

**1965-1966**

**Sixth Annual Report  
of the  
European Free Trade  
Association**



**Geneva - September 1966**

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# I. Survey of the year

## The year in EFTA: 1965-1966

**The most pressing task for the EFTA countries in the past year has been to prepare for the accomplishment, at the end of 1966, of the EFTA objective of a single free trade market for manufactured goods of almost 100 million people.**

One important step towards this objective was taken on 31st December 1965, when the EFTA Governments made a further cut of 10 per cent in the tariffs on manufactured goods traded within the Association. At the same time, the few remaining quota restrictions were further liberalized. At the end of the period covered by this Report, only six months remained before the remaining 20 per cent of these tariffs and virtually all quotas will be abolished between the seven Member countries of EFTA (apart from certain duties and quotas in Portugal, which benefits from a slower timetable) and will be reduced to only 10 per cent of their 1960 level in Finland, the associate Member. The imminence of this date — the original date envisaged was 1st January 1970 — meant a heavy concentration of work on the internal co-operation of the Association.

Another development of importance to the completion of the Free Trade Area was the announcement in May 1966 by the British Government that the temporary charge on imports of manufactured goods would lapse at the end of November. This announcement was welcomed by the other EFTA Governments.

The degree of trade liberalization already reached has led to very satisfactory results. Trade between the eight EFTA countries has approximately doubled since 1959 and has even increased by 150 per cent between the four Nordic countries. However, the removal of orthodox barriers to trade — that is, of tariffs and quotas — is only part of the task of completing EFTA's Free Trade Area. In such conditions, non-tariff barriers trade might well become more important than before and the reduction of these barriers was therefore central to the work of EFTA during the year.

In fact, five Articles of the Stockholm Convention, Articles 13 to 17, are concerned with non-tariff barriers in the shape of obstacles to free competition. On two of these, restrictive business practices (Article 15) and the rights of establishment (Article 16), EFTA Ministers agreed, during the year, and published \*, interpretations of the obligations involved by the Convention. The progressive elimination of protective or discriminatory practices of public undertakings in EFTA (Article 14) has been the subject of study by experts, whose report has been presented to the Council. Government aids (Article 13) and the problems of dumped and subsidized imports (Article 17) are now also being studied by expert working parties.

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\* Appendix I, see pp. 39-41 and pp. 42-43

## **Trade in agriculture and fish**

EFTA Ministers have considered both these aspects of EFTA co-operation in the past year. At their meeting in Bergen in May 1966, the Ministers agreed to invite countries to engage in bilateral talks with a view to the further reduction or removal of barriers to trade in agricultural products. They also agreed that those EFTA Governments lacking legal powers to deal, in the interests of other EFTA countries, with the problems created by dumped and subsidized exports of agricultural products from third countries should endeavour to seek those powers from their respective parliaments.

At their meeting in Vienna in May 1965 EFTA Ministers had agreed that a study should be made of trade between the EFTA countries in fish and other marine products. As a result, the EFTA Secretariat has now prepared such a study, based on the replies to a questionnaire sent to all EFTA countries. The report has been circulated and was being studied by Member Governments at the end of June.

These actions by Ministers were taken in the light of the objective of EFTA of facilitating an expansion of trade which will provide reasonable reciprocity to Member States whose economies depend to a great extent on exports of agricultural goods, fish and other marine products. This objective refers particularly to Denmark, Norway and Portugal, the three EFTA countries most dependent on exports of these goods. The attainment of the objective is felt by those countries to be of growing importance as EFTA trade in industrial products is increasingly freed from restrictions of all kinds.

## **Development of EFTA institutions**

Another facet of the preparations for the completion of the Free Trade Area was a request by EFTA Ministers, in Vienna in May 1965, that the institutional framework of EFTA be investigated to see if it was adequate to meet present and foreseeable circumstances. A report on this subject was given to Ministers in Bergen in May 1966. The Ministers noted that no large or immediate changes were needed in the EFTA structure, which had evolved in a satisfactory way over the years. Changes in practice were however agreed, particularly that Member Governments arriving at a bilateral settlement of a dispute between them should inform the EFTA Council, so that the Council could have the opportunity of satisfying themselves that the Convention was being interpreted in a fashion acceptable to all.

In this context, it should be noted that there were two trade disputes between EFTA countries during the year in which bilateral discussions failed to arrive at settlements. As a result, two formal complaints were made under the consultation and complaints procedure of Article 31 of the Convention and both were dealt with in the EFTA Council (see pages 26-27).

The Consultative Committee of EFTA has also been studying the possibility of developing the institutional framework of the Association and recommended to the Council that a new body be set up under the Consultative Committee to examine economic and social problems arising from structural or other changes brought about in the EFTA market. This suggestion was accepted by Ministers at their meeting in Bergen and more details concerning the membership and mandate of this new body are given later in this report.

The Economic Committee, which was established at the end of 1964, has since kept under review the general economic situation in EFTA and the particular position of each Member country. In addition to regular meetings, the Committee held a special meeting in December 1965 at the request of the Government of Finland, to consider a series of measures contemplated by the Government to deal with its increasingly difficult balance of payments problem. As a consequence of this meeting, the Secretariat has made an analysis of the structural aspects of the Finnish balance of payments problem and of the impact of EFTA integration upon the traditional home-market industries in Finland.

Another EFTA institution, the Economic Development Committee, has also got into its stride in the past twelve months. This has now established its rôle as a clearing house for expert studies of detailed questions of importance to Member Governments. A series of working parties has now been set to work by the Committee, examples of their activities being: to advise Portugal on the development of tourism in the Algarve; to investigate the handling of general cargo in ports; to study the concept of "growth points" in regional development; and to arrange meetings between Portuguese industrialists and their counterparts in other EFTA countries to discuss arrangements for sub-contracting work for Portuguese industry.

### **The objective of a single European market**

The other main activity of the year was directed to seeking to bring nearer the single European market which is the objective of all EFTA countries. Last year's Annual Report recorded the determination of the EFTA Governments, expressed at their meeting in Vienna in May 1965, to take another initiative with a view to bridging the growing gap between the two trading groups in Europe. A number of studies were made during the summer of 1965 of matters of importance to European trade which might form a basis for constructive discussion between EFTA and the EEC.

The EFTA Ministers met again to consider these problems in Copenhagen at the end of October 1965, and invited the EEC to establish a dialogue with EFTA at all possible levels, and so benefit European trade. It was realized that in the circumstances of the crisis then prevailing in the EEC, this invitation could not expect an early reply and, in the event, when EFTA Ministers met again in Bergen in May 1966, no reply had been received.

At their Bergen meeting, the EFTA Ministers once more directed their main attention to the problems of European integration and found

themselves in agreement on the fundamental issues. They reiterated their conviction that a wider integration of the European economies would benefit Europe and the world and pledged their governments to pursue by all available means the objective of such an integration.

**The Ministers agreed that their governments would keep each other fully informed of their individual efforts to this end and would remain in close consultation at all stages. They also decided that the EFTA Secretariat should review and analyse the economic impact of the divergence between the two trading groups, with its waste of existing and potential resources. The Ministers recalled the Copenhagen invitation to the EEC to initiate contacts on matters of interest to European trade and said that the invitation still stood.**

Despite the slow progress of the Kennedy Round in the year under review, the interest of the EFTA countries in a successful outcome remained as strong as ever. In their communiqué issued after the Bergen meeting (see Appendix I), the EFTA Ministers pledged themselves to do everything in their power to facilitate a successful conclusion of the negotiations. Co-operation between the delegations of the EFTA countries to the GATT has been close and continuous in the Kennedy Round and it is intended that this process of consultation, which has proved of value to everyone concerned, should be intensified in the future.

## **Economic developments in the EFTA Countries**

*Austrian* GDP grew by 3 per cent in 1965, as against 6 per cent in 1964; the slower growth of output than of demand caused a running down of stocks and an increase in imports. Personal incomes and private consumption rose rapidly in 1965 but public expenditure increased only half as fast as the year before. In 1966 no great improvement in the growth rate is expected. Private consumption and exports should rise, but not public expenditure; nor is gross physical capital formation likely to show much increase. The differing growth rates in output and demand will lead to a further sharp rise in imports and to increased pressures on wages and prices. Some further stabilization attempts should therefore be expected.

Because of an increased deficit in visible trade — imports rising by 12 per cent as against exports by 10 per cent — combined with a net capital outflow, there was a balance of payments deficit in 1965, the first for ten years.

The pressure of domestic demand decreased in the second half of 1965 in *Denmark* as stricter fiscal and monetary measures began to take effect; new housing starts fell considerably below the levels of the previous year; some weakening of industrial investment in machinery and equipment became apparent; and private consumption also grew less rapidly. Demand

and supply thus moved into better balance in the course of the year while GDP increased in real terms by between 4 and 5 per cent on 1964. Exports of goods and services increased slightly more than imports and the deficit on current account of the balance of payments was in consequence a little smaller in 1965. The foreign exchange reserves increased during the year as a result of considerable private capital imports. In 1966 the increase in economic growth is expected to slow down as a result of a slower rise in total demand. The demand from exports and public expenditure will remain expansionary while private investment may show little change and private consumption increase relatively slowly. The total increase in demand is expected to be somewhat smaller than in 1965. Since the industrial working week was reduced by one hour as from 1st March 1966, the potential increase in production will be limited to increases resulting from increased productivity.

In *Finland*, 1965 was a year of good economic growth and relative price stability. The volume of GDP was up about 5 per cent, while consumer prices over the year rose by 3.4 per cent and wholesale prices remained practically unchanged. However, despite the range of measures introduced to improve the external disequilibrium, the balance of payments situation continued to deteriorate. Although commodity exports grew slightly faster than imports, (by 10.5 per cent and 9.3 per cent in value respectively), partly due to a favourable development in the terms of trade, the trade deficit attained a new record of 220 million US dollars, and the deficit on current account was close to 185 million dollars. Only a small part of the deficit could be financed by capital imports. Thus, Finnish reserves of gold and convertible currencies declined by almost 100 million dollars or roughly one-third over the year.

Economic activity began to slow down during the second half of 1965 and continued to do so in the early months of 1966. Growth envisaged for this year is less than 2.0 per cent and the balance of payments situation will remain one of the main problems; the trade deficit during the first quarter of 1966 was still nearly 150 million dollars, or somewhat lower than in the corresponding period of 1965; exports in early 1966 were adversely affected by the very severe winter.

The level of economic activity remained high in *Norway* during 1965, real GDP rising by almost 6 per cent. Exports and fixed investment were the main dynamic elements. Despite an increase in private incomes of almost 12 per cent during the year, private consumption rose by only 3 per cent. Consumer prices increased by between 2½ and 3 per cent. A high rate of utilization of capacity continued and the labour market showed signs of tightness, with unemployment falling and vacancies rising during the year. Imports of goods and services rose more than exports, partly as a result of a higher rate of investment in ships bought abroad, and the deficit on current account of the balance of payments was slightly higher than in 1964, although considerably smaller than the average of the last five years. The current account deficit was, however, more than offset by the surplus on capital account and exchange reserves rose during the year. The national budget for 1966 forecasts economic growth of between 4 and

5 per cent. Increases of about 4 per cent are forecast in gross fixed asset formation, public consumption and private consumption; exports are expected to rise by 6 to 7 per cent in volume, faster than imports (5 per cent).

The most recent estimates of economic development in *Portugal* in 1965 indicate that GDP increased by 12 per cent compared with 9 per cent in 1964. Output from manufacturing industry and construction rose by 20 per cent, the same as in 1964, but agricultural output rose by 8 per cent after recording a fall in 1964. Total consumption by the public and private sectors rose by 12 per cent in real terms in 1965, but gross fixed capital formation increased by only 4 per cent. The domestic price level rose more quickly in 1965 than previously, under the influence of high domestic demand.

The Portuguese trade deficit increased; exports rose by 11 per cent (current prices) and imports rose by 14 per cent (current prices). Earnings from tourism, however, continued to expand in spectacular fashion and were 40 per cent up on 1964; private inward transfers also rose by 10 per cent, so that the current external accounts as a whole were roughly in balance.

Real GDP rose by 3.5 per cent in *Sweden* in 1965, a rate well below the average of the previous four years. The growth rate for 1966 is expected to be slightly higher than that for 1965. Domestic demand increased more rapidly than GDP in 1965 and some pressure on resources appeared. Imports expanded more than exports (by 13.6 and 8.1 per cent in value respectively) and the trade deficit of over 2,000 million Swedish kroner was more than double that of 1964. Labour costs rose more rapidly in 1965 than in 1964, as did consumer prices although the latter was partly due to increased indirect taxation. Some slowdown in the growth of domestic demand is expected in 1966, even on the assumption that personal incomes would rise at the same rate as last year. The outcome of the recent wage negotiations indicated a rise of some 20 per cent in the wage bill during the next three year period. Both imports and exports of goods and services are expected to increase by around 4 per cent in 1966, which would not bring about any improvement in the current external balance.

The pressure of demand eased in *Switzerland* in 1965, domestic demand increasing by 3.2 per cent in real terms and exports by 12 per cent in value. The growth of fixed investment virtually ceased as a result of the measures taken in the stabilization programme, which also influenced the development of private consumption. Imports grew by only slightly more than 2 per cent and with the substantial fall in the net inflow of capital the overall balance of payments position improved. Developments in 1966 will be dependent upon the policy measures adopted by the Government; while a certain degree of price stability has been achieved, its continuation would seem to depend upon the maintenance of some restrictions on demand. Given present policies, output will probably grow modestly in 1966, with exports as the main expansionary influence, while investment and consumers' expenditure should remain relatively stable.

The rate of economic expansion in the *United Kingdom* in 1965 dropped considerably from the high rate recorded in the previous year, as the various

fiscal and monetary measures introduced between October 1964 and July 1965 took effect. The GDP was  $2\frac{1}{2}$  per cent higher in 1965 than in 1964. Total fixed investment levelled off, after rising strongly since the second half of 1963; investment by manufacturing industry was 9 per cent higher than in 1964, while other private investment (excluding house-building) declined. Total house-building fell slightly over the year, some increase in building by the public sector partially offsetting a fall in private construction. Public sector investment was 5 per cent higher in real terms in 1965, a rather smaller increase than in the previous two years. Stockbuilding continued to increase, although at a slower rate than in 1964. Consumers' expenditure recovered in the last six months of 1965, after dropping in the second quarter after the budget; even so, consumer spending in the final quarter was still less than 1 per cent higher than a year earlier.

An outstanding feature of the economic situation in the United Kingdom in the past eighteen months has been the continuing high level of demand for labour, although final output has been rising only slowly. The seasonally adjusted figure for unemployed in April 1966 was 1.3 per cent of the labour force, the lowest figure for April for ten years. The pressure of demand for labour seems to have evolved from reductions in the normal working week from 42 to 40 hours and possibly some hoarding of labour against expectations of an increase in output. The narrow margin of unemployed labour was one factor in the continuing expansion in earnings, which were  $9\frac{1}{2}$  per cent higher in October 1965 than a year earlier and seem to have continued to grow strongly in the nine months since. Total personal incomes rose 8 per cent between the second half of 1964 and the second half of 1965 but taxation increases and price rises reduced the real increase in disposable incomes to less than 1 per cent.

There was a substantial improvement in the United Kingdom balance of payments in 1965. The deficit on current and long-term capital accounts combined was about 350 million pounds, compared with 770 million pounds in 1964. There was also a large positive balancing item so that only 250 million pounds had to be financed from the reserves. The main improvement was recorded in visible trade. Exports at current prices were 7 per cent higher than in 1964 (5 per cent in volume terms) and imports rose by only 1 per cent; the visible trade deficit was 265 million pounds. With the invisibles balance unchanged from the 1964 level, the current account showed a deficit of 136 million pounds in 1965 compared with 406 million pounds in 1964. The net capital outflow was also reduced, most of the improvement being recorded on private account, where the outflow was reduced to 140 million pounds.

Continued expansionary movements led to further restrictions being placed on credit and bank advances, in February 1966. The sharp rise in imports in the first quarter also led to a worsening of the trade deficit — 72 million pounds (seasonally adjusted) compared with 34 million pounds in the final quarter of 1965. In the light of the intention of the United Kingdom Government to restore the external balance to equilibrium in the course of 1967, GDP in 1966 cannot be expected to increase any faster than in 1965 and unemployment may begin to rise towards the end of the

EFTA TRADE 1965  
(measured by exports f.o.b.)

(in million US dollars)

From: To:	Austria	Denmark	Finland	Norway	Portugal	Sweden	Switzerland	United Kingdom
Austria . . . . .	—	23.4	3.8	8.3	6.3	36.7	123.7	101.2
Denmark . . . . .	26.2	—	53.7	103.9	11.8	357.5	55.4	357.5
Finland . . . . .	13.0	48.1	—	27.2	3.2	200.2	34.6	204.5
Norway . . . . .	14.2	131.2	16.1	—	5.1	466.0	35.8	247.1
Portugal . . . . .	7.4	8.5	2.6	6.5	—	21.8	32.9	114.8
Sweden . . . . .	51.6	285.4	100.1	226.8	19.1	—	99.2	631.6
Switzerland . . . . .	119.8	55.3	8.3	16.3	10.1	82.0	—	266.9
United Kingdom . . . . .	62.2	507.1	285.6	256.8	100.8	527.5	208.0	—
Total EFTA . . . . .	294.4	1,059.0	470.2	645.8	156.4	1,691.7	589.6	1,923.6

Source: OECD Series A and National Statistics.

year. Exports must continue to expand rapidly if external equilibrium is to be re-established. Fixed investment by the private sector is expected to remain at around the 1965 level and consumption will rise only slowly this year.

## **EFTA trade**

While the broad upward trend in the trade of the EFTA countries continues — exports again rose by about 10 per cent in the past year and imports by 9 per cent — a number of special factors makes detailed analysis difficult in the short term. An exceptionally severe winter closed the Baltic ports for much longer than usual, with effects on the seaborne trade of Finland and Sweden: a comparison of EFTA's trade performance with the United States in the first part of 1966 was rendered unusually difficult because of the dock strike in the United States a year earlier; and the strike of the British seamen in the spring of 1966 has had effects on British trade which cannot yet be assessed.

On the other hand, the long-term trends are sufficiently clear. During the twelve months up to end-March 1966 intra-EFTA imports reached a monthly average of 612 million dollars or twice the 305 million dollars which prevailed in 1959. In other words, trade between the EFTA countries has doubled since the Association was brought into being. In the same period, the monthly rate of intra-Nordic imports (i.e. the amounts imported from each other by Denmark, Finland, Norway and Sweden) has risen from 69 million dollars to 168 million dollars, meaning that the four Nordic members of EFTA have multiplied their trade with each other two-and-a-half times since 1959. These are solid achievements.

The detailed effects of the process of tariff dismantlement inside the Free Trade Area of eight countries are difficult to analyse with any certainty. Many other factors have been operating, the most important being the general prosperity over the past six years of the countries of Western Europe, with which area the EFTA countries transact some 60 per cent of their total trade.

However, the main result of EFTA trade co-operation can plainly be seen in the fact that trade between the EFTA countries has increased by an average of nearly 12 per cent a year since 1959, compared with the annual rate of 5.6 per cent which prevailed in the six years before 1959. Intra-EFTA trade has also increased more rapidly than trade with countries outside the Association. EFTA trade with the EEC, for example, has grown at about 10 per cent a year, or roughly at the same rate as before the Association was formed. EFTA trade with the rest of the world has increased by an average of about 6 per cent a year: although twice as fast as before 1959, this is still a much lower rate of increase than that of the growth of trade between the EFTA countries themselves.

To a greater or lesser extent, all the EFTA countries have participated in the rapid expansion of trade with their partners. This has meant that

INTRA-EFTA TRADE IN 1965 AND TOTAL IMPORTS (c.i.f.) AND EXPORTS (f.o.b.)  
BY COUNTRIES IN MILLION US DOLLARS AND ANNUAL GROWTH RATES ON 1964 AND 1959

	FROM EFTA			FROM WORLD			TO EFTA			TO WORLD		
	1965	1965/ 1964	Annual average 1965/59	1965	1965- 1964	Annual average 1965/59	1965	1965/ 1964	Annual average 1965/59	1965	1965- 1964	Annual average 1965/59
Austria . . . . .	313.3	+15.4	+15.0	2,100.6	+12.7	+10.7	294.4	+6.5	+16.8	1,600.3	+10.8	+8.8
Denmark . . . . .	1,020.2	+9.7	+11.5	2,811.2	+8.3	+9.9	1,059.0	+8.5	+10.9	2,273.3	+9.5	+8.7
Finland . . . . .	560.9	+16.6	+15.2	1,635.7	+9.1	+11.8	470.2	+6.8	+11.1	1,418.1	+10.2	+9.2
Norway . . . . .	924.6	+13.5	+11.4	2,205.7	+11.2	+9.0	645.8	+11.8	+11.9	1,442.6	+10.2	+10.1
Portugal . . . . .	193.6	+17.8	+11.9	895.9	+17.7	+11.2	156.4	+18.3	+20.6	569.3	+10.5	+11.9
Sweden . . . . .	1,424.2	+15.8	+15.2	4,378.6	+13.7	+10.6	1,691.7	+11.4	+12.9	3,973.2	+8.3	+10.4
Switzerland . . . . .	547.7	+1.8	+14.2	3,680.9	+2.3	+11.5	589.6	+13.9	+13.4	2,972.6	+12.0	+9.9
United Kingdom . . . . .	2,193.5	+5.4	+8.9	16,137.8	+1.5	+6.3	1,923.6	+7.6	+9.5	13,710.4	+7.6	+6.0
Total EFTA . . . . .	7,178.0	+10.2	+11.9	33,846.4	+5.6	+8.4	6,830.7	+9.6	+11.6	27,959.8	+8.8	+7.8

Source: OECD Series A and National Statistics.

the share of Member countries' trade done inside EFTA is steadily on the increase. In 1959, the imports of the EFTA countries from each other accounted for 17½ per cent of their total imports, and now amount to about 22 per cent. Similarly, the share of total EFTA exports going to partner countries has risen from just under 20 per cent to about 25 per cent. It should be noted that this is a reversal of the trend which prevailed in the period 1953-1959. On the other hand, the EFTA countries' trade with the EEC, which had grown rapidly in importance in the period 1953-1959, has since shown a slower increase in both directions, the notable exception, for a time, being the United Kingdom, which mounted a very successful export drive to the Six between 1959 and 1963. It was in fact this increase in British exports to the EEC which made the EFTA performance as a whole show a better average than was justified by the export performance of the other EFTA countries in the EEC markets.

### **Intra-EFTA trade**

Total intra-EFTA exports in 1965 were 6,831 million dollars, an increase of 9.6 per cent over the 1964 figure of 6,231 million dollars.

All EFTA countries increased their purchases from their EFTA partners, although Switzerland's increase was only 1.8 per cent — in fact at a lower rate than the increase of her imports from the world as a whole. The other EFTA countries, with the exception of the United Kingdom with a 5.4 per cent increase, raised their imports from EFTA by between 10 per cent and 20 per cent.

Within the Area, intra-Nordic trade continued to be an extremely dynamic element, increasing by over 17 per cent on the 1964 total, 2,016 million dollars as against 1,717 million dollars. The rapid rise in Norwegian and Swedish exports to the other Nordic countries was the most impressive result. Much of this growth in trade is based on "quality" goods of all kinds but especially machinery and consumer goods.

Despite the United Kingdom surcharge on manufactured goods, only Austria, Finland and Norway failed to increase their exports in 1965 to this largest EFTA market (these three countries registered falls of —5.8 per cent, —0.7 per cent and —0.8 per cent respectively).

### **EFTA trade with the EEC**

All EFTA countries increased their exports to the EEC during 1965, the total percentage being just over 5 per cent. The United Kingdom, accounting for 37 per cent of EFTA's exports to the Six, increased its sales in 1965 by 2.1 per cent. British exports to the Netherlands, France and Italy, however, all fell (—2 per cent, —6 per cent and —16 per cent respectively).

EFTA imports from the Community continued to increase at a high level in 1965 and were 8.8 per cent more than in 1964 (varying from Switzer-

land with 3 per cent to Portugal with 24 per cent). The result of the greater rise in imports compared with exports was to raise the EFTA deficit on visible trade with the EEC to new height of 3,021 million dollars. This represents an increase of 80 per cent over the deficit of 1,681 million dollars recorded in 1959.

In the first few months of 1966, however, the situation changed, with EFTA exports to the EEC increasing by over 11 per cent and EFTA imports from the EEC by 8.5 per cent. It is, of course, impossible to know whether this represents any real change in the long-term trend, but renewed economic expansion in France and Italy seems to be having a healthy effect on the figures.

### **EFTA trade with the USA**

Supplying nearly 60 per cent of EFTA's exports to the USA, the United Kingdom increased its sales in 1965 by 21.5 per cent over 1964, compared with an annual average increase 1959-1964 of only 2 per cent. This increase was due to exports of passenger aircraft, iron and steel and a wide range of consumer goods. All the EFTA countries shared in the benefits of the booming American economy and Norway, with an increase in exports of 7.1 per cent, was the only country with a rate of increase to the USA of under 10 per cent.

There was less consistency when considering imports. Switzerland, Austria and Portugal all had lower imports from the USA in 1965 as against 1964 but the other countries all bought more. The figure for EFTA as a whole was +3.6 per cent.

The overall deficit in EFTA's trade with the USA was 740 million dollars in 1965 — a fall of more than 25 per cent compared with 1964.

### **EFTA trade with the rest of the world**

EFTA's imports from the "rest of the world" rose by only 1.4 per cent in 1965 compared with 1964. This showed a considerable decline from the previous annual growth rate since 1959 of 13.4 per cent. The cause of this decline was an absolute fall in imports into the United Kingdom from this area of 1.0 per cent; such is the importance of the United Kingdom's share of trade with this area (about two-thirds of the EFTA total) that this fall largely offset increased imports by the other EFTA countries.

On the other hand, the gain in EFTA exports to the "rest of the world" in 1965 was higher at 8.7 per cent than the 4.3 per cent average for the previous five years. Every EFTA country shared in this increase.

The EFTA deficit in its trade with this area (largely the less-developed countries of the world) was 1,713 million dollars in 1965, compared with 1,070 million dollars in 1959.

## **II. Internal developments in EFTA**

### **Tariffs and quotas**

#### **Further EFTA tariff reductions**

In accordance with the agreed timetable, a further reduction of 10 per cent was made on 31st December 1965, in the level of protective tariffs on most industrial goods traded between Member States (Finland, the Associate Member, is dealt with on pages 28-29). These tariffs now stand at 20 per cent of their level on 1st January 1960 (the basic duties), and the final reduction to zero will take place on 31st December 1966. The only major exception covers the slower timetable which applies to the removal by Portugal of certain tariffs and quotas: these tariffs currently stand at 70 per cent of their basic level and will be reduced by a further 10 per cent on 31st December 1966.

#### **Quantitative import and export restrictions**

In the course of the period covered by this report Member countries which still had import quotas have abolished a number of these and the few remaining quotas have been increased considerably. The abolition of quotas maintained under Article 10 under the Convention will, with very few exceptions, be carried out by 31st December 1966.

According to Article 12 of the Convention certain import/export control measures may be maintained if they are not used as "means of arbitrary or unjustifiable discrimination" or as a "disguised restriction on trade between Member States". Such control measures can be maintained to protect human, animal or plant life, to protect copyrights or national treasures of artistic, historic or archaeological value etc. Similar provisions exist in the General Agreement on Tariffs and Trade (GATT) and in the Rome Treaty. A working party has examined the measures notified by Member countries under Article 12 and recommended some changes which have been endorsed by the Council. The Committee of Trade Experts will deal with any problem under Article 12 which may arise in the future.

#### **The origin rules**

The EFTA rules of origin have continued to operate smoothly. Two small changes have been made in the process rules for textile products\*, and a number of changes of a textual nature have been made to keep the schedules of Annex B in line with the Brussels Nomenclature.

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\* See also Appendix II to this report.

## **Annexes D and E**

No changes were made in Annexes D and E to the Convention during the period covered by this report. However, certain EFTA countries agreed that they would abolish the tariffs on various Annex D goods with effect from 31st December 1966.

### **The "15 per cent" rule**

Slower timetables for EFTA tariff reductions exist for a few products in Norway and for a considerable number of products in Portugal. The two countries concerned are required to submit annually statistics on these products showing production and export figures over the last three years. If the exports of any such products amount to 15 per cent or more of production during the reference period, the product concerned ceases to be eligible for the protection of the slower timetable. The 1965 statistical examination showed that in both countries, exports of some products had been higher than 15 per cent over the last three years. Imports of such products have consequently been made subject to the normal tariff reduction schedules. Further items will probably be added in the years to come.

## **Operation of the Free Trade Area**

### **United Kingdom surcharge on imports**

Following its reduction from 15 per cent to 10 per cent in April 1965, the temporary charge imposed by the United Kingdom on most imports other than food and raw materials remained at 10 per cent throughout the year covered by this report. As recorded in the introduction to this report it was announced in May 1966 that the charge would lapse on 30th November 1966. The special working party which was established in November 1964 to examine the United Kingdom balance of payments problem, met before the Ministerial meetings held in Copenhagen and Bergen and reported to Ministers on both occasions on the balance of payments situation of the United Kingdom and the effects of the import charge on the exports of the other EFTA countries.

### **Export rebates**

In October 1964, the United Kingdom introduced a system of rebate of certain internal taxes on exported goods. The system was examined in a special working party and later discussed in the Council on the basis of a report by the Secretary-General. The Council has decided that, as from 1st January 1967, when the tariffs on industrial goods of EFTA origin will be substantially eliminated in EFTA, exports of industrial products may not benefit both from EFTA tariff treatment and from rebate of certain types of indirect taxes (e.g. taxes on ancillary materials, equipment and

services, etc. used in the process of production and marketing and entering into the cost of production). As from that date, the United Kingdom Government will modify its export rebate scheme so that British exporters will no longer be able to claim tax rebate on exports in respect of which they claim EFTA tariff treatment.

### **Drawback**

Article 7 of the Stockholm Convention provided that from 1st January 1970, Member States could refuse EFTA tariff treatment to goods benefiting from drawback. At their meeting in Copenhagen in October 1965, Ministers decided to bring this date forward to 31st December 1966, the date on which EFTA will become a complete free trade area for most industrial goods. From that date EFTA goods traded between Member countries will not be able to benefit from both EFTA tariff treatment and drawback. In April 1966 the EFTA Council reached agreement on the new wording for the EFTA Convention and its Annexes; these texts, together with an explanatory article, were published in the EFTA Bulletin for July 1966 (Vol. VII, No. 5).

### **Price differences for agricultural raw materials**

The Council has continued its examination of the problem foreseen by some Member States from the reduction of duties on imports of certain processed foodstuffs. These contain a high proportion of agricultural raw materials which are part of Annex D of the Convention and therefore not eligible for EFTA tariff treatment. In certain countries, domestic producers of these processed foodstuffs must pay prices for their raw materials much higher than world market prices. In November 1965, as an interim measure, the Council extended until 30th December 1966, the permission previously granted to Austria and Switzerland to postpone further tariff reductions on certain sugar confectionery, chocolate and biscuits (Decision No. 15 of 1965, binding also Finland by Joint Council Decision No. 7 of 1965). At their Bergen meeting in May 1966 Ministers agreed that this décalage should be further extended to 31st December 1967, and that discussions should continue in the Council with the aim of finding a permanent solution to the problem.

### **Revenue duties**

In 1965 the Council requested the Customs Committee to examine the revenue duty lists of the Member countries and the manner in which the obligations under Article 6 of the Convention are being interpreted and fulfilled. The Customs Committee has now concluded its examination and reported its findings to the Council. As a result of the examination certain Member States have undertaken to adjust or have already adjusted revenue duties in a few cases which were found not to be in conformity with the Convention.

## **Administrative barriers to trade**

As the importance of barriers to intra-EFTA trade will increase when import duties and quantitative restrictions are finally eliminated, the Council in 1965 instructed the Committee of Trade Experts to examine any such cases which might be brought to its attention. This work has in several cases resulted in modifications of national regulations or administrative practices. The Committee of Trade Experts has also studied the impediments to trade caused by the marking regulations applied in Member States.

## **Other border charges**

In addition to protective duties and fiscal charges, certain other charges must sometimes be paid when goods are imported. These include Customs fees, service charges, statistical taxes, landing fees, harbour dues, trade association levies, etc. On the instructions of the Council, the Customs Committee has been engaged in drawing up a list of such existing "other border charges"; its findings were submitted to the Council at the end of June 1966.

## **Internal taxes**

The Council has given the Customs Committee a mandate to report on the internal taxes charged by Member States on the importation of EFTA goods, with a view to ensuring that such taxes do not have any protective effect.

## **Consignment Rule**

The EFTA Consignment Rule has been relaxed for a trial period. The relaxation permits the granting of EFTA tariff treatment for goods which have been stored in a Customs warehouse in a non-EFTA country. The main conditions governing this concession are that not more than twelve months elapse between their export from an EFTA country and their import into another EFTA country, that the goods are continuously in the non-EFTA Customs warehouse and that they do not undergo any operation, other than repacking into non-retail packing, in the non-EFTA country. The relaxation came into force with effect from 1st October 1965.

## **Duty-free allowances for tourists**

The Customs Committee has been given a mandate to examine and report upon the regulations applied in Member States as to duty-free allowances for tourists.

## **Portuguese iron and steel industry**

In view of certain difficulties at present encountered by the Portuguese iron and steel industry, a working party composed of experts from several Member countries has begun to study the present and future situation of this industry.

## **Dumped and subsidized imports of industrial goods**

At the Ministerial meeting in Vienna in May 1965, Ministers requested the Council at official level to report whether further steps should be taken to ensure the satisfactory operation of the provisions of Article 17 of the Convention, which is the Article dealing with dumping. With this request in mind, the Council decided in February 1966 that a working party of experts from all Member States should be convened to consider the adequacy of Article 17. The working party met for the first time in June 1966. In order to enable the Secretariat to prepare the meetings of the working party, national administrations have transmitted information on their legislation and its application in practice.

## **Government aids**

So that the Free Trade Area can produce the benefits expected from the removal or absence of duties and quantitative restrictions, it is necessary to ensure that those benefits are not frustrated by government aids to export or production of goods. Article 13, paragraph 1(a) of the Convention therefore prohibits outright certain kinds of government aid to export. These aids, which include direct subsidies to export, the remission of direct taxes calculated in relation to exports and certain export credits, are enumerated in Annex C of the Convention. Article 13 also prohibits other forms of aid but only to the extent that their main purpose or effect is to frustrate the benefits expected from the removal or absence of duties and quantitative restrictions on trade between Member States.

In consequence of the agreement reached by Ministers in Vienna in May 1965 that further steps should be taken to ensure the satisfactory operation of the provisions of Article 13, the Council agreed in June 1966 on a mandate for a group of experts from national administrations to review the provisions of the Article. The mandate includes, in accordance with a decision reached by the EFTA Ministers at their Bergen meeting, provision for study by the working party of the investment incentives recently introduced by the United Kingdom Government, including their effects on the shipping industry. It is expected that the working party will hold a first meeting during the autumn of 1966.

## **Practices of public undertakings**

Article 14 of the Stockholm Convention calls for the progressive elimination before the end of 1966 of practices of public undertakings which result in protecting national industries or in trade discrimination on grounds of nationality. A sub-committee of the Committee of Trade Experts was set up in March 1964 with the mandate to study the implementation of the provisions of Article 14. During the year covered by this report, the sub-committee held six meetings at which it discussed the procurement practices of public undertakings, including semi-public enterprises and regional and local authorities, as well as the practices of State-trading organizations (mainly State monopolies). The report of the sub-committee was issued in

June; it included a number of recommendations as to action to be taken by Member States in order to ensure the principle of non-discrimination embodied in Article 14, together with proposals for future EFTA co-operation in this field.

### **Restrictive business practices**

At their meeting in Copenhagen in October 1965, Ministers agreed on steps to implement further the provisions of Article 15 of the Convention. A statement embodying this agreement was annexed to the press communiqué issued after the meeting, and is reproduced in Appendix I of this report. In order to ensure that Article 15 could be effectively applied, Ministers also agreed that Member Governments would examine both the content and practical application of their present legislation and regulations. They are to report to the Council before the end of 1966 the results of this examination and the action they propose. The working party referred to in the public statement from Copenhagen is now clarifying the problems involved in implementing this Article.

### **Establishment**

At the Ministerial meeting in Bergen in May 1966, agreement was reached on the interpretation of the main provisions of Article 16 of the Convention, and on further steps to be taken to ensure their implementation. On certain issues which have not yet been entirely clarified, the permanent Council has been asked to reach agreement if possible in time for the next meeting of the Council at Ministerial level. A statement explaining the agreement reached on establishment was issued with the press communiqué of the Bergen Ministerial meeting, and will be found in Appendix I of this report.

### **Double taxation**

An ad hoc working party on double taxation was set up in March 1964 to examine the technical feasibility of establishing a multilateral EFTA convention on double taxation based on the OECD draft model convention of July 1963. In May 1964 the working party tentatively concluded that it seemed technically possible to work out such an EFTA convention; a final answer could, however, be given only after a thorough examination of the articles of the OECD draft convention. This examination, begun in 1964-1965, continued during the twelve months covered by this report; the working party held five meetings at which it carried forward its review of the OECD draft convention and also had a first discussion of the institutional aspect of a possible EFTA double taxation convention (accession, termination, settlement of disputes, etc.). In a progress report submitted to the Council in December 1965 the working party said that it would need at least one more year before it could finish its examination. The working party was to present a further progress report to the Council before the summer recess of 1966.

## **Patents**

No formal reply has been received from the EEC Commission to the notes sent in 1963 by six EFTA States asking for the opportunity to participate in the final drafting of the proposed "European Patents Convention."

The EFTA working group on patents has begun the task of examining and proposing means for EFTA co-operation in this field, a task arising from a mandate given by Ministers at the Vienna May 1965 meeting.

The working group met in July 1965, October 1965, and January 1966. It agreed that the draft patents convention published in 1963 formed a suitable basis for an open international scheme covering joint substantive law and procedures related to stages up to and including the grant of provisional and the confirmed patents. It accordingly set up a sub-group which met in March 1966 to produce draft articles of a possible convention for consideration by the full working group in July 1966. It is envisaged that the scheme will allow any member to deal with questions of maintenance, validity, infringement and licensing rights, etc., relating to the final patents, within the established institutions of its own community or country. The working group also considered in detail other forms of co-operation over patents, and intends to comment upon them in its next progress report.

## **Industrial standards**

The importance of industrial standards as an element in international trade, particularly in the absence of tariff or quota restrictions, is generally accepted. The EFTA countries agreed in 1964 that it would not be desirable for EFTA to seek to establish its own standards: EFTA should rather support the efforts of the European and international standards organizations, and ensure, as far as possible, that their own national standards were aligned with agreed international standards. They also undertook to notify to one another any new statutory regulations they might introduce enforcing standards of importance for EFTA trade. At their meeting in Bergen in May 1966, Ministers again agreed that EFTA should continue to rely on the international standards organizations, in which they should press for early agreement on those standards under discussion.

The discussion at Bergen was partly based on the report of an ad hoc working party on industrial standardization which met in Geneva in September 1965. At that meeting the experts had also recommended that Member States be invited to prepare a survey outlining the fields covered by governmental regulations imposing standards, specifications and codes of practice, which may have a significant effect on intra-European trade. National contributions to the survey were submitted in the spring of 1966, and they are now being analysed by the Secretariat to prepare the Council's discussion on the further use of the material.

## **Government regulations on food and drink and on pharmaceuticals**

During the year the Council decided to set up special working parties of experts on government regulations on food and drink and on pharma-

ceuticals. The mandates for the two working parties, agreed in April and June 1966 respectively, require them to advise the Council whether rules or regulations in these fields in Member States constitute barriers to trade between Member States, and whether they offer scope for co-operation with the European Economic Community. They are also to advise the Council on the significance for EFTA trade of the measures undertaken or planned in these fields within the EEC.

### **Study of effect on prices of tariff dismantling**

During the year covered by this report, the group of experts engaged in the study of the effects on prices of tariff dismantling held several meetings and completed the study. The subject is one of considerable complexity, presenting many difficulties both in obtaining suitable statistical data on price developments and in the methodological problems encountered in processing the data. The study has entailed the application of a variety of statistical approaches to data obtained in each of the EFTA countries. Constructive co-operation between the national experts has led, over the period of the study, to a considerable refinement in the techniques applied. These techniques have up to now been little used in international studies of this kind, and it is therefore probable that the experts' report represents a wider application of them than has previously been attempted elsewhere. It cannot be expected that a clear general trend for the effect on prices of tariff dismantling will emerge from the national studies. They do, nevertheless, give some evidence that the tariff reductions have helped to hold down or even reduce the prices of EFTA goods and sometimes also of competing products. It is hoped that the report of the experts will be published before the end of 1966.

### **The general consultation and complaints procedure**

Trade in agricultural and fisheries products gave rise to two invocations by Member Governments of the consultation and complaints procedure during the year. The first complaint was by Norway about the tariff treatment accorded by the United Kingdom to certain forms of frozen boneless fish derived from fish fillets. The complaint was examined by a Committee of Inquiry of members of EFTA delegations in Geneva; after discussions in the Council, the United Kingdom agreed to concede Area tariff treatment to the disputed products.

The second case was a claim by Denmark that her exports of cattle to the Federal Republic of Germany had suffered damage as a result of greatly increased British exports of subsidized cattle to the German market. This case was referred to a special examining committee of three prominent personalities drawn from Norway, Portugal and Switzerland. Such examining committees are provided for in Article 33 of the Stockholm Convention, and this was the first occasion on which this Article had been brought into use. The Council eventually decided that the complaint could not be sustained, but the five countries not directly involved in the dispute considered, nevertheless, that Danish cattle exports might suffer damage, given develop-

ments on the German market, and invited the governments concerned to pursue the matter with a view to finding a solution acceptable to both of them. Multilateral discussions concerning supplies to the German cattle market took place at the beginning of June 1966.

## **Agriculture and fisheries**

### **Annual review of agricultural trade**

The EFTA Council is required once a year to examine the development of trade in agricultural goods, and to consider what further action should be taken in pursuit of the Association's objective of facilitating an expansion of agricultural trade that will provide reasonable reciprocity to those Member States whose economies are largely dependent upon agricultural exports. During the period covered by this report the Agricultural Review Committee completed its 1965 review. In its report to the Council, the Committee concluded that EFTA trade in agricultural goods during the period 1961 to 1964 showed an expansion which in terms of value, matches, by and large, the overall development in intra-EFTA trade in other products. The review once again revealed the close link between the development in trade and in agricultural structure and income policies. The Committee accordingly found it important that during the 1966 review attention should continue to be given to the effects of structural policies and to the relationship between expected output and marketing possibilities. The Committee started its 1966 review of agricultural EFTA trade at the end of June 1966 and is expected to complete this work in September.

### **Bilateral agreements**

A third codicil to the protocol concerning imports of Portuguese agricultural products into Switzerland entered into force on 1st August 1965.

### **Dumped and subsidized agricultural exports to EFTA markets**

The question of dumped and subsidized exports to EFTA markets from third countries was examined by a special working party which finalized its report to the Council in March 1966. The report was discussed by the EFTA Ministers at their meeting in Bergen in May 1966, and it was agreed that those EFTA Governments which at present lack the legislative power to take action in the interest of other Member countries against such dumped or subsidized agricultural exports would endeavour to seek these powers.

### **Further liberalization of EFTA agricultural trade**

In the context of the review of the internal operation of the Association commissioned by Ministers in 1965 in Vienna, certain proposals for further EFTA action in the agricultural field were put before the Council by Denmark and Portugal. The Agricultural Review Committee held three meetings

early this year to examine these proposals, and reported to the Council in March 1966. An outcome of these proposals was that the EFTA Ministers at their Bergen meeting invited Member States to carry out bilateral negotiations with a view to further reducing or removing barriers to trade in these products, having regard in particular, however, to concessions already given by individual countries in relation to their economic structure.

### **Study of trade in fish**

Fishing is a major industry in EFTA. The EFTA countries account for more than half of the total Western European catch, and there is an important intra-EFTA trade in fish, with three countries—Denmark, Norway and Portugal—deriving a significant part of their total export earnings from this source. A study of production and trade in fish and fish products and on fishery policies of the EFTA countries has now been prepared by the Secretariat at the request of the Council to enable Member Governments to assess this aspect of EFTA trade. It is expected that it will be published later in 1966.

## **The Association with Finland**

### **Participation of Finland in EFTA activities**

Finland has continued to be actively associated with the work of the Association; substantive discussion of the majority of issues before the Councils has taken place in the Joint Council of EFTA and Finland, and Finland has also been a full member of all the EFTA working parties concerned with trade between EFTA countries.

### **Tariffs**

On 31st December 1965, Finland made a further reduction of 10 per cent in tariffs on most industrial goods imported from the EFTA partners. These duties, now at 20 per cent of their basic level, will be further reduced by 10 per cent at the end of 1966; the final reduction to zero will take place at the end of 1967.

### **Annex I to the Association Agreement**

Finland also made a further cut of 10 per cent, on 31st December 1965, in duties on imports from EFTA countries for the items listed in Annex I to the Finland-EFTA Agreement. These duties are now at 40 per cent of their basic level and will be reduced in 10 per cent stages at the end of 1966, and each subsequent year until 1969, when they will have been completely removed. Some minor deletions have been made from the list of goods to which the Annex I timetable applies in accordance with the "15 per cent rule" (see page 00).

## **Quantitative import restrictions**

A working party examined the position of Finland in December 1965, with regard to the 1966 quotas and liberalization measures. The working party was satisfied that the new quotas were in accordance with the obligations of Finland under the Agreement. Although Finland has certain balance of payments difficulties, she was able to liberalize some items with effect from 1st January 1966.

## **Invisible transactions and transfers**

Article 5 of the Agreement regulates the liberalization of current invisible transactions and capital movements between Finland and the Member States of the Association. In view of paragraph 2 of this Article which foresees periodical reviews of the situation in this field, the Joint Council agreed in May 1966 to convene a working party of experts later in 1966 to study the Finnish restrictions in this field and to consider whether Finland could undertake further measures of liberalization along the lines followed by the other EFTA countries since 1st May 1960.

## **The Economic Committee**

The Economic Committee, established by Council Decision in December 1964, met for the first time on 9th and 10th July, 1965. The Agenda included the two standing items included in its mandate: short-term economic developments and prospects of Member States, with a view to indicating possible danger-points; and world economic developments and their impact on the economies and trade of EFTA countries. The Agenda also included a more detailed examination of developments in Denmark, Finland and the United Kingdom.

The second meeting of the Committee held on 2nd-3rd December, 1965 was devoted wholly to the Finnish balance of payments situation, and included a discussion of Finnish proposals to alleviate the external payments difficulties. These problems were discussed further at the meeting of the Committee on 10th-11th January, 1966. The Agenda of the third meeting included the two standing items and a discussion of problems in connection with long-term economic planning in Member States.

The fourth meeting of the Economic Committee took place on 20th-21st June, 1966. In addition to the general discussion, the economies of Norway and Sweden were considered in more detail, and the special examination of the Finnish economy was completed. The balance of payments prospects of the United Kingdom and the new British economic policy measures were also discussed.

## **Economic Development Committee**

The Economic Development Committee receives its Agenda from the Council, and, subject to Council approval, sets up a programme of work which the Secretariat tries to complete within one year and before the next meeting of the Committee.

During the year covered by this report, the Committee held one meeting, on 11th and 12th October, 1965. It conducted a general review of the work and aims of the Committee, in the light of its experience over its first two years of operations, and agreed on the principles by which its efforts should broadly be guided in future.

During the year Economic Development Committee working parties have been studying the development of tourism in the Algarve (Portugal), the handling of general cargo in EFTA ports, and the concept of "growth points" in the context of regional development. Visits by Portuguese industrialists interested in sub-contracting openings have been sponsored and serviced in several EFTA industrial centres; and training facilities are being arranged in certain EFTA countries for Portuguese horticulturalists. In addition, work is being started on a comparative study of industrial training systems in the various EFTA countries, and it is possible that this may lead in time to a special project for international exchange visits by those responsible for industrial training.

The working party on ports has reported on its first four meetings, and the working party on tourism on its initial meeting; both working parties aim at completing their work before the next meeting of the Economic Development Committee. The study of "growth points" will take longer. The study of industrial training systems has started, but no more than preparatory work can be attempted until the next meeting of the Economic Development Committee.

## **The Consultative Committee**

During the year covered by this report, the Consultative Committee held two meetings in Geneva; they preceded by a few weeks the Copenhagen and Bergen Ministerial meetings of the EFTA Council.

The eleventh meeting of the Committee took place on 15th October 1965 under the Chairmanship of Mr. Per Haekkerup, Foreign Minister of Denmark and then Chairman of the EFTA Ministerial Council. The discussion focussed on European integration and the internal development of EFTA, where members in particular stressed the desire for the abolition of the surcharge and a global revision of main areas of co-operation—for example, the policy regarding rules of competition.

The twelfth meeting of the Consultative Committee was held on 15th April 1966 with Mr. Kaare Willoch, Minister of Trade and Shipping for Norway, in the Chair. Once again European integration and the develop-

ment of EFTA were the main topics for discussion. Several members asked for detailed studies of the new British export incentives and credit restrictions.

The Committee also agreed to support the proposal of a British member for the establishment of an economic and social sub-committee. When Ministers met at Bergen in May 1966 they agreed to the setting up of such a sub-committee. It will be tripartite in structure. Each EFTA country will have two representatives on the sub-committee, selected by their governments on the same basis as the members of the Consultative Committee, i.e. representative of the main sectors of economic life, including labour. In addition, an official from each Member Government will attend the sub-committee's meetings and may take part in its deliberations; these officials are not, however, to participate in or share responsibility for any recommendations of the sub-committee. The sub-committee's terms of reference are:

“At the instance of the Consultative Committee or the Council to examine and, where appropriate, make recommendations on economic and social problems which:

- (a) result from structural or other changes brought about by the process of integration in the EFTA market, in the economy of individual countries and of EFTA as a whole; or
- (b) are otherwise of importance to the process of integration in the EFTA market, and are referred to the sub-committee by the Council.”

It is hoped that the sub-committee will meet for the first time in the autumn of 1966.

## **EFTA Parliamentarians**

EFTA Parliamentarians have continued their now-established practice of holding informal meetings in conjunction with the sessions of the Consultative Assembly of the Council of Europe. Three such meetings took place during the year; each was attended by about fifty delegates. The main feature of each meeting has been a debate on the political situation in Western Europe, with particular emphasis on the question of European integration. Many other aspects of EFTA activities have also been discussed, including trade questions, non-tariff barriers, and the rules of competition.

## **Information activities**

The Information Department of the Secretariat has been increasingly occupied with preparations for the celebration of the completion of the industrial Free Trade Area at the end of 1966, including the preparation of

special publications. Published during the year were "EFTA Trade 1959-1964," the "EFTA Annual Review of Agricultural Trade, 1965", a new study of agriculture in EFTA, and an explanatory booklet for traders, "The Rules of Origin".

The EFTA Information Office in Washington continues to do effective work in the United States, both with the Press and with industrial and government bodies. Information activity has also been carried on in EEC countries from Geneva. Visits have been paid by staff members of the Information Department to France, Germany and the Netherlands. The opportunity has been taken to make a thorough revision of the mailing lists for the EFTA Bulletin to try to ensure that these obtain the most effective distribution. In addition, success has been achieved in obtaining the help of trading and other organizations in the distribution of EFTA information material. In all these cases, this work has led to a greatly increased flow of inquiries to Geneva.

## **The EFTA Council and the Joint Council**

The EFTA Council met fifty times and the EFTA Joint Council forty-eight times during the period under review. The two Councils met at Ministerial level in Copenhagen on 28th and 29th October, 1965, and in Bergen on 12th and 13th May, 1966; four further meetings were held in Geneva at official level but with the Ministerial Chairman presiding.

## **Administration and finance**

### **The Secretariat**

Sir John Coulson succeeded Mr. Frank Figgures as Secretary-General in November 1965, on the latter's return to the United Kingdom Civil Service. Mr. Charles Müller was promoted from Assistant Secretary-General to be a Deputy Secretary-General in October 1965. Mr. Knut Hammarskjöld left EFTA at the end of March 1966, his successor as Deputy Secretary-General being Mr. Bengt Rabaeus. In February 1966, the Council accepted the recommendations of a team of United Kingdom Treasury Experts on the organization and staffing of the Secretariat which included the creation of a Department for Co-ordination and Development and a number of additional posts. The names and positions of the principal Secretariat officials are listed on the final page of this report.

At the end of the period under review, the headquarters staff of the Secretariat totalled ninety-four. Of these, forty-two were in the professional category and fifty-two in the general category. The staff of the Washington Office numbers seven: one in the professional category and six recruited locally.

## **New EFTA Headquarters building**

During the year, agreement was reached with all the responsible Swiss authorities on the accommodation required for the Secretariat and certain delegations. The foundation stone of the new building was laid by the Chairman of the EFTA Council on 31st May 1966, and it is hoped that it will be ready for occupation at the end of 1968.

## **Finance**

The Association's net budget for 1965-1966 (including a supplementary budget for the year) was 6,336,700 Swiss francs. The budget for the financial year 1966-1967 has been established at a gross sum of 6,858,400 Swiss francs, which, after deduction of estimated income (other than contributions), gives a net budget of 6,830,000 Swiss francs. The Budget Committee held two meetings during the year.

The scale of contributions to the EFTA budget is determined by reference to the 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 individual national contributions for 1965-1966 were on the following bases (the figures for 1966-1967 are shown in brackets): United Kingdom 30 per cent (30); Sweden 22.01 per cent (21.70); Switzerland 16.67 per cent (16.94); Denmark 10.56 per cent (10.74); Austria 10.12 per cent (9.95); Norway 7.94 per cent (7.85); and Portugal 2.70 per cent (2.82). By annual agreement, Finland also makes a contribution which in practice has been between 6 and 6½ per cent of the net budget.

### **III. External relations**

#### **The GATT and the Kennedy Round**

The full support for the aims of the Kennedy Round which was restated at the Ministerial meeting in Vienna in May 1965 has been reaffirmed at subsequent Ministerial meetings. In the absence of progress towards a broad solution of the European market problem, the Kennedy Round is still considered as the best means available at present to achieve lower barriers to trade in Europe and the world as a whole. The EFTA countries have continued to consult and inform each other on new developments. The yearly EFTA report to the GATT on progress made in implementing the Stockholm Convention was presented to the 23rd Session of the Contracting Parties.

#### **United Nations Conference on Trade and Development**

The EFTA countries have continued to take an active part in the institutions established under the United Nations Conference on Trade and Development. In April 1966 the EFTA Secretariat met a request from the Secretary-General of UNCTAD for information regarding major development policies in 1964 and 1965. This information should constitute the necessary background for a report in implementation of the recommendations of the first session of the Conference to be presented to the fourth session of the Trade and Development Board. Members of the Secretariat participated as observers in those UNCTAD meetings taking place in Geneva and of interest to EFTA.

#### **Organisation for Economic Co-operation and Development**

The EFTA Secretariat was represented in the Ministerial meeting of the OECD in December 1965 and in the meetings of the Trade Committee, the Fiscal Committee, the Economic Policy Committee, the Economic and Development Review Committee and in the Agricultural Committee. As part of the Second OECD Review and Confrontation of Agricultural Policies an examination of the agricultural arrangements under the EFTA Convention took place in Working Party No. 1 of the Committee for Agriculture in November last year. The examination concentrated mainly on the application of the bilateral agreements concluded between Member countries under Article 23 of the Convention. The EFTA Secretariat has continued to receive valuable assistance from the OECD Secretariat, particularly through the furnishing of statistical and other information.

#### **Council of Europe**

The Fifth EFTA Annual Report was discussed by the Consultative Assembly of the Council of Europe on 29th September 1965, as usual in the context of the Assembly's debate on economic questions. The Report was

presented by Mr. F.T. Wahlen, Head of the Swiss Federal Political Department. At the conclusion of the debate the Assembly adopted, in reply to the Report, Resolution 301 (1965) which noted that "the tendencies were now becoming evident for trade to expand more rapidly within the two European Economic Groupings than between them — with the risk that patterns of trade might develop in such a way that their adaptation to an integrated European Market would involve more dislocation than would otherwise have been the case".

The Resolution welcomed the determination of EFTA Member States to strengthen their internal development, but expressed concern at the fact that the expansion of intra-EFTA trade coincided with a serious balance of payments problem in the United Kingdom. The Resolution concluded by calling upon EFTA to hasten its investigations on how and to what extent wholesalers and retailers pass on to the public the benefits of tariff reductions on EFTA products, and to publicize the results of these investigations. Officials of the Secretariat have attended the debates of the Consultative Assembly as observers.

### **Nordic Council**

EFTA was represented by a Deputy Secretary-General attending in the capacity of an observer at the 14th Session of the Nordic Council in Copenhagen from 28th January to 2nd February, 1966.

### **Exploratory talks with Yugoslavia**

In October 1965 the Yugoslav Government suggested that exploratory talks should take place between Yugoslavia and EFTA with a view to the development of trade and economic relations. EFTA Ministers agreed to this suggestion and a first round of informal talks took place in Geneva in December 1965, between a Yugoslav Delegation and the EFTA Council and Secretariat. The major subjects taken up were trade relations between Yugoslavia and EFTA, industrial co-operation, the question of financial and credit facilities and possible ways and means which could lead to improved conditions for trade between Yugoslavia and the EFTA countries. A second round of talks took place in June 1966. The meetings have been found both useful and constructive and it has been agreed that the consultations between Yugoslavia and EFTA should be continued.

### **Exchange of technical information with the EEC**

Contacts of a technical nature took place between the services of the EEC Commission and the EFTA Secretariat several times during the period of this report. In the course of these discussions, held both in Brussels and in Geneva, information was exchanged on the work in progress in the two organizations in specific sectors: these ranged from such purely technical matters as harmonization of statistics to issues like non-tariff barriers to trade.

# Appendix I

## Communiqués of Ministerial Council Meetings

### Copenhagen Meetings 28th and 29th October 1966

#### Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Copenhagen on 28th and 29th October, 1966. Mr. Per Haekkerup, Danish Foreign Minister, was in the Chair. The Agenda of the meetings involved a discussion by Ministers of a wide range of matters concerning the internal and external relations of EFTA.

In the Joint Council of EFTA and Finland, Ministers considered a report on the further development of EFTA co-operation. They noted with satisfaction the successful reduction of tariffs and other barriers to trade between the Member countries, which had contributed to an 80 per cent increase of EFTA trade since 1959, and so to the creation of a single market of almost 100 million people. As the Free Trade Area will be in full effect in fourteen months, Ministers took a series of decisions to deal with other impediments to trade.

An examination had been made in the past year of the provisions of the Stockholm Convention on restrictive business practices. Ministers agreed a series of steps for further implementing these provisions. A statement embodying these agreements is annexed to this communiqué.

Ministers noted the considerable increase of EFTA trade in agricultural goods and agreed that proposals for the continued expansion of this trade should be examined. Ministers also recognized that dumped and subsidized exports of agricultural products to EFTA markets from third countries create difficulties in certain cases for Member States, and instructed the Council at official level to explore the possibilities of formulating appropriate proposals.

Ministers decided by a majority that, as from 31st December 1966, when the tariffs on EFTA industrial goods traded within the Area are reduced to zero, such goods may not benefit both from EFTA tariff treatment and from drawback.

Ministers discussed the position of rebates of internal taxes on exported goods in a completed free trade area. They reached agreement in principle on a solution, with a temporary reservation by the Norwegian Delegation.

Ministers had followed with interest the work of the Economic Development Committee and noted with satisfaction that it is now in a position to move forward toward an even more constructive and effective sphere of activity.

The United Kingdom Delegation recalled the assurances previously given that the import charge was an essentially temporary measure which would be reduced and removed as soon as the balance of payments situation permitted. They pointed out that, as a result of the measures taken by the British Government, the deficit for 1964 would be about halved in 1965 and should be eliminated in the course of 1966. It would be premature at this stage to relax the charge further. In reaffirming the assurances previously given, they emphasized the determination of the British Government to maintain their present course until the balance of external payments had been restored. When this had been achieved that would be the time to relax and remove the import charge and other restrictive measures which they had felt obliged to take.

The delegations of the other EFTA countries expressed regret that the United Kingdom Government had not at this meeting been able to indicate any specific steps towards the removal of the import charge. They stressed the importance of its removal for their economies and trade with the United Kingdom, and for the furtherance of EFTA integration. They emphasized that the import charge had now been in force for twelve months and underlined the dangers that the charge would be built into the British economy. Their view was that the effects of the other remedial measures taken to improve the balance of payments should replace those of the import charge. They expected that the removal of the charge would have the highest priority.

British Ministers promised to give full weight to these considerations.

Taking note of the report from the first meeting of the new EFTA Economic Committee, Ministers stated their belief that this Committee would be a valuable instrument of future EFTA co-operation.

At their meeting on 24th May in Vienna EFTA Ministers discussed the consequences of a continued separate evolution of EFTA and the EEC. They there agreed that steps ought to be taken to bring about closer and more continuous contacts between the two groups in order to facilitate the removal of trade barriers and the promotion of economic co-operation in Europe; and considered that a meeting at Ministerial level between the EEC and EFTA would be desirable at the earliest opportunity which offered prospects of fruitful results.

Having considered the matter further at their meeting in Copenhagen on 28th and 29th October EFTA Ministers reaffirm their conviction that a serious responsibility rests on governments to seek to ensure closer co-operation between the EEC and EFTA and to pursue policies promoting the growth of trade and the expansion of their economies. EFTA Govern-

ments are convinced that the possibilities of their final goal, a wide European Market solution, would be considerably improved if a dialogue were established between the EEC and EFTA at all possible levels and EFTA stands ready for this.

EFTA Ministers consider that the most immediate problem in relations between EFTA and the EEC is the European tariff issue. They believe that in this connection the primary aim should be to ensure a successful conclusion of the negotiations under the Kennedy Round. They also wish to examine with the EEC other subjects on which closer co-operation between European countries may promote an increase in their contribution to the development of trade. Preparatory work in EFTA has shown that national arrangements concerning industrial standards, patent laws and other items, which affect trade between the two groups afford a wide field where fruitful co-operation could be developed. Studies of these subjects for co-operation will be pursued between EFTA countries. EFTA Governments are of the opinion that in these fields, as well as on other specific problems encountered in trade between the Community and EFTA, such co-operation would be of benefit to the whole of Europe.

Ministers accepted a request from the Government of Yugoslavia for exploratory talks with a view to improving trade relations between Yugoslavia and the EFTA countries. Ministers decided that the initial phase of these talks should be conducted by the EFTA Council and the Secretary-General.

Ministers paid warm tribute to Mr. F. E. Figgures, C.M.G. on his retirement as Secretary-General. His contribution to EFTA had been of the highest order and they wished him success in his future activities. The Ministers also welcomed Sir John Coulson, K.C.M.G., the new Secretary-General of EFTA, who takes over his new duties on 1st November 1965.

At the invitation of the Norwegian Government, the next meeting at Ministerial level of the EFTA Council and the Joint Council of EFTA and Finland will take place in Bergen on 12th-13th May, 1966.

### **Statement on restrictive business practices issued with communiqué**

Article 15 of the Stockholm Convention on restrictive business practices declares incompatible with the Convention certain practices and actions. These are, "insofar as they frustrate the benefits expected from the removal or absence of duties and quantitative restrictions on trade between Member States":

- (a) agreements between enterprises, decisions by associations of enterprises and concerted practices between enterprises which have as their object or result the prevention, restriction or distortion of competition within the Area of the Association;
- (b) actions by which one or more enterprises take unfair advantage of a dominant position within the Area of the Association or a substantial part of it.

Any firm which feels that its activities are hampered by practices of this nature taking place in another Member State may refer the case to the competent authorities in its own country.

Ministers have reaffirmed their governments' readiness to examine with care complaints about restrictive business practices infringing Article 15 on the part of firms in their own territory, brought to their attention by another Member State, and in appropriate cases to deal with them by such methods as are available. Member States are ready to investigate cases wherever there is some prima facie evidence of infringement of Article 15 and they will not make such an investigation dependent upon the submission of a formal complaint or a fully documented case. As to the possibilities of taking action against infringement of Article 15, Member States have the ability to take administrative, and in many cases legal, measures.

In practice, the following steps are normally envisaged:

- (a) If a firm has drawn the attention of its authorities to a restrictive business practice in another Member State and it appears that the practice might be incompatible with Article 15 of the Convention, the matter will be taken up bilaterally with the Member State or States in whose territory the party or parties to the practice are located, according to the consultations procedure foreseen in Article 31. The bilateral discussions will be quite informal and confidential and will aim at ascertaining the facts of the case and at determining whether the restrictive business practice can be considered to contravene Article 15.
- (b) If the bilateral discussions lead to a common agreement that the practice is incompatible with Article 15, the Member State will use administrative means to influence the parties and if this is unsuccessful will, in appropriate cases, consider using such legal powers of enforcement as are available to it.
- (c) Reports in general terms on these informal bilateral discussions and on the action taken will be circulated to all Member States via the EFTA Secretariat. Particular care will be taken by the Member States concerned in a given case not to reveal confidential facts. The aim of this exchange of information is to obtain that all Member States interpret the provisions of the Convention in the same way.
- (d) If it has not been possible to resolve a case bilaterally, the case can be discussed informally on a multilateral basis. The matter may also be referred formally to the Council, i.e. a complaint may be lodged with the Council which may make recommendations or decisions by majority voting in accordance with Article 31 of the Convention.

A working party of experts is requested to examine and report to the Council, if possible before the summer recess, 1966,

- (a) whether legislative and administrative means available to Member States and the actual implementation of such legislation can ensure

and will ensure in 1967 and onwards the effective implementation of Article 15;

(b) on the clarification of certain technical terms referred to in Article 15.

## **Bergen Meetings 12th and 13th May 1966**

### **Communiqué**

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Bergen on 12th and 13th May, 1966 under the Chairmanship of Mr. Kåre Willoch, the Norwegian Minister of Commerce and Shipping.

Ministers reviewed the progress of the Association since the Ministerial meeting in Copenhagen last October. They noted the great strides taken by EFTA trade since the inception of the Association and looked forward to still more progress when industrial tariffs are finally eliminated in December 1966, three years ahead of the original target. They greeted with particular satisfaction the decision of the United Kingdom Government not to prolong the import charge after November 1966. They welcomed this decision as a sign of the strengthening of the British economy and an encouragement to the progress of the Association.

The EFTA Council directed their main attention to the problems of European integration and found themselves in agreement on the fundamental issues. It was recalled that EFTA was designed to promote economic unity in Europe. EFTA had already invited the EEC Member countries to take part in a dialogue on the pursuit of policies leading to the mutual growth of trade and the expansion of their economies. This invitation still stands. The Ministers remained convinced of the benefits which an integration of the European economies would confer on Europe itself and indeed the world as a whole. They pledged their Governments to pursue, by all available means, the objective of such an integration. Their Governments would keep each other fully informed of their individual efforts and would remain in close consultation at all stages. A comprehensive report on Austria's negotiations with the EEC was given by the Austrian delegation. Ministers decided that the Secretariat should review and analyse the impact of the divergence between the two trading groups with its waste of existing and potential resources.

The Kennedy Round of tariff negotiations in the GATT was discussed in the Joint Council. The Ministers noted with deep concern the slow rate of progress being made. They stressed the overwhelming importance of these negotiations both in the interest of expanding world trade and of mitigating the consequences of the division in Europe. They pledged themselves to do everything in their power to facilitate a successful conclusion of the negotiations.

A review was also conducted of the current business of the Association. Decisions were taken on the following matters:

- (a) The means of developing further agricultural trade among the Members;
- (b) the right of establishment, on which a separate Note is appended;
- (c) industrial standards;
- (d) the constitution of a sub-committee of the Consultative Committee to discuss economic and social problems.

At the invitation of the Portuguese Government, the next Meeting will be held in Lisbon on 27/28 October, 1966.

### **Statement on establishment issued with communiqué:**

1. Article 16 of the Convention provides:

“that restrictions on the establishment and operation of economic enterprises in their territories by nationals of other Member States should not be applied, through accord to such nationals of treatment which is less favourable than that accorded to their own nationals in such matters, in such a way as to frustrate the benefits expected from the removal or the absence of duties and quantitative restrictions on trade between Member States.”

2. The following types of establishment by EFTA nationals are recognized as leading to an expansion of intra-EFTA trade, and will be permitted by Member States without restrictions applying less favourable treatment in practice to nationals of other EFTA countries:

- (a) establishment of economic enterprises for commerce in goods of Area origin, including:
  - (i) the employment of commercial agents;
  - (ii) the setting up of branches and subsidiaries;
  - (iii) the establishment of independent enterprises to promote the sale of goods between Member States;
- (b) establishment of economic enterprises for the assembly, finishing or servicing of goods which are of Area origin and are exported from one Member State to another;
- (c) establishment of such economic enterprises for production of goods of Area origin of which a significant proportion is to be exported to other Member States, which do not require:
  - (i) access to the capital market of the country concerned, or
  - (ii) takeover of existing enterprises in the country concerned, or
  - (iii) ownership of natural resources of the country concerned.

3. Establishment of economic enterprises other than those mentioned in paragraph 2(b) and (c) for production of goods which are of Area

origin is subject to examination to determine whether the benefits expected from the removal or the absence of duties and quantitative restrictions would be frustrated. However, a liberal interpretation will be given to the concept "benefits expected from the removal or the absence of duties and quantitative restrictions". The concept implies not only an increase in value and/or quantity of trade between EFTA countries, but also other advantages to be derived from co-operation between Member States under the Stockholm Convention. It will be read in conjunction with Article 2 of the Convention, which sets out the objectives of the Association and thus indicates some of the benefits to be expected "from the removal or the absence of duties and quantitative restrictions on trade between Member States".

4. In order to ensure that they are in a position to carry out their obligations under the Convention, Member Governments will examine their present legislation and regulations and the application thereof in practice with a view to ensuring the effective implementation of Article 16. They will provide, where necessary, for:

- (a) such general exemptions as are required for the proper implementation of Article 16 to be embodied in legislation; or, where such legislation cannot be introduced;
- (b) such administrative exemptions or regulations as case by case would attain the same objective.

5. Governments will report in the Council before the end of 1966 on the findings of the examination and on possible action to be taken under paragraph 4 above. They will thereafter report any major changes in legislations and practice which are of relevance for the implementation of Article 16.

6. The understanding thus reached by Ministers does not entail any change in existing obligations extending either to cases where the establishment of production enterprises requires any of the facilities mentioned in paragraph 2(c) (i), (ii) or (iii), or to the application of exchange control measures by Member States. These two aspects of establishment will be further examined by the Council at official level with a view to reaching agreement if possible by the next meeting of the Council at Ministerial level.

## **Appendix II**

# **Amendments to the EFTA Convention and the Finland-EFTA Agreement**

Under Decisions Nos. 10 and 17 of 1965 the Council approved various textual amendments to Schedules I and II of Annex B to the Convention which had been necessitated by corrections to the Brussels Nomenclature.

Council Decision No. 16 of 1965 amended Schedule II of Annex B to allow certain women's, girls' and infants' outer garments of wild silk (BN ex 61.02) to qualify for EFTA tariff treatment.

Under Council Decision No. 9 of 1966, Introductory Note 4 to Schedule II to Annex B to the Convention was amended to allow the use in the qualifying processes of that Schedule of materials which are of EFTA origin, even though the wording of the qualifying processes appears specifically to exclude the use of materials of that kind. This amendment was found to be necessary to remove the anomalous situation in which the incorporation of certain materials which were already of EFTA origin in some of the textile goods covered by Schedule II destroyed the eligibility of the latter goods for EFTA tariff treatment.

**European Free Trade Association**  
**July 1965 — June 1966**

**MEMBER COUNTRIES:**

Austria  
Sweden

Denmark  
Switzerland

Norway

Portugal  
United Kingdom

**ASSOCIATE:** Finland

**Secretary-General**

F.E. Figgures, CB, CMG (to 31st October, 1965)  
Sir John Coulson, KCMG (from 1st November, 1965)

**Deputy Secretaries-General**

K. Hammarskjöld (to 31st March, 1966)  
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\* As from 1st September 1966, Mr. G. R. Young will replace Mr. O. Hansen as Director of the Washington Information Office, and Mr. A. Buraas will replace Mr. Young as Head of Press and Information in Geneva.

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