

1968-1969

Ninth Annual Report  
of the  
European Free Trade  
Association



Geneva-September 1969



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## Table of Contents

I. SURVEY OF THE YEAR	Page
<i>The year in EFTA: 1968-1969</i> . . . . .	7
Co-operation in EFTA . . . . .	7
European integration . . . . .	9
<i>EFTA Trade in 1968</i> . . . . .	10
Total trade. . . . .	10
Intra-EFTA trade . . . . .	11
EFTA-EEC trade . . . . .	12
EFTA trade with the United States . . . . .	12
EFTA trade with Eastern Europe . . . . .	13
EFTA trade with other areas . . . . .	13
<i>Economic developments in the EFTA countries</i> . . . . .	13
II. INTERNAL DEVELOPMENTS IN EFTA	
<i>Tariffs and quotas</i> . . . . .	24
Tariff reductions on industrial goods . . . . .	24
Quantitative import restrictions . . . . .	24
The origin rules . . . . .	24
Annexes D and E of the Convention. . . . .	25
Different price levels for agricultural raw materials . . . . .	25
<i>Border charges</i> . . . . .	26
Revenue duties . . . . .	26
Internal taxes . . . . .	26
Other border charges . . . . .	26
<i>The rules of competition</i> . . . . .	26
General review of the rules of competition . . . . .	26
Government aids . . . . .	27



	<i>Page</i>
Practices of public undertakings . . . . .	27
Restrictive business practices . . . . .	27
Establishment . . . . .	27
<i>Technical and other administrative barriers to trade . . . . .</i>	<i>28</i>
Compulsory technical regulations . . . . .	28
Government regulations on pharmaceuticals . . . . .	29
Hall-marking . . . . .	29
Marking and packaging requirements . . . . .	30
<i>Agriculture and fisheries . . . . .</i>	<i>30</i>
Annual review of agricultural trade . . . . .	30
Review of agricultural provisions of the EFTA Convention. . . . .	31
Bilateral agricultural agreements . . . . .	31
Review of trade in fish . . . . .	32
<i>Escape clauses, consultations and complaints . . . . .</i>	<i>32</i>
Escape clauses of the EFTA Convention . . . . .	32
The general consultation and complaints procedure . . . . .	32
Difficulties encountered by the Portuguese iron and steel industry. . . . .	33
Plans for aluminium smelters in the United Kingdom . . . . .	33
Imports of quick-frozen fish fillets into the United Kingdom . . . . .	33
The United Kingdom import deposit scheme . . . . .	34
<i>Other questions . . . . .</i>	<i>34</i>
Double taxation . . . . .	34
Patents . . . . .	35
Indirect taxation . . . . .	35
Technology, and company law . . . . .	36
Study of the effects of the economic division of Western Europe . . . . .	36
Study of the effects on prices of tariff dismantling. . . . .	36
Direct investment in EFTA . . . . .	36
<i>The association with Finland . . . . .</i>	<i>37</i>
Tariffs and quantitative import restrictions . . . . .	37
Invisible transactions and transfers: review of Article 5 of the FINEFTA Agreement . . . . .	37
<i>The Economic Committee . . . . .</i>	<i>37</i>
<i>The Economic Development Committee . . . . .</i>	<i>38</i>
<i>The Consultative Committee . . . . .</i>	<i>39</i>
<i>EFTA Parliamentarians . . . . .</i>	<i>39</i>
<i>Information activities . . . . .</i>	<i>40</i>
<i>The EFTA Council and the Joint Finland-EFTA Council . . . . .</i>	<i>40</i>



	<i>Page</i>
<i>Administration and finance</i> . . . . .	41
The Secretariat . . . . .	41
EFTA headquarters building . . . . .	41
Finance . . . . .	41

## II. EXTERNAL RELATIONS

Negotiations with Iceland . . . . .	42
EFTA-Yugoslav Joint Working Group . . . . .	42
GATT . . . . .	42
UNCTAD . . . . .	43
OECD . . . . .	43
Council of Europe . . . . .	43
UN Economic Commission for Europe . . . . .	43
Nordic Council . . . . .	43
Customs Co-operation Council . . . . .	44
Exchange of technical information with the EEC . . . . .	44
Contacts with non-governmental organizations . . . . .	44
APPENDIX 1: Communiqués of Ministerial meetings . . . . .	45
APPENDIX 2: Amendments to the EFTA Convention and the Finland- EFTA Agreement . . . . .	48
APPENDIX 3: EFTA agreement on government aids . . . . .	49



# I. Survey of the year

## The year in EFTA: 1968-1969

The twelve months covered by this Ninth Annual Report of EFTA were characterized by a further marked growth in the trade of the Member countries, spurred within the Free Trade Area by the absence of protective tariffs and quotas, and generally by the upturn in European business conditions. The value of intra-EFTA trade is now running at about two-and-a-half times the level of 1959, the last year before the Stockholm Convention came into force. For all the EFTA countries, this represents a much greater increase than in their trade with the world as a whole. Trade developments during the year were, however, still visibly influenced for some EFTA countries by the currency devaluations, and accompanying economic measures, that took place late in 1967. Within the Association, co-operation between the eight countries continued to develop, with activities based largely on a work programme approved at the Ministerial Council meeting in London in the spring of 1968. The central theme of this programme is a wide-ranging attack on potential non-tariff barriers to the free movement of industrial goods in EFTA.

In European integration, little real progress was achieved during the year. Some new ideas were forthcoming from various sources, both within and outside EFTA, for furthering economic co-operation in Europe, but few reached the stage of clear formulation, and fewer still gained general acceptance. There was no change in the commitment and determination of all EFTA countries to continue to seek the achievement of EFTA's long-term goal, the establishment of a single market in Western Europe.

With regard to EFTA's external relations, EFTA Ministers, at their meeting in November 1968, welcomed an application from Iceland for membership in the Association. Negotiations between Iceland and EFTA opened in January 1969, and were still in progress at the end of the period covered by this report.

### Co-operation in EFTA

The removal of non-tariff barriers to trade has continued to provide a major focus of the activities of the EFTA Council and Secretariat. This work has required not only a broad study of basic principles, but also a detailed and continuing review, in the specialized committees of the Association, of specific problems as they occur.



Much time has been devoted to clarifying the rules of competition, including their relationship with regional and other economic policy measures, and to elucidating the criterion of "frustration of the benefits expected from the removal or absence of tariffs and quantitative restrictions" which lies at the heart of these rules. This work, as well as the study of the escape clauses of the Convention, is continuing. In addition, progress has been achieved on individual rules of competition. During the period covered by this report, the Council agreed upon, and published, its interpretation of the provisions of Article 13 of the Convention, concerning government aids. A review of the practical operation of the earlier agreement on public undertakings (Article 14) was carried out, and the Council endorsed the conclusions of a second working party on restrictive business practices (Article 15). The Bergen agreement on establishment (Article 16) was also re-examined in order to clarify a number of points.

Significant progress was achieved in EFTA co-operation to overcome technical and administrative barriers to trade, a field in which there are also hopes that international agreements extending well beyond the limits of the free trade area can be achieved. It has remained a prime concern of EFTA to avoid adopting policies which might, although helping trade within the free trade area, actually raise new obstacles to freer world trade. Thus co-operation within the Association has largely taken the form of consultation on ways of helping more rapid progress in wider international bodies. In addition, however, some specifically EFTA agreements have been reached or are in process of negotiation. Early in 1969 the Councils agreed on a scheme which will allow national testing stations in their countries to make use of one another's test reports in issuing approvals for many types of electrical equipment. A study of testing arrangements in other fields where major technical or administrative obstacles are felt to exist is in progress. A draft convention on the mutual recognition of inspections of pharmaceutical manufacturing plants has been drawn up, extending initially to the EFTA countries, but open to other countries to join. The practical arrangements that would be necessary if the convention is adopted are now under study. A draft convention on the control and marking of articles of precious metals is also being discussed by an EFTA committee. A more detailed account of work in these fields, as well as on other subjects concerning trade and economic development in EFTA, is given in later sections of this report.

There has continued to be close consultation in EFTA on economic matters of mutual interest, both inside and outside the free trade area. These consultations cover, for example, national economic developments likely to affect intra-EFTA trade (usually the concern of the Economic Committee), current work in international bodies such as GATT and UNCTAD, and bilateral or regional discussions of interest to other members, such as the Nordek negotiations on which the Nordic countries have kept their EFTA partners informed.

An important contribution to the efficiency of the Association was made by the move, at the end of March 1969, into a new headquarters building in Geneva. This striking modern building, built to the special requirements of EFTA by the Swiss cantonal and federal authorities from whom it is rented, has brought all departments of the EFTA Secretariat under one roof for the first time since



the earliest days of the Association, and has provided the Councils and committees with first-class facilities for their meetings.

### European integration

While EFTA co-operation continued to progress in 1968-1969, this was a year of standstill in wider European economic integration. The previous annual report of EFTA covered a period in which earlier hopes of achieving real progress were disappointed. It noted, however, that by the summer of 1968, some attention was being given to the possibility of reaching interim arrangements which, although not to be regarded as a substitute for wider integration, might reduce the effects of the economic division of Europe. At the May 1968 Ministerial meeting of the Councils, it had been agreed that the EFTA Governments would be ready "to consider in a positive spirit any constructive proposals that might be put forward by the Community, provided that these proposals were in conformity with their international obligations". This attitude was reaffirmed \* at the two Ministerial meetings held during the period covered by the present report.

In the absence of any broad advance towards European integration, it is encouraging that an opportunity for one concrete step has been seized, in a field in which EFTA has long sought to promote co-operation with other European countries. In the spring of 1969, the EEC convened a conference which, it is hoped, should eventually lead to the conclusion of a European patent agreement. The seven EFTA Member countries are taking part in this work, to which it is clear that past studies within the Association of the problems involved will prove relevant. Welcoming the EEC initiative as opening the way for "an important practical contribution to European economic integration", the EFTA Ministers at their Geneva meeting in May instructed the Council at official level to study other fields of possible co-operation with the Communities. The scope of these studies was being defined at the end of the period covered by this report.

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\* Communiqués of the Ministerial meetings of the Councils held during the period July 1968 - June 1969 are reproduced in Appendix 1 to this report.



## EFTA trade in 1968

In 1968 the trade of EFTA countries developed somewhat differently from the trend established in the years since 1959. The tendency had been, in each year, for trade between Member countries to grow faster than total EFTA trade; but in 1968 the value of intra-EFTA trade (f.o.b.) grew by 6 per cent, at the same rate as the total imports of the EFTA countries combined, while their total exports rose by 8 per cent. Exports to the EEC countries rose even more, by 10 per cent.

Several factors contributed to this apparent departure from the familiar trend. In the first place, the previous year, which was the first year of duty-free trade within EFTA, had been one in which intra-Area trade had grown much more rapidly than the total trade of the group. Secondly, the previous year had been one in which both EFTA and the EEC had registered roughly the same rate of economic growth, but in 1968 there was a greater general expansion within the EEC than in EFTA. Thirdly, three of the EFTA countries, the United Kingdom, Denmark and Finland, had devalued towards the end of 1967. Despite this, the total increase in intra-EFTA trade since 1959, 145 per cent, remains very much greater than that of total EFTA trade, where exports have risen 83 per cent and imports 88 per cent. In the later months of 1968 the move towards greater concentration of trade between EFTA countries was again apparent and seasonally adjusted data show that from the third to the fourth quarter intra-EFTA trade increased by 4.15 per cent while imports from the EEC rose by 1.73 per cent and exports to the EEC by 4.55 per cent. In this period total EFTA imports increased by 1.48 per cent and total exports by 3.42 per cent. The normal trend towards greater growth in the internal trade of the Association was also apparent in the first quarter of 1969.

### Total trade

In 1968 the total commodity imports of the EFTA countries combined amounted to 39,600 million US dollars and exports totalled 33,200 million dollars, giving a fall in the trade deficit of over 300 million dollars compared with 1967. Finland achieved a commodity trade surplus of 43 million dollars and Norway reduced its large deficit by 240 million dollars. All EFTA countries, except the United Kingdom, where both imports and exports rose at about 7 per cent, increased their total exports more than their imports, with Norway and Switzerland recording the most spectacular growth. Finnish and Norwegian total imports were lower than in 1967.

Seasonally adjusted data show that the rate of growth of total EFTA exports in every quarter of 1968 was higher than that of total EFTA imports. Exports rose 3.6 per cent in the second quarter, 1.4 per cent in the third, and 3.4 per cent in the fourth, while the increases in imports were 2.1 per cent, 0.5 per cent and 1.5 per cent respectively. Thus the recovery in the rate of growth of exports in the fourth quarter was twice as great as that of imports.

In the first quarter of 1969 total EFTA imports were 6.1 per cent higher than a year earlier, while exports rose by 11 per cent. On a seasonally adjusted basis



it appears that the rate of growth of both exports and imports declined in the first quarter of 1969 compared with the last quarter of 1968, with both imports and exports recording a rise of only 1.2 per cent.

### Intra-EFTA trade

Although in 1968 the total trade of the EFTA countries combined rose faster than intra-EFTA trade, the experience of the individual Member countries varied. Indeed, Sweden was the only country whose total imports and total exports both rose faster than trade with her EFTA partners, but her imports from EFTA rose more than those from the EEC. Denmark, Norway and the United Kingdom all increased their imports from EFTA more than their total imports, while Switzerland's total imports and its imports from EFTA progressed at an equal rate. Both Finland and Austria followed the trend of recent years in that their import and export trade with their partners in EFTA developed faster than with the world or the EEC. Portugal's exports to EFTA also rose more than her total exports.

Intra-EFTA exports amounted to 8,638 million dollars in 1968, or just over a quarter of the Area's total exports. Seasonally adjusted, the rate of growth of intra-EFTA trade from quarter to quarter in 1968 was higher than that of total exports in two quarters and lower in two quarters. The growth rate of intra-EFTA trade was 4.1 per cent in the second quarter, then fell to 1.3 per cent, and recovered to 4.2 per cent in the last quarter. Although EFTA trade in the first quarter of 1969 was 14 per cent higher than in the same period a year earlier, seasonally adjusted figures, which record a rise of only 2.6 per cent over the last quarter of 1968, show that the high rate of expansion achieved at the end of 1968 was not maintained. Nevertheless, intra-EFTA trade grew more than twice as fast during this period as the total trade of EFTA countries combined.

By the end of 1968, trade between Member countries was almost two-and-a-half times as high as it was in 1959, an average increase of 10½ per cent per year. Most EFTA countries have achieved even more rapid growth than this in their trade with their partners, and it is the low rate of growth in the trade of the United Kingdom, which supplied a quarter and purchased a third of the goods exchanged by Member countries in 1968, which has depressed the average. However, Denmark's imports and exports and Portuguese and Norwegian imports have also increased less than total intra-EFTA trade. Increases of 200 per cent and over since 1959 have been registered for Austrian and Swiss imports from and exports to EFTA partners and for Portuguese exports.

Of the EFTA countries which devalued in 1967, Finland is the only one which in 1968 combined a strong rise in exports with a fall in imports. Her exports to EFTA increased particularly strongly—by 13 per cent—while her imports from her EFTA partners fell by 2 per cent (less than her total imports). Denmark's total exports rose faster than her total imports, but in trade with her EFTA partners growth was slightly higher in imports than in exports. Although the total imports and exports of the United Kingdom increased at about the same rate of 7 per cent, her exports—in dollar terms—to partner countries fell by



1½ per cent. The largest fall was recorded in exports to Norway, exports to Denmark and Finland also dropped, and the total fall was not compensated for by the slow growth in exports to Sweden and Switzerland, which together accounted for 45 per cent of the United Kingdom's intra-Area exports. On the other hand, United Kingdom imports from EFTA partners combined grew by 7½ per cent and rose faster than this from all Member countries, except Denmark.

Intra-Nordic trade amounted to 2,591 million dollars, or 30 per cent of intra-EFTA exports. Since 1959 the trade carried on between the four Nordic EFTA countries has tripled, growing at an annual average rate of 14 per cent. Intra-Nordic trade has grown faster than intra-EFTA trade each year since 1959, except in 1968, when its rate of increase, at 5.7 per cent, was slightly below the growth in total intra-EFTA trade. Only Swedish exports to Norway and Norwegian exports to Finland actually fell, and the other three Nordic EFTA countries continued to find a buoyant market in Sweden.

#### EFTA-EEC trade

In 1968 EFTA imports from the EEC exceeded 12 thousand million dollars, and exports to the Community amounted to 8,300 million dollars; the EEC thus accounted for a third of total EFTA imports and a quarter of exports. However, exports grew by 10 per cent, while imports rose only 6 per cent, somewhat reducing the large commodity trade deficit. Exports to the EEC increased more than in most years since 1959. Moreover, seasonally adjusted figures show a far more rapid rate of growth of exports to the EEC than of imports in every quarter of 1968. Exports rose 3 per cent in the second quarter, 1 per cent in the third and 4½ per cent in the fourth, whereas imports rose only 0.7 per cent in the second quarter, fell by 0.2 per cent in the third, and rose by 1.7 per cent in the final quarter. In the first quarter of 1969 total EFTA imports from the EEC were only 5.3 per cent higher than a year earlier, while exports increased by 14.4 per cent. On a seasonally adjusted basis, however, the increase in imports and in exports between the fourth quarter of 1968 and the first quarter of 1969 was, at 1.8 per cent, the same.

Most of the improvement is due to the big increase in EFTA exports to the Federal Republic of Germany, amounting to 16 per cent between 1967 and 1968 as compared with an average of 6½ per cent per year since 1959. Exports to the Benelux countries also improved on past performance. All EFTA countries recorded high rates of growth in exports to Germany, but developments in other trade flows within the two groups varied considerably.

#### EFTA trade with the United States

Trade between EFTA countries and the United States increased very strongly in 1968. Exports rose 20 per cent, led by a 24 per cent increase in the exports of the United Kingdom, while imports increased by 12 per cent; there was thus a 23 per cent fall in EFTA's commodity trade deficit with the United States.



EFTA countries achieved a higher rate of growth of exports to the United States than they had averaged since 1959. Denmark recorded a considerably reduced rate of growth of imports, while the imports of Portugal and Finland from the United States fell. However, seasonally adjusted figures show a rapid increase in the rate of growth of imports from the United States in every quarter in 1968. From 0.1 per cent in the second quarter it jumped to 3 per cent and 6½ per cent in the following quarters. Exports, on the other hand, recorded a declining rate of growth: 7.4 per cent, 5 and 4.4 per cent. The rates in the last quarter were strongly influenced by the statistics for December, when exports fell more than imports, after the opposite development during the two previous months. The change is partly accounted for by the dock strike in the United States, which began in mid-December and would have held up exports already on their way, but not those shipped at that time. The dock strike continued to exert its influence on trade in the first quarter 1969 and EFTA imports from the United States were 10.5 per cent lower than a year earlier, while exports fell 9.4 per cent. Seasonally adjusted data, however, show an increase in imports of 0.7 per cent over the fourth quarter 1968 and a fall in exports of 2 per cent.

### EFTA trade with Eastern Europe

In 1968 EFTA trade with Eastern Europe grew relatively slowly, with exports rising 6 per cent and imports 5 per cent, although Sweden, Switzerland and the United Kingdom recorded increases in exports of 17 per cent, 11 per cent and 14 per cent respectively. Trade with Eastern Europe has increased fairly rapidly since 1959, but fluctuates considerably from year to year; the rates of increase in 1967 were 14 per cent for exports and 1 per cent for imports.

### EFTA trade with other areas

About a third of EFTA's trade is carried on with the rest of the world and amounted in 1968 to some 12½ billion dollars' worth of imports and 11 billion dollars' worth of exports, thus yielding increases of 5 and 6 per cent respectively over 1967. About 70 per cent of this was accounted for by imports and exports of the United Kingdom, but most other EFTA countries have been rapidly increasing their trade with these areas since 1959, while that of the United Kingdom has been relatively static. In 1968 Swiss, Norwegian and Austrian exports to and Austrian and Swedish imports from the rest of the world grew very sharply.

## Economic developments in the EFTA countries

The rate of growth, in real terms, of the *Austrian* gross national product accelerated from 3.1 per cent in 1967 to 4.1 per cent in 1968. This improvement was mainly a consequence of an increase in foreign demand: exports of goods and services rose at a rate of 10.6 per cent, almost twice as much as in 1967. The rates of increase in private consumption, at 3.6 per cent, and of public con-



# EFTA TRADE IN 1968

Table I (in million US dollars and percentage change 1967-1968)

	Total EFTA		Total EEC		USA		Eastern Europe		Rest of world		Total world	
Reporting country	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%
<i>Imports (c.i.f.)</i>												
Austria . . . . .	459.1	+8.9	1,433.1	+6.0	83.5	+3.6	243.6	+16.7	277.7	+12.8	2,497.0	+8.1
Denmark . . . . .	1,287.4	+3.5	1,051.4	+2.4	273.6	+1.5	118.9	-1.6	481.1	+1.6	3,212.4	+2.5
Finland . . . . .	594.2	-2.3	420.8	-8.7	72.3	-12.5	324.3	-1.6	180.9	-13.8	1,592.5	-5.8
Norway . . . . .	1,165.5	+3.9	667.5	-3.3	206.2	+17.1	76.8	-6.2	589.5	+0.7	2,705.5	-1.3
Portugal . . . . .	239.6	+1.4	355.8	+4.6	66.6	-6.5	14.7	+28.9	362.5	+2.3	1,039.2	+2.5
Sweden . . . . .	1,781.2	+7.6	1,756.0	+6.1	473.7	+8.5	231.7	+13.2	879.0	+17.0	5,121.6	+8.9
Switzerland . . . . .	741.6	+9.4	2,674.8	+9.5	402.0	+16.8	89.9	-0.5	588.6	+6.2	4,496.9	+9.4
United Kingdom. .	2,784.5	+7.4	3,761.3	+8.2	2,551.2	+15.0	726.6	+4.1	9,134.9	+4.7	18,958.5	+7.0
EFTA total . . . .			12,120.7	+5.9	4,129.1	+12.2	1,826.5	+4.7	12,494.2	+5.0	39,623.6	+5.9
<i>Exports (f.o.b.)</i>												
Austria . . . . .	471.0	+15.9	801.5	+8.9	92.0	+18.6	294.6	+0.5	329.4	+11.5	1,988.5	+10.0
Denmark . . . . .	1,290.5	+3.3	602.0	+6.3	210.3	+16.4	89.3	-11.0	389.6	+3.2	2,581.7	+4.3
Finland . . . . .	641.9	+13.2	402.7	+11.6	96.3	+8.7	303.5	-4.5	191.3	-1.2	1,635.7	+7.1
Norway . . . . .	879.8	+7.8	453.1	+12.0	159.6	+13.6	52.9	+7.3	392.2	+20.2	1,937.6	+11.6
Portugal . . . . .	245.8	+9.1	123.0	+6.5	78.8	+12.6	6.7	-14.1	277.8	+4.4	732.1	+6.9
Sweden . . . . .	2,145.1	+8.3	1,338.5	+10.4	381.4	+14.7	223.0	+17.4	849.2	+4.5	4,937.2	+9.0
Switzerland . . . . .	842.1	+11.2	1,466.7	+14.6	412.0	+12.9	140.4	+11.1	1,155.2	+18.3	4,016.4	+14.6
United Kingdom. .	2,121.3	-1.5	3,099.2	+7.9	2,182.8	+24.4	548.3	+14.3	7,394.7	+4.0	15,346.3	+6.8
EFTA total . . . .	8,637.5	+5.9	8,286.7	+9.8	3,613.2	+20.1	1,658.7	+6.0	10,979.4	+6.0	33,175.5	+8.3

Source: National Statistics.



sumption, at 3.5 per cent, remained practically unchanged compared with 1967. Investment expenditure for the year as a whole was at best stagnant.

Consumer prices rose by only 3 per cent as compared with 4.3 per cent in the previous year, while money wage rates rose by 6.1 per cent against 8.3 per cent in 1967.

Merchandise imports, which had stagnated in 1967, rose by 8.1 per cent in value, with imports from EFTA and from Eastern Europe growing most. Exports went up by 10 per cent, slightly more than in 1967. The fastest rates of increase were recorded in deliveries to the United States which rose by 18.6 per cent, and deliveries to EFTA, which increased by almost 16 per cent. The deficit in commodity trade of 539.2 million dollars was lower than that reported for 1967. Given an increased surplus on services and transfers, the current account deficit, at 84 million dollars, was 27 million dollars lower than in 1967. Net receipts of long-term capital amounted to 186.7 million dollars, almost a third less than in the previous year, while short-term capital movements showed a deficit of 21.6 million dollars against a surplus of about 50 million dollars in 1967.

The Federal Government introduced a number of new measures to stimulate activity, in particular special support for investment and for export finance. Increases in pensions and in civil service pay also had some stimulating effect on demand and, together with the other measures taken, contributed to a fairly substantial budget deficit. However, demand did not rise as much as expected, and further special measures to promote investment will be introduced in 1969. To prevent a sharp increase in the budget deficit, a 10 per cent temporary surcharge on income and an increase in property tax from 0.5 to 0.75 per cent were brought into force at the beginning of the year.

A further improvement in the rate of economic growth is expected in 1969 and an increase in the real gross national product at market prices of about 5 per cent is forecast on the assumption of rising domestic consumption and investment expenditure.

The *Danish* real gross domestic product increased in 1968 by 3½ per cent, as in 1967. The levelling off of internal demand that had taken place at the end of 1967 continued during the first half of 1968, and unemployment remained fairly high, but in the second half of the year a revival of internal demand produced a sharper increase in production and employment.

This slowdown in economic activity during the first half of the year was mainly a result of a contraction of investment activity in the private sector and stagnation in private consumption. Exports, on the other hand, rose strongly and the demand from the public sector also continued to grow. In the second half of 1968 private investment picked up again and by the end of the year a strong rise in private consumption had started.

Economic policy in the first half of 1968 was designed to preserve the improvement in international competitiveness obtained by the devaluation of the Danish crown at the end of 1967. Consumers' and government demand was restrained in order to bring about a transfer of resources to the export industries and to import-competing industries, as well as to industrial investments. To



# INTRA-EFTA TRADE IN 1968

Table II (in million US dollars and percentage changes 1967-1968) (Exports f.o.b.)

Importer Exporter	Austria	Denmark	Finland	Norway	Portugal	Sweden	Switzerland	UK	EFTA total
Austria . . . . . \$m.		36.5	16.7	21.4	14.3	73.3	182.6	126.2	471.0
Percentage change . . .		+4.3	+3.7	-3.6	+24.3	+13.1	+16.8	+25.7	+15.9
Denmark . . . . . \$m.	36.5		52.6	190.0	11.0	394.5	61.8	544.0	1,290.5
Percentage change . . .	+17.0		+4.1	+4.4	-7.6	+14.9	+5.8	-4.9	+3.3
Finland . . . . . \$m.	9.2	59.5		42.9	3.8	171.5	18.6	336.5	641.9
Percentage change . . .	+24.3	+3.1		+14.7	+5.6	+26.1	+30.1	+8.3	+13.2
Norway . . . . . \$m.	10.4	136.8	34.6		9.5	293.7	21.6	373.2	879.8
Percentage change . . .	+22.3	-	-3.6		-	+8.2	+20.0	+11.1	+7.8
Portugal . . . . . \$m.	10.9	18.6	7.3	9.7		38.9	13.6	146.8	245.8
Percentage change . . .	+6.9	+2.2	+2.8	+11.5		+19.3	+7.9	+7.9	+9.1
Sweden . . . . . \$m.	55.2	467.9	232.2	514.4	30.1		118.2	727.1	2,145.1
Percentage change . . .	+2.4	+9.4	-	-4.6	+24.4		+18.2	+20.3	+8.3
Switzerland . . . . . \$m.	195.0	84.9	39.0	43.8	42.4	138.0		298.9	842.1
Percentage change . . .	+8.6	+11.1	+1.3	-1.1	+6.0	+17.3		+11.0	+11.2
United Kingdom . . . \$m.	127.1	392.9	191.8	305.9	145.8	630.7	327.1		2,121.3
Percentage change . . .	+13.9	-3.3	-4.5	-14.4	+8.9	+1.8	+1.0		-1.5
EFTA total . . . . . \$m.	444.3	1,197.1	574.2	1,128.1	256.9	1,740.6	743.5	2,552.7	8,637.5
Percentage change . . .	+10.4	+3.4	-1.2	-5.3	+9.5	+9.8	+8.8	+10.0	+5.9

Source: National Statistics.



this end taxes were increased and government expenditure reduced. Price controls, introduced at the time of the devaluation, were extended and will now in a modified form expire by mid-1970. The rise in the internal price level slowed down over the year; excluding the effects of changes in indirect taxation, consumer prices rose less than 3 per cent from December 1967 to December 1968. On the other hand monetary policy was eased and the official discount rate was reduced, so as to encourage business investment.

The dollar value of Danish exports increased by 4.3 per cent in 1968. The volume of industrial exports rose sharply, but that of agricultural exports remained unchanged. The value of imports increased by only 2.5 per cent, leaving a deficit in the balance of trade of 630 million dollars. Because of the deterioration in the terms of trade resulting from the devaluation, the deficit on current account was reduced by only 40 million dollars (300 million Danish crowns) to about 200 million dollars (1,600 million crowns). This deficit was financed mainly through increased foreign direct investment and official long-term borrowing on the international capital markets. Total foreign exchange reserves decreased only slightly and by the end of the year amounted to 493 million dollars.

At the beginning of 1969, wage negotiations in the private sector were concluded. It has been estimated that hourly earnings might rise by 9 per cent during 1969. When it became apparent that the economic revival was stronger than foreseen, indirect taxes were raised in May 1969; furthermore, budgeted central government expenditure was reduced by 1 per cent. Monetary policy was tightened in March 1969, the official discount rate being raised from 6 to 7 per cent in order to curb the continuous decline of the foreign exchange reserves. Owing to the unsettled situation on the foreign exchange markets, and the ensuing rapid decrease in reserves in late April and early May, the rate was raised again in May 1969 to 9 per cent and commercial banks' compulsory special deposits with the National Bank were increased. To replenish the very low foreign exchange reserves, Denmark used its automatic credit facilities with the IMF, and also borrowed on the international capital market.

The increase in economic activity has reduced unemployment, and shortages of manpower are much more widespread than a year ago. Exports continue to grow rapidly and export orders in industry are increasing as well as domestic orders. For the year as a whole a growth in GNP of between 5 and 6 per cent is forecast.

An upturn of the *Finnish* economy began in the second half of 1968 and the growth rate of total production accelerated markedly towards the end of the year. In 1968 as a whole the volume of gross domestic product was still only 2.5 per cent above the 1967 level. A rise of 6 per cent is forecast for 1969.

The revival of economic activity in Finland was attributable mainly to increased export demand. Rising foreign demand led to increased exports of wood, paper and engineering products. The total growth in the value of merchandise exports was 31 per cent, with the increase in volume at 11 per cent. The large rise in exports was of course helped by the adjustment in exchange rates, and it seems that the favourable impulses from this source are still at work.

Fixed investment also began to recover in the late months of 1968, although this consisted mainly of investment in dwellings financed through central govern-



ment housing loans. The volume of gross domestic fixed capital formation was, however, still 4.4 per cent lower than in 1967. Private consumption stagnated, but public consumption rose by 4 per cent.

Since the economic growth was still hesitant in the first half of 1968 and devaluation had raised import prices considerably, the volume of Finland's total merchandise imports fell in 1968 by some 4 per cent. The trade balance showed a surplus, for the first time in the 1960s, amounting to 181 million Finnish marks against a deficit of 563 million marks in 1967. The deficit on the tourism account declined; net receipts from transport exceeded the 1967 figure; and, as a result of the considerable capital inflow during recent years, interest payments increased substantially. As a whole, the invisibles account and transfer payments recorded a considerable surplus, so that the surplus on the current account of the balance of payments amounted to 320 million marks, compared with a deficit of 489 million marks in 1967.

Total long-term borrowing amounted to 1,245 million marks. The net inflow of long-term capital was, however, only 128 million marks. This figure includes the amortization of 262 million marks of the IMF stand-by credit granted in 1967. The surplus on the basic balance rose to 448 million marks. The foreign exchange reserves of the Bank of Finland doubled and amounted at the end of 1968 to 1,290 million marks (207.1 million dollars).

The most striking achievement of Finnish economic policy in 1968 was the post-devaluation stabilization agreement concluded in March and followed by the requisite legislative measures. This agreement, which among other things abolished nearly all index linkages in the economy, helped to stop the rapid rise in prices immediately after the devaluation so that in the second half of 1968 consumer prices were rising at an annual rate of less than 2 per cent.

The reduction in unemployment, which began in the late months of 1968, is expected to continue in 1969. The employed labour force is expected to increase by 1½ per cent and the unemployment rate to decline by more than one percentage point. The utilization of the funds collected by the Government in export levy payments will stimulate investment and gross domestic fixed capital formation is forecast to rise by 12 per cent. Consumption is also likely to increase appreciably. Both imports and exports are expected to rise substantially. As a result of slow economic growth there is likely to remain a margin of unused capacity at the end of 1969, and therefore lack of capacity will not yet limit future expansion, even though shortages, especially of skilled labour, may appear in certain sectors and areas.

After several years of rapid expansion, *Norway's* real economic growth was reduced to 3.8 per cent in 1968. This compares with an increase of 5.8 per cent in 1967 and an average of 4.7 per cent in the preceding five years. Economic activity in several sectors stagnated; unemployment also rose, especially in the less-developed areas, although it remained low by international standards.

The main reason for the slowdown was a fall of 8½ per cent in the value of gross investment. A 31 per cent decline in investment in ships had only limited repercussions on the domestic economy, but investment in manufacturing fell 8 per cent, the sharpest setback since 1955. At the same time there was a marked slowdown in housing investment. This stagnation in investment



activity is only partly explained by the fact that a number of big investment projects had been completed at the end of 1967. Two other factors in the slowdown were the reduction, which took effect from 1st July 1968, in working hours, and the fall in the winter herring catch.

Public consumption continued to increase but only at half the rate of 1967. Exports, on the other hand, continued to grow substantially. Private demand developed more slowly than in 1967. In the middle of the year negotiations on new income agreements for agriculture and fisheries were concluded, and these resulted in an estimated average increase in wage costs per man-hour of 8.4 per cent, less than the actual rise in both of the previous two years. Since the working week was reduced from 45 to 42½ hours on 1st July 1968, weekly earnings did not rise quite as much as wage rates. Consumer prices rose less in 1968 than in 1967: by 3.4 per cent, compared with 4.3 per cent.

The value of total merchandise imports fell by 1.3 per cent to 2,705 million dollars (19,326 million Norwegian crowns), while exports continued to grow sharply and at 1,938 million dollars (13,840 million crowns) were 11.6 per cent higher than in 1967. The deficit on the trade balance was thus reduced to 768 million dollars. However, most of the change is accounted for by lower imports of new ships and greater exports of used ships. Net income from shipping and other services continued to increase and the current account surplus in the balance of payments amounted to 165 million dollars (1,180 million crowns), compared with a deficit of 203 million dollars (1,450 million crowns) in 1967. Total foreign exchange reserves increased by 214 million dollars and at the end of 1968 were 1,262 million dollars.

In the second half of 1968 the Government took action to stimulate investment demand by introducing public employment schemes in depressed areas, by releasing frozen investment funds to industry, and by increasing the lending activity of the State investment banks.

A sharper growth in economic activity began late in 1968, mainly as a result of rising exports. Investment plans indicate that investment activity is likely to revive in 1969 and renewed growth in private consumption is also probable. Fiscal policy for 1969 remains unchanged and a growth in GNP of about 4 per cent has been officially forecast.

According to official the estimates the *Portuguese* economy expanded during 1968 relatively favourably, i.e. approximately at the same rate as in the previous year, when GNP rose by 7.8 per cent. Despite this relatively favourable situation the persistence of inflationary pressures, especially in the sectors of food and housing, remained a problem.

Private investment continued to be slack last year, but this was partly compensated by public investment which rose by 31 per cent in the framework of the Third Development Plan. The Portuguese Government introduced a number of measures during the second half of 1968 and at the beginning of 1969 to facilitate investment, especially by medium and small-size firms.

Public consumption increased less than over-all demand, mainly because of a slackening in the growth of military expenditure, while the growth of private consumption accelerated somewhat. Total imports increased in 1968 by less



than 3 per cent, reflecting the slowdown in demand for capital goods and the increase in production in the agricultural sector.

With total exports increasing by 7 per cent the trade deficit decreased further, from 9.5 billion Portuguese escudos (330 million dollars) in 1967 to 8.8 billion escudos (306 million dollars) in 1968. Tourist receipts declined considerably, but emigrants' remittances continued to grow. The balance of payments on current account registered a surplus of 4.7 billion escudos (163 million dollars), about the same as in the preceding year, but the surplus on capital account, quite large in 1967, was only marginal in 1968. The foreign exchange reserves of the escudo area rose by 4.2 billion escudos (146 million dollars) in 1968 and amounted to 42.4 billion escudos (1,475 million dollars) at the end of the year.

*Sweden's* real gross national product increased in 1968 by 3.3 per cent, compared with 2.1 per cent in 1967. According to available estimates, stock investments continued to decline in 1968, albeit at a much slower rate than in recent years. There was continuing strong expansion of public consumption (by 7.4 per cent), but the growth of building investment slackened, and investment in machinery rose only slightly (by 1.5 per cent), after a fall in the previous year. Total investments in building and construction grew by 6 per cent in 1966/67 and 1.5 per cent in 1967/68. Residential construction increased by 13.5 per cent in 1966/67 and by 2 per cent in 1967/68. The components of total demand with a low import content, such as raw material exports, building and construction, and public consumption, have thus continued to expand as a whole at a continuously high rate of about 5.5 per cent.

The acceleration of total demand has, however, come from demand components with a high import content: private consumption, and investment in machinery and inventories all declined at a considerably lower rate than in previous years. Private consumption increased by 4.2 per cent in 1968 or some 1.8 percentage points more than a year earlier and somewhat more than real disposable incomes. The pattern of purchases of durable consumer goods changed markedly. After having fallen by over 10 per cent during the two preceding years, sales of passenger cars increased by over 20 per cent, while purchases of other durables grew only half as much as in 1967. Machinery investment changed from a decline to a slight increase.

The volume of imports of goods and services rose sharply, by 8.6 per cent, with the strongest increases recorded for textiles and industrial raw materials. The volume of exports, including ships, increased by 9.3 per cent in 1968; excluding ships, the increase amounted to 8 per cent. As a result the balance on goods and services worsened by 269 million Swedish crowns (51.9 million dollars) and the total current balance by 447 million crowns (86.3 million dollars). The difference between these two figures represents a change in net transfer payments abroad, chiefly in the form of increased financial aid to developing countries. The total deficit on current goods and services account was 139 million crowns (26.8 million dollars), and although the account was almost positive in 1967, on average over the last four years the deficit has amounted to more than 394 million crowns (76.0 million dollars) per annum. Despite these deficits, however, foreign reserves have risen during this period by an average of 57 million crowns (10.9 million dollars) a year, as a result of recorded net imports of foreign capital



of 625 million crowns (120.6 million dollars) a year, while the residual item in the capital account amounts to an unregistered capital outflow of some 46 million crowns (8.9 million dollars) a year. In 1968 registered net capital imports were 505 million crowns (97.5 million dollars).

Economic policy has contributed to the increase in demand in the public sector, while generally expansive measures that would substantially stimulate private consumption have been avoided. The aim has been to stimulate private investment, in particular by means of an expansive credit policy and by further releases of investment funds.

An increase in the volume of fixed private capital formation in 1969 of at least 6.5 per cent seems likely and a rise of 4.5 per cent in total fixed investment is forecast. Total exports, excluding ships, are expected to increase by 7.5 per cent in volume, compared with 9.3 per cent in 1968. However, since ship deliveries are likely to rise, the growth rate of total exports is forecast at 8 per cent, the same as in 1968. On the assumption of an increase in private consumption of about 3 per cent, a rise in GNP of 4.5 per cent is forecast for 1969.

In line with the expected growth of domestic demand, a 7.5 per cent rise in imports is forecast for 1969. The lower rate of growth in comparison with 1968 is partly a consequence of a switch in imports of mineral fuels from petrol to crude oil, now that the extension of refinery capacity in Sweden has been almost entirely completed. The deficit of the trade balance is expected to decrease by almost 600 million crowns (114.6 million dollars) in 1969, and the deficit of the total current balance is forecast to decline by about 275 million crowns (53.3 million dollars).

The real gross national product of *Switzerland* grew in 1968 by 3.6 per cent, as compared with 1.9 per cent in 1967. Private consumption increased by 2.3 per cent, public consumption by 3.5 per cent and gross fixed asset formation by 2.4 per cent, so that the main contribution to the renewed expansion came from exports, which rose by 9 per cent, as compared with 3.6 per cent in the previous year.

Consumer prices increased by 2.4 per cent, as compared with 4 per cent in the previous year, while wholesale prices at the end of 1968 showed a rise of only 0.3 per cent over the year. The rise of wage rates, at 4.1 per cent, was also less than a year earlier. Total employment in industry remained virtually unchanged, as did the number of foreign workers subject to control: these amounted to 648,000 in August 1968.

Merchandise exports at current market prices increased by 14.6 per cent, twice as much as in the previous year, while imports rose by 9.4 per cent. This reduced the visible trade deficit to 480 million dollars. With a further rise in the surplus on invisibles account, especially in investment income, *Switzerland* achieved for the second successive year a substantial increase in its surplus on the current account of the balance of payments. Official gold and foreign exchange reserves increased over 1968 by 371 million dollars and at the end of the year amounted to 3,926 million dollars.

The federal government's economic policy has remained basically unaltered, while the National Bank has been mainly concerned with measures to counteract the expansionary impact on bank liquidity of the inflow of foreign funds.



The rate of growth of GNP in 1969 is expected to reach 3.5 to 4 per cent. During the first quarter of 1969 exports were 14.4 per cent higher than a year earlier, while imports rose by 9 per cent. It thus appears that the factors that stimulated expansion in 1968 are still at work.

1968 was the first year of export-led growth which the economy of the *United Kingdom* has experienced for some time. Preliminary estimates show that gross domestic product at constant prices rose by some 3½ per cent, which is above the average for recent years. Although the volume of exports of goods rose by 14.3 per cent, thus accounting for a major part of the increase in production, the improvement of the balance of payments has been at a slower rate than had been initially expected. For 1968 as a whole, both the balance of monetary movements and the current balance showed some deterioration, although there was some improvement on long-term capital account. During the year, however, there was a clear over-all improvement, reflecting the gradual change resulting from the devaluation.

The seasonally adjusted current account changed from a 269 million Pounds sterling deficit in the first half to a 150 million Pounds deficit in the second half of the year. Over the same period, the improvement of the unadjusted balance of monetary movements was more marked, partly because of a surplus on long-term capital account in the third quarter; and the net increase in liabilities fell from 484 million Pounds to 34 million Pounds. The authorities had, however, been looking to a far greater improvement, with a surplus on the over-all balance emerging towards the end of the year. That this was not achieved is largely a result of the development of imports, which rose sharply (in terms of sterling) at the beginning of 1968 and remained at a high level throughout the rest of the year. As a result, the visible trade deficit averaged about 200 million Pounds a quarter during 1968, compared with 34 million Pounds in 1966 and 160 million Pounds in 1967.

Domestic economic developments were not altogether in line with official expectations. This is especially true of consumers' expenditure, which was expected to show little change, year on year, but in the event rose by about 2½ per cent. This partly reflects the increase of employment incomes which rose by 7 per cent, year on year. This was sufficient to offset to some extent the effects of the high rate of unemployment, averaging 2.3 per cent during 1968; this is one of the highest annual rates for the post-war period. The rate of unemployment fell quite sharply towards the end of the year, but rose again slightly in the first half of 1969.

During 1968, economic policy continued to reflect the importance attached by the authorities to the solution of the balance of payments problem. Measures designed to stimulate the diversion of resources from consumption to exports were introduced at the beginning of the year. Cuts in Government expenditure programmes were announced in January, and the March budget aimed principally at a reduction of consumers' expenditure, largely through increases in indirect taxes. These measures were reinforced in November 1968 by a tightening of hire-purchase regulations, the use of the regulator to raise purchase tax rates and certain duties by 10 per cent, the imposition of further restrictions (following those of May 1968) on bank advances, and the introduction of a new system



of import deposits. Under this scheme, a deposit of 50 per cent of the value of certain imports (principally manufactured goods, with some exceptions) is payable to the Customs authorities, and this sum is repayable without interest after six months.

Bank rate was kept high throughout this period, in line with discount rates throughout the world. It was raised to 8 per cent at the time of devaluation, and, after being reduced to  $7\frac{1}{2}$  per cent and 7 per cent in March and September 1968, it was again raised to 8 per cent in February 1969.

The budget of April 1969 showed no relaxation of the Government's economic policies. The main proposals were a readjustment of the income tax structure to the benefit of those with low incomes, an increase of 28 per cent in the Selective Employment Tax rates, a rise in Corporation Tax from  $42\frac{1}{2}$  per cent to 45 per cent, an increase in various taxes on gambling, a rise in duties on wine and hydrocarbon oils and some minor extensions of purchase tax. In addition, the Government are introducing a scheme to encourage personal saving. The Treasury estimate the net deflationary effect of the budget to be 220 million Pounds or 0.6 per cent of GDP.

Official expectations are that GDP at constant prices will rise by 2.9 per cent between the first halves of 1969 and 1970, following an increase of 2.7 per cent between the first halves of 1968 and 1969, and that the most rapidly growing sectors of demand will be fixed investment, with a rise of 5.6 per cent, and exports of goods and services which are expected to increase by 6.1 per cent. On the basis of maintaining current economic policies the Government expects confidently that the balance of payments will turn into surplus during 1969.



## II. Internal developments in EFTA

### Tariffs and Quotas

#### Tariff reductions on industrial goods

EFTA has now had more than two full years of free trade in industrial products. The final protective tariffs on virtually all industrial goods traded between Member States were abolished at the end of 1966. (For Finland, which is associated with EFTA, see page 37).

The Convention provides that Portugal may retain tariffs on a fairly extensive range of goods imported from EFTA countries until 1980; the current rates are 60 per cent of the basic (1960) rates, and they will be reduced to 50 per cent on 1st January 1970. If exports of any product to which the slower timetable applies amount to 15 per cent or more of production during a three-year period, the removal of tariff protection is to be accelerated. As a result of the examinations carried out under the "15 per cent rule" in 1967 and 1968 a number of items have been subject to accelerated duty reduction and will therefore be duty free before 1980. However, Portugal has made a number of other items permanently duty free within EFTA. For a few industrial goods, one other EFTA Member State, Norway, is following the original Convention timetable, so that some protective tariffs remain on its imports. The duties involved apply mainly to a limited range of textiles, ladies' footwear and certain electrical appliances. The remaining duties on these products stand at 10 per cent of the basic duties, following a 10 per cent reduction at the end of 1968, and are to be eliminated, in accordance with the timetable laid down in the Convention, at the end of 1969.

#### Quantitative import restrictions

Since 31st December 1966 quantitative import restrictions on industrial products have, with very few exceptions, been eliminated by all Member States.

#### The origin rules

The EFTA origin system has continued to work satisfactorily. Various textual changes were made to the Schedules to Annex B of the Convention (these Schedules set out the processes which qualify goods for Area tariff treatment)



as a consequence of changes in the Brussels Nomenclature, on which the Schedules are based. \* Provision was made during the year for an extension until May 1970 of the qualifying process, introduced in 1968, covering furfuryl alcohol; and a temporary relaxation in the no-drawback rule in respect of goods exported prior to 31st December 1966 was made permanent.

In accordance with the work programme agreed upon by Ministers in May 1968, the Council set in motion an examination of the origin rules, by the Committee of Trade Experts and the Customs Committee, to see whether changes could be made in the rules in order to stimulate intra-EFTA trade, provided that such changes do not lead to distortion of trade. The implications of a number of possibilities for making such changes in the rules are at present under consideration by the two Committees.

As part of the same programme, EFTA Ministers instructed the Secretariat to study the tariff levels of the Member countries as they will stand in 1972, on completion of the Kennedy Round reductions. The aim of the study was to establish whether there were any sectors of trade where tariffs would be sufficiently homogeneous to make it possible to do away with origin rules, provided that this seemed desirable in the light of other considerations, such as the possibility of distortion of trade. The Secretariat completed the study during the year; it was apparent from the results that the EFTA tariffs were insufficiently homogeneous to permit dispensing with the origin rules in any trade sector. This conclusion was endorsed by EFTA Ministers at their meeting in Geneva in May 1969.

#### Annexes D and E of the Convention

No changes have been made in Annexes D or E of the Convention during the period covered by this Report. These Annexes list the agricultural and fish products which are not subject to EFTA tariff treatment.

#### 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 may obtain their raw materials at world market prices. This problem has so far been dealt with by authorizing Austria and Switzerland to postpone, until 31st December 1969, the elimination of the remaining 40 per cent of their basic duties or of the protective element respectively, on certain sugar confectionery and biscuits and—in the case of Austria—also on chocolate. When taking this decision in July 1968 the Councils agreed to revert to the matter during spring 1969. At the Ministerial meeting in May 1969 it was agreed that the present décalage could be maintained until the end of 1970, subject to a general solution being worked out in time for the Ministerial meeting in the spring of 1970.

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\* See also Appendix 2 to this report.



## Border charges

### Revenue duties

Minor changes have been made in the revenue duties notified by individual Member States in accordance with Article 6 of the Convention. (Lists of revenue duties in EFTA countries are published from time to time in the EFTA Bulletin, most recently in Vol. IX, Nos. 7 and 8 of 1968.)

### Internal taxes

Following the examination by the Customs Committee of the internal taxes applied on imports of EFTA goods, and of the manner in which the obligations under Article 6 of the Convention are being interpreted and fulfilled, the Committee reported to the Council that certain taxation rates or systems may need amendment. The Council instructed the Customs Committee to retain these items on its Agenda. During the year, several of these taxes have been amended by the Member countries concerned, in order to bring them into conformity with Article 6.

### Other border charges

As mentioned in the last annual report the Committee of Trade Experts has carried out an examination of other border charges maintained in EFTA countries. These charges include fees for special Customs services, other service charges, town dues, traffic fees, etc. The few remaining items still open at the end of the period of last year's Report have since, with one exception, been considered by the Council.

## The rules of competition

### General review of the rules of competition

At their London meeting in 1968 EFTA Ministers decided to instruct the Council to embark on a general review of the rules of competition. In the course of this review the Council is to aim at reaching agreement on points left unsettled in the earlier reports on each rule of competition; to define the relation of the rules to general economic policy measures, balance of payments measures and regional development policies; and to clarify where necessary the practical application of the frustration criterion.

During the course of the year work in this field has been proceeding on a broad front. In addition to discussions of principle in the Council itself, the



points which are still to be settled have been identified and a list of them has been compiled. There have been meetings of government representatives and experts who have discussed in depth the implication of rules of competition with regard to other policy measures, and a questionnaire is being drawn up on this topic which will be submitted to Member States as a preliminary to further discussions.

### Government aids

On 3rd July 1968 the Council adopted an agreed text setting out its interpretation of Article 13 of the Convention, which deals with government aids. This interpretation is based on recommendations submitted by the working party on Article 13 to the Council. The full text of the Council agreement was published in an article in the EFTA Bulletin, Vol. IX, No. 7 of October 1968. The article is reproduced in Appendix 3 to this Report.

### Practices of public undertakings

A review of the operation of Article 14 of the Convention, which deals with public undertakings, was carried out by the Committee of Trade Experts during the period covered by this Report. The report on this review of the practical operation of Article 14 sets out the findings of the Committee with regard to the application of the Article in Member States in respect of public procurement and the trading activities of public undertaking. The report also contains a review of tendering procedures and certain procedural arrangements as well as some suggestions by the Committee for the future work in this field. The report was noted by the Councils in March 1969. This review was the second of two undertaken after agreement had been reached by EFTA Ministers in Lisbon in October 1966 on the general lines of interpretation of Article 14. The first review, which surveyed modifications made in the relevant national rules and practices after the agreement, was completed in 1967.

### Restrictive business practices

In September 1968 the Council noted the report of the second working party on restrictive business practices and at the same time endorsed a number of interpretations with regard to certain technical terms in the relevant Article of the Convention—Article 15—which had been agreed by the experts. The implementation of Article 15 will be kept under review by experts in the light of actual developments. The full text of the Council Decision is set out in the EFTA Bulletin, Vol. IX, No. 9 of December 1968, which also contains an article "Progress on restrictive business practices".

### Establishment

The Council has given further consideration to the Bergen agreement which was arrived at by Ministers in 1966 on the subject of establishment. The Council has confirmed the binding effect of this agreement on the Member States and



removed certain doubts which existed as to its meaning. In a clarification of this agreement the Council has agreed that any less-favourable treatment in practice as regards the establishment or operation of certain economic enterprises (enterprises for commerce in, or assembly of, EFTA goods) constituted a "frustration of the benefits expected from the removal or absence of duties and quantitative restrictions on trade between Member States". The Council also agreed that enterprises for the assembly or finishing of goods are entitled to the benefits of establishment provided that a substantial part of the value of the components to be assembled or to be finished are of EFTA origin and have been imported from other Member States.

## Technical and other administrative barriers to trade

Increasing attention has been paid over the past year to the elimination of obstacles to trade caused by technical and administrative regulations of various kinds in EFTA Member countries.

### Compulsory technical regulations

Decisions of principle on an EFTA approach to the elimination of technical barriers to trade were embodied in the "general guidelines" adopted by the Council in April 1968 and in the work programme established by Ministers in May 1968. During the period under review work has begun on the implementation of these decisions of principle in specific fields.

In January 1969 the Council approved a scheme for the reciprocal use of test reports in the electrical field. The scheme, prepared by an expert group comprising representatives of the EFTA electrical test stations, is complementary to existing testing arrangements such as the "CB" (Certification Body) scheme of the International Commission on Rules for Approval of Electrical Equipment. It came into operation on 1st May 1969, and is described in detail in the EFTA Bulletin, Vol. X, No. 2 of March 1969.

In the non-electrical field detailed information was collected on the testing arrangements in four areas where major technical and administrative obstacles were felt to exist: pressure vessels; agricultural machinery and tractors; industrial trucks; and non-electrical heating, cooking and lighting apparatus. In June 1969 a group of EFTA experts was set up by the Council to examine the possibilities for arrangements in EFTA for the reciprocal recognition of testing and approval procedures for pressure vessels. The information collected on industrial trucks had shown that there were as yet relatively few technical regulations in this



field; to avoid the possibility of barriers to trade being caused by the introduction of divergent regulations a special procedure was adopted for the notification of any new regulations on industrial trucks which EFTA Member States have under preparation or expect to introduce in the next year or two. Discussion of the remaining fields is continuing in the Committee of Trade Experts.

### Government regulations on pharmaceuticals

A proposed convention for the mutual recognition of inspections in respect of the manufacture of pharmaceutical products has been completed by the working party on pharmaceuticals and submitted to the Council.

The draft convention provides that, where it is intended to export a pharmaceutical product to another Contracting Party, the competent authorities of the latter country may request from the authorities in the manufacturing country information as to the general standard of good manufacturing practice observed by the manufacturer, and information relating to the particular product in question. The requesting authorities would then use this information in their own evaluation of the product, treating the inspection made as if it were their own. Where the national provisions did not include an inspection of the product in question, the manufacturer would be entitled under the convention to request an inspection on a voluntary basis.

There are provisions in the convention protecting research information and other interests of the manufacturer, and providing for regular meetings of representatives of competent authorities to examine, and make proposals for, the implementation of the convention, and to advise on certain other action to be taken under it. It is proposed that the initial Contracting Parties should be the EFTA Member States, but that the convention should be open for others to join, provided that they have adopted the health regulations necessary for the functioning of the convention.

### Hall-marking

On the basis of a report by a specially convened group of assay experts a draft agreement on the control and marking of articles of precious metals was drawn up in December 1968. The draft agreement provides that any article of precious metals controlled and marked by an authorized assay office in accordance with the provisions set out in the agreement will be accepted as fulfilling the requirements of each Contracting State concerning the control and marking of articles of precious metals. An annex to the draft agreement sets out common rules on finenesses, methods of analysis and marks. Discussion of the draft agreement is continuing in the Committee of Trade Experts.

At their meeting in Geneva in May 1969 EFTA Ministers attached particular importance to progress being made on the draft agreement and agreed that this question should be further examined as a possible subject for co-operation between EFTA and the EEC.



## Marking and packaging requirements

In October 1966 (see the Seventh Annual Report of EFTA) the Council adopted a report by the Committee of Trade Experts on barriers to trade caused by compulsory marking regulations, principally origin marking. The main conclusion of the report was that origin marking should be made compulsory only in exceptional circumstances and would be justified only in rare cases.

During the current year the Committee of Trade Experts carried out a review of the implementation of the recommendations contained in the 1966 report. In general the Committee found that the process of abolishing existing regulations was under way in several Member States, but that a number of such regulations still remained in force. The Council, which adopted the Committee's report on the review in April 1969, urged the Member States in question to accelerate the removal of the remaining requirements. A further review will be carried out in 1971.

In addition, in response to a request from the EFTA Consultative Committee, the Committee of Trade Experts has been asked by the Council to examine any marking requirements, other than origin marking and consumer information, which may be notified to it as having trade-hampering effects. The Committee is also to investigate any trade difficulties arising from regulations on packaging sizes which may be notified to it, and to examine to what extent current International Standards Organization work could help to eliminate these difficulties.

## Agriculture and fisheries

### Annual review of agricultural trade

The EFTA Council is required to examine each year the development in 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 1968 review. In its report to the Council the Committee concluded that EFTA trade in agricultural goods at current prices decreased by 2 per cents from 1966 to 1967, while, measured at constant prices, exports continued to increase at a rate similar to that of previous years. (During the same period, trade in non-agricultural goods increased by 10 per cent.) Denmark's agricultural exports to EFTA decreased by 3 per cent, mainly as a result of the decrease in the export prices for pigmeat, while Portugal's exports of agricultural products increased by 13 per cent due to an increase in exports of wine. The exports of the remaining EFTA countries to other EFTA markets were in 1967 slightly



below the 1966 level but, measured at constant prices, exports continued to increase. Changes in prices have played an important rôle in the development of agricultural trade in EFTA. While in volume the trend during 1961-1967 has been steadily increasing, in values it has fluctuated remarkably. In the case of the five main commodities, i.e. beef and veal, pigmeat, butter, cheese, and eggs, about four-fifths of the increase in the value of trade was due to price increases. Since the five commodities account for almost two-thirds of intra-EFTA trade in agricultural goods, changes in the value of EFTA's agricultural trade as a whole are largely a reflection of the price fluctuations of these products. As part of the 1968 review, the Committee carried out a special study of Member States' feeding-stuffs policies.

The Committee started its 1969 review of EFTA agricultural trade at the end of June 1969 and is expected to complete this work in September.

### 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. As part of the work programme established in May 1968, EFTA Ministers agreed to pursue a review, first called for in March 1967, of EFTA co-operation in agriculture and asked Member Governments to indicate to what extent they could remove, vis-à-vis their EFTA partners, duties and other restrictions to trade in Annex D goods. At the Vienna meeting in November 1968 Ministers instructed the Councils to continue the review in the light of statements made by Ministers during the meeting.

At the Ministerial meeting in Geneva in May 1969 Ministers had before them a report on the general review of the agricultural provisions of the EFTA Convention undertaken by the Councils. It appeared during the meeting that most governments did not consider it constructive to continue the general discussions on the understanding of the agricultural provisions in the Convention, but instead preferred to adopt a more pragmatic approach with regard to facilitating a further expansion of trade in agricultural goods within EFTA. Ministers instructed the Councils to examine the specific steps that might be taken with the aim of improving trading conditions for agricultural products. The examination would include dumped and subsidized imports, government support, different price levels for agricultural raw materials and removal of items from Annex D. A report is to be submitted to Ministers for their next meeting.

### Bilateral agricultural agreements

No new bilateral agricultural agreements have been concluded between EFTA countries during the period covered by this Report.



## Review of trade in fish

According to instructions from Ministers at their Lisbon meeting in October 1966, and at their meeting in London in May 1968, a working party on fish has considered the possibilities for freer trade in fish products within the Association. Reports from the working party showed that some EFTA countries were in a position to consider, on a general basis, the liberalization of some specific Annex E products, while some other countries were not at this stage able to commit themselves to liberalizing any item covered by Annex E. The Councils have taken note of this and have agreed to carry out a review of Articles 26-28 of the Convention and of the possibilities of freer trade in fish. Member States were asked to indicate the items on which they would particularly value the removal of duties and other barriers to trade by their EFTA partners, individually or collectively. On the basis of indications put forward by Member States an analysis of the development of trade in certain Annex E items has been made. The Councils are currently engaged in the review.

## Escape clauses, consultations and complaints

### Escape clauses of the EFTA Convention

As part of the work programme agreed at the Ministerial meeting in London in May 1968 the Council has been reviewing the escape clauses of the Convention in the light of the proper functioning of the Association now that the removal of EFTA tariffs and quotas has in principle been achieved.

Special attention has been directed towards Article 20. This Article, which in its present form lapses at the end of 1969, deals with difficulties in particular sectors of industry or regions, and was mainly designed to enable measures of safeguard to be taken by individual Member States when certain difficulties were experienced as a consequence of the progressive elimination of duties, charges and quantitative restrictions in accordance with Articles 3, 6 and 10. Discussion is still continuing on possible provisions which may be introduced to take the place of Article 20 in the future.

### The general consultation and complaints procedure

No Member State has made use of the general consultation and complaints procedure provided for by Article 31 of the Convention during the year covered by this Report.



### Difficulties encountered by the Portuguese iron and steel industry

The recommendations of a working party set up to study the special difficulties of the Portuguese iron and steel industry in meeting foreign competition came before the Council during the year. The working party agreed that the industry's unique situation was such that it continued to be in need of protection, and made recommendations which were noted by the Council.

### Plans for aluminium smelters in the United Kingdom

The discussions begun last year, after the British Government announced that it was ready to consider proposals for a substantial expansion of the aluminium smelting industry in the United Kingdom, were continued during the year under review. Following the meeting of Ministers in London in May 1968, when it was agreed that there should be urgent further bilateral talks between the United Kingdom and Norwegian Governments, officials from the two countries had renewed bilateral contacts in London on 20th May 1968, during which separate meetings were also arranged with the aluminium companies concerned. On 22nd May the President of the Board of Trade visited Oslo where he had talks with the Norwegian Minister of Commerce and Shipping. These bilateral talks did not lead to any agreed evaluation of the effects on the export of Norwegian aluminium to the United Kingdom.

On 24th July the President of the Board of Trade made a statement to the House of Commons in which he announced the future erection of smelters in the United Kingdom of a total initial capacity of 260,000 tons a year by three companies. The timing of the expansion to full capacity (expected to be about 365,000 tons) will be reviewed before 1971 in consultation with EFTA.

The question was again raised in the Council on 11th September 1968 by the Norwegian representative who stated that his Government regarded the lack of agreement between the two governments concerned as most disappointing and it had no other choice but to refer the matter back to the Council. Since the examination by the special EFTA working party certain assumptions made by it had become invalidated by subsequent events, and it was accordingly agreed by the Council on 19th September 1968 that a report should be presented to it which would supplement and bring up to date the information available on the establishment of aluminium smelters in the United Kingdom and which would also make as complete an analysis as possible of the situation as it presented itself. This report, prepared with the help of governmental experts, was presented to the Council at the end of June 1969.

### Imports of quick-frozen fish fillets into the United Kingdom

In August 1968 discussions took place between representatives of the United Kingdom and of Denmark, Norway and Sweden on the situation that had arisen due to the increase to above an annual rate of 24,000 tons of exports of quick-frozen fillets from the three Scandinavian countries to the United Kingdom. Such discussions were foreseen when the Stockholm Convention was negotiated. These discussions, held on the initiative of the United Kingdom, did not lead



to any agreement and the matter was referred to the Council. As the Council could not arrive at a compromise solution, the United Kingdom in November 1968 reimposed the 10 per cent import duty on quick-frozen fish fillets from EFTA. At the Ministerial meeting in Vienna in November 1968 the Member States concerned agreed to meet in the first quarter of 1969 for further talks with the assistance of the Secretary-General. Such talks were held in Geneva in March 1969. As the governments concerned maintained their positions, no agreement on a mutually satisfactory solution could be reached. The matter remains on the Councils' Agenda.

In May 1969 consultations were initiated in London between the four countries involved on the régime to be applied for imports of quick-frozen fish fillets into the United Kingdom after 1st January 1970. Discussions are continuing.

### The United Kingdom import deposit scheme

With effect from 27th November 1968, a deposit of 50 per cent of the value of the goods was required in respect of imports into the United Kingdom, the deposit to be repayable without interest after a period of six months. Certain goods (in general, basic foodstuffs, feeding-stuffs, raw materials and goods intended for export) were exempted from the deposit requirement. The scheme was introduced for a twelve-month period.

An outline of this scheme was given informally by the United Kingdom Delegate at the Ministerial meeting in Vienna on 22nd November 1968. The Ministers instructed the Council to examine the measures further.

The economic aspects of the import deposit scheme were discussed in January 1969 by the Economic Committee. The Committee expressed its understanding of the scheme as part of a set of measures designed to hasten the improvement in the balance of payments, although it felt that the scheme could have an uneven effect on exporting countries.

The Council took the Committee's views into consideration in its examination of the matter. After discussion, it decided in February 1969, without prejudice to the legal issues involved, to keep the situation under review and to make such recommendations as might seem necessary to moderate any damaging effect of the import deposit scheme. In that connection the Council took note of the fact that the scheme had been introduced for a period of one year only and would, if circumstances permitted, be terminated or alleviated before the expiry of that period.

## Other questions

### Double taxation

The working party on double taxation continued the examination of the draft multilateral Double Taxation Convention, based on the OECD bilateral model



Convention of 1963. Although a substantial number of the Articles have been provisionally agreed by the experts there are certain fundamental problems which have not been resolved. A final report to the Council is in preparation.

## Patents

In the spring of 1969 the Council of the European Communities invited the EFTA countries to participate in the discussion of a system of granting patents covering a geographic area larger than that of the Communities. The invitation was welcomed and accepted. The EEC proposals envisage a system of two conventions. The first, to be open also to States other than the EEC Member States, would deal with the rules for central filing and examining of applications, and for the granting of European patents which would be valid in the Contracting States designated by the applicant. The second convention, to be concluded by the Members of the European Communities, would deal with the unitary Community patent. The proposals come very close to the draft two-part scheme drawn up in 1967 by an EFTA working party to meet the interest of both EEC and EFTA countries and possibly others. On 21st May 1969 the negotiations opened, with seventeen European nations taking part.

According to the mandate which it had received in 1967 after the termination of its work on the European Patent Convention, the working party on patents considered in 1968 a Swiss proposal concerning the obligation to work patented inventions in every Member country where protection is desired. A report on this question was submitted to the Council in June 1969. In addition a questionnaire relating to patenting procedures in the national patent offices has been elaborated and answered. The examination and evaluation of the answers which will be made in the autumn of 1969 is intended to present a picture of the differences and similarities in the practice in the various countries. Together with a statistical investigation on the duplication of patent applications, which will also be undertaken in the course of this year, the evaluation of the questionnaires may lead to work sharing in certain fields and, thus, to a decrease in the work load of the patent offices.

The working party continued also its exchange of views on the Patent Co-operation Treaty aiming at central international filing and examining of patent applications which had been proposed on a world-wide basis by the United International Bureaux for the Protection of Intellectual Property (BIRPI). Patent experts from Paris Union Member countries (including delegates from all EFTA Member States and the Secretariat) have met again to discuss the BIRPI plan and it seems that an arrangement could be reached sooner than originally expected. A diplomatic conference is planned to be held on this subject in the course of 1970.

## Indirect taxation

As part of the work programme established in May 1968, Ministers instructed the Secretariat to carry out an analysis of the impact on EFTA trade of any important changes, contemplated or completed, in indirect taxation. Such



studies are at present under way on the introduction of value-added tax in Sweden and on the proposed introduction of this type of tax in Norway. It is expected that both investigations will be completed in the autumn of 1969.

### Technology, and company law

At their meeting in Geneva in May 1969 Ministers approved in principle proposals made by the Swiss Delegation for new studies in fields in which there might be co-operation between EFTA and the EEC. One of the proposals envisaged the setting up of a "reflecting group" of experts from the EFTA countries who would have a free and informal exchange of views on scientific research and technology and would take into account ideas developed in Brussels and in the EFTA countries. In June the Council agreed that a first meeting of such a group should take place in the autumn of 1969. Another proposal, also accepted by the Council in June, was that the Secretariat, assisted when necessary by experts, should carry out a fact-finding study on the case for harmonizing national company law and on the issues involved in a supranational company law. The Secretariat has already embarked on preparations for such a study.

### Study of the effects of the economic division of Western Europe

EFTA Ministers decided at their meeting in Bergen in May 1966 that a study of the effects on the economies of Member States of the division of Western Europe into two trading blocs should be undertaken. The results of the first part of this study were published in English in January 1969 under the title "The effects of EFTA on the economies of Member States". A summary of the study, including some of the quantitative results of the investigation, was given in the January/February 1969 issue (Vol. X, No. 1) of the EFTA Bulletin. In accordance with a decision at the Ministerial meeting in London in May 1968 the Secretariat has now started work on the second part of the investigation of the effects of the division of Europe. The new study will bring the previous work up to date and will extend the analysis so as to take account of the effects of the creation of the European Economic Community.

### Study of the effects on prices of tariff dismantling

In accordance with a decision of the Ministerial Council meeting in London in May 1968 the Secretariat is continuing a study of the effects on prices of tariff dismantling in EFTA. In association with a working party of experts from all Member countries, the Secretariat has prepared an econometric model, which should permit a quantitative evaluation of price developments, and has begun statistical tests on the basis of this model. Continued contact between the members of the working party and the Secretariat is being maintained. It is hoped that the study will be completed in the course of 1970.

### Direct investment in EFTA

A Secretariat study of direct investment flows of EFTA countries was published in February 1969. This study is based on published information as well as on data obtained directly from EFTA Governments. Although the information



given in the study does not make it possible to reach definite conclusions on the over-all effect of the creation of EFTA on investment flows, there is some evidence of increased intra-EFTA investment in particular industries as a consequence of the formation of the Association.

## The Association with Finland

The practice, formally decided on the previous year, of holding most meetings of the EFTA Council simultaneously with those of the Joint Council of Finland and EFTA, was continued during the year under review. The purpose is to avoid duplication of work. In the course of the year, Finnish representatives have for the first time served as Chairman of such committees as the Committee of Trade Experts and the Customs Committee. A Finnish representative was also Chairman of the working party on double taxation.

### Tariffs and quantitative import restrictions

The year covered by this Report was the first in which there were no protective duties or quantitative import restrictions on industrial products imported by Finland from EFTA Member States. The final protective duties, including those listed in Annex I of the Agreement between Finland and the Association, had been abolished by Finland at the end of 1967. Finland had also removed its remaining quantitative import restrictions from the beginning of 1968.

### Invisible transactions and transfers: review of Article 5 of the FINEFTA Agreement

The last Annual Report mentioned that the Finnish Government was considering seeking membership of the Organisation for Economic Co-operation and Development, a step which would entail Finland's adhering to the OECD Codes of Liberalisation. After negotiations between Finland and the OECD the accession of the Government of Finland to the OECD took effect from 28th January 1969. Shortly afterwards, a decision was taken by the Council of the OECD to amend Annexes B to the Code of Liberalisation of Current Invisible Operations and the Code of Liberalisation of Capital Movements to include certain Finnish reservations. The Joint Council of Finland and EFTA subsequently agreed on the deletion of Article 5 and Annex III from the FINEFTA Agreement, which had regulated the liberalization of current invisible transactions and capital movements between Finland and the Member States.

## The Economic Committee

At their London meeting in May 1968 EFTA Ministers had decided that the Economic Committee should intensify its deliberations. In implementation of the Ministerial decision the Committee proposed to dispense with general discussions of the situation in Member countries and to concentrate more closely



on particular current problems on the basis of a detailed questionnaire prepared by the Secretariat. The 9th Meeting of the Committee, held on 8th and 9th January 1969, proved that the new procedure contributed to a fruitful discussion of the more important developments in Member countries. Most of the discussion centred necessarily on the effects of the currency devaluations in 1967 and on likely future economic developments in the countries which had devalued. The United Kingdom import deposit scheme (see page 34) was discussed at some length and the Committee expressed to the Council its understanding of this scheme as part of a set of measures designed to hasten the improvement of the balance of payments.

The Economic Committee held its 10th Meeting on 24th and 25th June 1969. The first item on the Agenda was a discussion of incomes and prices policies as practised in the EFTA countries. The aims, mechanisms and effectiveness of such policies were investigated in some detail. In its review of economic developments and prospects in EFTA countries, the Committee concentrated attention on those countries which currently faced particular problems. The members of the Committee expressed the hope that the policies now in operation would make it possible for countries in difficulties to re-establish both internal and external equilibrium. The Committee also discussed direct foreign investment between Member countries in the light of a study (see page 36) recently published by the Secretariat.

## Economic Development Committee

The main purpose of the Economic Development Committee, which consists essentially of senior representatives of Member Governments, is to study the ways and means of promoting and facilitating co-operation among Member States in financial, technical and similar matters. The specific activities of the Committee are conducted through working parties or expert groups set up to deal with tasks approved by the Council. The Committee acts as a supervisory and co-ordinating body to these working parties or expert groups. In relation to the Council, the functions of the Committee are purely advisory. Under the present programme of work of the Committee a number of studies are about to be completed, including one on industrial estates and one on foreign investment in tourism in Madeira.

A new study project, the fourth in the series on regional development problems, was approved by the Council in December 1968 and work on it is now in its early stages. The broad aim of the study is to examine both existing and likely problems of securing industrial mobility, and also the methods available to this end. The working party is considering and will attempt to assess, in the light of existing industrial structures and possible developments in Member countries, both the impediments to industrial mobility and the means of promoting greater movement in industry, to the benefit of regional development. All the earlier work on regional development is relevant to this study, which may take up to two years to complete.



## The Consultative Committee

The Consultative Committee, which brings together representatives of industry, commerce and the trade unions in EFTA countries, held two meetings in Geneva during the twelve months covered by this Report. On both occasions the meeting preceded a Ministerial Council meeting by a few weeks. In addition to the usual debates on European integration and the internal development of EFTA, with particular attention being paid to the work of the Economic Committee, the Committee also discussed ways and means of improving its own procedures.

In the course of the meetings a number of proposals on future work within EFTA were put forward by the Committee and later accepted by the Council. Thus the Committee of Trade Experts has now been instructed to examine any requirements on marking, other than origin marking or consumer information, which are notified to it as having trade-hampering effects. The same Committee is also to investigate any trade difficulties arising from regulations on packaging sizes which may be notified to it. On another suggestion of the Consultative Committee, the Secretariat is undertaking a comparative study of the prices of a limited number of standardized consumer goods in each EFTA country. The Secretariat is also to prepare a paper, to serve as a basis for further discussion in the Committee, on the current work in EFTA on the rules of competition and the escape clauses.

Two main recommendations on the procedure of the Committee were made during the Committee's meeting in April 1969, and both were accepted by the Council. The first was that an ad hoc working group, formed from members of the Committee, should meet to discuss more fully the various suggestions made about the organization and conduct of future meetings. The second was that this group should prepare the provisional Agenda for the next full meeting of the Committee.

## EFTA Parliamentarians

Over a number of years Parliamentarians from EFTA countries have met informally in Strasbourg on the evening before the beginning of the sessions of the Consultative Assembly of the Council of Europe. The main purpose of these meetings is to give an opportunity for a frank exchange of views on European integration and the rôle EFTA should play. The meeting in September 1968 was devoted largely to a discussion on EFTA after eight years' activity, on the basis of a personal report by Mr. Haekkerup of Denmark. The Chairman of the EFTA Ministerial Council, Mr. Nyboe Andersen, Danish Minister for Economic and European Integration Affairs, participated in the meeting in January 1969. This was the first time that a Minister had attended a meeting of EFTA Parliamentarians.



## Information activities

Public interest in EFTA affairs has continued at a high level. The pattern of trade development as it unfolds through the monthly EFTA statistics issued from the Secretariat has been followed with greater interest than previously. There has been a constant flow of requests for information coming from business firms, inside as well as outside EFTA. There has again been a large number of information visits by groups and individuals to the Secretariat. In Washington D.C. the EFTA Information Office has been able to provide American official and private bodies and individuals particularly interested in freeing trade with detailed results of EFTA's achievements.

The circulation of the enlarged EFTA Bulletin has continued to grow, especially in the United Kingdom, while its counterpart, the EFTA Reporter, issued by the Washington Office, has appeared as before. Two completely new books were produced by the Secretariat during the year. One is the first part of a major study of the consequences of the economic division of Western Europe into two trading blocs, published under the title "The effects of EFTA on the economies of Member States" (see page 36). The other is "EFTA Foreign Investment: Changes in the pattern of EFTA foreign direct investment". The latest edition of the yearly trade report, "EFTA Trade 1959-67", differs substantially from its predecessors. It has been found advisable to include a much fuller statistical Appendix, and new analytical sections have been added to the text.

Most EFTA publications, including the EFTA Bulletin, books, brochures and leaflets, are issued in three languages: English, French and German. "Building EFTA", the basic 160-page handbook on EFTA, has however been revised and reissued in several additional languages, as have the more popular booklets.

In conjunction with the Graduate Institute of International Studies, Geneva, the Secretariat organized a seminar on "The Economic Division of Europe", which was held on the premises of the Institute on 25th-27th April. The participants were mostly professors and other senior teachers from universities and business schools in EFTA.

## The EFTA Council and the Joint Finland-EFTA Council

During the period under review the Council and the Joint Finland-EFTA Council held 41 Simultaneous Meetings and the EFTA Council 5 meetings. The two Councils met at Ministerial level in Vienna on 21st and 22nd November and in Geneva on 8th and 9th May. One meeting at official level with the Ministerial Chairman presiding was held in Geneva.

For the period 1st July - 31st December 1968 the Chairmanship of the two Councils was held by Austria and the Vice-Chairmanship by Denmark. For the period 1st January - 30th June 1969 Denmark carried the Chairmanship of the two Councils and Norway the Vice-Chairmanship.



## Administration and finance

### The Secretariat

At the end of the year under review, the headquarters staff totalled 93; of these, 48 were in the Professional category or above and 45 in the General Service grades. There was a staff of five in the Washington Information Office, the Director, and four recruited locally.

### EFTA headquarters building

The Secretariat moved into its new headquarters, 9-11, rue de Varembe, Geneva, at the end of March 1969. The building, which has aroused considerable interest in the Press and elsewhere, was formally handed over to the Association by the Chairman of FIPOI—the foundation set up by the Swiss federal authorities and the canton of Geneva to provide premises for international organizations—at a ceremony of inauguration on 23rd April 1969. The new building, which is in the Palais des Nations area of Geneva, has nine storeys above ground and two below. The Secretariat occupies the two ground floors, which contain the main conference rooms, and the four floors above them.

### Finance

The Association's net budget for 1968-1969 was 7,266,000 Swiss francs. The budget for the financial year 1969-1970, commencing 1st July 1969, has been established at a net sum of 7,741,300 francs, to be financed by Member States' contributions. This figure is the net budget, after deducting estimated income of 75,200 francs.

The scale of contributions to the EFTA budget is determined by reference to the Member States' gross national products at factor cost, with the qualification that no Member is required to contribute more than 30 per cent of the expenditure of the Association. The individual national contributions for 1968-1969 were on the following basis (the figures for 1969-1970 are shown in brackets): United Kingdom 30 per cent (30); Sweden 22.17 per cent (21.99); Switzerland 16.66 per cent (16.42); Denmark 10.69 per cent (10.94); Austria 9.71 per cent (9.70); Norway 7.65 per cent (7.72) and Portugal 3.12 per cent (3.23). By annual agreement, Finland also makes a contribution which, in practice, has been between 6 and 6½ per cent of the net budget; this serves to reduce the above contributions by Member States other than the United Kingdom.



## III. External relations

### Negotiations with Iceland

At their meeting in Vienna on 21st and 22nd November 1968, Ministers had before them an application from the Government of Iceland for accession to EFTA. They welcomed this application and instructed the Council at official level to prepare and carry out the negotiations.

A first meeting between the EFTA Council and a team of Icelandic Representatives, headed by the Icelandic Minister of Commerce, was held in Geneva on 23rd January 1969. At this meeting, the Icelandic Representatives presented in general terms their approach to the question of accession to EFTA. Some senior officials of the EFTA Secretariat visited Iceland in April for technical discussions. There have been two further meetings in Geneva between the Council and Icelandic Representatives, and negotiations continue.

### EFTA-Yugoslav Joint Working Group

At the first meeting of the EFTA-Yugoslav Joint Working Group in December 1967 it was decided to invite Yugoslavia to send speaking observers to the meetings of a number of EFTA committees and working parties. As a result Yugoslav representatives now regularly attend the meetings of the Committee of Trade Experts, the Customs Committee, the Economic Development Committee and the working party on double taxation.

A general discussion of trading relations between Yugoslavia and the EFTA countries took place at the second meeting of the Joint Working Group which was held in Geneva in December 1968. The Secretary-General visited Yugoslavia in June 1969 for talks with members of the Government.

### GATT

Members of the Secretariat attended those GATT meetings of special interest to EFTA, in particular the meetings of the Committee on Trade in Industrial Products for discussion on non-tariff barriers to trade. The periodic EFTA report on progress made in implementing the Stockholm Convention was presented to the 25th Session of the Contracting Parties in November 1968. Periodic meetings have continued to be held between the Heads of EFTA Delegations to the GATT for consultations on general trade policy questions of concern to EFTA countries.



## UNCTAD

Members of the Secretariat participated as observers in those meetings in Geneva of the United Nations Conference on Trade and Development of special interest to EFTA. Consultations have taken place within EFTA on major issues concerning the problems of developing countries.

## OECD

The Secretariat was represented at the Ministerial meeting of the OECD in February 1969 as well as in various meetings of the Trade Committee, Economic Policy Committee, Fiscal Committee, Economic Development and Review Committee, Committee for Invisible Transactions, the Agricultural Committee and the Fisheries Committee. The EFTA Secretariat continues to receive valuable assistance from the OECD Secretariat, particularly in the form of statistical and other information; and in June 1969, a first meeting was held of representatives of the two Secretariats, with the aim of avoiding unnecessary duplication of work.

## Council of Europe

The Eighth Annual Report of EFTA was presented to the Consultative Assembly of the Council of Europe in September 1968. In accordance with established practice, representatives of the EFTA Secretariat attended most meetings of the Consultative Assembly and the Joint Meetings of the European Parliament and the Consultative Assembly.

In order to avoid duplication of activities, close contacts are maintained between the Secretariat of the Council of Europe and the EFTA Secretariat, both at regular inter-secretariat meetings held alternately in Strasbourg and Geneva, and informally between such meetings. A representative of the EFTA Secretariat also participated in the European Conference of Deans of Faculties of Law, convened by the Council of Europe in November 1968.

## UN Economic Commission for Europe

The Secretariat has maintained contact with the Secretariat of the UN Economic Commission for Europe. Members of the EFTA Secretariat have taken part in ECE meetings which were of particular interest to EFTA.

## Nordic Council

General aspects of the work of the Nordic Council are followed closely in the EFTA Secretariat. The 17th Session, held in Stockholm in March 1969 and devoted largely to discussions of various proposals on closer Nordic economic co-operation, was of considerable interest to EFTA. In accordance with established practice it was attended by observers from the EFTA Secretariat and a



report on it was given to the EFTA Council in Geneva. In June 1969 officials of the Secretariat had a meeting with the national secretaries of the Nordic Council, for an exchange of information on developments within EFTA and the Nordic Council.

#### Customs Co-operation Council

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

#### Exchange of technical information with the EEC

During the year the Secretariat continued to have periodic contacts of a technical nature with the services of the Commission of the European Economic Community, in order to exchange information about work progress in each organization in specific sectors.

#### Contacts with non-governmental organizations

A number of international non-governmental organizations are engaged in fields of direct interest to the work of the Association. The Secretariat maintains close contacts with these organizations and representatives of the Secretariat attend some of their meetings.



# Appendix I

## Communiqués of EFTA Ministerial meetings

Vienna meetings 21st and 22nd November  
1968

### Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Vienna on 21st and 22nd November 1968. Mr. O. Mitterer, Austrian Federal Minister of Trade and Industry, was in the Chair. The Councils carried out a full review of the activities and prospects of the Association, and of developments in European integration.

Ministers had before them an application from the Government of Iceland for accession to EFTA. They welcomed this application and instructed the Council at official level to prepare and carry out the negotiations.

The EFTA Council, with the Finnish Minister participating in a persona capacity, held a full discussion on European integration. Recalling EFTA's continuing efforts to promote closer economic co-operation in Europe, Ministers reaffirmed their readiness, expressed at their meeting in London in May, to consider in a positive spirit any constructive proposals for interim solutions including trading arrangements which might be put forward by the European Economic Community, provided that these proposals were in conformity with their international obligations. They noted with interest developments since the London meeting and especially the decision of the EEC Ministers to examine all current proposals, in particular those for trading arrangements and technological co-operation. Ministers expressed the hope that these initiatives taken within the EEC would soon result in common proposals by the Six. They instructed the permanent representatives in Geneva to keep the situation under close review in the light of developments in the Communities so as to enable a co-ordinated response to be given to any proposal by the Six which might be put to their Governments individually or collectively. Ministers were agreed that any solution must be consistent with GATT obligations and should provide a reasonable balance of advantage to each EFTA country.

In discussing the internal affairs of the Association, Ministers stressed the importance of the proper functioning of the Free Trade Area as an instrument for economic co-operation between their countries and as a contribution to a



solution of the European integration problem. With this in mind, Ministers expressed their determination to secure the rapid implementation of the work programme approved at their meeting in London last May. The main elements of this programme are directed to the improvement of trading opportunities in EFTA, to defining more precisely the responsibilities of Member States under the Convention, and to extending consultations in EFTA in a number of fields.

The Councils expressed understanding for the serious problems arising for certain Member States as a result of developments in trade in agricultural products. Ministers urged the Councils at official level to complete their review of the agricultural provisions of the Convention so as to make possible a detailed discussion of these problems at the next Ministerial meeting.

The Councils discussed the problem of the import into the United Kingdom of quick-frozen fish fillets from the Scandinavian countries. It was agreed that the representatives of the countries directly concerned would meet with the Secretary-General in February or March in order to renew their efforts to find a mutually acceptable solution to the problem.

The Councils stressed the importance of the activities of GATT and agreed to give careful attention to the contribution which could be made by EFTA Governments to a further dismantling of tariffs and other trade barriers, having in mind also the interests of developing countries.

The United Kingdom Delegation informed the Councils of the measures which the United Kingdom Government proposed to introduce in the context of the present financial crisis. Ministers instructed the Councils at official level to examine the matter further.

The next meeting of the Ministerial Councils will be held at EFTA's new headquarters in Geneva in early May 1969.

## Geneva meetings 8th and 9th May 1969

### Communiqué

The EFTA Council and the Joint Council of Finland and EFTA met at Ministerial level in Geneva at the new headquarters of the Association on 8th and 9th May 1969. Mr. P. Nyboe Andersen, Danish Minister for Economic and European Integration Affairs, was in the Chair. The discussions covered all aspects of the Association's activities, as well as matters of common interest in the external economic relations of the EFTA countries.

In the EFTA Council, with the Finnish Foreign Minister participating in a personal capacity, Ministers reviewed developments in European integration since their last meeting. They reaffirmed the determination of their governments, as expressed in Vienna, to overcome the present economic division of Europe, and their willingness to consider in a positive spirit all constructive proposals which might be put forward to this end, provided that these were in conformity with their international obligations. They were agreed that they should continue to consult together closely.



EFTA Ministers welcomed the convening by the EEC of a conference for the purpose of reaching a patent agreement covering Europe, and said that their governments would participate. Such an agreement would make an important practical contribution to European economic integration. Ministers also instructed the Council at official level to study other fields of possible co-operation with the Communities.

The Ministers reviewed the present state of world trade, the valuable work going on within GATT and the prospects for further trade liberalization. They welcomed the commitment of the United States Administration to liberal trade policies. The Ministers further reaffirmed the importance of full implementation of the results achieved in the Kennedy Round and of avoiding any movement towards protectionism, which might threaten the continued expansion of world trade. They recognized the importance of a sound monetary situation for the satisfactory development of trade. They declared themselves ready to play their full part in discussions and negotiations in the appropriate international organizations, in order to carry further the work of trade liberalization. They considered that high priority should be given to the trade problems of developing countries.

On behalf of the four Nordic Governments of EFTA, the Swedish Minister of Commerce gave the Councils a report on the present discussions aimed at an intensified Nordic economic co-operation, contributing to the co-operation within the Association and to the further strengthening of the economic ties among European countries.

Ministers noted with satisfaction progress made so far in the negotiations between EFTA and the Government of Iceland on the latter's application for membership in the Association. They were determined to press ahead with these negotiations.

On the basis of a report by the Secretary-General, Ministers reviewed progress under the work programme initiated in May 1968 with the aim of developing still further the opportunities opened up by EFTA.

Ministers had before them a report on the general review of the agricultural provisions of the EFTA Convention undertaken in the official Councils. Ministers instructed the Council to examine the specific steps that might be taken with the aim of improving trading conditions for agricultural products. The examination would include dumped and subsidized imports, government support, different price levels for agricultural raw materials, and removal of items from Annex D (the list of agricultural products not subject to EFTA tariff treatment). A report is to be submitted to Ministers for their next meeting. Some Ministers expressed concern about the problems created for their countries by the decision of the United Kingdom Government to restrict imports of butter into the United Kingdom market.

Ministers expressed the hope that, as a result of talks to be held later this month, the Member Governments concerned would be able shortly to report agreement on the regime for imports into the United Kingdom of quick-frozen fish fillets from the Scandinavian countries.

The next meeting of the Councils at Ministerial level will be held in Geneva on 6th and 7th November 1969.



# Appendix II

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

Decision of the Council No. 8 of 1968 amended Schedule III to Annex B with regard to waste and scrap metal of iron or steel to bring this heading into line with changes in the Brussels Nomenclature (73.03).

Decision of the Council No. 9 of 1968 amended paragraph 4 of Rule 12 of Annex B so as to make permanent the exception relating to drawback in respect of goods exported before 31st December 1966 and subsequently re-exported.

Decisions of the Council Nos. 1 and 6 of 1969 amended Annex B and Annex D to follow certain Brussels Nomenclature corrigenda.

Decision of the Council No. 5 of 1969 amended Schedule I to Annex B by extending the new qualifying process for furfuryl alcohol (ex 29.35) until 1st May 1970.

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The next meeting of the Council at Ministerial level will be held in Geneva on 6th and 7th November 1969.



# Appendix III

## EFTA agreement on government aids

(Article published in EFTA Bulletin Vol. IX, No. 7 of October 1968.)

Each of the EFTA "rules of competition" in turn has been the subject of study by EFTA working parties specially set up for the purpose. On the basis of the reports made by these groups, the EFTA Council has reached an agreed interpretation of the rules concerned. Agreements on the provisions of Article 15 (restrictive business practices), Article 16 (establishment) and Article 14 (the practices of public undertakings) were reached at the Copenhagen, Bergen and Lisbon Ministerial meetings respectively of the EFTA Council in 1965 and 1966. A similar agreement has now been concluded on the provisions of Article 13, concerning government aids.

The central provisions of the EFTA Convention on government aids are contained in paragraph 1 of Article 13. This lays down that Member States shall not maintain or introduce either (i) the forms of aids to exports of goods to other Member States which are specifically listed in Annex C to the Convention or (ii) any other form of aid, the main purpose or effect of which is to frustrate the benefits expected from the removal or absence of duties and quantitative restrictions on trade between Member States.

The following text, agreed upon by the EFTA Council and the Joint Council of Finland and EFTA on 3rd July 1968, sets out their interpretation of Article 13 of the Convention:

(a) The Council agreed that the application of Article 13 of the Convention in practice should be guided by the following considerations:

(i) The aim of the rules contained in Article 13 is to ensure that government aids do not constitute barriers to trade or promote unfair conditions of competition between Member States.

(ii) Article 13 must be interpreted within the framework of the other provisions of the Convention. Having regard to the objectives laid down in Article 2, it is recognized that government aids, provided that they are compatible with Article 13, are legitimate instruments of economic policy. The interpretation of Article 13 should also be guided by the stipulations of Article 30 which states that Member States recognize that the economic and financial policies of each of them affect the economies of other Member States and that they will pursue those policies in a manner which serves to promote the objectives of the Association.



(iii) It is not the purpose of Article 13 to inhibit the freedom of Member States to introduce government aid measures as elements in the internal economic policies provided that these measures neither fall under Annex C nor frustrate the benefits expected from the establishment of the Association. As a free trade area EFTA accepts the differences in institutional and economic structures of the Member States; the Convention states no obligation to harmonize government aids.

(b) The Council endorsed the following interpretation of the provisions of Article 13:

(i) Paragraph 1 (a) of the Article lays down that Member States shall not maintain or introduce the forms of aid directed to exports listed in Annex C.

(ii) Paragraph 1 (b) of the Article prohibits any other form of aid the main purpose of which—irrespective of its effects—is to frustrate the benefits expected from the Association. This paragraph prohibits also any other form of aid the main effect of which—irrespective of its purpose—is to frustrate the benefits expected from the Association. Such a purpose or effect can often be ascertained or assessed when the particular scheme or measure is officially announced. This does not preclude action by Member States even at an earlier stage.

(iii) Paragraph 2 of the Article makes specific reference to aids which are not incompatible with paragraph 1 but which, in a particular case, frustrate the benefits of the Association, either through the circumstances in which the aid is applied, through its character, through the manner of its application (e.g. if this is excessive or abusive) or in any other way. The paragraph enables a government to have recourse to the same procedure as set out in Article 31 in respect of any frustrating side effect which an aid granted by another Member State may have on its trade with that or any other Member State.

(c) The Council agreed that only those measures can be classified as government aids which result in a net transfer of funds from State sources to the recipient; aids granted under schemes which are fully paid for by the beneficiaries are not government aids in the sense of Article 13.

(d) The Council agreed that the following measures appear to fall outside the scope of Article 13:

(i) Credits and loans from government sources or agencies, if the interest and capital repayments cover the long-run cost in accordance with current market conditions.

(ii) Guarantees granted by governments or government agencies, if the premiums cover the long-run cost of the scheme in accordance with current market conditions.

(iii) Tax allowances on capital assets not exceeding 100% depreciation.

(e) The Council agreed that without prejudice to Member States rights under the Convention the following measures are examples of types of aids normally consistent with the provisions of Article 13:

(i) Aids generally available to research and technological development, especially if participation by other Member States were possible.



(ii) Aids given within the framework of overall economic policy to rationalize the structure of industry and so to improve its efficiency, such aids being neither specifically directed to exports nor to import saving and to the extent that they do not interfere with conditions of fair competition in EFTA trade.

(iii) General aids to export promotion such as national weeks, store promotion, industrial fairs.

(iv) Regional development aids to the extent that they do not interfere with conditions of fair competition in EFTA trade; in this connection reference is made to an understanding reached in Stockholm in November 1959, whose purpose was to put industries in regional development areas on an equal economic footing with industries in other parts of the country.

(v) Aids in the form of general public services to trade and industry.

(vi) Aids given to the production of goods as long as there is no interest in trade in such goods between Member States.

(f) The Council agreed that aid measures shall not be applied in such a way as to discriminate in favour of domestically-produced goods and against similar goods produced in other Member States or as to discriminate in favour of national enterprises against enterprises established in accordance with the provisions of Article 16 and the Bergen agreement.

(g) The Council agreed that the frustration criterion of Article 13 is one of fact; in order to frustrate, a government aid must injuriously affect the development of trade between Member States either directly or indirectly; when judging whether or not an aid is frustrating the benefits expected from EFTA, the cumulative effect of different aids should be taken into consideration.

(h) The Council agreed that co-operation between Member States concerning the introduction and application of aid measures is necessary and that government aids will be kept under review, and consequently:

(i) invited Member States to report any major changes in government aid measures which are likely to affect the interests of other Member States, if possible before their entry into force; the competent authorities of Member States should be prepared to discuss, on a bilateral basis, bona fide cases of possible infringement of the obligation contained in Article 13; and

(ii) instructed the Secretariat to keep the information on government aids—contained in an Annex to the report by the working party on government aids—up to date through inquiries to Member States at intervals of a year or whenever a special need for such inquiries is felt.

The foregoing agreement reached by the Councils leaves open a few specific points which are to be studied further, as part of the general review of the rules of competition being undertaken within the EFTA work programme laid down by Ministers at their meeting in London.



European Free Trade Association  
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**EFTA SECRETARIAT HEADQUARTERS**

9-11, rue de Varembé, 1211 Geneva 20, Switzerland

Telephone: (022) 34.90.00 Telex: 22660

**Washington Information Office**

711 Fourteenth Street, N.W., Washington D.C. 20005, USA

Telephone: (202) 393-6015 Telex: 64259



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