Portugal	— 11.2
2.2	Sweden	9.7
12.8	Switzerland	20.4
6.7	United Kingdom	0.5

In the first quarter of 1963 intra-Area trade expanded at the same rate as during the whole of 1962, *i.e.*, by slightly more than 6 per cent.

Industrial EFTA goods, in other words goods which benefit from tariff reductions under Articles 3, 6 and 23 of the Stockholm Convention cover an extremely high proportion of intra-EFTA trade. Consequently, the development in the trade in these goods determines to a decisive degree the trend in the total Area trade. Although an exact calculation of the proportion of industrial EFTA goods is not possible—national trade statistics do not separate completely trade in these commodities—it can nevertheless be roughly computed. The result shows that for the six continental Member States goods eligible for Area Tariff Treatment made up a very high percentage of imports from other EFTA countries, the United Kingdom alone shows a different proportion due to its specific pattern of trade.

On the export side, the Convention covers a similarly high proportion of intra-EFTA trade in five of the seven countries. The exceptions are Denmark and Portugal. It is estimated that some 87 per cent of the latter's EFTA exports benefit under the provisions of the Convention; the percentage for Denmark is lower, due to the large share of agricultural exports which are excluded from tariff cuts.

Manufactures, including chemicals, are the most important commodities in intra-EFTA Trade. They accounted for two-thirds of intra-Area exports. During the first three-quarters of 1962, trade in these products went up by over 5 per cent compared with the corresponding period a year earlier. The highest increase, however, was in fuels, which rose by 19 per cent.

Although only a short time has elapsed since the first tariff reduction on 1st July, 1960, it nevertheless seems that the Stockholm Convention has had a visible impact on the trade of Member States. As a trade pattern can never change radically within such a limited period as 33 months, on which the following analysis is based, and as in addition the effects of tariff reductions stem mainly from their influence on prices, substantial moves in that pattern can mainly be expected for trade in those goods, the demand of which is mainly governed by prices. There are, however, many other goods, which are only to a small degree, or not at all, price sensitive. As regards these commodities, other factors, such as publicity, tradition, quality, services, etc., may often outweigh reductions in prices and influence finally the decision of customers to buy or not to buy.

During the last four years the percentage of EFTA's total exports going to EFTA countries has steadily risen from 17.9 per cent in 1959 to almost 20 per cent in 1962. The EFTA share of total Area trade reaches 22.3 per cent if Finland is included. The increase was particularly pronounced in Austria whose exports to EFTA countries between 1959 and 1962 rose by 71 per cent thus increasing its EFTA share of total trade from 11.6 per cent to 15.2 per cent.

EFTA Share in Total Trade (Exports)

(Percentages)

	1959	1960	1961	1962	1st Quarter	
					1962	1963
Austria	11.6	12.5	14.4	15.2	15.7	16.4
Denmark	40.5	42.6	42.6	43.5	44.0	42.7
Norway	38.9	43.4	42.9	41.1	39.6	41.5
Portugal	17.6	20.6	21.7	20.2	19.8	19.4
Sweden	33.7	34.4	35.5	34.0	35.0	37.5
Switzerland	15.3	15.9	16.1	16.8	17.5	17.4
United Kingdom	10.4	10.8	11.6	12.2	12.2	12.4
EFTA	17.9	18.9	19.7	19.9	20.2	20.8

Three groups of Member countries can be distinguished clearly: those in which EFTA trade forms a large share of total trade—the Scandinavian countries; those which do only a relatively small part of their trade with other EFTA countries—Austria, Switzerland and the United Kingdom; and Portugal, which occupies an intermediate position.

EFTA's Trade with the EEC and the United States

The exports from EFTA countries to the countries of the European Economic Community developed very satisfactorily mainly due to the vigorous rise in the United Kingdom's exports, which had already soared in 1961. But Portugal, Norway and Switzerland also report very favourable sales results. The rate of growth achieved, exceeded not only the overall percentage rise of EFTA's world exports, but was even higher than the increase in intra-Area trade. Exports to the Common Market rose more than imports from it. No country showed a decrease in its exports in 1962.

Imports from the EEC countries rose, although on the whole at a lower rate than in 1961. The most striking feature in these imports is the heavy increase of Swiss purchases which amounted to 1,895 million U.S. dollars in 1962 (almost the size of British imports 1,984 million U.S. dollars). The next country to follow is Sweden with imports worth 1,268 million U.S. dollars.

In the first quarter of 1963 exports of EFTA as a group continued to rise but at a lower rate than in 1962. Imports remained practically unchanged. Looking at particular countries, the United Kingdom stands out in so far as it is not only the country which reports the highest rate of growth in its exports to the EEC countries, but is also the only EFTA country which expanded its exports to the European Community even more than in 1962. All continental EFTA countries increased their exports to the EEC at a lower rate than in 1962; Sweden's exports in the first quarter of 1963 were even below the figure for the corresponding period a year earlier.

The European Economic Community continued to be the most important trading partner of the EFTA countries. The Association's exports to the EEC in 1962 were valued at 5,504 million U.S. dollars, its imports at 7,622 million U.S. dollars. The import surplus resulting from this trade goes completely to the account of the continental EFTA Members, especially of Switzerland, which reached the extremely large import surplus of almost one billion U.S. dollars. The United Kingdom, on the other hand, transformed its (traditional) trade gap into an export surplus of over 200 million U.S. dollars. This was the result of the country's vigorous expansion of exports to the Community in the last two years.

The three leading traders of EFTA—the United Kingdom, Sweden and Switzerland—did almost three-quarters of EFTA's export to the EEC in 1962; the share of the United Kingdom alone accounted for 40 per cent. Nevertheless, Austria remained the country with the closest trade links with the EEC. More than half of Austria's total trade was with the Community.

Exports of the main commodity groups—machinery, transport equipment and other manufactures—expanded remarkably in the first three quarters of 1962 compared with the corresponding period in 1961. Sales of machinery and transport equipment in particular rose considerably above the average.

On the import side, purchases of machinery and transport equipment increased by over 10 per cent. As a result the share of this commodity group in total EFTA imports from the EEC reached almost 33 per cent. Manufactured goods, including chemicals, machinery and transport equipment accounted for three-quarters of EFTA's total imports from EEC countries.

The main feature in the trade with the United States is the sharp expansion of exports. Since 1959 EFTA's exports fell continuously and it was only in 1962 that they recovered. Owing to the low level of exports in 1961 the average rate of growth in 1962 reached 15.8 per cent. All EFTA Members benefited from this expansion.

The development in imports is less uniform. Some countries reported decreases in their purchases from the United States, others increased their imports. Taking EFTA as a whole, imports from the United States remained basically unchanged at the very high level of 1961. Trade slackened in the first quarter of 1963. Exports as well as imports declined.

Exports of machinery and transport equipment soared by over 30 per cent whilst other manufactures also increased remarkably by over 20 per cent during the first three quarters of 1962 compared with the corresponding period in 1961. These commodity groups represented 70 per cent of all EFTA exports to the United States.

The most notable change in the composition of imports is the increase in purchases of food, which went up by 46 per cent. This group now takes second place after machinery and transport equipment.

EFTA's Trade with Other Areas

The EFTA countries have always been important markets for the developing countries in Asia, Africa and Latin America. Developments in 1962 indicate that the creation of EFTA has not impeded trade with overseas countries; on the contrary, imports increased. The Association's trade with the developing countries is larger than intra-EFTA trade and imports in particular exceed intra-Area trade considerably. In 1962 EFTA absorbed from the above-mentioned three continents (excluding Japan) goods worth over 5,500 million U.S. dollars and this compares with 4,340 million U.S. dollars in intra-Area imports. The export surplus of the developing countries in their trade with EFTA increased in 1962 by two-and-a-half times compared with a year earlier and reached over 700 million U.S. dollars. It is true, however, that this is not only due to increased exports to EFTA countries, but also to reduced imports from them. There was a remarkable expansion in the value of shipments from Latin America into EFTA.

The largest elements in the composition of EFTA's exports to developing countries are machinery and transport equipment, other manufactures and chemicals. Although exports in these commodities declined during the first three quarters of 1962, they still accounted for almost nine-tenths of the Associations's total exports into the three areas under review.

On the import side, food, fuels and raw materials play the most important rôle. Imports of food and fuels increased, those of raw materials were lower than in the corresponding period a year earlier.

EFTA's Trade with Developing Countries
(1962)

	Exports			Imports		
	Africa	Asia (excl. Japan)	Latin America	Africa	Asia (excl. Japan)	Latin America
Value of trade (mill. US dollars)	1,667	1,988	1,175	1,576	2,343	1,620
Balance of trade	+91	—	—	—	—355	—445
Percentage change against 1961	—2.7	—7.3	—4.8	+2.5	+1.1	+6.4
Percentage share in EFTA's total trade	8.2	9.7	5.8	6.4	9.5	6.6
United Kingdom's share	78.2	78.9	60.8	81.2	85.7	67.9

(a) *Africa*

The characteristic feature of EFTA's trade with Africa is the predominant role of the United Kingdom's trade. About 80 per cent of EFTA's total trade with this continent fell to the share of the United Kingdom and the larger part of it was with Commonwealth countries. Portugal is however in the leading position when comparing in relative terms the share which Africa occupies in the total trade of Member States: 27 per cent of all Portuguese exports go to Africa, compared with 12 per cent in the case of the United Kingdom. In contrast to its trade with Asia and Latin America EFTA has a small export surplus vis-à-vis Africa. In fact all EFTA countries with the exception of Norway and Austria exported more than they imported. Total EFTA exports fell by 2.7 per cent in 1962, whilst imports rose by about the same percentage. This result is strongly influenced by the fact that the United Kingdom increased its imports and its exports fell, whereas the continental EFTA countries' exports to Africa rose and their imports decreased.

In the first quarter of 1963 EFTA's exports started to increase again and the Association's imports rose more than in 1962.

(b) *Asia (excluding Japan)*

As in the case of EFTA's trade with Africa, the United Kingdom is the main trader with Asia. Again 80 per cent of EFTA's total trade with Asia fell to the share of the United Kingdom; approximately half is Commonwealth trade.

EFTA's imports increased slightly in 1962 and attained 2,342 million U.S. dollars, thus exceeding exports by 355 million U.S. dollars. Exports of Member States to Asia fell, with the exception of swiss exports which increased.

In the first quarter of 1963 EFTA's exports recovered and imports from Asia (excluding Japan) increased at a much more rapid pace than in 1962.

(c) *Latin America*

The total EFTA figure was again to a high degree—although less than in the case of Africa and Asia—a reflection of the United Kingdom's trade which made up for two-thirds of the total.

EFTA's imports rose by over 6 per cent in 1962 and were valued at 1,620 million U.S. dollars. All Member States contributed to this result. The Association's exports fell by about 5 per cent; Sweden is the only country which increased its sales.

Both changes led to the high import surplus of 444 million U.S. dollars. In the first three months of 1963 EFTA's exports to Latin

America continued to decline whereas the Association's imports grew at a higher rate than the average for 1962.

(d) *Eastern Europe*

In general, trade with Eastern Europe plays a minor rôle in EFTA's total trade. Only 4 per cent of the Member countries' imports and exports combined were accounted for by trade with Eastern Europe. There is, however, one exception: Austria does a relatively high proportion of its foreign trade with countries of this region. In 1962 about 15 per cent of Austrian exports went to Eastern Europe, which supplied 11 per cent of its imports.

EFTA has an import surplus of 59 million U.S. dollars vis-à-vis Eastern Europe, mainly due to the high import surplus of the United Kingdom.

In 1962 a decline in British exports was offset by a sharp expansion in exports of continental Member countries; total exports of EFTA as a group thus went up by over 7 per cent. Imports rose less than a year earlier, but still by about 3.5 per cent.

In the first quarter of 1963 exports increased by over 13 per cent, while imports declined.

Manufactures, machinery and transport equipment played the most important rôle in exports. Sales of the latter commodity group went up by over 20 per cent during the first three quarters of 1962 compared with the corresponding period the previous year. Food, raw materials and fuels dominate in the composition of imports.

Finland's Trade

Finland's foreign trade continued to increase in 1962. Exports moved up by 4.7 per cent to 1,104 million U.S. dollars and imports rose by 6.5 per cent to 1,228 million U.S. dollars. This development resulted in the considerable import surplus of 124 million U.S. dollars, a surplus for the third consecutive year.

As regards the distribution of foreign trade by main trading areas, the statistics reveal a decline of Finnish exports both to EFTA and the EEC. This can to some extent be attributed to the fall in prices of paper and pulp. Exports to the Eastern bloc, particularly to the Soviet Union, soared mainly due to large sales of the metal-using industry. Imports from all the three major trading areas rose, and the expansion was most pronounced in the trade with EFTA. The United Kingdom is the leading trading partner of Finland followed by the Federal Republic of Germany and the Soviet Union.

The movement in the regional distribution of Finland's foreign trade accentuated the difficult problems which arise out of the imbalance in this trade. The import surpluses vis-á-vis the Federal Republic of

FINLAND'S FOREIGN TRADE, 1962

	Exports			Imports			Balance of trade million US Dollars
	Million US Dollars	Changes per cent	Share per cent	Million US Dollars	Changes per cent	Share per cent	
Austria	2.9	—21	0.0	8.9	+ 6	0.7	— 6.0
Denmark	40.6	+ 9	3.9	38.6	+ 5	3.2	+ 2.0
Norway	13.7	—30	1.3	17.2	+10	1.4	— 3.4
Portugal	0.8	—29	0.0	2.5	+56	0.0	— 1.8
Sweden	63.4	+ 6	5.8	148.1	+12	12.1	— 84.6
Switzerland	6.8	—37	0.6	31.3	+14	2.6	— 24.5
United Kingdom	223.7	— 4	20.4	186.2	+ 6	15.2	+ 37.5
EFTA	351.9	— 4	31.9	432.8	+ 9	35.2	— 80.8
EEC	317.0	— 3	28.7	423.4	+ 6	34.5	—106.4
Soviet Union	196.3	+54	17.8	168.1	+ 7	13.7	+ 28.2
USA	59.1	+27	5.3	62.9	— 3	5.1	— 3.9
TOTAL	1,104.1	+ 5	100.0	1,228.3	+ 6	100.0	—124.2

Germany and Sweden reached 119 million and 85 million U.S. dollars, respectively, and it is considered that this will become a burden in time to come. The relatively large export surplus in the bilateral trade with the Soviet Union does not help to mitigate the tight balance of trade.

On the export side, only paper and metals showed an increase. In all the other commodity groups there was a contraction. Since prices of paper industry products dropped in the second half of 1962, the volume increase in exports exceeded that of the value increase. Shipments of the metal working industry, predominantly composed of ships and machines, expanded briskly. This development, however, is exceptional and mainly due to the delay in certain large deliveries of ships originally scheduled for delivery in late 1961. Exports of forest products declined; in particular sales of round timber dropped sharply.

The commodity breakdown of Finnish imports shows a sharp expansion in purchases of investment goods and fuels, which went up by 11 and 12 per cent respectively. Raw materials and finished consumer goods increased at smaller rates.

At the end of the year some 350 items or sub-items representing about 9 per cent of the total value of the global quota programme for 1962 were liberalized.

Since import prices rose by 1.5 per cent and export prices fell by the same amount the Finnish terms of trade deteriorated by about 3 per cent.

PART IV

ASSOCIATION AGREEMENT WITH FINLAND

The Agreement creating an Association between the Member countries of the European Free Trade Association and the Republic of Finland entered into force on 26th June, 1961. The first tariff reduction and the first relaxation of quantitative import restrictions took place on 1st July, 1961, on which date duties on most of the trade in industrial goods between Finland and the EFTA countries were reduced by 30 per cent. At the same time a bilateral agreement between Finland and Denmark on trade in agricultural goods entered into force.

Operation of the Association Agreement

The governing body of the Finland-EFTA Association is the Joint Council created by the Agreement. It is composed of the members of the EFTA Council and representatives of Finland. It meets at regular intervals, generally bi-monthly, at the level of officials. The meetings are prepared by a permanent working group of deputies representing the eight members of the Finland-EFTA Association.

The first meeting of the Joint Council was held at Ministerial level in London in June, 1961. The second meeting at this level was held in Copenhagen a year later. During the period under review three meetings at this level took place, in Oslo on 22nd October, 1962, in Geneva on 19th February, 1963 and in Lisbon on 11th May, 1963.

The Chairman of the Joint Council is elected for a period of six months. The Chair was held by Norway from 1st July, 1962, and by Portugal from 1st January, 1963.

Finnish representatives have participated in the work of such EFTA committees and working groups that deal with subjects of interest in the relations between Member States and Finland under the Association Agreement (the Customs Committee, the Committee of Trade Experts, and *ad hoc* working groups on various trade questions). Finnish representatives have also participated in the two meetings of the Consultative Committee of EFTA which have taken place during the period under review.

The EFTA Secretariat provides the secretariat services for the Finland-EFTA Association and Finland therefore contributes to the budget of the Association by an annual payment.

Trade and Customs Questions

The Joint Council adopted all the decisions previously taken by the EFTA Council in the trade field up to the time of the decisions taken in Lisbon in May, 1963. The decision taken by the EFTA countries to accelerate the date of the tariff reduction from 70 to 60 per cent of basic duties was adopted by the Joint Council and put into effect as regards imports into Finland on 1st August, 1962. The reduction from the 60 per cent to the 50 per cent level was adopted by the Joint Council in November, 1962, and put into effect as regards imports into Finland from 30th April, 1963. The EFTA countries extended their tariff reductions to imports from Finland at the same time as the reductions took effect with regard to imports from Member States. The EFTA countries have offered to extend to Finland all the decisions adopted by them in Lisbon and the Finnish Government is at present considering this question. It is expected that the decision of the Finnish Government will be announced at the Ministerial Meeting of the Joint Council which will take place in Helsinki on 13th September, 1963.

During the period under review new marketing arrangements regarding agricultural goods were introduced in Finland. These arrangements mostly affected products which are not treated in the same way as industrial goods under the EFTA Convention. Since, however, a few products were affected, the new Finnish regulation system was studied in detail in connection with the items concerned. Solutions have now been found which will not infringe the obligations under the Association Agreement.

External Relations

The Joint Council is currently informed on the relations of EFTA with other relevant international organizations.

The Association Agreement was submitted to GATT in 1961 in accordance with Article XXIV of the General Agreement. When a second report on the progress made by the Members of EFTA in implementing the Stockholm Convention was presented to the 20th Session of the Contracting Parties to the GATT in November, 1962, information was given for the first time on the progress made in impleplementing the Association Agreement with Finland.

APPENDIX

Amendments and Implementation of the EFTA Convention.

The Timetable for Tariff Reductions

Article 3, paragraph 2 of the Convention was amended by Decision the Council No. 6/63, adopted on 10th May, 1963. By this Decision the timetable providing for elimination of the remaining 50 per cent of duties on trade in industrial goods between Member States was modified with the effect that remaining duties will be eliminated in four steps, three of 10 per cent on 31st December, 1963, 1964 and 1965, respectively, and one of 20 per cent on 31st December, 1966. The original timetable provided for elimination of the last 50 per cent of duties in five steps each of 10 per cent on 1st January, 1966, 1967, 1968, 1969 and 1970, respectively.

Final Date for the Elimination of Quantitative Import Restrictions

By Decision of the Council No. 7 of 1963, adopted on 10th May, 1963, paragraphs 2 and 3 of Article 10 of the Convention were amended. The amendment of paragraph 2 of Article 10 means that Member States shall eliminate their quantitative restrictions on imports not later than 31st December, 1966, instead of not later than 31st December, 1969, as originally prescribed in the Convention.

The amendment of paragraph 3 of Article 10 means that Member States shall relax their quantitative restrictions in such a way that a reasonable rate of expansion of trade is not frustrated and that no burdensome problems are created for the Member State concerned in the years immediately preceding 1st January, 1967. In the original text that date was 1st January, 1970.

Trade in Agricultural Goods

By Decision of the Council No. 8 of 1963, adopted on 10th May, 1963, a procedure was established for the annual review of trade in agricultural goods provided for in Article 25 of the Convention. The review shall be carried out each year before the end of July and an Agricultural Review Committee is established.

At the Ministerial Meeting in Lisbon on 10th May, 1963, a decision in principle on deletion of certain goods from Annex D to the Convention was adopted. By this decision the goods in question are given the benefit of the full free trade Area treatment, *i.e.*, in the first instance the elimination of duties and quantitative import restrictions. The formal decision defining in exact terms the goods subject to the decision was not yet taken at the time of writing the present report.

Economic Development

By Decision of the Council No. 9 of 1963, adopted on 10th May, 1963, an Economic Development Committee was established. The task of the Committee shall be to examine such questions relating to economic development in Member States as the Council may refer to it. The Committee shall submit reports and recommendations to the Council and shall have access to such special advice and assistance as may be necessary and appropriate for the fulfilment of its task.

Practices of Public Undertakings

By Decision of the Council No. 10 of 1963, adopted on 10th May, 1963, the date of 31st December, 1969 in paragraph 5 of Article 14 of the Convention was replaced by the date of 31st December, 1966. From this date discriminatory practices of public undertakings affording protection to domestic production, or discriminating against certain imports on the grounds of nationality, shall be finally eliminated.

The List of Qualifying Processes and the Basic Materials List

A number of qualifying processes and a few related items in the basic materials list are valid only for a limited period. By Decision of the Council No. 5 of 1963, adopted on 25th April, 1963, the validity of these processes was prolonged until 31st December, 1963. By Decision of the Council No. 18 of 1962, adopted on 18th December, 1962, a new qualifying process for fishing nets was adopted.

By Decision of the Council No. 13 of 1962, adopted on 10th September, 1962, chemically modified lignite waxes and mixtures of such waxes were added to the basic materials list which consists of goods which regardless of their provenance are treated as if they were of Area origin when used to produce other goods within the Area.

Documentary Evidence of Origin

By Decision of the Council No. 14 of 1962, adopted 2nd October, 1962, rules were established on certificates of origin issued in a Member State other than the country of production.

By Decision of the Council No. 3 of 1963, adopted on 22nd February, 1963, provision was made for Area tariff treatment of goods of Area

origin consigned to a Member State from an exhibition in a non-Area country.

Basic Duties

By Decision of the Council No. 2 of 1963, Portugal was authorized to adopt new basic duties for a number of nitrogenous fertilizers. These duties will be reduced in accordance with the timetable set out in Annex G to the Convention.

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