

1966-1967

Seventh Annual Report
of the
European Free Trade
Association



Geneva - September 1967

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I. Survey of the year

The year in EFTA: 1966-1967

The year covered by this report was an eventful one for the European Free Trade Association. On 31st December 1966, EFTA effectively reached its first main objective, the creation of a free trade area for industrial goods among its eight countries. A few months later, Britain and Denmark applied for negotiations for membership in the European Economic Community. These two events alone would have made the year under review of outstanding importance for the Association. In addition, there was further steady progress in EFTA's work to remove trade barriers other than tariffs and quotas. Finally, the year saw the successful completion of the Kennedy Round negotiations, the most ambitious attempt ever made to reduce obstacles to world trade, in which all the EFTA countries were deeply engaged and with which the Association itself continued to be actively, although indirectly, concerned.

Free trade in EFTA

When the Stockholm Convention was signed on 4th January 1960, it called for the progressive removal of protective duties charged by Member States on their imports of industrial products from one another, over a period of nine and a half years. As a result of repeated accelerations of this agreed schedule, the final 20 per cent cut in tariffs was made at the end of 1966, three years earlier than originally envisaged. The fact that the process of tariff — and quota — dismantling has been so greatly speeded up, and with only a minimum of difficulty, has served to demonstrate the workability of the free trade area concept.

Only a few protective tariffs on industrial goods now remain in EFTA. Finland, which became associated with EFTA in 1961, will complete its main dismantling of tariffs at the end of 1967. For a very few products, Norway and Finland will retain vestigial tariffs until the end of 1969; for a longer list of imports, Portugal, in recognition of the less-developed state of its economy, is permitted to apply a slower programme of tariff removal. But, with these minor exceptions, the world's first free trade area for industrial goods is now in place. Its benefits, reflected already in the more than doubling of intra-EFTA trade during the transitional period 1959-1966, will be increasingly felt in the future by all the Member countries.

New moves towards a single European market

Britain's renewed application on 11th May 1967 for membership of the European Economic Community was followed the same day by a similar Danish application, and during June by a Norwegian Government recommendation to Parliament that Norway, too, should apply for membership. These moves were made in close consultation with the other EFTA countries. A meeting of EFTA Prime Ministers was held in London in December 1966, just before the British Prime Minister and Foreign Secretary embarked on a series of visits to the EEC capitals; a regular Ministerial meeting of the EFTA Council in Stockholm in March provided the opportunity for a progress report and renewed consultations; and a further special Ministerial meeting of the Council took place in London late in April, immediately preceding the British Cabinet's decision to apply for EEC membership.

The final meeting in London was notable for the agreement of the participating countries that a decision by the British Government to seek a closer relationship with the EEC "would open up new prospects for a solution of the question of European economic integration, in which they all intended to participate". Reiterating "their strong interest in safeguarding, as an important part of an enlarged European community, the free market already established in EFTA", the Ministers agreed that "it would be the purpose of EFTA Governments that, should it be necessary in order to give a reasonable opportunity to their partners in the Free Trade Area to conclude negotiations, sufficient transitional periods should be provided for, with a view to avoiding disruption in European trade patterns". *

The EFTA Governments have agreed to maintain the closest consultation in any negotiations.

Removal of remaining obstacles to EFTA trade

EFTA's internal work in the past year has again covered a wide range of activities, of which a detailed account is given in Part II of this Annual Report. With the completion of the main programme of tariff and quota dismantling, interpretation and application of the rules of competition laid down by the Stockholm Convention has become a primary concern. Following the agreements reached during the previous year on the rules concerning restrictive business practices and rights of establishment, an interpretation of Article 14 of the Convention, concerning the purchasing and trading policies of public undertakings, was agreed by the EFTA Ministers at their meeting in Lisbon in October 1966. A public statement on this interpretation was issued at the same time; it will be found in Appendix I to this report. Work also went forward on the other rules of competition, as well as on many other potential obstacles to trade, such as technical

* The text of the London communiqué of April 1967, together with that of other communiqués of Ministerial meetings held during the year, will be found in Appendix I to this report.

regulations, which may also be expected to become of relatively greater importance following the final removal of tariff and quota restrictions.

The mechanism of the Free Trade Area has continued to work satisfactorily. With effect from 31st December 1966, the "no-drawback" agreement reached in October 1965 at the Copenhagen meeting of EFTA Ministers came into force. The regular Annual Review of Agricultural Trade in EFTA took place during the year, and some amendments to the existing bilateral agreements were agreed between Denmark and other EFTA countries. In addition Ministers decided, at their Stockholm and Lisbon meetings respectively, that the Council at official level should carry out a study of the provisions of the EFTA Convention concerning agriculture, and that a special working party should examine the possibilities of liberalizing EFTA trade in fish and other marine products. The agricultural study will be conducted on the basis of a Secretariat report now in preparation; the fisheries working party held its first meeting in the spring of 1967.

Towards freer world trade

In the "Kennedy Round" of trade negotiations in the GATT, agreement on the major issues was reached in mid-May 1967, after a prolonged period of uncertainty whether an accord could be reached before expiration of the negotiating powers of the United States Administration. The final act was signed on the last day of the twelve months covered by this report. The negotiations were consistently given the fullest support of the EFTA countries, who kept in close touch with one another from the beginning; in the final months, indeed, the four Nordic countries of EFTA negotiated as a group. The Kennedy Round has resulted in by far the largest reduction in tariff protection ever achieved on a worldwide basis. It will certainly do much to encourage a continued growth in international trade, while for Europe it provides the prospect of significant relief from the effects of mutual tariff discrimination between EFTA and the European Economic Community.

Economic developments in the EFTA countries

The rate of growth of the *Austrian* economy increased in 1966, but while in real terms the rate of growth was almost twice as high as in 1965, it remained below that of 1964. The main factor behind the change was a new upsurge of agricultural production. Growth-investment also increased, especially in the first half of 1966. Industrial production did not, however, grow much faster than in 1965, nor did the output of the services sector. The most dynamic element of demand was the expenditure of the public authorities. The visible trade deficit increased considerably and was responsible for a further deterioration of the balance of payments.

Gross national product is expected to grow by only 2 to 3 per cent in real terms in 1967, compared with 4.3 per cent in 1966. The increase in private consumption and investment demand is likely to be less than last year, and the trade deficit may be somewhat reduced, mainly due to a slower rise in imports. Some encouragement to domestic production may be expected from the Federal Government's new investment programme and from other policy measures, among which reductions of income taxes may play a role.

In *Denmark* the rate of real economic growth fell in 1966 to 2.5 per cent from 4.5 per cent in the preceding year. The most dynamic elements of demand were public expenditure and dwelling and other construction; however, demand for other types of private fixed investment goods and private consumption rose less than in the previous year. The most important change in 1966 took place in demand from abroad. In real terms, Danish exports of goods and services increased by only 2.7 per cent, compared with a 5.7 per cent rise in imports. This development of foreign trade produced some deterioration in the current balance of payments, but because of substantial inflows of foreign capital, Danish exchange reserves increased over the year.

By the beginning of 1967 the Danish economy presented a picture of full employment and expanding internal demand with, however, a continued slackening in demand for exports. Estimates for the first half of 1967 seem to indicate a continuation of the development in 1966; because of the introduction of the tax on value-added as from July it is expected that the increase in total demand will be small during the second part of 1967. Trade returns for the first quarter of 1967 suggest a continued tendency for the trade balance to deteriorate.

The slowing down in economic activity which began in the second half of 1965 was also the main feature of overall developments in *Finland* throughout most of 1966. The real national product increased by slightly over 2 per cent, i.e. much less than the average for the 'sixties. Exports were the most dynamic demand element, expanding by 5 per cent in volume. The rate of private consumption growth fell slightly to 4 per cent, but investment activity slowed down considerably, with a fall in the rate of increase from 9 per cent in 1965 to less than 2 per cent in 1966. Reflecting the relatively low pressure of demand, the overall rise in price levels, at 4 per cent, was less than in the two preceding years.

In spite of the slackening of domestic demand, achieved through a restrictive economic policy, Finland's external balance as a whole did not improve in 1966. The rise in the value of commodity imports of nearly 5 per cent and of exports of 5.5 per cent resulted in a trade deficit of 723 million Finnish marks (226 million US dollars). The current account deficit amounted to 638 million marks (200 million dollars) and was largely financed through a reduction in foreign exchange reserves. Finland's trade with EFTA expanded twice as fast as her total trade, while exports to the EEC increased only slowly and imports from the Common Market actually declined in 1966. In the first quarter of 1967 total exports increased much more rapidly than imports, resulting in a substantial reduction in the trade deficit.

The *Norwegian* economy was still growing fairly strongly in 1966 and there are no indications of a setback in demand during 1967. The rate of growth in total production of 4½ per cent in 1966 was somewhat lower than in the three

preceding years, but this was to a large extent due to temporary supply factors and in 1967 total output is expected to increase by 5 per cent. Norway has, in fact, succeeded better than most other Western European countries in maintaining growth as well as stability during the last five years and has not suffered from serious disturbances in its balance of payments. Private consumption rose by 4.6 per cent in 1966, i.e. slightly more than the growth in total production, and is expected to increase by 4 per cent in 1967. Investment demand (excluding ships) was buoyant in 1966, especially for industrial machinery, reflecting a high rate of growth of investments in mining and manufacturing. Manufacturing investment increased by as much as 16 per cent in 1966. The high level of investment demand (excluding ships) is likely to continue in 1967, though with a slower rate of increase than in 1966. Dwelling construction is, however, expected to be the most dynamic factor this year, while investment in mining and manufacturing will probably level off.

The deficit in the current balance of payments was fairly large and somewhat higher than expected in 1966 and it now appears probable that it will be almost doubled in 1967. Imports (excluding ships) rose sharply in 1966, partly as a result of an unexpected large increase in stocks. Exports developed favourably in 1966. There was, however, a slowdown of the rise in exports in the course of the year. Marketing conditions for important export products are weak. The expectation of a deterioration in the current balance this year is, however, mainly due to the fact that imports of ships are likely to increase significantly. Terms of trade for goods and services may deteriorate by 2.5 per cent. Since credit for the imports of ships has already been secured abroad, the large deficit in the current balance in 1967 will not cause any balance of payments problems.

After seven years of continuous expansion, the pace of growth of the *Portuguese* economy slowed down in 1966. Output from manufacturing increased by only 2 per cent and agricultural output fell by about 5 per cent. The development of services was somewhat better, especially on tourism, and tourist receipts rose by more than 50 per cent, the highest growth rate ever registered. This rise was, however, insufficient to compensate for the unfavourable developments in agriculture and industry and total gross national product seems not to have increased by more than 1-2 per cent. Total imports rose by 13 per cent and exports by 10 per cent, compared with 19 and 12 per cent respectively in 1965. The trade deficit increased from 350 million dollars in 1965 to 385 million dollars in 1966, but the deficit of the balance of goods and services fell from 190 to less than 165 million dollars. Consumption and fixed investment together seem to have grown very little, even though inventories accumulated in 1964 and 1965 were reduced considerably. The domestic price level registered a rise of about 5 per cent.

Economic policy in *Sweden* was in 1966 mainly concerned with improving the current balance of payments. The immediate objective to this end was a slowing down in the growth of overall demand, so as to ensure more balanced price and wage development, a lower rate of growth of imports, and a removal of bottlenecks, especially in the engineering industries, which seemed to have restricted exports. To improve Sweden's competitive position in the longer run, it was intended to raise the share of industrial investment in total investments. The Government's policy has been successful in so far as the external balance of payments is concerned and a reduction of the deficit in the current balance has been achieved.

Furthermore, industrial investments increased more than total investments, but less than expected.

Wages and prices continued, however, to rise fairly rapidly. The real GNP increased by 2.6 per cent in 1966, the lowest rate of growth since 1958. This slow growth of production has brought with it a gradual easing of the labour market and a greater under-utilization of capacity; the utilization of resources in the first months of 1967 was less than for many years.

According to the official forecasts, real gross national production will increase by 3½ per cent in 1967. The stimulus to this higher rate of growth will come mainly from a renewed expansion of dwelling construction and local authority investment, a smaller decrease in inventory investment and a higher rate of increase in private consumption. Exports are expected to grow at about the same rate as in 1966, while the volume of imports is expected to rise more than in 1966, but still less than the rise in exports. The resulting favourable effect on the current balance will probably be offset by a further slight deterioration in the terms of trade and in the balance of invisible transactions. The current balance is expected to show about the same deficit in 1967 as in 1966.

Falling private consumption and investment demand, to an important extent the result of reduction in the labour force, and slow increases in import demand in some of *Switzerland's* main foreign markets produced a fall in the real growth rate of the GNP from 4.2 per cent in 1965 to 2.3 per cent in 1966. But total imports increased less than total exports and the services balance remained in surplus, so that the deficit on current account was considerably reduced.

Prospects for 1967 are to a certain extent determined by the renewed reduction in foreign manpower recently decreed. The outlook for industrial production thus depends very much on the likely growth of exports and it is unlikely that foreign demand will increase to a major extent in the current year. Prices have risen somewhat more in 1966 than in the previous year, partly as a result of increases in Government-controlled prices, and further such increases have taken place in the first half of 1967. While the rate of economic growth is not likely to change much in the current year, prices will probably rise at a somewhat lower rate than in 1966.

In the *United Kingdom*, the year 1966 saw the continuation and intensification of measures to reduce the deficit in the balance of payments. The pressure of demand at the beginning of 1966 was still high, resources were still fully used and the balance of payments deficit, although considerably reduced, had not been eliminated. In spite of the measures taken in 1965, there remained considerable inflationary pressure, with wages and prices rising steeply.

In February 1966, hire purchase restrictions were tightened and the ceiling in bank lending extended for a further period. In the budget in May further steps were taken to strengthen the balance of payments and weaken inflationary pressures, but by July it became clear that further restrictive measures were needed urgently, in view of the heavy pressure on sterling and the reserves. New monetary restraints were therefore introduced including a rise in bank rate from 6 to 7 per cent, and stronger fiscal restraints applied such as a 10 per cent surcharge on indirect taxes and duties and a cut of 110 million pounds sterling in the investment programmes of public authorities and nationalized industries for 1967-1968. A six-month wage and price freeze was decreed, supported by statutory powers,

and cuts were made in Government overseas expenditure and the overseas travel allowance.

The behaviour of the economy during the second half of 1966 and early 1967 reflected the impact of these restrictions. Consumer spending, especially on durables, fell below the high level reached in the first half of the year, and there was a weakening of confidence in industry which led to some revision of investment plans. Industrial production fell sharply in the autumn, the down-turn being particularly marked for cars, and for other consumer durables, steel, clothing and textiles.

Conditions in the labour market also changed considerably. The rate of unemployment (covering those wholly unemployed, excluding school leavers) rose from an average of 1.2 per cent (seasonally adjusted) in Great Britain in the first six months of 1966 to an average of 1.7 per cent over the next eight months. In addition, the number of workers temporarily stopped rose sharply in October 1966 and remained high over the following few months. Over the period of the prices and wages standstill, wages rates remained practically stable, and between July 1966 and February 1967 weekly wage rates rose by only 0.8 per cent, compared with a rise of 2.5 per cent over the corresponding seven-month period a year previously. The rise in prices was also checked to some extent; manufacturers' prices in January 1967 were 0.3 per cent above their July 1966 level. Retail prices rose more, i.e. by 1.7 per cent between July and February, largely because of tax increases and seasonal factors.

Mainly as a result of the new measures, the balance of payments position was considerably improved by the fourth quarter of 1966, most of the improvement being due to a large visible trade surplus, resulting from a continued increase in exports and a reduction in imports. The trade balance continued to be relatively favourable in the early months of 1967. For the year 1966 as a whole, the trade deficit was reduced to 138 million pounds compared with 269 million pounds in 1965. The invisibles balance has, however, deteriorated from +160 million pounds to +77 million pounds. The overall current account deficit improved from 109 million pounds in 1965 to 61 million pounds in 1966. The net outflow of long-term capital was also reduced substantially, mainly as a result of Government measures, from 368 million pounds and 239 million pounds in 1964 and 1965 to 128 million pounds in 1966; most of this improvement was recorded on private account.

Between 1964 and 1965, gross domestic product at constant prices rose at an annual rate of 2.5 per cent, and in the following year by 1.6 per cent. Investment rose by 3.5 per cent and 0.8 per cent in the same periods. The British authorities expect that growth will pick up during the second half of 1967 and that output will rise by 3 per cent between the fourth quarter of 1966 and 1967. It seems possible that investment will be lower in 1967 than in 1966, with a larger fall in manufacturing investment being offset by the buoyancy of public investment.

INTRA-EFTA EXPORTS (f.o.b.) 1966

(in \$ million)

From: To:	Austria	Denmark	Finland	Norway	Portugal	Sweden	Switzerland	United Kingdom
Austria		28.4	6.6	9.2	8.0	42.2	148.9	119.2
Denmark	28.7		51.4	110.6	14.2	383.2	64.4	382.2
Finland	15.0	55.8		33.2	5.3	231.4	40.5	214.8
Norway	16.2	151.5	28.2		6.6	447.7	40.7	306.4
Portugal	9.9	8.8	5.9	4.8		35.9	35.4	134.3
Sweden	61.5	304.3	125.5	237.7	21.7		102.8	661.7
Switzerland	136.8	58.7	11.9	17.0	10.8	92.8		311.5
United Kingdom	71.0	551.9	299.8	295.5	119.9	542.4	212.5	
Total EFTA	339.1	1,159.4	529.3	708.0	186.5	1,775.6	645.2	2,130.1

EFTA trade in 1966

Total EFTA trade continued to expand in 1966 and the first quarter of 1967, although the rate of growth, especially of imports, has slowed down. This is true for total imports as well as for imports from each of the main trading regions and is explained mainly by the low rate of growth of demand in the United Kingdom and to a lesser extent in Finland and Sweden. The United Kingdom import surcharge, which continued in existence for the greater part of 1966, has probably also tended to restrain the growth of trade.

The trend towards an expansion of trade within EFTA has, however, continued. In the period from 1959, the year before EFTA tariff cuts began, until 1966, the last year in which tariff remnants remained, trade between the eight EFTA countries increased by 112 per cent, i.e. at an annual rate of growth throughout this period of 11.4 per cent, compared with an average annual growth rate of 5.5 per cent during 1953-1959. In the first quarter of 1967, intra-EFTA trade continued to grow at about the same rate as the average for the preceding seven years. The existence of the Association has thus quite clearly strengthened trade relations between Member countries.

While the gradual elimination of import barriers between the EFTA countries has brought the expected increase in trade between them, this has not brought with it a fall in trade between EFTA and other areas. Thus in 1966 total EFTA imports rose by 5.4 per cent, with intra-EFTA imports growing by 9.8 per cent and imports from the EEC by 5.6 per cent.

During 1966 and the first quarter of 1967, all eight EFTA countries increased their imports from their EFTA partners more than their total imports. Exports developed similarly over the fifteen-month period, and only Sweden and Switzerland increased their exports to EFTA less than their exports to non-Member countries. Over the period from 1959 to 1966 as a whole, exports to EFTA partners have represented an ever-increasing share in the total trade of every EFTA country, while — with the single exception of the United Kingdom — trade with the EEC has declined in relative importance. For Britain, 1966 was a year in which her exports to the EEC increased substantially less than her exports to EFTA, although imports from the Community continued to rise faster than from EFTA partners. In the first quarter of 1967, however, British imports from the rest of EFTA increased considerably more rapidly than those from the EEC, while exports to the Community actually declined.

Intra-EFTA trade

Total intra-EFTA exports in 1966 amounted to 7,473 million dollars, a rise of 9.4 per cent over 1965. There was a further increase in the first quarter of 1967, when intra-EFTA exports were 10.4 per cent higher than in the corresponding period of the previous year. All EFTA countries increased their purchases from their partners more than their total trade, these increases ranging in 1966 from 7.5 per cent for the United Kingdom to 22.3 per cent for Portugal. Every EFTA country increased its exports to the United Kingdom in 1966, in spite of the continued existence of the import surcharge until late in November.

EFTA IMPORTS AND EXPORTS 1966 BY MAIN REGIONS
AND AVERAGE ANNUAL GROWTH RATES

Imports (c.i.f.)	From EFTA			From EEC			From USA			From Rest of World			From World		
	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966
Austria	370.7	18.3	15.6	1,355.7	9.0	11.1	100.9	9.2	3.7	499.9	10.7	7.6	2,327.2	10.8	10.7
Denmark	1,126.3	10.4	8.6	1,028.6	2.9	8.3	235.8	-2.0	6.9	599.7	8.9	12.8	2,990.4	6.4	9.4
Finland	613.3	8.7	14.5	489.3	-3.6	9.2	96.8	-4.5	11.4	516.5	9.4	7.6	1,715.9	4.3	10.9
Norway	1,012.6	9.5	11.2	668.8	3.9	5.5	179.6	16.2	10.0	541.6	12.2	8.7	2,402.6	8.9	9.0
Portugal	236.7	22.3	13.5	349.8	11.8	9.5	79.3	10.6	15.6	346.2	8.9	10.0	1,012.0	12.9	11.5
Sweden	1,555.1	9.3	14.4	1,650.6	0.5	7.6	426.9	2.9	7.7	941.2	5.0	6.9	4,573.8	4.5	9.6
Switzerland . . .	613.6	12.0	13.9	2,378.3	3.9	10.9	355.1	13.7	8.3	589.7	11.0	8.3	3,936.7	6.9	10.9
United Kingdom	2,354.3	7.5	8.6	3,090.1	10.9	10.2	2,023.9	7.5	10.0	9,202.8	-0.5	3.0	16,671.1	3.5	5.9
Total EFTA . .	7,882.6	9.8	11.2	11,011.2	5.6	9.4	3,498.3	7.0	9.2	13,237.6	2.2	4.5	35,629.7	5.4	8.0
Exports (f.o.b.)	To EFTA			To EEC			To USA			To Rest of World			To World		
	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966	1966 (\$m)	1965- 1966	1959- 1966
Austria	339.1	15.1	16.6	751.2	0.6	6.9	77.1	15.1	4.5	515.7	4.8	6.2	1,683.1	5.2	8.3
Denmark	1,159.4	9.5	10.3	610.6	-1.8	4.9	190.0	19.9	7.9	442.2	1.9	7.3	2,402.2	5.7	8.3
Finland	529.3	11.9	11.4	411.5	2.8	9.5	96.0	12.3	10.3	459.4	-1.8	4.7	1,496.2	4.9	8.7
Norway	708.0	9.9	11.8	379.3	5.0	8.8	138.7	8.4	7.5	335.8	9.1	7.6	1,561.8	8.3	9.8
Portugal	186.5	19.1	20.4	121.2	3.8	9.1	70.7	18.0	13.9	248.4	5.4	7.0	626.8	9.5	11.6
Sweden	1,775.6	5.1	11.8	1,293.2	4.8	9.6	292.1	22.6	7.5	911.6	22.3	7.0	4,272.5	9.3	9.9
Switzerland . . .	645.2	9.4	12.8	1,250.3	5.6	9.3	353.7	22.4	9.4	1,039.0	14.1	8.4	3,288.2	10.6	10.0
United Kingdom	2,130.1	10.8	9.7	2,920.5	6.4	10.9	1,823.5	25.1	7.9	7,786.8	2.5	3.1	14,660.9	6.8	6.2
Total EFTA . .	7,473.2	9.4	11.4	7,737.8	4.4	9.2	3,041.8	22.5	8.1	11,738.9	4.9	4.3	29,991.7	7.4	7.7

Trade between the four Nordic countries has developed substantially faster than trade within EFTA as a whole; from 1959 to 1966 this intra-Nordic trade has grown by almost 170 per cent. But the rate of growth slowed down in 1966, and was only a little over 7 per cent, compared with more than 17 per cent in 1965.

EFTA trade with the EEC

The rate of increase of EFTA trade with the EEC in both directions has continued to decline. While from 1959 to 1966 EFTA exports to the EEC rose at an annual average rate of 9.2 per cent, they increased by only 4.4 per cent in 1966. All EFTA countries shared in this development and Danish exports to the EEC even fell by 1.8 per cent in 1966. Of the EEC countries only Germany imported less in 1966 from EFTA as a whole than in the previous year. This trend persists. In the first quarter of 1967 EFTA exports to the Community were 4.2 per cent lower than a year earlier, mainly because of slackening demand in Germany.

EFTA imports from the EEC developed along lines similar to those of exports; they increased by only 5.6 per cent in 1966, with Finland recording a decline of 3.6 per cent, while for the whole period 1959-1966 they showed an average annual increase of 9.4 per cent. Only the United Kingdom increased her imports from the Community in 1966 at a higher rate than the average of 1959-1966. In the first quarter of 1967 EFTA imports from the Community were only 2.4 per cent higher than in the corresponding period of 1966, and the increase in British imports from the EEC fell slightly short even of this figure.

EFTA's total imports from the EEC grew somewhat faster in 1966 than its exports to the Six; in consequence the trade deficit has risen to a new high of 3,270 million dollars, compared with 3,020 million dollars in 1965.

EFTA trade with the USA

EFTA exports to the United States increased substantially in 1966, i.e. by 22.5 per cent compared with an average annual increase of 8.1 per cent from 1959 to 1966. Although the United Kingdom, which accounts for about 60 per cent of total EFTA exports to the United States, was mainly responsible for this development — its exports recorded a rise of 25.1 per cent — all EFTA countries benefited from the high level of US demand. Norway was the only Member of the Association whose exports to the United States rose by less than 10 per cent in 1966. Figures for the first quarter of 1967, however, show a considerable slackening in the growth of these exports, the increase compared with a year earlier being only 5.8 per cent.

EFTA countries' imports from the United States in 1966 increased in total by 7.0 per cent, but with wide divergencies between countries. These ranged from decreases of 4.5 and 2.0 per cent (recorded by Finland and Denmark respectively) to increases of 13.7 and 16.2 per cent reported by Switzerland and Norway. Only Austria, Norway and Switzerland increased their imports from the United States in 1966 by more than the average of the previous six years. In the first quarter

of 1967 total EFTA imports from the United States were 4.1 per cent lower than a year earlier, all countries except Portugal showing a decline.

The total trade deficit of EFTA countries with the United States fell from 786 million dollars in 1965 to 456 million dollars in 1966.

EFTA trade with the rest the world

In 1966 total EFTA exports to the rest of the world increased by 4.9 per cent, while imports from these areas rose by only 2.2 per cent. Although the United Kingdom's share of EFTA imports from the rest of the world has continued to decline and in 1966 was down to 69 per cent, Britain's trade remains of major importance; a decline of 1.2 per cent in her imports from these areas partially offset rising imports by all other EFTA countries. The rise of 2.5 per cent in United Kingdom exports to the rest of the world was less than that recorded by all other EFTA countries, except Finland and Denmark. In contrast to the development of imports, the rise in total EFTA exports to the rest of the world in 1966 was above the average of the previous six years.

The total EFTA trade deficit with the rest of the world fell from 1,818 million dollars in 1965 to 1,499 million dollars in 1966.

In the first quarter of 1967 EFTA exports to the rest of the world were 9.1 per cent higher than a year earlier; imports were only 4.3 per cent up. The United Kingdom was mainly responsible for this development.

II. Internal developments in EFTA

Tariffs and quotas

Tariff reductions

In accordance with the agreed timetable, a final reduction of 20 per cent was made on 31st December 1966 in the level of protective tariffs on most industrial goods traded between Member States. As a result of this reduction the protective tariffs on goods covered by the EFTA Convention now stand at zero in all Member States * except Norway, where very few tariffs remain, and Portugal, to which, for many imports, the slower timetable of duty reductions in Annex G applies.

In the case of Portugal, Annex G tariffs currently stand at 60 per cent of their basic level and will be reduced by a further 10 per cent on 1st January 1970. The Portuguese authorities have decided to remove about 70 items from Annex G, and imports of these products into Portugal will therefore benefit in future under the EFTA rules from full duty-free treatment.

Tariffs are still applied by Member States if these are included in the lists of agricultural and fisheries products in Annexes D and E of the Convention, or if the duties are wholly revenue duties. Full lists of these agricultural and fisheries products and revenue duties were published in the EFTA Bulletin in issues 2, 3, 4 and 5 of 1967.

Quantitative restrictions

The remaining quantitative import restrictions in Member countries maintained under Article 10 of the Convention were — with very few exceptions — finally removed as from 1st January 1967.

Certain import and export control measures are maintained by Member countries in accordance with Article 12 of the Convention. These are measures such as to protect human, animal or plant life, copyrights or treasures of artistic or historic value as well as measures necessary to secure compliance with national laws concerning Customs enforcement and classification, grading or marketing of goods.

* For Finland, see page 29.

The origin rules and drawback

In general the EFTA rules of origin have continued to operate satisfactorily. A change has been made to provide a new qualifying process for certain fabrics of heading 59.17. * The provisions of Article 7, as amended by Decision of the Council No. 6 of 1966, came into force on 31st December 1966, with the result that, as from that date, EFTA goods cannot now benefit from both EFTA tariff treatment and drawback.

EFTA origin for products of the continental shelves of Member States

The continental shelf is the sub-marine area adjacent to territorial waters to a depth of 200 metres, or beyond that limit where exploitation of the sub-soil is technically possible. These submerged lands sometimes contain gas, oil or other minerals.

Goods won from the continental shelves of Member States are not covered by the provisions of the Convention. A study of the legal and economic implications of giving these products EFTA status has therefore been initiated in the Committee of Trade Experts.

The Consignment Rule

Since 1st October 1965, the EFTA Consignment Rule, which requires goods to be consigned directly from one EFTA country to another, has been relaxed on a provisional basis, subject to certain conditions, for EFTA goods stored in Customs warehouses in non-EFTA countries. Following a recommendation of the Customs Committee in June 1967, the Council decided early in July to make the relaxation permanent.

Annexes D and E of the Convention

Due to a decision of the Customs Co-operation Council in Brussels regarding the application of the Brussels Nomenclature, Annex D has been amended by adding "yoghourt, with added flavouring or fruit" (ex 21.07). No changes have been made in Annex E during the period covered by this report.

The "15 per cent rule" **

Slower timetables for EFTA tariff reductions exist for a few products in Norway (to 1969) and for a more considerable number of products in Portugal (to 1980). The two countries concerned are required to submit annually statistics

* See also Appendix II to this report.

** See also page 30.

on these products showing production and export figures. If the exports of any such product amount to 15 per cent or more of production during a three-year period, the removal of tariff protection for the product concerned is accelerated. The 1966 statistical examination showed that in Portugal exports of some products had been higher than 15 per cent over the previous three years, and the reduction of duty on these products will in consequence be accelerated.

Different price levels for agricultural raw materials

In certain Member States, domestic producers of processed foodstuffs treated as industrial products in EFTA must pay substantially higher prices for their agricultural raw materials — listed in Annex D and therefore not eligible for Area tariff treatment — than those paid by producers in other EFTA countries, who might obtain their raw materials at world market prices. Various solutions have been proposed to equalize such price differences, but the Council has not yet come to a final decision on the matter. In the meantime Austria and Switzerland have been authorized to postpone until 31st December 1967 the elimination of the remaining 40 per cent of their basic duties on certain sugar confectionery and biscuits and — in the case of Austria — also on chocolate.

In July 1966 the Council instructed the Secretariat to calculate the differences in the costs of agricultural raw materials used in the production of the above-mentioned food products. The first results of these calculations — covering the first half of 1966 — were submitted to the Council in November 1966 and those for the second half of the year in May 1967.

Duty-free allowances for tourists

In 1966 the Council requested the Customs Committee to examine the regulations applied in Member States as to duty-free allowances for tourists. The Customs Committee has now concluded its examination and has reported its findings to the Council, which has agreed that, for the time being, no further action within EFTA on this subject is called for.

Border charges

Revenue duties

Certain changes in the revenue duties notified in accordance with Article 6 of the Convention have been made by individual Member States. (Lists of all existing revenue duties in EFTA countries have been published in various issues of the EFTA Bulletin during 1967.)

Internal taxes

In 1966 the Council requested the Customs Committee to examine the internal taxes applied on imports of EFTA goods and the manner in which the obligations under Article 6 of the Convention are being interpreted and fulfilled. The Customs Committee has completed its examination, and has reported its findings to the Council. The Council has accepted the Committee's advice that certain taxation rates or systems may need amendment, and the position with regard to these will be reviewed early in 1968.

Other border charges

The Committee of Trade Experts has examined whether trade is hampered by certain categories of border charges maintained in Member countries such as fees for special Customs services, other service charges, town dues, traffic fees, etc., which had been listed in the earlier Customs Committee's report on the same subject. The Committee's recommendations will be submitted to the Council in the early autumn of 1967.

Technical and other administrative barriers to trade

With the final removal of tariffs and quantitative restrictions the impact on trade of any indirect barriers to trade of an administrative and technical nature may be expected to become more apparent. During the period covered by this report, the Association has given particular attention to the possible ways and means of removing hindrances to EFTA trade which might stem from such barriers.

Compulsory technical regulations

The EFTA working party on international standardization recommended at a meeting in September 1965 that Member States be invited to prepare a survey outlining the fields covered by governmental regulations imposing compulsory standards, specifications and codes of practice which may adversely affect intra-European trade. In July 1966 the Council referred such national contributions for consideration to the Committee of Trade Experts. This material has been supplemented by national enquiries through industry and other appropriate bodies in order to obtain information on those compulsory technical regulations, or similar arrangements in Member countries, which may cause impediments to trade at the present time. This has now been consolidated into a comparative survey by the Secretariat, on the basis of which priorities for further action with

regard to particular products or categories of products will be decided. On certain important categories the Committee has already agreed on the preparations to be made in capitals in order to enable the Committee to propose what appropriate steps EFTA might need to take.

Apart from this the Committee has also dealt *ad hoc* with certain concrete cases where national regulations have proved detrimental to imports from abroad and where proposed regulations seemed likely to do so. This has been a useful way of resolving difficulties. The Committee of Trade Experts is also studying the EEC draft directives providing for technical requirements, and their possible effects on EFTA-EEC trade.

Marking regulations

In October 1966 the Council endorsed the conclusions and recommendations of the report on marking regulations submitted by the Committee of Trade Experts. These regulations had been examined to see whether they acted as indirect barriers to trade. It was found that certain kinds of marking regulations had a discriminatory or restrictive effect and caused burden and inconvenience to producers, exporters or importers who had to comply with them, and the Committee thought that marking requirements should in principle apply equally to foreign and domestic goods. It was also agreed that origin marking, which was the kind of marking principally dealt with in the report, should be made compulsory only in exceptional circumstances. Member States agreed to revise their practice in the field of marking accordingly. The Committee of Trade Experts is to undertake a review of revisions made, early in 1968. The Council furthermore adopted a procedure for consultation among Member States before they introduce new statutory regulations on origin marking. The trade problems arising from informative marking (regarding weight, composition, use, etc.) will be studied later by the Committee if the need arises.

Government regulations on food and drink

In April 1966 the Council decided to set up a working party on government regulations on food and drink to study the relevant work undertaken in the EEC, and in other international organizations, and to collate details of rules and regulations in EFTA countries in fields in which there was considered to be scope for co-operation with the EEC. Moreover the working party was instructed to advise the Council on the desirability of co-ordinating any of these rules and regulations within EFTA as well as on the significance for EFTA trade of the measures undertaken or planned within the EEC and on the possibility of mutual EFTA-EEC co-operation. The study is to be concentrated on fields in which there is considered to be scope for co-operation with the EEC.

The experts met in November 1966 and March 1967 and their report was submitted to the Council in May. They concluded that EFTA exporters met some difficulties stemming from the directives already in force in the Community, but these seemed generally to be tolerable. They pointed out, however, that the

legislative work of the EEC was in its beginning and as yet mainly of a general character. If compositional standards were to be enforced, covering a large range of products, EFTA export interests would inevitably be affected and they might therefore be faced with more serious difficulties in the longer run.

The experts also discussed international co-operation in the field of food standards, and agreed that the EFTA Governments should not at this stage try to establish food standards for the Free Trade Area, but should support all efforts to reach international agreements, e.g. in the Codex Alimentarius Commission.

Government regulations on pharmaceuticals

In June 1966 the Council agreed that government regulations on pharmaceuticals should be studied. A working party of experts was asked to advise the Council whether there were barriers which hamper trade in pharmaceuticals between Member States and whether there was scope for action to remove them in accordance with EFTA's basic principles. At the same time the experts were to advise the Council on the significance for EFTA trade of the measures undertaken or planned within the EEC and on the possibility of mutual EFTA-EEC co-operation.

Experts met in September 1966 and in January and May of 1967. By then the preparatory work had advanced sufficiently to consider a catalogue showing the differences between the EEC directives and legislation in EFTA countries. The catalogue also shows the differences between national legislation and administration in EFTA countries. At their next meeting, in October 1967, the experts will produce a report dealing with both parts of the mandate.

The working party has also discussed two special aspects of co-operation in this field: the inspection of pharmaceutical manufacturing plants and co-operation between State laboratories.

The rules of competition

Government aids

In June 1966 the Council agreed on a mandate for a group of experts from national administrations to review government aids in Member States in relation to Article 13 of the Convention.

In the period covered by this report the group held three meetings. On the basis of notifications by the Member States, it established a survey of government aids, and carried out a preliminary examination of the compliance of these aids with Article 13. In view of the wide scope of this work, which extends both to export aids and to other types of aid, further meetings of the group are to be expected.

Practices of public undertakings

At the meeting of EFTA Ministers in Lisbon in October 1966, agreement was reached on an interpretation of Article 14 of the Stockholm Convention, ensuring that public undertakings do not act in such a way that the benefits of the removal of trade barriers would be nullified or impaired. This agreement was based on a report of a sub-committee of the Committee of Trade Experts, set up in March 1964 with the mandate to study the implementation of the provisions of Article 14. A statement explaining the agreement was issued with the press communiqué of the meeting; it is reproduced in Appendix I of this report. A fuller account, giving the text of the Lisbon agreement on general questions arising from the application of Article 14, was published in the EFTA Bulletin (Vol. VIII, No. 2).

Restrictive business practices

At the Ministerial Council meeting held in Copenhagen on 28th and 29th October 1965, Ministers reached an agreement on restrictive business practices (reproduced in Annex I of EFTA's Sixth Annual Report). The agreement comprised a procedure for implementing Article 15 of the Stockholm Convention and a mandate for a new working party of experts. The working party of experts convened following the Copenhagen agreement will report to the Council at the beginning of 1968 on the legislative and administrative means at the disposal of Member States to implement Article 15 and on the clarification of certain technical terms contained in that Article. In the course of the three meetings held so far it has examined Member States' legislation and practice on the basis of national notifications by Member Governments, and has begun its examination of the terms contained in Article 15.

Some experience has already been gained from the Copenhagen agreement on procedure. In April 1967 Switzerland and Portugal reported a case where a loyalty premium of 3 per cent had been promised by an association of producers to their clients if they undertook not to import. At the request of an importer a foreign supplier brought this matter to the attention of his authorities. They reported the case to the authorities of the importing country who took up the matter with the producers' association, pointing out that their agreement was contrary to Article 15. Thereupon the association withdrew the agreement with retroactive effect. Thus the case was solved by bilateral governmental contacts before the practice had had any effects on trade between the two Member States.

Establishment

In accordance with a mandate given at the Ministerial meeting in Bergen in May 1966 the Council convened a working party of experts to report on the implementation by Member States of the provisions of Article 16, as interpreted in the Bergen agreement *, and on any further clarification of technical terms that

* See Sixth Annual Report of the Association.

would be necessary in the context of the examination of national legislation and regulations. Since national administrations were engaged in preparing necessary changes in law and administrative practice with regard to establishment, the first meeting of the working party was held only in March 1967. A second meeting took place in June.

Dumped and subsidized imports of industrial goods

The special working party called by the Council in February 1966 to consider the adequacy of Article 17 of the Convention concerning countervailing action against dumped and subsidized imports met several times during the period covered by this report. It will meet again early in the autumn of 1967, and is then expected to finalize its report to the Council.

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 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 1966 review. In its report to the Council, the Committee concluded that EFTA trade in agricultural goods had remained, at current prices, at the same level in 1965 as in 1964, although exports in volume terms had continued to increase. It was not possible to establish whether or not the development in 1965 was the beginning of a shift in the increasing trend of the period 1961-1964.

The Committee started its 1967 review of EFTA agricultural trade at the end of June 1967 and is expected to complete this work in September.

Income policies and structural policies in agriculture

In the 1966 Annual Review it was agreed that the Agricultural Review Committee should consider the effects on production of Member States' price and income policies and make an appraisal of whether further steps could be taken to keep agricultural production more in line with possible outlets, having due regard to the interests of other Member States and the objective of EFTA co-operation in the agricultural field. The Committee held a separate meeting on this subject in May 1967; its findings on such structural policies will be included in the 1967 Annual Review Report on EFTA trade in agricultural products.

Review of agricultural provisions of the EFTA Convention

At their meeting in Stockholm in March 1967, Ministers held a full discussion on EFTA co-operation in agriculture. They instructed the Council at official level to carry out a general review of the provisions of the EFTA Convention regarding agriculture, and to examine whether further steps should be taken to ensure the satisfactory operation of these provisions. The Secretariat has prepared a study, forming the basis of the Council's review, which is expected to take place early in the autumn of this year.

Bilateral agricultural agreements

In accordance with the invitation by Ministers at their meetings in Bergen in May 1966 and in Stockholm in March 1967, Denmark has, in the period covered by this report, concluded bilateral agreements with Norway, Finland and Sweden.

Study of trade in fish

During their meeting in Lisbon in October 1966, Ministers agreed that a working party should be established with a view to exploring the possibilities of liberalizing EFTA trade in fish and other marine products listed in Annex E to the Convention. The working party is required to review the study prepared by the Secretariat in 1966 and other relevant material, and to report to the Council on its findings before the end of 1967, at the same time making such recommendations as it considers appropriate having regard to the objective set out in Article 27 of the Convention. The working party held its first meeting in May 1967, and agreed that at its next meeting it would, without commitment, discuss possibilities of trade liberalization in certain fish and fish products suggested by members of the working party.

Consultations and complaints

The general consultation and complaints procedure

During the year covered by this report the general consultation and complaints procedure provided for by Article 31 has not been set in motion.

Difficulties encountered by the Portuguese iron and steel industry

The small working party which had been set up to study the present situation of the Portuguese iron and steel industry and to examine its ability in the future to meet foreign competition, submitted its report to the Council in December 1966. It concluded that at present this industry was only able to meet competition

from outside with the aid of an effective protection for all products manufactured in Portugal. In order to attain this objective, the working party made several recommendations of a technical and legal nature, and suggested that some trade policy arrangements should also be considered. The Portuguese authorities subsequently submitted comments on the conclusions and recommendations of the working party. The matter is still under Council consideration.

Difficulties of the Austrian potato-starch and starch derivatives industry

In January 1967, the Council established a small group of experts with the task of examining the situation and the present competitive position of the Austrian starch industry and presenting its view on the need for action within EFTA. The group's conclusions, presented to the Council in May 1967, were still under consideration at the end of June.

Portuguese import duties on ball-bearings

In 1965 Portugal reframed its tariff on ball-bearings in such a way that protective duties on many categories of ball-bearings were increased. A working party was established to consider the matter. The Council was at the end of June 1967 still considering the working party's report.

Other developments

Double taxation

The examination of the OECD model bilateral convention of July 1963 continued at four meetings of the EFTA working party held during the year. The working party has now met 13 times since receiving its 1964 mandate. It has established a drafting group, which met in January and May 1967, to prepare drafts of several articles. These drafts will help the working party reach a conclusion as to whether it is technically possible to work out a multilateral convention based on the OECD bilateral model.

Patents

In January 1967 the working party on patents presented a further technical report to the Council upon an open international scheme covering joint substantive law and procedures related to stages up to and including the grant of national patents or patents valid throughout a group of any States. The Council has noted the report for further consideration.

The working party has proposed that consideration might be requested by the Council or suggestions communicated to it by the Nordic countries of EFTA. The suggestions relate to a further review of the incidence within the Association of patent applications and to various forms of intergovernmental co-operation.

In the meantime the Director of the United International Bureau for the Protection of Intellectual Property (BIRPI) has invited the Association to attend a conference next October in Geneva that will examine a BIRPI draft scheme for intergovernmental co-operation in the processing of patent applications. An outline of the scheme was published in BIRPI's "Industrial Property" for March 1967.

The "Division of Europe" study

Ministers decided at their meeting in Bergen in May 1966 that a study of the effects on the economies of Member States of the split in Western Europe into two trading blocs should be undertaken. For the time being, the study will concentrate on the economic effects of EFTA. The Secretariat has during the year covered by this report made a major effort in preparing the study and in collecting the necessary material. The work is being undertaken in close contact with national authorities and other international organizations. A special expert group was appointed and met in May 1967 to discuss methodological problems arising in the Division of Europe study.

The Association with Finland

Finland's active participation in the work of the Association continued during the past year. Substantive discussion of the majority of issues before the Councils has taken place in the Joint Council of EFTA and Finland, and Finland has been given equal opportunities to take part in all EFTA working parties concerned with trade between EFTA countries.

Tariffs

On 31st December 1966, Finland made a further reduction of 10 per cent in tariffs on most industrial goods imported from the EFTA partners. These duties, which now stand at 10 per cent of their basic level, will be reduced to zero at the end of 1967. A list of the revenue duties maintained by Finland is given in the EFTA Bulletin, Nos. 2 and 5 of 1967. At the Ministerial meeting in Stockholm in March 1967 it was announced that Finland would halve the rate of revenue duties on passenger cars imported from EFTA and that it was the intention to remove this duty completely at a later stage.

Annex I to the Association Agreement

Finland also made a further cut of 10 per cent on 31st December 1966 in duties on imports from EFTA countries of the items listed in Annex I to the Finland-EFTA Agreement. These duties are now at 30 per cent of their basic level and will be reduced by 10 per cent at the end of each of the next three years until they are completely removed. Certain deletions have been made from the list of goods to which the Annex I timetable applies as a result of the 1966 examination under the "15 per cent rule". The present coverage of Annex I is shown in EFTA Bulletin No. 2 of 1967 (as amended by Joint Council Decision Nos. 3 and 4 of 1967, details of which are given in EFTA Bulletin No. 4 of 1967).

Quantitative import restrictions

A working party examined in December 1966 the position of Finland with regard to the 1967 quotas and liberalization measures.

The working party noted with satisfaction that despite the difficult balance of payments situation, the Finnish authorities had been able to liberalize further items with effect from 1st January 1967 and that they envisaged liberalization of the remaining quotas by the end of 1967.

Invisible transactions and transfers

Review of Article 5 of the FINEFTA Agreement

Article 5 of the FINEFTA 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, the Joint Council agreed in May 1966 to convene a working party of experts to study the Finnish restrictions in this field and to consider whether Finland could apply the measures of liberalization undertaken by the EFTA Member States since 1st May 1960.

The experts held their first meeting in October 1966 and studied the Finnish position regarding invisible operations and capital movements. In February 1967 a sub-committee of experts met in Stockholm and adapted the Finnish restrictions to the terminology used by international agreements in this field so as to make them comparable with the reservations on the liberalization codes by EFTA Member States. The report of the experts is expected to be finalized in the course of 1967.

The Economic Committee

At the Ministerial meeting in Portugal in October 1966 Ministers decided that the work of the Economic Committee should be intensified. This was not intended to imply more frequent meetings, but it was thought that the Committee should within its terms of reference to a greater extent than hitherto discuss the economic policies of Member States and make recommendations to the Council as and when appropriate, especially if these policies affect other Member States of EFTA. An example mentioned was the importance of keeping inflationary pressures under control. This last question was the main item on the Agenda of the fifth meeting of the Economic Committee on 28th and 29th November, 1966. The Agenda for that meeting also included the two standing items of the Committee's mandate: short-term economic developments and prospects of Member States with special attention to possible danger points, and world economic developments and their impact on the economies and trade of EFTA countries.

The sixth meeting of the Economic Committee took place on 26th and 27th June, 1967. To permit thorough discussion, the meeting was somewhat longer than previous meetings. In addition to the usual standing items, the Agenda included a discussion of the Portuguese economy, based on a Secretariat report, as well as of the Finnish balance of payments situation, and of a Secretariat progress report on the Division of Europe study.

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 usually takes the form of a number of working parties which the Secretariat supervises and services.

During the year covered by this report, the various working parties have continued the programme established in October 1965. The first of these was a working party on the handling of general cargo in EFTA ports which, after five meetings, has issued a final report which now awaits consideration by the Economic Development Committee. The second is a working party on the concept of growth points in the context of regional development. This was always understood to be a somewhat longer task, but it may be completed by the late autumn or early winter of 1967. The third is a study of foreign investment in tourism in the Algarve (Portugal). Three meetings of this working party have been held and it is hoped that the work will be finished by the end of this year.

In addition to these working parties, the Secretariat has also sponsored visits by Portuguese industrialists interested in sub-contracting openings to industrial centres in Sweden and Britain. Similar visits to industrial centres in Switzerland and Austria are expected to take place shortly.

The fourth meeting of the Economic Development Committee will now probably be held in October 1967, when the Committee will receive the final reports, or progress reports, from the various working parties and will set up a new programme of work.

The Consultative Committee

During the year covered by this report the Consultative Committee held two meetings in Geneva. These preceded by a few weeks the Lisbon and Stockholm meetings of the EFTA Council.

The thirteenth meeting of the Committee took place on 7th October 1966, under the Chairmanship of Mr. J. G. Corrêa d'Oliveira, the Minister of Economy of Portugal, currently Chairman of the EFTA Ministerial Council. As usual the discussions focused on the internal development of EFTA, with particular emphasis on the work of the Committee of Trade Experts, and on European integration.

The fourteenth meeting was held on 10th February 1967, with Mr. Gunnar Lange, the Minister of Trade of Sweden, in the Chair. Apart from the usual topics of discussion, this meeting paid special attention to the first report of the Economic and Social Sub-Committee, to the comparative study of developments in EFTA and the EEC and to the study of the effect of tariff dismantling on consumer prices. Current EFTA business was mainly dealt with at an informal briefing session the preceding day under the Chairmanship of the Secretary-General. At this meeting Heads of the Secretariat Departments briefly introduced the work of their departments and answered detailed questions on matters arising out of the specially prepared report on current EFTA business.

The first meeting of the Economic and Social Sub-Committee of the Consultative Committee, created by Council Decision of 23rd June 1966, took place on 13th December 1966. The Committee agreed that as the first stage of its studies it should investigate the need for redeployment of labour in consequence of the introduction of free trade within EFTA, and as the next stage study methods of achieving redeployment. It was agreed that each country's government in consultation with employers and trade unions should prepare a paper outlining the need for redeployment of labour, developing in more detail the consequences of EFTA on selected industries which have been especially strongly affected. The Sub-Committee had a brief meeting on 9th February to discuss progress made. The third meeting of the Sub-Committee was held on 19th June 1967, when a thorough discussion of the national reports took place.

EFTA Parliamentarians

The EFTA Parliamentarians have continued their 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 and each meeting was attended by about fifty delegates. The main feature of these meetings has continued to be a discussion of the progress of European integration,

but several important topics have recently been added to the Agenda. These include the EFTA study of the effects of tariff dismantling on consumer prices and a comparative study of developments in EFTA and the EEC. On each occasion a special paper on current EFTA business is prepared for the Agenda. The Agenda is now discussed in advance and decided upon by a special Agenda Committee and the practice was introduced at the last meeting whereby individual Parliamentarians introduce one or other of the items on the Agenda.

Information activities

The major event of the year from an information point of view was the completion of the Free Trade Area on 31st December 1966. The event was widely noted in the press and elsewhere. The Secretariat published special issues of the regular EFTA Bulletin and its American counterpart the EFTA Reporter, Member Governments issued commemorative stamps, and there were numerous special television and radio programmes and conferences. The end of the transitional period also gave a special character to the Ministerial Council meeting in Stockholm.

During the spring of 1967, the Secretariat published *Building EFTA*, the first full account of EFTA's structure, history and functioning. This was also the first publication to appear in eight EFTA languages. Other publications in the past twelve months include the *Annual Review of Agriculture* for 1966, the Association's *Sixth Annual Report*, the *Study of the Effects on Prices of Tariff Dismantling in EFTA*, *Fisheries in EFTA*, the third annual edition of the economic report *EFTA Trade*, and a combined edition of the Stockholm Convention and the Finland-EFTA Agreement incorporating the changes that came into effect on 31st December 1966. Revised editions were published of the explanatory booklet *The Rules of Origin*, and of a brief general leaflet on EFTA.

The EFTA Council and the Joint Finland-EFTA Council

The EFTA Council and the Joint Finland-EFTA Council each met 39 times during the period under review. The two Councils met at Ministerial level in Lisbon on 27th and 28th October, 1966 and in Stockholm on 2nd and 3rd March,

1967; the EFTA Council met at Ministerial level in London on 28th April 1967. One meeting at official level with the Ministerial Chairman presiding was held in Geneva.

For the period 1st July to 31st December 1966 the chairmanship of the two Councils was held by Portugal and the vice-chairmanship by Sweden. For the period 1st January to 30th June 1967 the chairmanship of both Councils was held by Sweden, the vice-chairmanship of the EFTA Council by Switzerland and the vice-chairmanship of the Joint Council by Finland.

Administration and finance

The Secretariat

Mr. Charles Müller left the Secretariat on 31st December 1966 to rejoin the Swiss Foreign Service and was succeeded as a Deputy Secretary-General by Mr. Alfred Wacker. 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 totalled 96. Of these 47 were in the professional category and 49 in the general category. The staff of the Washington Information Office numbers 5, the Director and 4 recruited locally.

During the year, the Organisation and Methods team from the United Kingdom Treasury, which had earlier examined the organization and staffing of the Secretariat, reviewed the implementation of their previous recommendations. Their subsequent report indicated general satisfaction with the action taken, and suggested minor changes.

New EFTA headquarters building

Good progress has been made, during the mild winter of 1966-1967, on the building in the rue de Varembe. The main structure is expected to be completed by the end of summer 1967.

Finance

The Association's net budget for 1966-1967 was 6,830,000 Swiss francs. The budget for the financial year 1967-1968, commencing 1st July 1967, has been established at a gross sum of 7,015,800 Swiss francs which, after deduction of estimated income of 40,300 Swiss francs leaves a net budget of 6,975,500 Swiss francs to be financed by Member States' contributions. The Budget Committee held one meeting 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 1966-1967 were on the following basis (the figures for 1967-1968 are shown in brackets): United Kingdom 30 per cent (30); Sweden 21.70 per cent (21.91); Switzerland 16.94 per cent (16.88); Denmark 10.74 per cent (10.73); Austria 9.95 per cent (9.84); Norway 7.85 per cent (7.74); and Portugal 2.82 per cent (2.90). By annual agreement, Finland also makes a contribution which, in practice, has been between 6 and 6½ per cent of net budget.

III. External relations

The GATT and the Kennedy Round

Throughout the year covered by this report, the "Kennedy Round" negotiations for a general lowering of world tariff and other trade barriers continued in Geneva. An accord between the principal negotiators was reached on 15th May 1967, and the final act was signed by the participants on 30th June. As during the earlier period of negotiations, close and frequent contacts were maintained between the delegations of the eight EFTA countries to GATT. In the closing months, the four Nordic countries of EFTA (Denmark, Finland, Norway and Sweden) negotiated as a group with the other participants.

The yearly EFTA report to GATT on progress made in implementing the Stockholm Convention was presented to the 24th Session of the Contracting Parties.

Exploratory talks with Yugoslavia

A third round of talks between a Yugoslav Delegation and Heads of the Permanent EFTA Delegations and the Secretary-General of EFTA, following those which had taken place in December 1965 and June 1966, was held in Geneva on 22nd June 1967. At this meeting it was agreed that it was in the interest of both the EFTA countries and of Yugoslavia to continue and to intensify their contacts. It was consequently agreed to establish a joint working group in which all the EFTA countries, including Finland, and Yugoslavia should be represented to consider concrete plans of mutual interest for the development of economic and technical co-operation, including trade promotion, between Yugoslavia and EFTA. The joint working group will hold its first meeting before the end of 1967.

Organisation for Economic Co-operation and Development

The Secretariat was represented in the Ministerial meeting of the OECD in December 1966, as well as in various meetings of the Trade Committee, Economic Policy Committee, Fiscal Committee, Economic Development and Review Committee, Committee for Invisible Transactions, Fisheries Committee, and the Working Group on Short-Term Economic Prospects, and in meetings concerned with restrictive business practices. The EFTA Secretariat has continued to receive valuable assistance from the OECD Secretariat, particularly in the form of statistical and other information.

Council of Europe

Contacts with the Council of Europe Secretariat have been regularly maintained by meetings either in Strasbourg or in Geneva at which the Secretaries-General of the two organizations, accompanied by members of their staffs, discuss the programme of work of each organization and other matters of common interest.

The Sixth EFTA Annual Report was discussed by the Consultative Assembly of the Council of Europe in September 1966, in the context of the Assembly's debate on economic questions. The report was presented by Mr. J. G. Corrêa d'Oliveira, the Minister of Economy of Portugal. At the conclusion of the debate, the Assembly adopted, in reply to the report, a resolution congratulating the Association, *inter alia*, "on the substantial progress that has been made towards the final abolition on 31st December 1966 of tariffs and quotas within the Area of the Association, and on its determination to ensure that the benefits of free trade within the Area are not frustrated by other regulations and practices". Officials of the Secretariat attended the debates of the Consultative Assembly as observers.

UN Economic Commission for Europe

The Economic Department has maintained close contact with the Secretariat of the United Nations Economic Commission for Europe, and has received useful information from the ECE. EFTA Secretariat members have taken part in ECE meetings on statistical questions and on methods of forecasting international trade.

Nordic Council

Relations with the Nordic Council have been extended during the past twelve months. A meeting of representatives of the National Secretariats of the Nordic Council was held in March at the invitation of the EFTA Secretariat in Geneva, and provided an opportunity of reviewing the work being done by the Nordic Council and the EFTA Secretariat in the same or similar fields. The opportunity was also taken of explaining and discussing the main current activities of both organizations. In addition, an EFTA observer attended the full meeting of the Nordic Council in Helsinki from 1st to 6th April. This meeting was of particular interest from the EFTA point of view and a full report on the proceedings was made to the EFTA Council.

Customs Co-operation Council

Members of the Secretariat have attended sessions of the Nomenclature Committee and Permanent Technical Committee of the Customs Co-operation Council, Brussels.

Exchange of technical information with the EEC

Further contacts of a technical nature between the services of the Commission of the European Economic Community and the EFTA Secretariat took place during the twelve months covered by this report. Their purpose continued to be to exchange information on work in progress in the two organizations in specific sectors.

Contacts with non-governmental organizations

The Secretariat has continued to develop its relations with international non-governmental organizations directly interested in EFTA's work.

Of particular importance have been its contacts with ORGALIME, an organization which brings together the mechanical and electrical engineering industries of the whole of Western Europe. ORGALIME's EFTA Liaison Committee, which maintains close and current contacts with the EFTA Secretariat, held a meeting in Geneva in November 1966, sponsored by the EFTA Secretariat. It was attended by senior industrialists from the EFTA countries and also from some EEC countries. The Secretariat was also represented at a further meeting of the Liaison Committee in Turin in May 1967. The main topic at both meetings was administrative and technical barriers to trade. The Secretariat representatives gave an account of relevant work in progress in EFTA.

Contacts have been established between the Secretariat of the International Wholesalers' Organization and the EFTA Secretariat with a view to a mutual exchange of information on the activities of the two organizations.

Appendix I

Communiqués of EFTA Ministerial Meetings

Lisbon Meetings 27th and 28th October 1966

Communiqué

Meeting at Ministerial level on 27th and 28th October in Lisbon, under the chairmanship of Mr. J.G. Corrêa d'Oliveira, Portuguese Minister of Economy, the EFTA Council and the Joint Council of EFTA and Finland reviewed the activities of the European Free Trade Association, particularly in the light of the fact that at the end of this year, EFTA will have established an industrial free trade area of 100 million people.

Ministers noted with particular satisfaction the continuing development of co-operation and community of interests within the Association, exemplified by the more than doubling of intra-Area trade since 1959. They agreed that continued progress should be made in other areas of co-operation in accordance with the objectives of the Stockholm Convention. In this field, an important decision was taken on trade and purchasing practices of public undertakings, a separate statement on which accompanies this communiqué. It was also decided that co-operation in the field of economic policy should be further strengthened through an intensification of the work of the Economic Committee. Ministers reviewed the development of EFTA trade in agricultural goods and agreed to conclude the bilateral negotiations decided upon at their last meeting in Bergen. It was also decided that the Council at official level should examine a Danish proposal to review the opportunities of further expanding agricultural trade. Ministers decided that a study prepared by the Secretariat on production of and trade in fish and fish products should be submitted to a committee to be set up to review the operation of Article 27 of the Convention.

In their belief that the most immediate prospects of expanding intra-European and world trade lie in a successful conclusion of the Kennedy Round,

the Ministers reaffirmed that the EFTA countries during the final and decisive phase of these negotiations would do everything in their power to secure the most extensive reductions in world trade barriers. They will continue to co-operate closely for this purpose.

In the EFTA Council's discussion of economic integration in Europe, Ministers reaffirmed their view that the single Western European market remains their ultimate goal. They recalled that at their meeting in Bergen in May 1966, they had agreed that they would keep each other fully informed of their individual efforts and would remain in close consultation at all stages of their discussions with members of the EEC. It was the unanimous view that the EFTA countries could best contribute to the ending of the economic division of Europe by coordinated action as agreed at previous meetings. Ministers expressed their conviction that the Association's great achievement in creating an industrial free trade area would be of lasting significance to the EFTA countries and to Europe as a whole.

At the invitation of the Swedish Government, the next Ministerial meeting will be held on 2nd and 3rd March, 1967 in Stockholm, the capital in which the EFTA Convention was drafted in 1959.

Statement on public undertakings issued with communiqué

Article 14 of the Stockholm Convention on public undertakings puts an obligation on Member States to ensure — under conditions described in the Article — that public undertakings in their procurement and trading practices do not afford protection to domestic production or discriminate against suppliers or purchasers in other Member States. In accordance with the general scope of the Stockholm Convention the provisions of Article 14 are limited to trade in goods of Area origin.

The Article gives a wide definition of public undertakings. All government authorities or public enterprises, subject to central control, are in fact covered.

Following an extensive study of the implications of Article 14 by experts, Ministers have now given an interpretation of the obligations it contains. The interpretation can be summarized as follows:

- (a) for *public procurement* the obligation means that public undertakings shall give equivalent treatment to domestic goods and other goods of EFTA origin and shall award contracts on the basis of commercial considerations;
- (b) for the *trading activities of public undertakings* the obligation means that although Member States are not prevented from having any State-trading organizations they wish, the practices of these organizations must not lead to protection or discrimination between Member States.

In order to ensure that Member States are in a position to carry out the obligations under the Convention, national laws, regulations and practices will be reviewed with a view to making such amendments as may be necessary to ensure the effective implementation of Article 14 and to comply with the conclusions and

recommendations contained in the expert report which has been accepted by Ministers. The result of the national reviews will be communicated for discussion by the experts, who will report on the effectiveness of the agreement now reached on the basis of the initial review undertaken within the Association.

Apart from the abolition of rules and practices which are inconsistent with the obligations under Article 14, Ministers decided that there is a need to take practical steps with a view to facilitating the expansion of EFTA trade in the public sector through closer co-operation between Member States in the field of public procurement. As an immediate step necessary guidance will be given to agencies and enterprises responsible for public procurement in order that adequate opportunities to take part in tendering competitions are in fact given to interested suppliers in other EFTA countries and that their tenders are judged objectively. An exchange of lists is also envisaged. They will contain information of interest to potential suppliers in other EFTA countries and will be made available by Member Governments to interested exporters in their countries.

Details of the agreement on tendering methods and conditions for judging awards of public contracts will be published in appropriate trade journals. An account of the agreement on the practices of State-trading organizations will also be published.

EFTA Ministers' Meeting in London 5th December 1966

Communiqué

A meeting of the Heads of Government and other Ministers of all member countries of the European Free Trade Association and of Finland was held in London on 5 December, 1966. The meeting was at the invitation of the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, Mr. Wilson, who presided. It was also attended by the current Chairman of the EFTA Council, Dr. Corrêa d'Oliveira, Minister of Economy of Portugal, and by Dr. Klaus, the Chancellor of the Republic of Austria, Mr. Krag, Prime Minister and Minister of Foreign Affairs of the Kingdom of Denmark, Mr. Borten, Prime Minister of the Kingdom of Norway, Mr. Erlander, Prime Minister of the Kingdom of Sweden, Dr. Schaffner and Dr. Spühler, Federal Councillors of the Swiss Confederation, and Mr. Paasio, Prime Minister of Finland. Sir John Coulson, Secretary-General of the European Free Trade Association, was present in a personal capacity.

The topic discussed was economic integration in Europe. The Prime Minister of the United Kingdom explained the purpose of the visits to member states of the Community which he and his colleague the British Foreign Secretary propose

to make in the next few months with a view to determining whether the appropriate conditions exist in which it might be possible to activate the arrangements for a negotiation with the Community for British membership. The other Ministers welcomed the British move as an important step along the road to determining the prospects for a solution to the question of European economic integration in which they could all participate in an appropriate manner.

All Ministers reaffirmed their intention of keeping in the closest consultation with each other on the development of their policies and of their discussions with members of the European Economic Community. They will review the position as it develops at any level which the situation at that moment may require.

All Ministers emphasised the importance of developing the free market of nearly 100 million people which the European Free Trade Association will be by the end of the year. This market would be an important contribution to the European Economic Community. The two markets together would constitute a larger market in Europe consisting of nearly 300 million people, thereby creating a stronger basis for the economies of all participating states. At the same time it would make it possible for Europe to contribute more effectively to the developing world.

The EFTA Ministers welcomed the British Ministers' intention during their visits to capitals of the European Economic Community to stress the outstanding importance of a successful conclusion to the Kennedy Round of tariff negotiations in the GATT.

Stockholm Meetings 2nd and 3rd March 1967

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Stockholm on 2nd and 3rd March, 1967, under the chairmanship of Mr. Gunnar Lange, Swedish Minister of Commerce.

Ministers noted that with the establishment of the Free Trade Area, three years in advance of the timetable originally contemplated in the Stockholm Convention, the Association had fulfilled its first objective. They considered this achievement to be of lasting significance to the EFTA countries and to Europe as a whole and as an important step towards the second objective of the Association: the creation of a wide European market. Manufacturers and exporters should take full advantage of the opportunities now open to them for enlarging the exchange of goods within EFTA, to the benefit of traders and consumers throughout the whole area.

Ministers were informed that, as a contribution to EFTA solidarity, the Portuguese Government would remove about 70 items from the list of products at present subject to a slower rate of duty reduction. These products would therefore benefit under the EFTA rules from full duty-free treatment. The Finnish Minister announced that his Government would halve the rate of revenue duty on passenger cars imported from the EFTA countries, and that it was its intention to remove this duty completely at a later stage. Ministers warmly welcomed these announcements.

With the abolition of internal tariffs it was recognized that attention would now concentrate on other areas of economic co-operation such as non-tariff barriers and the enforcement of rules of fair competition. Ministers noted the work being done on these matters, and called for further efforts in this direction.

Ministers held a full discussion on EFTA co-operation in agriculture. They invited the countries which were engaged in or had planned negotiations in pursuance of the Bergen decisions of May last year to bring these negotiations to a successful conclusion as soon as possible. They instructed the Council at official level to carry out a general review of the provisions of the EFTA Convention regarding agriculture, and to examine whether further steps should be taken to ensure the satisfactory operation of these provisions.

In the EFTA Council's discussion of European integration, Ministers described their individual contacts with the EEC in this field since the meeting of EFTA Heads of Government in London in December. In particular, the British Foreign Secretary gave an account of the series of visits being paid to EEC capitals by the British Prime Minister and himself. A full discussion took place in the course of which EFTA Ministers reaffirmed their previous understanding that they would continue to keep each other informed of contacts with members of the EEC and remain in close consultation at all stages. On the proposal of the United Kingdom delegation, which was welcomed by the other delegations, Ministers decided to discuss the position again after the United Kingdom Government had been able to review their own discussions in the Six capitals and before any final conclusions were drawn from them.

Ministers agreed on the pressing importance of the negotiations in the Kennedy Round. They welcomed the progress being made in these negotiations; but time was now very short and Ministers appealed to all participants to do their utmost to reach agreement on a substantial world-wide reduction in tariffs and other barriers to trade and thus to bring to fruition their efforts over the last years.

At the invitation of the Swiss Government, the next regular meeting will take place in the second half of October in Lausanne. This will be preceded by a meeting of the Consultative Committee which will be held in Helsinki at the invitation of the Finnish Government.

London Meeting 28th April 1967

Communiqué

The EFTA Council met at Ministerial level in London on 28th April 1967, under the chairmanship of Mr. Gunnar Lange, Minister of Commerce of Sweden. Finland was also represented by Mr. Ahti Karjalainen, Foreign Minister, who was present in a personal capacity. The only item on their agenda was European integration.

The meeting, held in accordance with an agreement reached at the EFTA Ministerial conference in Stockholm in March of this year, gave the opportunity for a general discussion among Ministers of the prospects of European integration as they appear now that the United Kingdom Government have been able to review their own recent discussions in the six capitals of the European Economic Community, and before any final conclusions have been drawn from them.

The EFTA Governments, desirous of bringing about a single European market in accordance with the purpose of the Stockholm Convention, recognized that, if the British Government were to decide to seek a closer relationship with the EEC, that decision would open up new prospects for a solution of the question of European economic integration, in which they all intended to participate.

In affirming their intention to work towards the goal of European economic integration, all the EFTA Governments reiterated their strong interest in safeguarding, as an important part of an enlarged European community, the free market already established in EFTA by the successful dismantling of trade barriers within the Association.

The change from the present division of Europe to a single market should be as smooth as possible. Were the United Kingdom or any other member of EFTA to apply for participation in the EEC, the process of negotiation and of ratifying any ensuing agreement could hardly be short. In addition, it would be the purpose of EFTA Governments that, should it be necessary in order to give a reasonable opportunity to their partners in the Free Trade Area to conclude negotiations, sufficient transitional periods should be provided for, with a view to avoiding disruption in European trade patterns.

Ministers agreed that their Governments should maintain close and continuous consultation on all the aspects of the future European structure.

Appendix II

Amendments to the EFTA Convention and the Finland-EFTA Agreement

Under Decision No. 15 of 1966 the new French texts of Article 6 (Drawback) and of some parts of Annex B relating to drawback were adopted. The texts took effect on 31st December 1966.

Decision No. 17 of 1966 substituted a new Schedule IV to Annex B with effect on and from 31st December 1966. The new Schedule prescribes new forms of documentary evidence for the support of a claim to Area tariff treatment.

Decision No. 21 of 1966, taking effect on 31st December 1966, amended Rule 8 of Annex B which sets out requirements relating to documentary evidence of eligibility for Area tariff treatment.

Decision No. 22 of 1966 introduced a new qualifying process into Schedule II to Annex B. The process relates to the manufacture of fabrics (other than woven textile felts) of a kind commonly used in machinery for making or finishing cellulosic pulp, paper or paperboard (ex 59.17).

Decision No. 23 of 1966 further amended, with effect on and from 31st December 1966, the text of Annex B. It added a drawback exception relating to re-exports. The exception is designed to remain in force only up to and including 31st December 1968.

Decision No. 1 of 1967 amended Annex D to the Convention in order to follow a formal change in the Brussels Nomenclature (ex 21.07).

New editions of the EFTA Convention and of the Finland-EFTA Agreement were published in February 1967. They incorporate all amendments up to 31st January 1967.

European Free Trade Association
July 1966 - June 1967

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* Mr. Kleppe and Mr. Jantzen will leave the Secretariat during autumn 1967. Mr. Kleppe will be replaced by Mr. J. Lanner in September 1967; Mr. Jantzen will be replaced by Miss I. Nielsen in October 1967.

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