

1969-1970

Tenth Annual Report
of the
European Free Trade
Association



Geneva-September 1970

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I. Survey of the year

The year in EFTA: July 1969-June 1970

The year that ended with June 1970, just after the 10th anniversary of the creation of EFTA, was characterized by the opening of new possibilities in Europe. EFTA itself was enlarged, with the accession of Iceland. Work continued within EFTA to ensure that the abolition of tariffs and quotas is complemented by the removal of other restrictions on trade. The first meetings between EFTA Governments and EEC Governments to discuss specific limited forms of co-operation took place. Then, on 30th June 1970, Ministers from three of the EFTA countries, from the six countries of the Common Market and from the Republic of Ireland assembled to discuss the enlargement of the European Economic Communities. Shortly afterwards, discussions were to start between the EEC Governments and the other EFTA countries which seek a new relationship with the Communities.

Co-operation in EFTA

With the accession of Iceland to EFTA, at the beginning of March 1970, the European Free Trade Association now has eight full Members. On the same date Iceland also acceded to the Agreement of Association with Finland. The negotiations with Iceland had begun in January 1969, and they were brought to a successful conclusion the following December. After the necessary ratification procedures had been completed, the way was clear for Iceland to join the Association, and to make the first reduction in its tariffs, on 1st March 1970. From that date industrial products exported from Iceland were able to enter the territory of the other EFTA countries free of import duties and without being subject to quantitative restrictions. Under a separate agreement which Iceland reached with Denmark, Finland, Norway and Sweden, a Nordic fund was established to provide loans and guarantees to enable Iceland to develop its industries and so obtain a greater benefit from its membership of the Association.

Within EFTA trade continued to expand vigorously. The trend of earlier years, in which trade between the EFTA countries grew faster than their total trade, reasserted itself in 1969. The contrasting experience of the previous year seems now clearly to have been based on factors unrelated to the work-

ing of the Free Trade Area arrangements : it was rather the substantial improvement in business conditions in the EEC and the consequences of the devaluation of the currencies of three EFTA countries in 1967 that limited the growth in the value of the internal trade of EFTA compared with the expansion in its total trade. With the substantial increase that was achieved in 1969, trade between the EFTA countries was running at a level nearly three times as high as in 1959, the year before the creation of EFTA. Their trade with the whole of the world was almost twice as high as ten years earlier.

For the EFTA countries, a number of questions had to be settled before the end of 1969. It was necessary to draw up a precise timetable for the removal of the remaining Portuguese import duties which were, and are, to be eliminated by the end of this decade. The size and dates for the necessary reductions were agreed on during the year. The future arrangements for the import of frozen fish fillets from the Nordic countries into the United Kingdom after the beginning of 1970 also had to be negotiated. The negotiations were completed in 1969 and approved by the Council. Finally, a decision was required about the clause in the Convention which allowed EFTA Governments before the beginning of 1970 to take special measures, under certain conditions, if particular industries or particular sectors experienced certain difficulties. No agreement was reached during the year on a new clause but the time-limit for reaching one was extended until the end of 1970.

The other activities of the Association were of two kinds. In the first place, further progress was made in removing other barriers to trade, which have acquired a greater relevance as a result of the removal of tariffs and quotas in EFTA. Secondly, work was done on a number of specific matters on which it seemed possible that there might be co-operation with the EEC countries.

Internally, the study on EFTA's rules of competition was continued. This was partly a matter of trying to clear up a number of points which had been left unsettled in earlier studies of the relevant Articles of the Stockholm Convention, and partly a matter of relating the rules to national economic policies. This work is still continuing. In addition, experts on restrictive business practices have met and exchanged views on the practical application of the relevant provisions.

An important part of this work on non-tariff barriers to trade has concerned such barriers as compulsory technical regulations. This is a matter on which EFTA has not sought to reach agreement by harmonizing the differing regulations in force in the various EFTA countries. EFTA's attitude is rather to ensure that any arrangements agreed on in EFTA would fit into a larger context, and that the differences which exist in the EFTA countries are not of such a kind as to restrict trade. For this reason EFTA's activities are aimed at making sure that, when tests are required in an EFTA country before a product may be put on the market, such tests could be accepted also when performed in another EFTA country. In this way EFTA avoids putting up new obstacles to trade by creating compulsory technical requirements or standards limited to EFTA, and at the same time gives EFTA manufacturers easier access to each other's markets.

In January 1969 the EFTA Councils agreed on a scheme under which national testing stations permitted the use of each other's test reports in issuing approvals for many types of electrical equipment. In the past year, three groups of experts have been examining the possibility of introducing similar arrangements for pressure vessels, agricultural machinery and tractors, and gas appliances. Sufficient progress had already been made on the first and last of these items for draft "reciprocal recognition" schemes to be drawn up. They are now being considered in the EFTA capitals. Towards the end of the year a fourth group of experts was set up to study the possibility of applying such a scheme to marine life-saving and fire-fighting equipment.

There has continued to be close consultation in EFTA on economic matters of interest to all its Member countries, both in fields relevant to the working of EFTA and in other contexts. 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 relevance to other Members, such as the Nordek negotiations on which the Nordic countries have kept their EFTA partners informed.

European integration

Developments during the year gave the EFTA countries grounds for hope that progress was now possible towards the fulfilment of EFTA's second aim, the creation of a large European market.

At a conference in The Hague, in December 1969, Heads of State or of Government of the six Member countries of the European Communities agreed that negotiations should be opened between the Communities and the Communities and the States that had applied for membership; and that, as soon as these negotiations had been opened, discussions would be started with such other EFTA countries, as might request them, on their position in relation to the EEC. There was, however, one condition that had to be fulfilled before either process could begin: the EEC countries had first to agree on a number of matters relating to the future of the Communities and in particular on its agricultural policy. These matters were settled by May 1970.

When the EFTA Council met in May 1970, with the Finnish Foreign Minister taking part in a personal capacity, Ministers welcomed the outcome of the Hague conference. They recalled their communiqué of April 1967 and reaffirmed their strong interest in safeguarding, as an important part of an enlarged European Community, the free market already established in EFTA. They were fully prepared for negotiations and discussions to start as early as possible in the summer, and they recorded their firm conviction that the best solution would be that the negotiations should be brought to finality simultaneously.

An important subject on the Agenda of this meeting was the nature of the contacts which should be held within EFTA during the negotiations and discussions. The outcome was an agreement on the procedure to be followed,

which is based on the practice adopted during the earlier negotiations with the EEC. Since it is assumed that the talks will be held in Brussels, the main exchange of information together with the necessary consultation on the progress of the talks should take place there. It is also envisaged that exchanges of views and consultations should take place in Geneva in the EFTA Council on the general state of negotiations and in particular on matters concerned with the functioning of EFTA as such. There will also be exchanges of view from time to time in the EFTA capitals. In addition EFTA Ministerial meetings provide other opportunities for consultations.

On 30th June 1970, the three EFTA Member States which had applied for membership of the EEC—Denmark, Norway and the United Kingdom—took part, with the six EEC countries and the Republic of Ireland, in the formal opening of negotiations for this purpose. For the other EFTA countries the purpose of the discussions is to explore ways of reaching mutually acceptable arrangements. Sweden envisages the possibility of becoming a full Member of the EEC if terms compatible with its neutrality can be found.

There had already been co-operation between the Member State of EFTA and of the EEC on some specific matters in which progress seemed possible even before the Hague summit decisions.

All the original seven Members of EFTA and all the Members of the EEC, together with others, are taking part in a seventeen-nation conference, convened in the spring of 1969, which should lead eventually to the conclusion of a European patent agreement. The work is being based on three draft conventions, one drawn up by the EEC, one (on certain points of patent law) put forward by the Council of Europe, and one prepared in EFTA. A working party, set up in May 1969, met three times in that year to prepare the principal articles of new European agreement, and there have been three meetings of the full seventeen-nation conference. Its proposals have already been put to representatives of interested non-governmental organizations so that they can express their views.

On science and technology there have also been contacts between the EEC and the EFTA Governments. The Six had worked out proposals for co-operation in seven different fields of research and technology and then in November 1969 invited nine other European governments, including all the Member States of EFTA at that time, to comment on them. The invitation was welcomed by all the Member States and at a meeting experts exchanged views on the proposals. The EFTA States wish to participate in all the areas of research covered by the proposals.

EFTA trade in 1969

Up to 1967 trade between EFTA countries had grown faster in each year than total EFTA trade, but developments in 1968 deviated from the trend towards greater concentration in intra-EFTA trade as both total EFTA exports and EFTA exports to the EEC increased more than intra-EFTA trade. In 1969, however, the trend was resumed and trade between the EFTA countries (measured in terms of the value of exports f.o.b.) rose by 17 per cent, whereas total EFTA exports grew by only 15 per cent. Exports to the EEC continued however to rise more than intra-EFTA trade, since the gross national product of the EEC countries as a whole expanded at a much faster rate than that of the EFTA countries combined. The trend towards greater growth in the internal trade of the Association continued in the first quarter of 1970.

Nineteen sixty-nine was the tenth year of EFTA co-operation and the third year of virtually free trade in industrial goods. Whereas total EFTA imports and exports have doubled since 1959, the last year before tariff reductions in EFTA began, trade between the EFTA countries has nearly tripled. This represents an annual average rate of growth of 11 per cent. Among the Nordic countries of EFTA alone, the total increase in trade almost quadrupled. Trade with the EEC—in both directions—has risen by about 130 per cent. EFTA imports from the United States show a similar rate of growth—135 per cent—but EFTA exports to the United States have increased by only 98 per cent.

Total trade

In 1969 both exports and imports of the EFTA countries were substantially higher than in 1968 and the rates of growth accelerated throughout the year. Total commodity imports of the eight * EFTA countries combined amounted to 44,005 million US dollars and exports to 38,245 million dollars, respectively 11 and 15 per cent higher than a year earlier.

Though total EFTA exports increased more than total EFTA imports, this was not the case in the trade of all Member countries: only in the case of Austria, Norway, Portugal and the United Kingdom did exports increase at a faster rate than imports, and for Sweden exports and imports grew at the same rate. The highest growth rates in exports were recorded by Austria and Finland (both over 21 per cent), and Finland also experienced the highest increase in imports (27 per cent). The lowest increases in total imports were registered by the United Kingdom and Norway, at only 5 and 9 per cent respectively.

As was the case in 1968, seasonally-adjusted data show that the rate of growth of total EFTA exports was higher in each quarter of 1969 than that of total EFTA imports. The growth of imports was 2.2 per cent in the second quarter, 4.5 per cent in the third and 6.0 per cent in the fourth, while exports

* Since Iceland did not become a Member of EFTA until March 1970, no account is taken in this section of Iceland's trade.

rose 2.7 per cent, 5.1 per cent and 7.5 per cent respectively. At the end of the year, total exports were thus on a faster rising trend than imports. In the first quarter of 1970 EFTA's trade continued to expand with total exports at 9,973 million dollars and total imports at 11,776 million dollars. This means that seasonally-adjusted exports were 5.8 per cent and imports 4.8 per cent higher than in the fourth quarter of 1969.

Intra-EFTA trade

In 1969 intra-EFTA exports increased by 17 per cent, compared with a rate of growth of only 6 per cent in 1968, and reached a total of 10,120 million dollars. This rate of growth is one of the highest recorded in the past decade and was to an important extent the result of the improved trading position of the United Kingdom, whose sales to the rest of EFTA increased in 1969 by 22 per cent. Austria and Finland also increased their exports by well over 20 per cent. Although in 1969 total intra-EFTA trade rose faster than the total trade of the EFTA countries combined, this was not true for each individual Member country: total exports of Denmark, Norway, Sweden and Switzerland increased more than their exports to other Member countries. The import pattern of the EFTA countries was, however, much more consistent, and each Member country's imports from EFTA partners rose more than its total imports. In both Austria and Finland the trend of recent years continued and their import and export trade with their EFTA partners developed more rapidly than that with the world and with the EEC. The main change in the pattern of intra-EFTA trade in 1969 was the very sharp growth of United Kingdom exports; these rose in 1969 by almost 22 per cent.

On a seasonally-adjusted basis, the growth rate of intra-EFTA exports from quarter to quarter during 1969 was higher than that of total exports in three quarters and lower in one quarter. It rose throughout the year: from 2.6 per cent in the first quarter to 3 per cent in the second, 3.1 per cent in the third and to the final quarter's increase of 8.6 per cent. Intra-EFTA trade in the first quarter of 1970 amounted to 27 per cent of EFTA's total trade, showing a rise of 17.3 per cent over the first quarter of 1969 and on a seasonally-adjusted basis an increase of 6.4 per cent over the fourth quarter of 1969.

Since 1959, Austria and Portugal—both of which are countries which previously did little trade with the EFTA countries as a whole—have increased sales to their EFTA partners by over 400 per cent. For most other EFTA countries the increase has been 200 per cent or more, the exceptions being Denmark (157 per cent) and the United Kingdom (130 per cent). In terms of imports from Member countries, the United Kingdom and Norwegian markets have grown least, and the Austrian, Swiss and Swedish markets most.

Intra-Nordic trade recovered from its relatively slow rate of growth in 1968 to reach a total of 3,136 million dollars in 1969, an increase of 21 per cent over the previous year. Intra-Nordic trade thus grew faster than intra-EFTA trade, a trend which has been broken only once since the formation of EFTA, in 1968. Finland supplied relatively the greatest contribution to

the growth in intra-Nordic trade, with its exports to Denmark, Norway and Sweden increasing by 32 per cent, 13 per cent and 53 per cent respectively, and its imports from these countries rising by 24 per cent, 59 per cent and 34 per cent.

EFTA-EEC trade

In 1969 EFTA exports to the EEC, which rose by 18 1/2 per cent, grew faster than imports from the EEC which increased by 12 per cent. Imports from the EEC totalled 13,594 million dollars, while exports reached 9,837 million dollars. As a result, the EFTA countries' deficit on trade with the EEC was reduced to 3,757 million dollars. This new reduction in EFTA's trade deficit with the EEC continued an improvement which began in 1968, after four years in which EFTA imports from the EEC had increased much more than its exports to the Community. Seasonally adjusted, both EFTA's imports from and exports to the EEC rose in the first quarter of 1970 by 5.2 per cent over the figure for the fourth quarter of 1969. The United Kingdom accounted for almost half of the rise in exports.

EFTA exports to France increased in 1969 by 23.4 per cent, exports to the Federal Republic of Germany by 19 per cent and to all other EEC countries by over 15 per cent. Imports from Belgium and Luxemburg, and from Germany, were also more than 15 per cent higher, but imports from Italy rose by only 4 per cent. Only Denmark and Finland recorded higher increases in import than in export trade with the EEC. United Kingdom imports from the Community rose by only 2.7 per cent and its imports from Italy fell.

Seasonally-adjusted trade figures show exports to the EEC growing at least as much as imports from the EEC for three quarters of 1969. The increase in imports in the third quarter of 4.7 per cent exceeded the increase in exports (up 3.9 per cent), but there was a marked change in the last quarter, when exports grew by 8.8 per cent and imports by 7.3 per cent.

EFTA trade with the United States

In comparison with 1968, which was a year of rapid growth in trade between EFTA and the United States, 1969 was a year in which EFTA's exports showed very little change in value. They amounted to 3,674 million dollars in 1969, a rise of over 1 1/2 per cent. On the other hand, imports from the United States rose by almost 7 per cent and reached 4,433 million dollars. Exports from Norway, Sweden and the United Kingdom fell by 5.2 per cent, 7 per cent and 0.3 per cent respectively, following increases in 1968 of 13.6 per cent, 14.7 per cent and 24.4 per cent. Only for Austria and Finland did exports increase faster in 1969 than in 1968, and Denmark and Finland were the only countries to show a higher increase in imports than in 1968. The large increases in the first quarter of 1970 of EFTA imports from the United States of 31.4 per cent and of exports of 19.0 per cent, compared with the

first quarter of 1969, are to a very large extent the consequence of the American dock strike in 1969. Seasonally-adjusted imports and exports increased by only 0.6 and 0.1 per cent over the fourth quarter of 1969.

Seasonally-adjusted figures show fairly low quarterly rates of growth during 1969. Trade seemed to be on a rising trend during the first three quarters of the year, export growth rates being—2 per cent, 1.4 per cent and 5.3 per cent for the first, second and third quarters respectively, while the growth rates of imports were 0.7 per cent, 1.4 per cent and 4.3 per cent. In the fourth quarter, however, increases of only 1 per cent in imports and 0.6 per cent in exports were recorded.

EFTA trade with Eastern Europe

EFTA trade with Eastern Europe amounted in 1969 to about 2,000 million dollars in each direction, with imports 10 per cent and exports 11 per cent higher than in 1968. This was a larger increase than was achieved in 1968 when exports and imports grew by only 6 per cent and 5 per cent respectively. Swedish and Swiss trade with this area grew particularly sharply. Since 1959, imports from Eastern Europe have increased by 114 per cent and exports by 140 per cent, the most important growth in trade being recorded by Sweden, Switzerland, the United Kingdom and Austria.

EFTA trade with other areas

The major part of EFTA's trade with the rest of the world, which accounts for about one-third of EFTA's total trade, is that of the United Kingdom, which supplied two-thirds of EFTA's exports to the rest of the world in 1969 and received over 72 per cent of EFTA imports. In the last ten years EFTA trade with the rest of the world has grown very slowly, at an average annual rate of only 4.3 per cent for imports and 5.3 per cent for exports. The 1969 growth rates—16.4 per cent for exports and 6.3 per cent for imports—were thus unusually high. Denmark, Finland and Sweden increased their exports by about 20 per cent, while the sharpest increases in imports were recorded by Finland (37 per cent) and Switzerland (19 per cent).

Economic developments in the EFTA countries

Austria's real gross national product increased in 1969 by 6.4 per cent, compared with 4.1 per cent in 1968. Foreign demand rose by 13.2 per cent and thus contributed even more to economic growth than in the previous year. The increase in private consumption was limited to 2.8 per cent as a result of an unprecedented rise in savings. Public consumption grew by 3.5 per cent, as in 1968, and investment, which had fallen by 1.2 per cent

EFTA TRADE IN 1969

Table 1

(in million US dollars and percentage change 1968-1969)

| Reporting country | EFTA | | EEC | | USA | | Eastern Europe | | Rest of world | | Total world | |
|-------------------------|----------|-------|----------|-------|----------|-------|----------------|-------|---------------|-------|-------------|-------|
| | \$ mill. | % | \$ mill. | % | \$ mill. | % | \$ mill. | % | \$ mill. | % | \$ mill. | % |
| <i>Imports (c.i.f.)</i> | | | | | | | | | | | | |
| Austria | 549.9 | +19.2 | 1,595.6 | +11.4 | 84.4 | +1.1 | 272.8 | +12.0 | 322.7 | +16.2 | 2,825.4 | +13.2 |
| Denmark | 1,559.4 | +21.1 | 1,274.8 | +21.2 | 292.6 | +6.9 | 130.8 | +10.0 | 541.6 | +12.6 | 3,799.2 | +18.2 |
| Finland | 783.3 | +31.8 | 553.0 | +31.4 | 103.4 | +43.0 | 335.6 | +3.5 | 247.4 | +36.8 | 2,022.7 | +27.0 |
| Norway | 1,301.6 | +11.7 | 792.0 | +18.6 | 230.1 | +11.6 | 72.9 | —5.1 | 546.3 | —7.3 | 2,942.9 | +8.8 |
| Portugal | 312.5 | +17.8 | 444.7 | +12.7 | 63.1 | —26.5 | 18.5 | +17.1 | 457.2 | +9.9 | 1,296.0 | +10.1 |
| Sweden | 2,192.9 | +23.1 | 2,012.8 | +14.6 | 504.2 | +6.3 | 275.7 | +19.0 | 913.4 | +4.0 | 5,899.0 | +15.2 |
| Switzerland | 950.8 | +28.1 | 3,057.7 | +14.2 | 445.0 | +10.5 | 107.8 | +19.8 | 701.7 | +19.1 | 5,263.0 | +16.9 |
| United Kingdom . . | 2,993.9 | +7.4 | 3,863.8 | +2.7 | 2,710.4 | +6.8 | 796.8 | +9.7 | 9,591.4 | +4.9 | 19,956.3 | +5.3 |
| EFTA | | | 13,594.3 | +11.8 | 4,433.2 | +6.9 | 2,010.9 | +10.0 | 13,321.7 | +6.2 | 44,004.5 | +10.7 |
| <i>Exports (f.o.b.)</i> | | | | | | | | | | | | |
| Austria | 590.9 | +25.5 | 999.3 | +24.7 | 110.6 | +19.6 | 326.5 | +10.8 | 385.1 | +17.1 | 2,412.4 | +21.3 |
| Denmark | 1,450.3 | +12.4 | 680.7 | +13.0 | 247.0 | +14.1 | 102.0 | +14.2 | 476.9 | +24.3 | 2,956.9 | +14.5 |
| Finland | 800.6 | +24.7 | 475.9 | +18.2 | 119.1 | +23.7 | 351.2 | +15.7 | 237.9 | +24.4 | 1,984.7 | +21.3 |
| Norway | 991.4 | +12.7 | 560.6 | +23.7 | 151.3 | —5.2 | 57.7 | +9.1 | 441.9 | +12.7 | 2,202.9 | +13.7 |
| Portugal | 306.4 | +17.2 | 153.4 | +21.0 | 80.6 | +0.2 | 7.2 | —1.4 | 305.4 | +6.7 | 853.0 | +11.9 |
| Sweden | 2,439.1 | +13.7 | 1,582.2 | +18.2 | 356.7 | —7.0 | 271.4 | +21.7 | 1,038.6 | +22.6 | 5,688.0 | +15.2 |
| Switzerland | 956.6 | +13.5 | 1,733.3 | +18.0 | 436.1 | +4.6 | 173.8 | +23.6 | 1,332.3 | +15.6 | 4,632.1 | +15.2 |
| United Kingdom . . | 2,584.7 | +21.7 | 3,651.9 | +17.8 | 2,173.6 | —0.3 | 553.8 | +1.0 | 8,551.2 | +15.6 | 17,515.2 | +14.1 |
| EFTA | 10,120.0 | +17.0 | 9,837.3 | +18.7 | 3,675.0 | +1.7 | 1,843.6 | +11.1 | 12,769.3 | +16.2 | 38,245.2 | +15.2 |

in 1968, increased by 4.8 per cent. The rise in GNP was mainly reflected in the growth of industrial output by 11.7 per cent.

On average, the index of consumer prices was 3.1 per cent higher than in 1968. Excluding seasonal goods, the rise was 2.9 per cent which is almost the same as the increase in the previous year. In spite of almost full employment and a rising number of unfilled vacancies, wage rates rose on average by only 5.8 per cent, which was less than the increase in productivity, and there was very little wage drift.

Exports increased at a record rate of over 21 per cent, more than twice as much as in 1968. Imports rose by 13.2 per cent, compared with 8.1 per cent a year earlier. As a result, for the third year running there was a further reduction in the commodity trade deficit, which in 1969 amounted to 413 million dollars. Since there was also an increased surplus on invisibles, the current account balance of payments changed from a deficit of 83 million dollars in 1968 to a surplus of 99 million dollars in 1969. A small net outflow on both long-term and short-term capital account was virtually matched by a positive balancing item. Total gold and foreign currency reserves increased by 107 million dollars, somewhat less than in the previous two years.

To improve the structure of the economy, the Government has continued its programme of reorganizing the institutional framework. On 1st January 1969 a new law promoting the retraining and resettlement of manpower came into force; the law is intended to improve occupational mobility. Legislation removing fiscal obstacles to mergers also became effective in 1969. To increase competition, the Restrictive Practices Act was amended and now permits the authorities to prohibit the use by manufacturers of recommended prices on a wide range of consumer durables. An amendment to the National Bank Act, increasing control over minimum reserve requirements and giving the Central Bank greater freedom in its transactions with Government loans and securities, can be considered as the first stage in an institutional and legal reorganization of the monetary sector in the economy.

Results for the first quarter of 1970 indicate a continuation of the favourable trends. Industrial production is estimated to have been 10 per cent higher than a year earlier. Foreign trade in both directions in the first quarter of 1970 was 23 per cent higher than in the first quarter of 1969. Real GNP is forecast to increase by 5 per cent for 1970 as a whole. To counteract any inflationary pressures the Government had at the end of 1969 reduced import duties on consumer durables (in the form of anticipated tariff reductions under the Kennedy Round and by special exemptions from or reductions of the import equalization tax for several products) and removed some quantitative restrictions on imports of consumer durables from Japan and Eastern Europe. The National Bank raised the discount rate on 22nd January 1970 from $4\frac{3}{4}$ to 5 per cent (after the change from $3\frac{3}{4}$ to $4\frac{3}{4}$ on 11th September 1969). To absorb some of the liquidity resulting from the continued balance of payments surplus, the National Bank sold in February 1970 1.5 billion certificates of deposit with a 5 per cent coupon to the commercial banks.

INTRA-EFTA TRADE IN 1969

Table 2

(in million US Dollars and percentage changes 1968-1969) (Exports f.o.b.)

| Exporter | Importer | Austria | Denmark | Finland | Norway | Portugal | Sweden | Switzerland | United Kingdom | EFTA |
|---------------------------|----------|---------|---------|---------|--------|----------|--------|-------------|----------------|---------|
| Austria \$m | | | 49.4 | 24.3 | 29.1 | 21.6 | 100.2 | 229.1 | 137.1 | 590.9 |
| Percentage change . . | | | +35.0 | +45.5 | +35.3 | +51.0 | +36.7 | +25.5 | +8.7 | +25.5 |
| Denmark \$m | 44.3 | | | 65.3 | 204.3 | 10.7 | 474.6 | 69.6 | 581.5 | 1,450.3 |
| Percentage change . . | +21.0 | | | +24.1 | +7.5 | -2.7 | +20.3 | +12.4 | +6.9 | +12.4 |
| Finland \$m | 11.7 | | 78.5 | | 48.4 | 6.4 | 262.5 | 29.8 | 363.3 | 800.6 |
| Percentage change . . | +28.6 | | +31.9 | | +12.8 | +68.4 | +53.1 | +60.2 | +8.0 | +24.7 |
| Norway \$m | 15.6 | | 160.4 | 55.1 | | 9.9 | 343.9 | 26.7 | 379.8 | 991.4 |
| Percentage change . . | +50.0 | | +17.3 | +59.2 | | +4.2 | +17.1 | +23.6 | +1.8 | +12.7 |
| Portugal \$m | 11.9 | | 24.0 | 12.0 | 11.7 | | 48.8 | 18.6 | 179.4 | 306.4 |
| Percentage change . . | +4.4 | | +26.3 | +62.2 | +19.4 | | +32.2 | +34.8 | +11.8 | +17.2 |
| Sweden \$m | 67.5 | | 568.1 | 311.9 | 562.6 | 32.1 | | 154.9 | 742.0 | 2,439.1 |
| Percentage change . . | +22.3 | | +21.4 | +34.3 | +9.4 | +6.6 | | +31.0 | +2.0 | +13.7 |
| Switzerland \$m | 232.6 | | 98.9 | 47.8 | 58.3 | 50.5 | 148.4 | | 320.1 | 956.6 |
| Percentage change . . | +19.0 | | +16.2 | +22.6 | +34.0 | +18.8 | +7.5 | | +6.9 | +13.5 |
| United Kingdom . . . \$m | 171.0 | | 473.7 | 243.3 | 347.2 | 185.7 | 722.9 | 441.0 | | 2,584.7 |
| Percentage change . . | +34.5 | | +19.6 | +26.9 | +13.5 | +27.4 | +14.6 | +34.8 | | +21.7 |
| EFTA total \$m | 554.6 | 1,453.0 | 759.7 | 1,261.6 | 316.9 | 2,101.3 | 969.2 | 2,703.2 | 10,120.0 | |
| Percentage change . . | +24.8 | +21.3 | +32.3 | +11.8 | +23.3 | +20.7 | +30.3 | +5.3 | +17.0 | |

After the slowdown of economic growth in *Denmark* in 1968, a strong rise in most sectors of the economy was recorded in 1969. Partly because monetary and fiscal policies had been relaxed in 1968 and partly because of the special arrangements made in 1969 in preparation for the introduction of the PAYE system of direct taxation on 1st January 1970, real disposable incomes rose much more than in the preceding year. The impending change in the income tax system had, for one year only, the effect that any increases in earnings in 1969 escaped tax, and as a result a greater number of married women were encouraged to seek employment and the total labour force increased by 3 1/2 per cent. Wage rates also continued to rise and as a result of all these factors it has been estimated that private incomes rose by 12 per cent. Private investment, which had decreased in 1968, also rose strongly. Increased demand for housing produced a rise in building starts of about 20 per cent. Public consumption and investment expenditures also rose faster than in 1968, but exports, although again increasing sharply, rose less than imports.

The strong increase in total demand produced a sharp rise in production in most sectors of the economy. The volume of agricultural production has continued to decline, but industrial production rose by 11 per cent and building activity increased even more. Registered unemployment fell to 3 per cent.

Prices rose relatively slowly in the first half of the year, but after the abolition of price controls in July 1969 prices rose much faster. Over the year as a whole consumer prices increased by 3 per cent. The volume of private consumption rose by more than 7 per cent.

The visible trade deficit rose by 200 million dollars to 642 million dollars, since imports of goods rose by 18 per cent, while exports only increased 14 1/2 per cent. The deficit of the balance of payments on current account rose by 175 million dollars to 420 million dollars. Most of this was covered by official long-term capital imports, but short-term commercial borrowing also was high in the second half of the year. The raising of the official discount rate from 6 to 7 per cent in March and to 9 per cent in May helped to attract capital. Until May the unsettled international financial markets had resulted in a strong outflow of short-term capital from Denmark and a loss of official foreign reserves. After the tightening of monetary policy, funds returned to Denmark and for the year as a whole the decline in reserves was limited to 76 million dollars.

Economic activity remained at a high level in the first quarter of 1970. At 260 million dollars, the deficit of the trade balance in this quarter was 90 million dollars higher than a year earlier. The authorities introduced a number of measures to restrain inflationary developments in March 1970 and the Central Bank agreed with the private banks to freeze total bank loans for a six-month period to September 1970 at the level reached in February. In May it was announced that the value-added tax rate would be raised from 12 1/2 to 15 per cent on 1st July. The Government also announced a price freeze on services and will introduce measures to offset the effect on production costs of some of the increase in wages resulting from the operation of

the price index escalator clause. The real gross national product is expected to rise in 1970 by 3-4 per cent.

The rapid expansion of total output that began in *Finland* towards the end of 1968 continued throughout 1969. Real gross domestic product is estimated to have increased by 7-8 per cent in 1969, as compared with 2.5 per cent in 1968. A rise of 6.5 per cent is forecast for 1970.

The recovery of economic activity in Finland reflects a strong rise in foreign demand, stimulated by the effects of devaluation of the Finnish mark in September 1967 and the stabilization agreement of March 1968, which was in force until the end of 1969 and served to restrain excessive wage rises.

In 1969 Finland's exports increased by 21 per cent in value and by nearly 16 per cent in volume. There were increases in all principal commodity groups. Exports of pulp were restricted by the increased demand for pulp from the domestic paper-producing industry.

Real private fixed capital formation, which had decreased in 1967 and 1968, increased by 18 per cent in 1969. This strong revival was concentrated on investment in machinery and equipment, but investment in dwellings also increased somewhat, following increased Government support and higher real income. Real public investment fell by 2.5 per cent.

A 7 per cent rise in private consumption was the result of a high rise in real disposable incomes, with above-average wage and salary increases for the lower income groups and a bunching of purchases of private cars. The rise in public consumption expenditure was much less than that of the private sector.

As the pressure on domestic resources increased during the year, there was a steep rise in imports, resulting in a rise in the volume of imports of approximately 22 per cent for the year as a whole. The rise in imports of investment goods and cars was particularly strong. Finland's commodity trade balance recorded a deficit in 1969, after one year of surplus. The surplus on invisibles was, however, sufficient to offset this and the current account was in balance. As there was a moderate net inflow of long-term capital and only a marginal outflow of short-term capital, total foreign exchange reserves increased by 37 million dollars to 258 million dollars.

During 1969 the rate of unemployment, seasonally adjusted, fell from 3.3 per cent in the first quarter to 2.1 per cent in the last quarter; and to restrain the pressures in the economy, measures were taken in September 1969 to limit credit expansion in the banking sector. In the autumn of 1969 agreement was also reached that the stabilization programme should be maintained until the end of 1970.

From the last quarter of 1968 to the last quarter of 1969 wage rates rose by 8.4 per cent, of which 4.5 percentage points were a result of wage drift. Since labour productivity rose by 6.1 per cent in the same period, the effect of wage increases on costs was greatly reduced.

The armoury of fiscal and monetary policy was enlarged towards the end of 1969 when legislation was passed to encourage the transfer of investment

projects from boom periods to years of slower growth. The new measures are expected to have some effect on total demand in 1970.

In the first half of 1970 the growth of the economy continued, although there was some decline in the rates of increase of exports, private investment and consumption. A slackening in the rate of increase in total output is expected, especially in the second half of 1970. For the year as a whole the value of exports is expected to rise by 20 per cent and consumption expenditure will increase almost as fast as in 1969, but the growth of private investment is likely to slacken. Largely as a result of an expected deterioration of the trade balance, a small current account deficit is forecast.

Norway's real gross national product increased in 1969 by 4.0 per cent, compared with 3.7 per cent in 1968. A fall in output was recorded for agriculture, fishing, power production and in sea transport and there was only a slow rise in construction and in forestry, but the output from mining and manufacturing and services rose fast.

Public and private consumption—and the latter rose by almost 8 per cent—contributed most strongly to the rise in total demand. It is estimated that half of the increase in private expenditure probably represented anticipatory purchases in expectation of the introduction of the value-added tax (VAT) in January 1970. VAT, levied at a rate of 20 per cent, replaces the existing retail sales tax of 13.6 per cent. Gross investment in shipping has continued to decline sharply, and industrial investment fell by 1.0 per cent. The volume of total gross investment declined by only 1.4 per cent in 1969.

The volume of exports of goods and services rose by 5.3 per cent, or only half as much as in 1968. A fall in shipping earnings and a flattening out of the growth rate of visible exports were the main contributory factors. Total imports of goods and services rose by 6.6 per cent, largely because of the increase in private consumption. For the year as a whole, the current account of the balance of payments showed a surplus of 92 million dollars, compared with 152 million dollars in 1968. Total foreign exchange reserves increased by 78 million dollars.

The manpower situation, which had eased at the beginning of the year, tightened during the year and unemployment fell below the 1968 level. On average the rate of unemployment in 1969 was only 1.3 per cent. Average hourly earnings in mining and manufacturing rose by 9.3 per cent whereas consumer prices increased by 3.1 per cent. In September a temporary price stop was introduced to prevent price increases during the consumer buying rush before the introduction of VAT; this price freeze lasted till January 1970.

Monetary policy was tightened in September. The official discount rate of the Central Bank, which had remained at 3 1/2 per cent since 1955, was raised to 4 1/2 per cent, so as to reduce the gap between Norwegian and international interest rates. At the same time the authorities made use of their powers under the Credit Policy Act and instructed banks and insurance companies to invest in Norwegian bonds a part of the increase in their total assets. As bank advances had been rising faster than expected, liquidity reserve ratios,

which had already been increased twice during the summer months, were raised again on 1st December 1969 and 1st January 1970.

During the first few months of 1970 economic activity was sustained by increasing investment expenditures, while private consumption slackened, partly as a reaction to the introduction of VAT. From December 1969 to March 1970 consumer prices rose by 6.8 per cent, of which 5.8 percentage points are estimated to have resulted from the change in indirect taxation. Wage negotiations in the spring produced a new general two-year wage agreement which gives an average general wage increase of 9½ per cent in mining and manufacturing. An increase in real GNP of 4 per cent is forecast.

According to official estimates, *Portugal's* real gross national product increased in 1969 by about 5 per cent, against 6 per cent in the preceding year. The output from manufacturing seems to have expanded slightly less rapidly than in 1968 when it rose by 8 per cent, and agricultural production fell by 1 per cent.

Public investment, to a large extent in projects which are part of the Third Development Plan, increased by nearly 14 per cent, but private investment continued to be slack, and the growth of total gross domestic fixed capital formation was again fairly limited.

The value of exports of goods and services increased in 1969 by 7 per cent, against a rise of only 2 per cent in 1968. But the most dynamic component of demand was once again domestic consumers' expenditure, following new wage rises, increases in emigrants' remittances and extended credit facilities.

Home production did not grow fast enough to satisfy the increase in total demand and there was a rise of 5 per cent in imports of goods and services, as well as renewed inflationary pressure. In the two largest towns the level of consumer prices increased by about 10 per cent from the end of 1968 to the end of 1969.

The foreign reserves of the escudo area increased in 1969 by 80 million dollars, the lowest annual rise since 1965.

Sweden achieved in 1969 a rise in real gross national product of 5.2 per cent, but it was accompanied by increasing strains on available resources and a sharp deterioration of the current account of the balance of payments. Both the rise in exports and increasing domestic demand contributed to the growth of the GNP.

The volume of exports increased by 14 per cent and there were increases in most commodity groups. Because of a lack of capacity, however, pulp exports rose only slightly, although demand was high.

Real private fixed capital formation, which had fallen sharply in 1968, increased by 4 per cent in 1969. Mining and manufacturing investment showed the most marked revival. A sharp rise in investment in stocks of raw materials and semi-manufactures was of considerable importance.

The growth of real private consumption was, at 4.2 per cent, about the same as the previous year, but the increase was larger than that of real dis-

posable income of households, which rose by only 2.5 per cent. Real public consumption increased fairly strongly, but less than in 1968.

Sweden's imports rose by 15 per cent in value and by 13 per cent in volume; this reflects the resumption of inventory accumulation and the growing pressures of demand. Because of the favourable development of export demand and of the terms of trade in 1969, the deficit of the commodity balance was, at 1,100 million Swedish kronor, about the same as in 1968. But as there was a small deficit instead of the traditional surplus from services and transfers a current account deficit of S.Kr. 1,084 million was recorded. Total foreign exchange reserves decreased over the year by 326 million dollars to 782 million dollars.

During 1969 the money and credit markets tightened considerably. The discount rate was raised in two steps from 5 to 7 per cent, liquidity requirements were increased and tighter restrictions in private direct investment abroad were introduced. Largely because the private sector had improved its liquidity position considerably in 1968, when monetary conditions were easy, the tightening in 1969 did not have a very marked influence on developments in 1969.

In the first quarter of 1970 economic activity continued at a high level. The rise in prices accelerated, the value of imports was 22 per cent higher than a year earlier, and exports increased by only 13 per cent. For 1970 as a whole a rise of about 4 per cent in real GNP is forecast, with an increase in private fixed capital formation as the main contributor to this growth.

The rate of growth of the *Swiss* real gross national product accelerated from 4 per cent in 1968 to 4.7 per cent in 1969. The increase in foreign demand of 12.2 per cent contributed more to economic growth than in 1968, when it rose by 9.7 per cent. But the growth of all domestic demand components also accelerated in 1969. Private consumption rose by 4.6 per cent, public consumption by 3.8 per cent and investment by 7.1 per cent, as compared with 2.9 per cent, 1.9 per cent and 4 per cent respectively in the previous year.

The increase in consumer prices, at 2.5 per cent, was about the same as in 1968, but wholesale prices, which had risen by only 0.3 per cent in 1968, increased by almost 3 per cent in 1969. This was to a large extent a result of steeply rising import prices, particularly prices of metals. Wage rates in industry rose by 4.1 per cent, as in 1968; wage rates in the construction sector rose by 3.9 per cent, compared with a rise of 4.8 per cent a year earlier. The employment index showed an increase of only 1 per cent, mainly because of an increase in the number of foreign workers. The number of foreign workers subject to control was 659,000 in August 1969, as against 648,000 in August 1968.

Imports increased by 17 per cent at current market prices or by 13.5 per cent in real terms, and exports rose by 15.3 per cent at current market prices or 13.9 per cent in real terms. This was a reversal of the tendency towards a faster rate of growth of exports than of imports which had been a characteristic of *Swiss* trade since 1965. The slightly increased deficit on the trade

balance of 2,275 million Swiss francs was, however, as in previous years, more than offset by a surplus of invisibles, so that as in 1968 the current balance showed a surplus of the order of S.Frs. 2,000 million.

The project for a revision of the National Bank law, which was to give the National Bank greater powers over minimum reserve requirements, was abandoned in favour of a voluntary agreement between the National Bank and the commercial banks. Even before this agreement entered formally into force, on 1st September, the National Bank had agreed with the Bankers' Association on a restraint of the expansion of domestic bank credit. As the pressure on resources increased towards the end of the year, the National Bank tightened monetary restraints further by raising the rediscount rates and by lowering the ceiling on bank loans, with the aim of combating potential inflationary tendencies. Another measure intended to ease the pressure on resources was the application on 1st March 1970 of the last three stages of tariff reductions agreed under the Kennedy Round. The authorities had furthermore intended to tighten liquidity of private industry by the introduction of an export deposit scheme. The original proposal was however rejected by the Parliamentary Commission and on 6th May 1970 the federal authorities proposed a new export deposit scheme in a modified form which was adopted with some further modifications by the two Houses of Parliament during the June session.

In the early months of 1970 activity continued at a high level. Investment in plant and equipment in the first quarter of 1970 was substantially higher than a year earlier and retail sales in February were 8.9 per cent higher. Imports in the first quarter were nearly 30 per cent above those of the first quarter of 1969, and exports rose by some 12 per cent. For 1970 as a whole a growth rate of real GNP of 3.7 per cent is forecast, with all domestic demand components rising faster than in 1969.

The *United Kingdom* achieved a massive turn-round in its balance of payments in 1969. The components of the gross domestic product moved more in line with official expectations than in recent years but, despite a strong advance in manufacturing investment, fixed investment was an exception, with the 1969 level below that of 1968. Gross domestic product at constant prices recovered from a fall at the beginning of 1969 to reach in the first half of the year a level similar to that attained in the second half of 1968; it then rose in both the third and fourth quarters of 1969, giving a growth of between 1½ and 2 per cent over the first half of the year, and also over the second half of 1968. Consumers' expenditure rose by less than ½ per cent over the year as a whole, actually falling in the first half of 1969, and thus contributed little to the total growth in demand. The major factor in demand expansion was the increase in exports of goods and services, which rose by over 8 per cent after an average annual increase of around 5 per cent in the four preceding years. Stockbuilding also increased sharply. The pattern of output of the various sectors of the economy reflected the re-allocation of resources to the export industries and the export-led recovery in demand. Industrial production rose by 2½ per cent and manufacturing output by 3½ per cent.

The balance of current and long-term capital transactions moved into surplus in the second quarter of 1969 and for the year as a whole this basic balance recorded a surplus of 398 million Pounds sterling. Since there had been a deficit of 396 million Pounds sterling in 1968, there was a total swing of 794 million Pounds sterling. Taking account of adjustments for Euro-dollar borrowing, this swing is reduced to 688 million Pounds sterling, but the 1969 surplus is increased to 468 million Pounds sterling. All the main components of the balance of payments contributed to this surplus. The current balance moved into surplus in the first quarter of 1969 (mainly as a result of a large increase in the surplus on invisibles, which remained at a high level throughout the year) and this surplus rose in each of the following three quarters. For 1969 as a whole the current account surplus amounted to 415 million Pounds sterling which, compared with an annual deficit of 297 million Pounds sterling in 1968, represents a swing of 712 million Pounds sterling.

Both visible and invisible trade have contributed to this swing in the current balance: visible trade moved into surplus in the third quarter of 1969, and the surplus on invisibles was running at a rate 19 million Pounds sterling per month higher than in 1968. The visible trade balance accounted for 486 million Pounds sterling (68 per cent) and invisibles for 226 million Pounds sterling (32 per cent) of the 712 million Pounds sterling swing in the current balance. The massive improvement in visible trade was brought about by a rapid rise in exports and by the slowing down of the rate of growth of imports: the value of exports increased by 12.2 per cent from the first to the fourth quarter of 1969, against a rise of 8 per cent in the same period of 1968; the value of imports (f.o.b., including payments for United States military aircraft) increased by 3.2 per cent from the first to the last quarter of 1969, compared with a growth of 4.3 per cent in 1968.

In their Letter of Intent of May 1969 to the IMF, the British Government set as an immediate target a surplus of 300 million Pounds sterling on current and long-term capital account for the twelve months ending March 1970. The estimated surplus in this period was 606 million Pounds sterling and in the first quarter of 1970 the current balance continued to be very satisfactory. The Chancellor of the Exchequer announced that in 1969 and the first quarter of 1970 the United Kingdom had been able to reduce its medium- and short-term debts from 3,363 million Pounds sterling to 1,534 million Pounds sterling by the end of March 1970.

Government economic policy during 1969 remained centred on the aim to switch resources from home to export industries. In the April budget, in addition to an increase of 28 per cent in the Selective Employment Tax rates, Corporation Tax was raised from 42½ per cent to 45 per cent, duties on wine and hydrocarbon oils were increased and the purchase tax net was widened. Although the income tax structure was altered to benefit lower income groups, the estimated deflationary effect of the budget was 220 million Pounds sterling. In October, the Government announced that the import deposit scheme would remain in force for a further twelve months, though at the reduced rate of

40 per cent, and in November it gave notice that the 3½ per cent ceiling on dividend increases would cease on 1st January 1970.

The determination to pursue a policy of sustained growth and to maintain a large surplus on the balance of payments meant that little change was required in policy in the first part of 1970. Restrictions on expenditure on foreign travel were, however, virtually abolished in January and rigorous control over prices and incomes was relaxed. The main features of the April 1970 budget were a further change in the income tax structure to benefit the lower income groups and easing of surtax. In his budget speech the Chancellor also announced a reduction of ½ per cent, to 7 per cent, in the bank rate and a further reduction from 40 to 30 per cent in the rate of import deposits.

Prospects for 1970 seem good. Forecasts for the surplus on the current account of the balance of payments range from 500 million Pounds sterling to 850 million Pounds sterling. Some recovery of domestic demand is also expected. Industrial production rose by 2.4 per cent in the first quarter, compared with the corresponding period in 1969, while the volume of exports rose by 13 per cent over the same period, compared with an increase of only 5½ per cent in the volume of imports. Nevertheless, unemployment remained at a high level with an average rate of 2.4 per cent in the first quarter. Wage rates and retail prices both rose strongly in the first quarter of 1970, with increases of 7 and 5 per cent respectively over the first quarter of 1969.

Iceland joined the European Free Trade Association on 1st March 1970 and was therefore a Member only for the last three months of the period covered by the present report. The following notes briefly sketch the situation of the Icelandic economy in the recent past.

In 1967 and 1968, Iceland suffered a severe recession mainly as a result of a sharp fall in the prices of her principal exports, fish and fish products, and to the rapid decline in the herring catch. This catch was only 57,000 tons in 1969, compared with the peak of 760,000 to 770,000 tons in 1965 and 1966. Gross national product at 1960 market prices fell by 2 per cent in 1967 and 6 per cent in 1968, and the unfavourable development of the terms of trade meant that real income fell even more. Preliminary estimates suggest that real GNP rose by some 2 per cent in 1969, with the recovery led mainly by exports (+11 per cent) and public current expenditure (+3½ per cent). The recovery continued in the first half of 1970.

The development of the foreign balance was strongly influenced by the substantial devaluations of November 1967 and November 1968, which between them devalued the krona by 51 per cent. The fall in exports of fish and fish products led to a marked deterioration of the over-all balance of payments in 1967 and 1968, when deficits of 1,070 and 846 million Icelandic kronur were recorded. With the marked recovery of exports the over-all balance showed a surplus of I.Kr. 1,685 million in 1969.

II. Internal development in EFTA

Iceland in EFTA¹

As has already been mentioned, the negotiations on Iceland's accession to EFTA were successfully completed early in December 1969, and Iceland acceded to the Association and to the Finland-EFTA Agreement, on 1st March 1970.

From that date, Icelandic manufactures could enter the territories of the other eight EFTA countries free of import duties and quota restrictions, and Iceland began the gradual elimination of its protective duties on industrial products imported from the other EFTA countries by reducing its basic duties by an average of 30 per cent. This reduction will be followed by 10 per cent reductions on the first day of each year from 1974 until the final 10 per cent is eliminated on 1st January 1980.

In order to help the development of new industries Iceland may, at any time up to 1st January 1975, increase its basic duties. The need to establish and maintain such increased protection may be examined by the EFTA Council.

Iceland will also abolish any protective element in its revenue duties in accordance with Article 6 of the Convention, by successive reductions corresponding to those agreed for the elimination of protective duties. The protective element in internal taxes in Iceland will be eliminated by the end of 1972.

On the date of accession, Iceland abolished quantitative import restrictions on a number of products. Starting from the same date, the remaining restrictions (with a few exceptions) will be abolished gradually, in the manner provided for by the Convention, so as to be eliminated by the end of 1974.

In the negotiations the Council took note of the export licence system operated by Iceland, and of the fact that this system did not involve restrictions on Icelandic exports to Member States.

To avoid complications for traders in the period immediately preceding Iceland's accession, the no-drawback rule normally in force in EFTA was waived in respect of Icelandic goods exported before the date of accession

¹ Decisions of the Council Nos. 17-20 of 1969 and Joint Council Decisions Nos. 10-12 of 1969.

and imported into other EFTA countries within two months of that date. A similar arrangement was made when drawback was abolished in EFTA at the end of 1966.

From the date of accession Iceland became a party to the Understanding between the United Kingdom and Denmark, Norway and Sweden concerning the regime to be applied from 1st January 1970 to Nordic exports of frozen fish fillets to the United Kingdom. (See page 36).

As a consequence of the addition of a new Member State, the EFTA Convention was amended so that the affirmative vote of five Member States, rather than four as previously, is required for Council decisions and recommendations which are to be made by majority vote.

Tariffs, quotas, other charges

Tariff reductions on industrial goods

With the accession of Iceland on 1st March 1970, two of the EFTA States, Portugal and Iceland, now levy import duties on industrial imports from other EFTA countries.

Under Annex G of the Convention, Portugal retains duties on a fairly extensive range of goods of EFTA origin. The rate is now 50 per cent of the basic duties. In December 1969 the Councils agreed on the timetable to be applied to Portuguese tariff reductions after 1st January 1970.¹ Under this timetable duties will be further reduced by 10 per cent on 1st January 1973, 1st January 1975 and on 1st January 1977, and will be finally eliminated by 1st January 1980. Certain limited exceptions from this timetable may be authorized by the Councils.

In addition, because of special difficulties encountered by the Portuguese iron and steel industry, and because of the unique situation of that industry, a range of iron and steel products continue to be subject, on entering Portugal, to duties (reinforced in some instances by quantitative restrictions) which are applied under special arrangements, independently of the provisions of the Annex G timetable.

According to the timetable agreed during the accession negotiations, Icelandic import duties on goods of EFTA origin were reduced on average by 30 per cent on 1st March 1970, the date of Iceland's accession. From 1st January 1974 these duties will be reduced annually by 10 per cent of the basic duties. They will be finally eliminated by 1st January 1980.

In certain EFTA 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 of the Convention and therefore not eligible for Area tariff treatment—than those paid by producers in other

¹ Decision of the Council No. 21 of 1969.

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 1970, 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. From the beginning of 1971 a new method of dealing with this problem is to be introduced : see page 35.

One other Member State, Norway, had followed the original Convention timetable for eliminating duties on a few industrial goods—mainly a limited range of textiles, ladies' footwear and certain electrical appliances—and the remaining 10 per cent of the basic duties was eliminated at the end of 1969. The protective duties on other industrial goods traded between Member States were abolished at the end of 1966.

Quantitative import restrictions

Since 31st December 1966 quantitative import restrictions on industrial products have, with very few exceptions, been eliminated by all the original 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.¹ Provision was made during the year for an extension until May 1971 of the qualifying process, introduced in 1968, for furfuryl alcohol²; in addition, in response to the temporary shortage of supplies from EFTA sources of monomer polyvinyl acetate, provision was also made, for one year from 1st June 1970, for the unrestricted use of non-EFTA monomer vinyl acetate as a starting material in the qualifying process for polyvinyl acetate.³

In the summer of 1968, the Committee of Trade Experts and the Customs Committee began an examination of the origin rules, to see whether changes could be made in the rules in order to stimulate intra-EFTA trade, provided that such changes would not lead to distortion of trade. This examination has so far led to two decisions this year. On 1st October 1969, Introductory Note 5 to Schedule II to Annex B of the Convention was amended, to permit greater flexibility in the use of non-EFTA materials in certain qualifying processes for textiles listed in Schedule II to Annex B⁴; and on 1st January

¹Decisions of the Councils No. 14 of 1969, and No. 7 of 1970.

²Decision of the Council No. 1 of 1970.

³Decision of the Council No. 8 of 1970.

⁴Decision of the Council No. 10 of 1969.

1970, the limit for the EFTA consignments of small value (under which the no-drawback rule is waived and documentary requirements are considerably relaxed) was increased from 75 dollars to 120 dollars.¹

Texturized yarns

As a part of the examination of the origin system, a proposal was put forward late in 1968 in the Committee of Trade Experts to amend the origin requirements so as to permit the use as starting materials in certain qualifying processes of certain non-Area synthetic yarns which had been texturized within the Area. No agreement could be reached on the proposal in either the Committee of Trade Experts or the Councils. Four Nordic EFTA States, Denmark, Finland, Norway and Sweden, argued that an urgent need for such an amendment of the origin requirements existed and they subsequently decided to invoke, from the beginning of March 1970, paragraph 3 of Article 4 of the Convention in order to grant to imports of certain textiles into their territories the treatment which would have been afforded if the proposed change in the origin requirements had been agreed (the "Nord" scheme). Other Members considered that there was no economic justification for a change in the Convention's origin rules and still less for a deviation from the uniformity of their application.

An ad hoc group of experts was set up by the Councils to examine the practical and administrative consequences for the operation of the Free Trade Area of the steps taken by the four EFTA States. The group met in March 1970 and concluded that its discussions had to a certain extent allayed the anxieties expressed by other Member countries about the consequences for the working of the Free Trade Area of the introduction of the "Nord" scheme. They nevertheless recommended that the Customs Committee should subsequently review, on the basis of reports from all EFTA States, the way the scheme had operated. In June 1970 the Customs Committee reported that the "Nord" scheme had not so far given rise to any serious difficulties. However it was clear that it had not yet had its full effect since existing stocks were still being used. The Committee therefore proposed to keep the scheme on its Agenda for further discussion in the autumn in the light of experience acquired by then.

Annexes D and E of the Convention

No changes have been made in the coverage of 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.

Revenue duties

Minor changes have been made in the revenue duties notified by individual EFTA States in accordance with Article 6 of the Convention. A wide range

¹ Decision of the Council No. 13 of 1969 and Decision of the Joint Council No. 7 of 1969.

of goods (finished products as well as raw materials and semi-processed goods) are subject to revenue duties in Iceland.

Other border charges

After an earlier examination by the Committee of Trade Experts of other border charges such as fees for special Customs services, other service charges, town dues, and traffic fees, the Councils had agreed that the Committee should reconsider these charges from time to time. Such a study of certain charges was begun towards the end of the year under report.

Internal taxes

In 1968 the Council instructed the Customs Committee to retain certain internal taxation rates or systems on its Agenda. Several were amended in 1968-1969 ; and in the year under review two more taxes have been amended by the Member countries concerned, to bring them into conformity with Article 6. Amendments to the outstanding items are now being considered.

The rules of competition

General review of the rules of competition

The EFTA Ministers decided at a meeting in London in 1968 to instruct the Council to undertake a general review of the rules of competition (Articles 13 to 16 of the Stockholm Convention). In the course of this review the Council was to aim at reaching agreement on points left unsettled during earlier reviews of 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 further, where necessary, the practical application of the "frustration" clause which occurs in each of these Articles.

There have been discussions of principle on these matters in the EFTA Council, and in addition a special group consisting of government representatives and experts was set up to study in depth the problems involved under this part of the London work programme. The group completed its work in April 1970. A questionnaire on the policies applied in the fields of regional development, industry and employment within the EFTA States was prepared and served as one of the bases for discussion in the group. So far as the relation of the EFTA rules of competition to general economic policy measures and regional development is concerned, it was noted that the major

problems involved relate to the application of Articles 13 and 14 of the Convention which deal with government aids and the trading and purchasing activities of public undertakings. In the light of the group's work it was suggested that the Council should be asked to consider whether further studies might be carried out in which special attention would be given to certain questions relating to aids for regional development purposes, the use of tax incentives and direct grants as part of industrial policy and certain aspects of public purchasing. Some delegations suggested in the course of the group's work that thought should be given to setting up special consultation procedures, and there was also some discussion of the frustration criterion. On the other hand a further consideration of the relation of the rules of competition to balance of payments measures was not considered necessary for the time being. The results of the study and the recommendations of the group have been submitted to the Council for further consideration.

Restrictive business practices

A meeting of experts on restrictive business practices was held in January 1970 to give experts in the EFTA countries an opportunity to exchange views on the application of Article 15 of the Stockholm Convention. After a short review of changes in national legislation in the EFTA countries, the experts discussed the cases which had been settled since the report of the second working party on restrictive business practices in 1968. In the discussion various aspects of the Copenhagen procedure (which provides for informal consultations) and the question of an autonomous application of Article 15 were examined. There was general agreement that the Copenhagen procedure had proved a success and that this was best shown by the fact that hitherto all cases taken up under it had been satisfactorily settled.

Plans for aluminium smelters in the United Kingdom

The discussions which started in 1968, after the British Government announced that it was ready to consider proposals for a substantial expansion of aluminium smelting capacity in the United Kingdom, continued during the year under review. What made the discussion necessary was the importance to Norwegian industry of trade in aluminium. A new report, prepared with the help of experts from the EFTA Governments, was presented to the Council in June 1969.

In September 1969 the United Kingdom Delegate informed the EFTA Council that his Government had received a proposal from one of the companies constructing aluminium smelters in the United Kingdom to proceed with the construction of the second phase of its smelter. As had been agreed earlier by the Council, a review of the timing of the extension of the smelter was carried out in EFTA and a report was presented to the Council in October 1969.

On the basis of these two reports the Council at official level presented its conclusions to the Ministerial Council in November 1969. Ministers recognized the great importance of the matter to EFTA co-operation and noted that the Council at official level would follow developments in EFTA trade in aluminium and in particular the development of Norway's exports to the United Kingdom and to other major markets and would consider to what extent Norwegian interests were being affected by the new British smelters. They also noted that the principal issues involved would be considered in connection with the current review of the rules of competition in EFTA, and that EFTA would continue to be consulted on the review which the British Government intended to make of the timing of the further expansion of the smelters. The Ministers also noted the report on the proposal for the expansion of one of the smelters.

Technical and other administrative barriers to trade

Work has continued during the past year on the elimination of some of the more important indirect obstacles to trade caused by technical and administrative regulation of various kinds in EFTA States.

Compulsory technical regulations

In the field of compulsory technical regulations, the approach adopted by EFTA has been to concentrate on the reciprocal recognition of tests between the competent bodies in the EFTA countries, and at the same time to encourage the corresponding work being done in the international and European standards bodies.

The choice of the types of products to be considered first for such "reciprocal recognition" agreements was made on the basis of advice from industrialists in EFTA. As was mentioned in the last Annual Report the Council has already approved a scheme for the reciprocal use of the national test reports on a number of electrical products. The scheme was prepared by a group of officials from electrical testing stations in the EFTA countries.

During the year similar expert groups on gas appliances, on agricultural machinery and tractors, and on marine life-saving and fire-fighting equipment were set up to examine the possibilities for "reciprocal recognition" agreements in these fields. (An expert group on pressure vessels was set up in June 1969—see Ninth Annual Report, page 28.)

Good progress has been made in all these groups, and particularly as regards pressure vessels draft agreements are in an advanced stage. The

agreements provide that testing according to the requirements of the importing State may be carried out by a recognized testing institution in another EFTA State.

A list of the various authorities responsible in EFTA countries for the administration of compulsory technical regulations was published in October 1969. The list was drawn up for the guidance of traders and is intended to assist them in obtaining information on the technical regulations with which they will have to comply in the various EFTA markets, and on the steps to be taken to obtain the necessary approvals for their products.

Draft convention on pharmaceuticals

Work on the proposed convention for the mutual recognition of inspections in respect of the manufacture of pharmaceutical products has continued and is nearing completion.

Under the terms of the proposed convention the Contracting States agree to exchange such information as is necessary for the recognition of inspections relating to pharmaceutical products manufactured within their territories and intended for import into other Contracting States. The information required can relate to the standards of good manufacturing practice in general or in relation to particular products; furthermore, supplementary questions on matters on which the authority needs information in order to comply with the provisions of its national legislation can be put to the inspection authority of the producing country. The requesting authorities would then use this information in their own evaluation of the product, treating the inspection made by the authority of the producing country as if were their own.

The draft convention was presented to the EFTA Ministers at their meeting in May 1970. They noted the draft text, approved the work so far undertaken, and, subject to final decisions by national authorities, encouraged an early acceptance of the convention by the EFTA States.

It is envisaged that the initial Contracting Parties will be the EFTA States, but, in order to facilitate the widest participation, there is provision in the convention for other States to join provided they have the national arrangements necessary to apply an inspection system of the nature foreseen in the convention.

In order to prepare for the practical application of the convention when it came into force a working party on pharmaceutical inspections was established with the mandate to make recommendations and proposals to the Council for the implementation of the proposed convention.

The working party is actively engaged on a comparison of national inspection systems and on formulating basic standards of good manufacturing practice. To further these activities of the working party, a group of inspectors has been participating in a series of visits to manufacturers in order to exchange information and see the different national inspection systems in operation in EFTA States. The group has so far visited manufacturing plants in London, Copenhagen, Hälsingborg, Vienna and Linz.

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 has been drawn up, as was mentioned in the last Annual Report. Although discussion of the draft in the Committee of Trade Experts had reached a fairly advanced stage, the Council decided in April 1970 to postpone work on it, partly because one Member State was in the process of reviewing its hall-marking legislation and partly because it was considered advisable to see what course the EEC, who were known to be carrying out similar work, were proposing to follow.

Agriculture and fisheries

Annual review of agricultural trade

The EFTA Council is required (Article 25 of the Convention) to examine each year the development of trade in agricultural goods within EFTA 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 review of developments in 1968. In its report to the Council, the Committee concluded that EFTA trade in agricultural goods at current prices decreased by 8 per cent from 1967 to 1968; and that, measured at constant prices, exports continued to increase but that the increase was at a rate lower than that of previous years. (During the same period, trade in non-agricultural goods rose by 7 per cent.) The value of Denmark's agricultural exports to EFTA fell for the second year in succession, by 11 per cent, from 1967 to 1968 whereas the value of Portugal's exports of agricultural products rose by 14 per cent during the same period. The value of the exports of the remaining EFTA countries to other EFTA markets in 1968 was almost 4 per cent lower than in 1967. The main cause of the fall in the value of exports in 1968 was the drop in dollar prices which followed the United Kingdom devaluation in November 1967. As a result of Britain's dominant position on world markets for many agricultural products, sterling prices remained more or less unchanged after devaluation and dollar prices therefore fell.

At the end of June 1970 the Committee started its review of agricultural trade in 1969 and it is expected to complete this work in September or October.

Specific possibilities for increasing EFTA trade in agriculture

At their meeting in May 1969, Ministers had instructed the Councils to examine specific possibilities for increasing EFTA trade in agricultural products. The scope of examination was to include dumped and subsidized imports, some limitation of export aid, different price levels for agricultural raw materials and removal of items from Annex D. In June 1969 the Councils agreed to concentrate first on the question of different price levels for agricultural raw materials.

Different price levels for agricultural raw materials

In a special mandate agreed by Ministers the Council at official level was requested to work out, at the latest by May 1970, a general solution to the problem of different price levels for agricultural raw materials. Priority was to be given to the examination of an Annex X. If the principle was acceptable to the Council this Annex would include the items—some types of sugar confectionery and biscuits, and, in the case of Austria, chocolate—on which Switzerland and Austria have provisionally been able to retain tariffs at a reduced rate, as well as some processed foodstuffs which are at present included in Annex D. Acting under this mandate the Council set up an expert group to examine the economic and technical aspects of an Annex X scheme. The group was unable to reach agreement on the establishment of an Annex X, and put to the Councils their views on the technical and economic difficulties involved in creating such an arrangement.

After having been discussed in the Councils, the main conclusions of the report from this group were put before Ministers, at their meeting in May 1970. They agreed that from 1st January 1971, Austria and Switzerland might introduce, as a substitute for the present system, a scheme of variable import levies for the items for which they already enjoy *décalage* (BN ex 17.04, 18.06, ex 19.08) in order to compensate for price differences in agricultural raw materials. It was also agreed that all EFTA States were prepared to consider practical possibilities for further improvements in the conditions for intra-Area trade in agricultural products in the interests of those Member States whose economies depend to a great extent on exports of agricultural goods. These considerations could at a later stage also include the possibilities of extending the system of variable import levies to appropriate Annex D products. Ministers instructed the Council at official level to work out the details of the levy schemes mentioned above, and to pursue discussion of other possible improvements in agricultural trade between EFTA States.

Bilateral agricultural agreements

During the negotiations preceding Iceland's accession to EFTA, the four Nordic countries undertook, on a bilateral basis, to facilitate the import of agreed quantities of mutton from Iceland. No other bilateral agricultural

agreements have been concluded between EFTA States in the period covered by this report.

Imports of frozen fish fillets into the United Kingdom

Towards the end of 1969 Denmark, Norway, Sweden and the United Kingdom reached agreement on a minimum price régime for imports of frozen fish fillets into the United Kingdom. The new régime entered into force on 1st January 1970. Iceland became a party to the arrangement from 1st March 1970, the date of its accession to the Association.

The purpose of the new import régime is to improve conditions on the United Kingdom market for fish fillets by achieving over-all price stability at a satisfactory level, in the interests of all parties. Frozen fish fillets imported into the United Kingdom from EFTA will continue to be regarded as industrial products under the terms of the EFTA Convention, and will therefore be admitted free of import duty. Minimum prices, to be established by stages for these imports, will be enforced by the Governments of the four supplying countries (Denmark, Iceland, Norway and Sweden) for sales of fillets to the United Kingdom. The working of the arrangements will be reviewed annually in the light of price developments and the volume and composition of supplies on the United Kingdom market. Consultations may take place at any time if the scheme is not operating satisfactorily. If such consultations do not lead to agreement, any party may withdraw from the scheme on three months' notice. If in this case the scheme comes to an end, the EFTA Council will be requested to initiate new negotiations on imports of frozen fish fillets into the United Kingdom.

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.

So far as Article 19 of the Convention—on balance of payments difficulties—is concerned, the general view would seem to be that there is no need for the time being to provide for any changes or adjustments.

The review has been mainly concerned with the problems connected with Article 20 of the Convention, which deals with difficulties in particular sectors of industry or particular regions. According to paragraph 5 of the Article

the Council could decide before 1st January 1970 that provisions similar to those contained in paragraphs 1-3 of the Article could take effect after that date if the Council considered they were necessary. Ministers discussed this matter at their meeting in November 1969 and instructed the Council at official level to make further efforts in order to present an agreed proposal to them. In December 1969 the Council agreed that the time-limit provided for in paragraph 5 of Article 20 be extended until 31st December 1970. At the end of the year under review the Council was still considering the possibility of finding a permanent solution of the problems involved.

The general consultation and complaints procedure

No EFTA State has made use of the general consultation and complaints procedure provided for by Article 31 of the Convention during the period covered by this report.

The United Kingdom import deposit scheme

An import deposit scheme came into force in the United Kingdom in December 1968. Under this scheme a deposit of 50 per cent of the value of goods imported into the United Kingdom was required, the deposit to be repaid without interest after six months. The scheme was originally introduced for a twelve-month period, but in October 1969 the British Government announced that it proposed to extend the scheme for a further twelve months, with a reduction in the deposit rate to 40 per cent.

At their meeting in November 1969 Ministers instructed the official Council, which had already been charged with keeping the situation under review, to re-examine the effects on EFTA trade of the import deposit scheme. It was also decided that the matter should be studied by the Economic Committee at its meeting in January 1970.

The Economic Committee reported to the Council that "the maintenance of the import deposit scheme could be defended on the grounds that the improvement in the United Kingdom's balance of payments was perhaps not yet completely and solidly established, but it was advisable that it should now be phased out as soon as possible, not least in the interest of the United Kingdom economy itself".

The United Kingdom announced during the presentation of the 1970-1971 budget in April 1970 that the rate of the import deposit would be further reduced from 40 to 30 per cent on 1st May 1970. This decision and the report from the Economic Committee formed the background for further discussions of the scheme by the Council at official level and for the presentation of a report to Ministers.

The Council at Ministerial level at their meeting in May 1970 noted the great improvement that had occurred in the United Kingdom balance of payments and welcomed the assurance given on that occasion by the British

Delegation that the British Government had no intention of renewing the scheme when the relevant legislation expired early in December 1970. The Ministers expressed the hope that the scheme would be dismantled even earlier and as a matter of priority.

Other questions

Patents

Seventeen European countries, including all the seven original Member States of EFTA, are taking part in an intergovernmental conference for the setting up of a European system for the grant of patents. A working party consisting of representatives of the Federal Republic of Germany, France, the Netherlands, Sweden, Switzerland and the United Kingdom was set up by the conference to prepare the principal articles of the convention. A first draft of the convention has been published.

The intention of the conference is to create a convention which would enable a European patent to be granted by a European Patent Office. Applications must name the particular States for which a patent is required. The European patent, when granted, is intended to have the same effect as a national patent granted in each of the States named by the applicant. There will also be a second convention entered into by the EEC countries (the draft of which has also been published) under which there will be a unitary Community patent for such countries.

Three meetings of the working party were held in Luxemburg in 1969 and a draft was prepared which was submitted to the second meeting of the conference in January 1970. This draft was based on the draft convention relating to a European patent law prepared by the EEC in 1962 (and revised in 1965), the convention on the unification of certain points of substantive law on patents for invention, put forward by the Council of Europe in 1963 and the draft of an open European patent convention drawn up by the EFTA countries in 1967. The working party also took into consideration the draft Patent Co-operation Treaty (PCT), published in 1968 by the United International Bureaux for the Protection of Intellectual Property (BIRPI).

The draft prepared by the working party contained a number of points on which agreement had not been fully reached. The conference decided to publish it as it stood so that the opinions of interested private organizations could be received before the conference came to any final decision.

At a third meeting of the conference held in April 1970, representatives of ten non-governmental organizations concerned in the field of patents and representing on an international level industry, patent agents and inventors expressed their views on the draft. The conference made recommendations

in the light of these comments which were referred to the working party for further examination.

Other working parties in which all the participating countries of the conference are engaged have also been established in order to deal with questions relating to legal matters, personnel, and finance; and a sub-group has also been formed for the preparation of draft implementing regulations. The results will be presented to a fourth meeting of the full conference which is to take place during April 1971, and it is hoped that a diplomatic conference for the signing of the convention may take place in mid-1972.

Most of the seventeen countries participating in the first convention also took part in the negotiating of the Patent Co-operation Treaty which was opened for signature after a diplomatic conference held in Washington in May and June 1970. The Treaty has already been signed by twenty-two countries including the majority of EFTA States. Provisions are included in the PCT for international applications to be made from or to the European Patent Office and for this purpose the European Patent Office will be included as a receiving office and a designated office under the PCT.

A working group of the EFTA countries has continued to meet to co-ordinate the interests of EFTA countries in respect of both the European convention and the PCT.

Science and technology

One of the proposals for new studies, on matters on which there might be co-operation between EFTA and the EEC, which was approved in principle by EFTA Ministers in May 1969, envisaged the setting up of a "reflecting group" of experts from the EFTA countries. They were to 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.

On 4th November 1969 the Chairman of the Council of the European Communities informed the Foreign Ministers of nine other European countries, including all the seven original EFTA Member States, of the importance which the Member States of the European Communities attached to co-operation with other European countries in the field of science and technology. The Six invited the other governments to comment on certain proposals made by a Community working party of experts (the "Aigrain" committee) for co-operation in scientific and technological research beginning with the following sectors: information science, telecommunications, development of new means of transport, oceanography, metallurgy, environmental pollution and meteorology. The Member States of the European Communities are expected to submit further proposals for co-operation at a later date.

In December 1969 EFTA organized a meeting of a group to discuss these proposals. The meeting showed that all EFTA Member States had welcomed the invitations, and had replied to them in positive terms. There was general agreement that early talks with Members of the EEC, in a conference of the fifteen nations, were most desirable.

In his report to the Council, the Chairman of the reflecting group recalled that it was not the group's purpose to formulate joint EFTA views on the EEC proposals. There had been a useful exchange of views on many aspects of the projects proposed by the EEC's "Aigrain" committee for discussion, including the organizational machinery which might eventually be set up to deal with the proposals. A review of the individual proposals had resulted in the emergence of a general feeling that EFTA Member States would wish to participate in all of the areas covered by the proposals, and to contribute towards working out the projects in detail.

Double taxation

The EFTA working party on double taxation completed its examination of a draft multilateral convention for the avoidance of double taxation. The working party had met for the first time in 1963 and had based its deliberations on the bilateral model double taxation convention of the OECD. The conclusions of the report which were adopted by the Council in November 1969, were that a multilateral double taxation convention was technically feasible. However, the degree of uniformity which could be achieved would be no higher, or only insignificantly higher, than that already achieved in the existing system of bilateral conventions. A multilateral convention would require institutions to secure a reasonable degree of uniformity of application and interpretation. This might complicate the solution of cases which can be dealt with bilaterally in a pragmatic and flexible way. Finally, a multilateral convention would be more difficult to amend or revise than bilateral conventions. The working party agreed therefore that it could not recommend the conclusion of a multilateral convention for the time being. The possibility that a multilateral convention could be recommended at a later stage was, however, not excluded.

Company law

In May 1969 EFTA Ministers instructed the Secretariat to 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 completed its report and submitted it to the Council where it is under consideration.

The report is divided into four parts. In the first the aim is to show the problems which arise for company managements, the investing public, organized labour and the State from the fact that the companies have become international in many respects whereas the laws applicable to them have remained national and are often contradictory. In a short second part the possible technical solutions to these problems are described. Then, in the third part, actions undertaken until now in Europe in the field of the harmonization of company laws and towards the creation of a European company are reviewed and examined. A final part outlined the attitudes and opinions

within EFTA as they were expressed publicly or in the discussions the Secretariat has had with interested circles in the national administrations, in industry and universities.

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. Sweden changed from a retail sales tax to a value-added tax in January 1969 and Norway made a similar change in January 1970. The Secretariat prepared studies on the effects on EFTA trade of these tax changes for submission to the Council. Both studies were noted by the Council.

Study of the effects of the economic division of Western Europe

The results of the first part of a study of the effects on the economies of the EFTA countries of the division of Western Europe into two trading groups were published by the EFTA Secretariat in January 1969 under the title "The effects of EFTA on the economies of Member States". In accordance with the decision at the Ministerial meeting in London in May 1968 the Secretariat is now working on the second part of the investigation of the effects of the division of Europe. The new study will include statistics for 1965, 1966 and 1967, and will extend the analysis so as to take account of the effects of the creation of the European Economic Community. It is hoped that the study will be completed in the course of 1970.

Study of the effects on prices of tariff dismantling

In accordance with a decision taken by the Ministerial Council in London in May 1968 the Secretariat is continuing a study of the effects on prices of tariff dismantling in EFTA. A working party consulted on this study agreed that an econometric model proposed by the Secretariat should serve as a basis for the work. Continued contact between the members of the working party and the Secretariat is being maintained and Member countries are gradually providing the statistics required for this study. Computer work has started on the basis of the data so far available, and it is hoped that the study will be completed in the course of 1970.

The Association with Finland

As in the previous two years, meetings of the EFTA Council were held simultaneously with those of the Joint Council of Finland and EFTA. Representatives of Finland have taken part in the meetings of committees and working parties and other groups that were held during the year.

The Economic Committee

In accordance with the decision taken at the Ministerial meeting in London in May 1968 the Economic Committee continued to concentrate its discussions on special current problems, rather than on the general situation in Member countries. The 11th Meeting of the Committee, on 20th and 21st January 1970, again showed that this procedure produced good results. At this meeting one of the main items on the Agenda was the United Kingdom import deposit scheme, and the danger of inflationary pressures in the Swiss economy was also discussed at some length. More attention than in the past was devoted at this meeting to the international economic outlook and its effects on EFTA countries.

The Economic Development Committee

The main purpose of the Economic Development Committee, which consists essentially of senior representatives of Member Governments, is to study ways and means of promoting and facilitating co-operation among EFTA 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. During the year under review the Committee has completed a study on industrial estates and another study on foreign investment in tourism in Madeira is about to be completed.

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 progressing. 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 and in the service sector in order to obtain a more balanced regional development. All the earlier work on regional development is relevant to this study, which may be completed in the spring of 1971.

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 conference by a few weeks. The meetings of the Committee are now prepared by an Agenda Committee consisting of representatives of each of the Member States. The Agenda Committee meets a month or two before the formal meetings of the Consultative Committee and, in addition to preparing a draft Agenda for the next meeting, considers subjects which might be discussed in depth and selects the speakers to introduce these subjects. At the 19th Meeting in October 1969 special debates were arranged on the rules of competition and the escape clauses ; and at the 20th Meeting in April 1970 company law was dealt with in the same way. These specialized debates have made it possible for members of the Consultative Committee to go into considerably more detail in their examination of particular aspects of EFTA work, and they have produced comments and suggestions which have been of substantial use to the Secretariat and to the Council.

In addition to these new activities the Consultative Committee has continued to pay particular attention to European integration, to the internal development of EFTA and to the work of the Economic Committee. European integration is likely to loom still larger in forthcoming meetings and a suggestion has been made that the Committee should examine one or two specific aspects of the subject at each of its meetings.

EFTA Parliamentarians

Over a number of years Parliamentarians from EFTA countries have met informally in Strasbourg in connection with 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 role EFTA should play. The Chairman of the EFTA Ministerial Council, Mr. Xavier Pintado, Portuguese Secretary of State for Commerce, participated in the meeting in January 1970.

Information activities

The increased public interest in EFTA affairs in recent years has continued, and was further stimulated by the tenth anniversary of EFTA and by the renewed impetus given to the prospects for European integration by the Hague conference and later developments. EFTA trade statistics, particularly those concerning developments over the ten years 1959-1969 have had wide coverage. There has been an increase in the number of requests for information not only from EFTA and EEC countries but also from Eastern European countries. The Secretariat has received a large number of visits from groups

of journalists, students and officials, and also from individuals, for briefings on EFTA activities.

The EFTA Information Office in Washington, D.C. continued its activities during the year, producing a newsletter and distributing information material received from Geneva. The Director continued to lecture at the request of trade organizations and universities. With the help of the Office, co-operation between the commercial officers of the EFTA Embassies has been maintained at a high level by means of periodic meetings of the EFTA Embassy Group.

Circulation of the regular EFTA publications, the EFTA Bulletin and the EFTA Reporter (issued by the EFTA Information Office in Washington, D.C.), has continued to grow, and a special issue of the Bulletin was published in May on the occasion of the tenth anniversary. The Secretariat published the final report of the Economic Development Committee working party on industrial estates, thus adding to the series on regional policy in EFTA begun in July 1968 with the report "An examination of the Growth Centre Idea". The latest edition of the yearly trade report "EFTA Trade 1968", includes—like the previous edition—a substantial statistical appendix. Revised editions of the EFTA Convention incorporating the amendments brought about by the accession of Iceland to the Association have been published in English and French, and so have several informative brochures and leaflets which have been published in various languages: English, French, German and, in the case of one brochure, also in Danish, Icelandic, Swedish and Norwegian.

The Secretariat has supported the organizing of seminars on EFTA and integration matters in three universities in EFTA countries. The seminars were held at: Edinburgh, in March 1970, and at Uppsala and Vienna in May 1970. A senior member of the Secretariat took part in each of these seminars.

The EFTA Council and the Joint Finland-EFTA Council

During the period under review the EFTA Council and the Joint Finland-EFTA Council held thirty-six simultaneous meetings and the EFTA Council two meetings. The two Councils met at Ministerial level in Geneva on 6th and 7th November 1969 and on 14th and 15th May 1970.

For the period 1st July-31st December 1969 the Chairmanship of the two Councils was held by Norway and the Vice-Chairmanship by Portugal. For the period 1st January-30th June 1970 Portugal carried the Chairmanship of the two Councils and Sweden the Vice-Chairmanship.

With the accession of Iceland on 1st March 1970 the Council increased from seven to eight members and the Joint Council from eight to nine.

Administration and finance

The Secretariat

During the course of the year there was no change in the structure of the Secretariat. The names of the principal officers are given on the last page. At the end of the year, the staff at the EFTA headquarters in Geneva totalled 93 ; of these, 49 were in the Professional category (or above) and 44 in the General Service grades. The Washington Information Office is staffed by a Director and three locally-recruited personnel.

The new EFTA headquarters, which has now been in use for over a year, has provided excellent accommodation for the staff and a high standard of conference facilities which can be sublet to other international organizations when not required for EFTA meetings.

Finance

The net budget for 1969-1970 was S. Frs. 7,684,400. The budget for the financial year 1970-1971, commencing 1st July 1970, has been established at S. Frs. 7,789,000 gross which, after deduction of estimated income of S.Frs. 94,000 leaves a net sum of S.Frs. 7,695,000 to be financed by contributions from Member States.

The scale of contributions to the EFTA budget is determined by reference to Member States' gross national products at factor cost, no Member being required to contribute more than 30 per cent of the net expenditure of the Association. The individual national contributions for 1969-1970 were on the following basis (the figures assessed for 1970-1971 are shown in brackets) : United Kingdom 30 per cent (30) ; Sweden 21.89 per cent (19.93) ; Switzerland 16.34 per cent (14.19) ; Denmark 10.89 per cent (9.65) ; Austria 9.65 per cent (8.29) ; Norway 7.68 per cent (6.78) ; Portugal 3.22 per cent (2.95) and Iceland 0.33 per cent (0.80).

By annual agreement, Finland has made a contribution which, in practice, has been between 6 and 6½ per cent of the net budget ; this served to reduce the contributions by Member States other than the United Kingdom. For 1970-1971 budget purposes, however, Finland's contribution has been calculated by the same method as is used for Member States, since the OECD statistics (on which contributions are based) now include the Finnish gross national product figures. On this basis, Finland's share of the budget has been assessed at 7.41 per cent of approved net expenditure and the figures in brackets in the last paragraph make allowance for this contribution.

III. External relations

EFTA-Yugoslav relations

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 and the Economic Development Committee.

GATT

In January 1970 the Secretary-General of EFTA notified GATT that EFTA and FINEFTA had been enlarged by the accession of Iceland. GATT then set up a working party to study the terms of the accession. The study was not completed at the end of the year.

As in previous years a report on progress made in implementing the Stockholm Convention was presented to the GATT Council in December 1969.

Members of the Secretariat attended those GATT meetings of special interest to EFTA, and in particular the meetings of the Committee on Trade in Industrial Products for discussion on non-tariff barriers to trade. Periodic meetings have continued to be held between the Heads of EFTA Delegations to GATT for consultations on general trade policy questions of concern to EFTA countries.

UNCTAD

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

The OECD

The Secretariat was represented at the Ministerial meeting of the OECD in May 1970 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 Agriculture 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.

Council of Europe

The Ninth Annual Report of EFTA was presented to the Consultative Assembly of the Council of Europe in September 1969. 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 were 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.

UN Economic Commission for Europe

The Secretariat maintains regular contacts with the Secretariat of the UN Economic Commission for Europe. Members of the EFTA Secretariat attended ECE meetings of particular interest to EFTA.

Nordic Council

A representative of the EFTA Secretariat attended the 18th Session of the Nordic Council held in Reykjavik in February 1970. The Session was devoted largely to the proposed Nordic Economic Union.

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 again had two meetings with the services of the Commission of the European Economic Communities in order to exchange information on technical matters. The main subjects discussed were taxes with effects equivalent to tariffs, the right of establishment, company law, public purchasing, the effects of value-added tax and the economic interdependence of the EEC Member States.

Contact 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

Geneva meeting 6th and 7th November 1969

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 6th and 7th November 1969. The Chairman was Mr. K. Willoch, Norwegian Minister of Commerce and Shipping.

In the EFTA Council, with the Finnish Foreign Minister participating in a personal capacity, Ministers welcomed the recent evidence that progress in European integration might soon become possible. They stressed the deep interest of their Governments in such progress. They reaffirmed the readiness and desire of each of their Governments to take part in early negotiations with a view to arriving at comprehensive solutions of the questions of European integration in which all members of EFTA would have the possibility of participating. In this connection Ministers recalled the communiqué issued following the meeting of EFTA Ministers in April 1967, and reaffirmed their strong interest in safeguarding, as an important part of an enlarged European Community, the free market already established in EFTA. Ministers agreed to continue to consult together closely on the ways and means to attain their objectives and instructed the Council at official level to keep developments under regular review.

Ministers noted with satisfaction the progress achieved in recent months in such specific fields of European economic co-operation as patents and technology. With regard to the latter, all the EFTA Member Governments would respond positively to the invitations received from the EEC to take part in discussions on European technological collaboration.

On behalf of the Ministers of the Nordic countries the Finnish Minister informed the Council of the latest developments in the negotiations for closer economic co-operation among the Nordic countries.

Ministers reviewed progress in efforts to liberalize world trade. They reaffirmed their belief in the need to maintain liberal trading policies and agreed on the importance of full implementation of the results of the Kennedy Round negotiations. Ministers pledged the support of their Governments

for the work now in progress in GATT to prepare the ground for negotiations aimed at a further lowering of barriers to international trade, to the benefit of developed as well as developing countries. Such efforts, in order to be successful, should be supported by all major trading countries.

Ministers noted with great satisfaction that in the negotiations with Iceland, all major points had now been settled. They welcomed the prospect of Iceland becoming a Member of the European Free Trade Association and of the Finland-EFTA Association at an early date. They instructed the Council at official level to complete the formal instruments.

Ministers reviewed the current activities of the Association. They noted that trade within the Free Trade Area continued to grow rapidly and that the Association was functioning smoothly.

One requirement connected with the completion of the transitional period under the EFTA Convention is the establishment of a new régime, to be applied from 1st January 1970, for imports of quick-frozen fish fillets into the United Kingdom market from EFTA suppliers. The Scandinavian and British Ministers informed their colleagues of the agreement reached on this régime. Ministers welcomed this agreement.

Ministers had before them a thorough analysis of the situation which had arisen from the establishment of aluminium smelters in the United Kingdom. Recognizing the great importance of the matter to EFTA co-operation, Ministers agreed that the Council should follow developments in EFTA trade in aluminium and in particular the development of Norway's exports to the United Kingdom and to other major markets and consider to what extent Norwegian interests are affected by the new British smelters.

The President of the Board of Trade explained the reasons why it had been decided to maintain, at a reduced rate, the deposit scheme for imports introduced a year earlier by the United Kingdom Government. He assured his colleagues that it was the firm intention of the Government to end the scheme as soon as the economic situation made this possible. Other Ministers, while welcoming the recent evidence of improvement in the economic situation of the United Kingdom, expressed concern at the continuance of the import deposit scheme. Ministers instructed the Council at official level, which had already been charged with keeping the situation under review, to re-examine the effects of the scheme before the next Ministerial meeting.

A number of Ministers recommended an early removal of the restrictions on tourist allowances imposed by the United Kingdom.

The next regular Ministerial meeting of the EFTA Councils will take place in May 1970, the date and place to be fixed by the Councils at official level.

Geneva meeting 14th and 15th May 1970

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 14th and 15th May 1970 under the Chairmanship of Mr. V. Xavier Pintado, Secretary of State for Commerce of Portugal. In the name of his colleagues the Chairman welcomed Mr. Gylfi' Gislason, Minister of Commerce, as the first representative of Iceland to attend an EFTA Ministerial meeting since his country joined the Association on 1st March 1970. The Icelandic Minister expressed his Government's satisfaction at Iceland's membership and its hope that this would prove to be to the benefit of all Members.

Noting that 3rd May this year had been the tenth anniversary of the entry into force of the Stockholm Convention, the Councils expressed satisfaction with the progress that had been made during the ten years. The removal of tariffs and quantitative restrictions within the first six-and-a-half years of that period coupled with other measures taken in the non-tariff field, particularly the efforts designed to secure conditions of fair competition, had greatly stimulated the trade of the Member countries.

Ministers noted that, in the ten years in which the total trade of the eight countries had doubled, their trade with each other had almost tripled. They agreed that this expansion had contributed to the prosperity of the hundred million people in EFTA. They were also convinced that their participation in the Free Trade Area had helped to prepare their governments and their economies for participation in a wider European market.

In the EFTA Council, with the Finnish Foreign Minister taking part in a personal capacity, Ministers held a full discussion on the prospects for European integration. They warmly welcomed the outcome of the Hague Conference of Heads of State or of Government of the Member States of the European Communities, in particular their agreement that negotiations should be opened between the Community and the States seeking membership, and that as soon as these negotiations had started discussions should begin with the other EFTA States that had sought them. This conference and the subsequent developments had greatly improved the prospects of making progress towards wider European integration.

Ministers recalled their communiqué of April 1967, and reaffirmed their strong interest in safeguarding, as an important part of an enlarged European Community, the free market already established in EFTA.

Ministers were fully prepared for negotiations and discussions to start as early as possible this summer; it was their firm conviction that the best solution would be that they should be brought to finality simultaneously.

Ministers agreed that in the course of the negotiations and discussions there would be a continuing exchange of information and consultation between the EFTA countries. They also agreed on a procedure to this end.

Ministers also noted with satisfaction the continuing progress made towards co-operation in the technological field and at the European Patent Conference.

After reviewing the dangers inherent in the present world trade situation, EFTA Ministers pledged their best efforts to maintain the high degree of trade liberalization hitherto achieved. They agreed that it was essential that the results of the Kennedy Round should be fully implemented; they further agreed that any movement towards protectionism should be resisted. They reaffirmed the support of their governments for the valuable work being done in GATT, which they hoped would lead to new endeavours to reduce further the barriers to world trade. Ministers emphasized the importance of increased possibilities for the expansion of trade between Western and Eastern European countries. They stressed the need for active progress towards the solution of the trade problems of the developing countries in the perspective of the Second United Nations Development Decade.

Ministers agreed to consider practical possibilities for further improvement in the conditions for intra-Area trade in agricultural products.

Ministers noted with satisfaction the great improvement in the United Kingdom balance of payments in recent months and urged the early abolition of the import deposit scheme. In reply the President of the Board of Trade pointed out that the level of deposits had twice been reduced in the last six months and was now three-fifths of its original level. Moreover, travel allowances had been increased to an extent which virtually amounted to the abolition of the restriction. While it was necessary to proceed with some caution he could assure the Council that his Government had no intention of renewing the import deposit scheme when the existing legislation expired at the beginning of December. Ministers welcomed this assurance and expressed the hope that the scheme would be dismantled even earlier and as a matter of priority.

Ministers noted the text of a convention for the mutual recognition of inspections in respect of the manufacture of pharmaceutical products. The aim of this initiative taken by EFTA countries is to contribute to the removal of trade barriers through the reciprocal recognition of inspections made by national health authorities. Ministers approved the work so far undertaken on this and encouraged an early acceptance of the convention by the Member States of EFTA.

The next ordinary meeting of the Councils at Ministerial level will be held in Geneva in November.

European Free Trade Association
July 1969-June 1970

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¹ From 1st March, 1970.

² Miss Nielsen left the Secretariat in August 1970 and was replaced by Mr. B. Pontoppidan.

³ Mr. Macfarlane left the Secretariat in April 1970 and was replaced by Mr. J. E. Johnson.

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