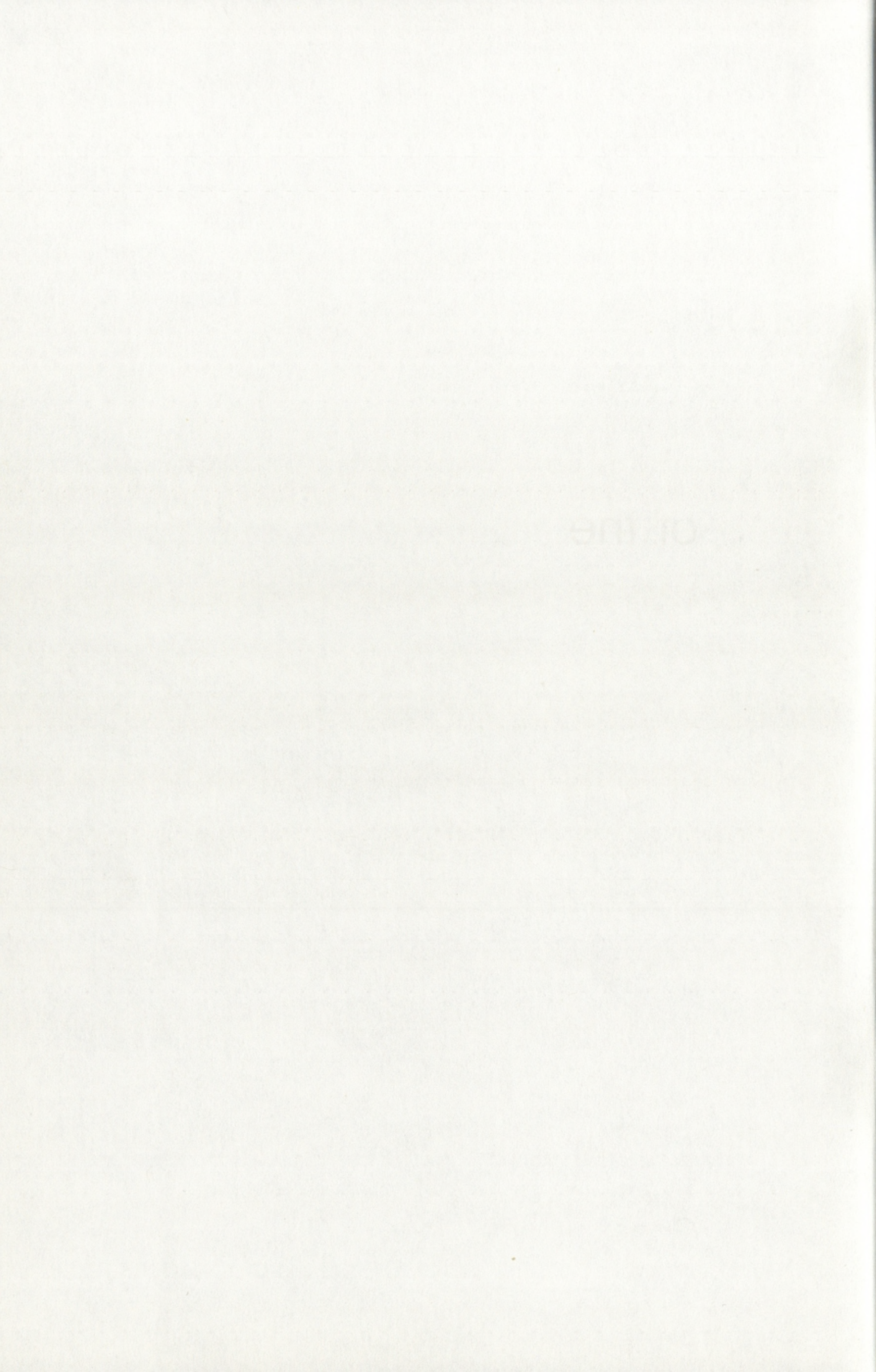


1970-1971

Eleventh Annual Report
of the
European Free Trade
Association



Geneva-September 1971



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I. Survey of the year

The year in EFTA: July 1970 to June 1971

Within EFTA, progress towards the removal of non-tariff barriers to trade : within Europe, progress towards the achievement of EFTA's main objective, wider European integration ; these were the principal features of EFTA's co-operation in the year that ended with June 1971.

The year closed in a mood of confidence as the prospect of achieving wider European integration seemed brighter. Significant progress had been made in the negotiations for United Kingdom entry into the European Communities. The negotiations between the Communities and the two other EFTA countries seeking membership—Denmark and Norway—had also led to agreement on a large number of matters. The exploratory talks which the six other EFTA countries had been conducting with the Commission of the EC had prepared the ground for negotiations on their future relationships with an enlarged EC.

In 1970 intra-EFTA trade again grew more rapidly than total EFTA exports and imports and also more rapidly than trade with any other trading partner. Intra-EFTA exports rose by a record 19.3 per cent, whereas the total trade of the Association increased by 16 per cent.

The emphasis which EFTA has given in recent years to ensuring that the removal of tariffs and quotas, completed five years ago, is followed by the abolition of other barriers to trade has continued to characterize the work of the Association. Three new agreements to end such hindrances to trade in certain categories of goods were concluded during the period under review.

European integration

The last day of June 1970 saw the formal opening in Luxemburg of membership negotiations between the United Kingdom, Denmark and Norway and the Council of the European Communities. The negotiations continued throughout the year covered by this report. In addition, the six other EFTA countries—the “non-candidates”—were all engaged during the year in exploratory talks with the Commission of the EC on their future relationships with an enlarged Community. These talks culminated in June 1971 in a report

from the Commission to the Council of the Communities. Negotiations between the non-candidates and the EEC are expected to take place later this year.

The formal opening of negotiations of Denmark, Norway and the United Kingdom was followed by a series of meetings between each of these three candidate countries and the Council of Ministers or their Deputies. The problems which Britain's application for membership of the Communities posed were studied during the second half of 1970 and it was possible by June 1971 to reach satisfactory solutions on the major issues of the negotiations, although many detailed matters remained to be settled. Considerable progress was also made over the same period in the negotiations on the Danish application and provisional agreements were reached on most questions. In the case of Norway, many issues were discussed and provisional agreements reached on some of them but solutions remained to be sought on the most important problems, which are in the fisheries and agricultural sector.

The terms negotiated on the main problems by the United Kingdom were to be the subject of an expository debate in the House of Commons before the parliamentary summer recess, and the formal vote on the entry terms is to be taken in Parliament in the autumn. In Norway, subject to parliamentary decision, there will be an advisory referendum before the Norwegian Parliament votes on the terms of the country's membership. In Denmark, in accordance with a decision taken by the Danish Parliament in May 1971, a referendum is to be held after a parliamentary vote in favour of entry.

The discussion with the six non-candidates took a different form. The initial meetings at Ministerial level were succeeded by two separate rounds of fact-finding exploratory talks with officials of the Commission. By mid-May the Commission had received a detailed report on these talks, on the basis of which it prepared a report to the Council of Ministers. This report was transmitted in June 1971.

After the second round of exploratory talks between Sweden and the Commission, the Swedish Government made a statement on 18th March clarifying its position on the nature of Sweden's application. The statement said that membership of the EC was not a realistic possibility so far as Sweden was concerned. Swedish participation in the foreign policy co-operation drawn up on the basis of the Davignon report or in the plans for economic and monetary union of the Community would not be compatible with a firm Swedish policy of neutrality. The form of the co-operation between Sweden and the Communities would have to be a special agreement in which the rights and the obligations of the parties were clearly defined. Special institutional forms of co-operation would have to be found to correspond to the scope and nature of Sweden's obligations.

At the meeting of the Ministerial Councils of EFTA in Reykjavik on 13th and 14th May, Ministers were glad to note that agreement had been reached on a large number of matters in the negotiations of the candidate countries with the European Communities and particularly that significant progress had been made in the British negotiations. Ministers also considered

that the exploratory talks between the non-candidates and the Communities should provide a suitable basis for the forthcoming negotiations for special agreements.

Throughout the negotiations and discussions of the past year, there was a regular exchange of information on the matters discussed and the progress achieved. After each meeting in Brussels Ministers or the deputy negotiators who had taken part in the meeting met representatives of all the other EFTA States to inform them of the substance of the talks. Oral reports were also given to the EFTA Council in Geneva on all the other relevant contacts between Ministers of the EFTA countries and the Governments of the Common Market. The two Ministerial Councils of EFTA held during the year gave Ministers opportunities to keep each other abreast of all developments in the negotiations and discussions.

Maintaining EFTA's free trade after the enlargement of the Community

One of the major preoccupations of the EFTA Councils during the year was to consider how to preserve free trade between the EFTA countries when the European Community is enlarged. The problem arises from the fact that three EFTA States are seeking membership of an enlarged EC ; if successful, they will progressively, over the transitional period, apply the Community's common external tariff and accept the other obligations of the Treaties establishing the Communities. On the other hand, six EFTA countries are seeking not membership, but special agreements with the EC. Yet all EFTA countries share a strong interest in safeguarding, in connection with the enlargement of the European Communities, the free trade already established in EFTA. The Community have emphasized the importance of this.

The subject was discussed briefly by the Consultative Committee at its meeting in Geneva in October 1970 and more fully by the Ministerial Councils in the following month. On that occasion Ministers instructed the Council at official level, in conjunction with the Secretariat, to study, in the light of developments in the negotiations and discussions in Brussels, what practical measures would be required to maintain the free trade realized by the Association. The study has been pursued in the Council since then, partly on the basis of papers prepared by the Secretariat and partly on the basis of reports on the progress of the negotiations and discussions in Brussels.

In the examination of the necessary practical measures three assumptions were made. These were that all the nine EFTA countries would reach agreement on either accession to the Community or special links with it ; that all these agreements would come into force at the same time ; and that all should be compatible with the provisions of the GATT, that is, should be of a Customs union or free trade area type. These assumptions correspond with the wishes expressed by the Council of the Communities.

Three different types of relationship have had to be considered in the

study. The first was that between the candidate countries who during the transitional period would gradually apply the provisions of the Treaty of Rome. The second was that between the candidates and the non-candidates whose trade would be governed by rules to be determined. The third was that of the non-candidates with each other which might depend on the rules negotiated. In addition a distinction had to be made between problems in relation to the transitional period and those in relation to the period thereafter.

Topics that have already been discussed include appropriate origin rules and rules of competition, arrangements for trade in agricultural goods and fish and fish products, and institutional questions.

Non-tariff barriers to trade

As in recent years, a large part of the work done in EFTA has been concerned with non-tariff barriers to trade, since the removal of tariffs and import quotas in accordance with the Stockholm Convention has caused other barriers to assume greater importance.

During the year three agreements were reached in EFTA which are designed to remove barriers of this kind. All three deal with problems arising from differing national standards or particular quality control processes and manufacturing processes which have to be met in national markets before particular goods can be marketed. While working in the appropriate international organizations for the widest practicable harmonization of standards, the EFTA countries have not sought to harmonize such technical requirements only within EFTA. Such a policy would be of limited value in a market of nine countries and could involve the creation of new trade barriers. Instead, EFTA has adopted the technique of seeking to make it possible for the national authorities in the importing country to accept the results of tests and inspections carried out by approved inspectorates in other EFTA countries to ensure that the importing country's safety requirements are fully met.

The three agreements relate to pharmaceuticals, pressure vessels and ships' life-saving and fire-fighting equipment. The parties to the first agreement are the EFTA Member States, Finland and Liechtenstein. The parties to the second and third agreements are the appropriate approval authorities. None of these agreements is intended to be limited to the EFTA countries and in fact the third includes the maritime administration in Yugoslavia as the first non-EFTA participant.

EFTA trade in 1970

From the date of the formation of EFTA up to 1968 intra-EFTA trade grew faster than total EFTA exports and imports and also faster than trade with any other trading area. The year 1968 saw a change in this pattern and in 1969 there was only a partial return to the previous trend, since EFTA exports to the EEC grew more than intra-EFTA exports. In 1970, however, the underlying trends completely reasserted themselves and a record growth rate in intra-Area trade was achieved, exceeding the growth of both imports to and exports from all other areas.

Thus, in the eleven years from 1959, the last year before tariff reductions in EFTA began, until 1970, intra-EFTA exports have risen by 232 per cent. This compares with a total export growth of 139 per cent, a rise in exports to the EEC of 163 per cent and an increase in exports to the United States of 108 per cent. Over this period the annual compound rate of growth of intra-Area exports was thus 11.9 per cent, compared with compound growth rates of exports to the EEC, the United States and the world of 9.2, 6.9 and 8.3 per cent. The annual compound rates of growth of imports from the EEC, the United States and the world were 9.6, 9.2 and 8.4 per cent respectively.

Total trade

In 1970, both total exports and imports of the EFTA countries continued to grow strongly, although somewhat less than in the previous year. Total commodity imports (c.i.f.) of the nine EFTA countries combined reached the equivalent of 51,170 million US dollars, a rise of 16 per cent over 1969. This high growth rate was achieved despite an increase of only 8.9 per cent in United Kingdom imports. Finland, for the second year in succession, recorded the highest rate of growth in imports: 30 1/2 per cent.

Total commodity exports (f.o.b.), at \$ 43,264 million, showed an increase of 13 per cent. The highest growth rate of exports was reported by Iceland, with an increase of 36.2 per cent, while Sweden and Austria showed increases of 19.2 per cent and 18.6 per cent respectively. Only Iceland, Sweden and the United Kingdom recorded a greater increase of exports than of imports.

The pattern of trade during 1970 was distorted for several months, beginning in July, as a result of the United Kingdom dock strike. This factor appears to have had little influence on the underlying development of both exports and imports, although it severely affected the timing of trade flows. Seasonally adjusted trade figures show that total EFTA trade had been growing faster than is indicated by the year-to-year comparison. The underlying rates of growth of EFTA's total exports and total imports in 1970 were 14 and 18 per cent per annum respectively (giving monthly compound growth rates of 1.1 and 1.4 per cent). If allowance is made for the United Kingdom dock strike, it appears that trade grew at a steady rate throughout the year,

with no evidence of any slowing down or any acceleration. In the first quarter of 1971 total EFTA imports were 11.3 per cent higher and exports 8 per cent higher than a year earlier. Seasonally adjusted figures suggest however that the rate of growth of both exports and imports fell in the first three months of 1971.

Intra-EFTA trade

In 1970 intra-EFTA exports increased by 19.3 per cent and reached \$ 12,149 million. This was the highest annual percentage increase recorded since the formation of EFTA. Iceland achieved the largest increase, of 41.6 per cent, and the exports of Austria, Finland and Sweden increased by 28.6, 24.4 and 23.7 per cent respectively. Denmark and Switzerland recorded the lowest percentage increases—13.4 per cent—in exports to EFTA, although for Denmark this represented a faster rate of growth than in 1969. Exports from each EFTA country to the rest of EFTA increased more than total exports; in some cases, the difference in growth rates was very marked. Austrian exports to EFTA, for example, were 28.6 per cent higher in 1970, whereas her total exports increased by 18.6 per cent. Similarly for Finland and the United Kingdom, with growth rates in exports to EFTA and the world of 24.4 and 16.1 per cent, and 18.7 and 10.5 per cent respectively. The sharp growth of United Kingdom exports to EFTA in 1969, which represented a marked change in the pattern of intra-EFTA trade, continued in 1970, although at a slightly lower rate.

All EFTA countries, except Denmark, again increased their imports from EFTA more than their total imports. Only for Austria, Iceland, Sweden and the United Kingdom did exports (f.o.b.) to EFTA increase more than imports (c.i.f.) from EFTA countries. The fastest growing markets for their partners' exports were Iceland and Finland, exports from Denmark, Sweden and the United Kingdom to Iceland rising by 76.1, 58.7 and 53.8 per cent respectively, while exports from Austria and Portugal to Finland increased by 53.4 and 51.7 per cent.

The trend rate of growth in intra-EFTA exports in 1970 was 21 per cent per annum (a compound monthly growth rate of 1.6 per cent), compared with the year-to-year change of 19.3 per cent. From August to November seasonally adjusted trade increased rapidly, catching up on the lost exports in July resulting from the dock strike, but by the end of the year the underlying trend appears to have reasserted itself with intra-EFTA exports growing at about the same rate as in the first half of the year. In the first quarter of 1971, intra-EFTA trade was 13.2 per cent higher than a year earlier, although the rate of growth of this trade appeared to slacken in the first three months of 1971.

Intra-Nordic trade (exports f.o.b.), which grew by 21 per cent in 1969, amounted in 1970 to \$ 3,857 million, an increase of 23 per cent. This trade thus grew even more rapidly than intra-EFTA trade, a trend which has been

broken only once since the formation of EFTA in 1960. As in 1969, Finland supplied relatively the greatest contribution to the growth in intra-Nordic trade, with exports to Denmark, Norway and Sweden increasing by 20, 76 and 33 per cent respectively.

EFTA-EEC trade

Following two years in which EFTA exports to the EEC had grown faster than EFTA imports from this area, 1970 saw a return to the older pattern of EFTA-EEC trade, with imports increasing by 18.7 per cent and exports by 15 per cent. Exports to the EEC amounted to \$ 11,330 million and imports to \$ 16,159 million.

The Federal Republic of Germany remained the most important EEC market for EFTA exports and accounted in 1970 for 41 per cent of total EFTA exports to the EEC. The fastest growing market in the EEC for EFTA exports, however, was the Netherlands; EFTA exports to this country rose by 23 per cent. There was an increase of only 4.1 per cent in EFTA's exports to Belgium and Luxemburg, and of 8.5 per cent in exports to France. Of the EEC countries the Federal Republic of Germany recorded the greatest growth in exports to EFTA: 21.6 per cent more than in 1969; imports from the other five Members of the EEC showed increases of between 14 1/2 per cent and 17 per cent. Although EFTA's combined imports from the EEC grew more than her exports to the Community, this was not the case for each individual EFTA country. Iceland, Norway, Sweden and the United Kingdom all recorded larger increases in exports than in imports.

The trend rates of growth of exports to and imports from the EEC in 1970 were 12.4 per cent (1 per cent per month compound) and 16.4 per cent (1.3 per cent per month compound) respectively. These underlying growth rates during the year are thus lower than the year-to-year percentage increases of 15 and 18 per cent respectively. Furthermore, there were signs of some slowing down in the growth rate of both exports and imports during the second half of the year and in the first quarter of 1971, although EFTA's imports from the EEC in the latter period were 12.7 per cent higher than a year earlier and its exports to the EEC 8.3 per cent higher.

EFTA trade with the United States

Following a rise of only 1 1/2 per cent in 1969, EFTA exports to the United States in 1970 increased by 4.2 per cent and reached \$ 3,870 million. Exports from Denmark, Finland and Norway fell by 0.2, 9.5 and 6.8 per cent respectively. Sweden and the United Kingdom, two of the EFTA countries whose exports to the United States had fallen in 1969, showed increases in 1970 of 12.9 and 4.3 per cent. All EFTA countries reported increases in imports from the United States, which rose by 11 1/2 per cent, to \$ 4,948 million, for

EFTA TRADE IN 1970

Table 1

(in million US dollars and percentage change 1969-1970)

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	694.5	+26.3	1,989.8	+24.7	121.3	+43.9	332.8	+22.0	410.2	+27.1	3,548.6	+25.6
Denmark	1,818.1	+16.0	1,456.5	+14.2	327.4	+11.9	147.4	+12.6	634.2	+18.7	4,383.5	+15.3
Finland	1,032.0	+31.4	708.6	+28.1	136.9	+32.4	424.9	+29.5	333.6	+32.2	2,636.0	+30.5
Iceland	67.8	+34.0	43.2	+27.4	12.7	+19.8	16.8	+10.5	16.7	+27.5	157.3	+27.5
Norway	1,647.8	+26.4	919.8	+16.1	267.3	+16.1	82.2	+15.8	780.2	+42.8	3,697.3	+25.6
Portugal	385.6	+25.9	515.4	+20.4	107.3	+76.2	8.8	-48.2	538.4	+28.6	1,555.5	+26.4
Sweden	2,647.7	+20.3	2,375.9	+18.0	607.6	+20.2	330.9	+20.1	1,042.9	+15.3	7,005.1	+18.7
Switzerland	1,178.7	+23.6	3,776.6	+23.3	550.1	+23.3	134.0	+24.3	824.5	+17.6	6,463.9	+22.6
United Kingdom . .	3,395.5	+12.8	4,373.4	+13.2	2,817.6	+4.3	873.7	+9.7	10,263.2	+7.1	21,723.5	+8.9
EFTA			16,159.1	+18.7	4,948.2	+11.5	2,351.5	+16.7	14,843.9	+11.8	51,170.7	+16.1
<i>Exports (f.o.b.)</i>												
Austria	759.9	+28.6	1,125.8	+12.7	117.1	+6.6	369.3	+13.1	484.5	+25.7	2,856.6	+18.4
Denmark	1,657.8	+13.4	746.1	+9.6	254.7	-0.2	113.7	+12.1	516.5	+12.6	3,288.8	+11.2
Finland	999.7	+24.4	535.8	+12.6	108.1	-9.5	361.2	+4.6	300.4	+24.9	2,305.2	+16.1
Iceland	56.2	+41.6	24.6	+47.3	44.0	+48.1	14.8	+20.3	7.0	-23.9	146.6	+36.2
Norway	1,143.1	+14.5	728.6	+30.0	141.0	-6.8	60.6	+5.0	381.9	-12.2	2,455.2	+11.4
Portugal	335.3	+17.1	172.9	+15.8	82.2	+3.1	7.7	+6.9	347.6	+15.8	945.7	+15.0
Sweden	3,022.2	+23.7	1,870.0	+18.2	405.2	+12.9	338.4	+24.8	1,145.8	+11.0	6,781.7	+19.2
Switzerland	1,089.3	+13.4	1,917.8	+10.4	455.2	+3.0	211.1	+22.2	1,461.1	+10.0	5,134.3	+10.6
United Kingdom . .	3,086.3	+18.7	4,209.2	+15.3	2,262.9	+4.3	620.3	+12.0	9,171.9	+7.4	19,350.6	+10.5
EFTA	12,149.8	+19.3	11,330.8	+15.0	3,870.4	+4.2	2,097.1	+13.5	13,816.6	+8.5	43,264.6	+12.9

INTRA-EFTA TRADE IN 1970

Table 2

(in million US dollars and percentage changes 1969-1970) (Exports f.o.b.)

Exporter	Importer	Austria	Denmark	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	United Kingdom	EFTA
Austria	\$m		62.6	37.3	0.4	37.6	26.3	124.5	296.1	175.1	759.9
Percentage change			+26.7	+53.4	—	+29.3	+21.4	+24.2	+29.2	+27.7	+28.6
Denmark	\$m	48.3		77.1	19.2	235.4	15.9	555.4	83.6	622.9	1,657.8
Percentage change		+9.0		+17.9	+76.1	+15.2	+47.2	+17.0	+20.1	+7.1	+13.4
Finland	\$m	18.3	94.2		3.4	85.2	8.4	348.5	39.8	402.0	999.7
Percentage change		+55.1	+20.0		+17.2	+75.7	+29.2	+32.8	+33.6	+10.6	+24.4
Iceland	\$m	1.0	11.3	2.6		2.4	6.0	9.8	3.8	19.3	56.2
Percentage change		—	+54.8	—		+20.0	+27.7	+46.3	+171.4	+28.7	+41.6
Norway	\$m	16.0	176.7	60.3	8.2		12.2	397.7	31.8	440.2	1,143.1
Percentage change		+2.6	+10.2	+9.4	+17.1		+24.5	+15.6	+19.5	+15.9	+14.5
Portugal	\$m	13.5	26.0	18.2	0.5	13.6		50.4	20.0	193.2	335.3
Percentage change		+15.4	+9.2	+51.7	+25.0	+18.3		+5.2	+9.3	+20.3	+17.1
Sweden	\$m	102.0	665.3	425.8	7.3	735.4	42.8		196.3	847.4	3,022.2
Percentage change		+51.3	+17.1	+36.5	+58.7	+30.7	+32.9		+26.7	+14.2	+23.7
Switzerland	\$m	267.1	96.7	59.4	1.6	65.2	59.6	172.1		367.5	1,089.3
Percentage change		+14.6	—2.4	+24.0	—33.3	+11.8	+18.0	+15.7		+14.6	+13.4
United Kingdom	\$m	217.7	530.9	309.4	22.3	417.2	212.7	873.8	502.3		3,086.3
Percentage change		+27.3	+12.1	+27.2	+53.8	+20.2	+14.6	+20.9	+13.9		+18.7
EFTA total	\$m	683.9	1,663.7	990.1	63.0	1,592.0	383.9	2,532.2	1,173.7	3,067.6	12,149.8
Percentage change		+23.4	+13.9	+29.9	+45.8	+26.0	+19.4	+20.1	+20.9	+13.6	+19.3

the whole of EFTA, the largest percentage rises being recorded by Portugal, Austria and Finland, at 76.2, 43.7 and 32.4 per cent respectively. Only Iceland's exports to the United States increased more than her imports, but the rates of increase of both imports and exports were the same for the United Kingdom.

The underlying rates of growth of trade with the United States during 1970 followed a different pattern from those with other trading areas. Apart from the fact that the trend rates of growth were much lower, at 10 per cent for imports and 8 per cent for exports (monthly compound rates of 0.8 per cent and 0.6 per cent), the general development of the trend during the year has been of a special character. The underlying growth of both exports and imports came to an end in March and April and was followed by a contraction of trade long before the effects of the United Kingdom dock strike were felt. A recovery appears to have started in October, with both exports and imports growing roughly at the same rates as in the first quarter of the year; and in the first quarter of 1971 the rate of growth of both imports and exports continued to increase. EFTA's imports from the United States were 10 per cent higher in the first quarter than a year earlier and its exports to the United States rose by 3.8 per cent.

EFTA trade with Eastern Europe

In 1970 EFTA exports to Eastern Europe amounted to \$ 2,097 million, a rise of 13 $\frac{1}{2}$ per cent over 1969, while imports from Eastern Europe increased by 16.7 per cent to \$ 2,351 million. The year 1970 thus saw a continuation of the expansion of trade with Eastern Europe which began in 1969; in fact, the rise in imports of 16.7 per cent was the largest since the formation of EFTA. The biggest increases in exports were recorded by Sweden (24.8 per cent) and Switzerland (22.2 per cent), with Iceland in third place (20.3 per cent), while the imports of Finland, Switzerland, Austria and Sweden rose especially strongly.

EFTA trade with other areas

EFTA trade with the rest of the world recorded in 1970 growth rates of 8.5 per cent for exports and 11.8 per cent for imports. The United Kingdom dominates this trade and accounts for 66 $\frac{1}{3}$ per cent of EFTA exports and 69 per cent of her imports, but Austria showed the most dynamic growth in exports with an increase of 25.7 per cent, while Norway's imports increased by 42.8 per cent.

Economic developments in the EFTA countries

Austria's real gross national product increased in 1970 by 7.1 per cent compared with 6.2 per cent in 1969. Foreign demand for goods and services increased at the high rate of over 15 per cent and domestic demand picked up considerably. Only public consumption rose less than in 1969. Virtually all sectors of the economy have participated in the economic expansion. Stimulated by rising demand, the value of commodity imports rose by 25.6 per cent, almost twice as much as in 1969, while the rate of increase of the value of commodity exports fell slightly. The trade deficit thus rose from \$ 435 million in 1969 to \$ 722 million in 1970 but this was almost entirely matched by a large increase in net earnings from tourism. Consumer prices rose 1970 by 4.4 per cent, faster than in 1969, when they rose by 3.1 per cent. By abolishing some of the remaining import restrictions and reducing or suspending tariffs and internal duties, as well as by other measures, the Government has attempted to limit price rises. A continuing successful prices and incomes policy has also helped to check the rise in prices. Results for the first months of 1971 indicate a continued high level of activity and the real gross national product is expected to increase by 5 per cent. In May 1971 the Austrian schilling was revalued by 5.05 per cent.

The *Danish* real gross national product increased in 1970 by 4.5 per cent, as against 7.0 per cent in 1969. Rising domestic demand provided the main stimulus to growth and also led to an expansion of imports and a slowing down in the increase of exports. As a result the current account deficit rose to \$ 539 million and prices and wages increased sharply. To control the pressures in the economy the authorities raised the rate of value-added tax in May 1970 from 12.5 per cent to 15 per cent, extended subsidies and tightened price controls. The increases in direct taxation are now restraining the growth in private consumption and a rise in the real volume of GNP of only 2 per cent is forecast for 1971, stimulated mainly by an increase in exports. New incomes policies have been introduced to replace the price freeze in force from October 1970 to March 1971.

Although the economic expansion in *Finland* slowed down in the second half of 1970, the rate of growth of the real GDP in 1970, at 6.4 per cent, was relatively high. The rate of unemployment fell below 2 per cent for the first time since 1966. In spite of the continuing boom conditions, it has proved possible to achieve a high degree of price stability. The stabilization agreements of March 1968 and September 1969 between the Government, the farmers and both sides of industry, were successful in restraining cost and price increases in a setting of rising labour productivity. But the current account of the balance of payments swung back into a considerable deficit in 1970 following the marked improvement in 1968. The trade deficit amounted to \$ 349 million and the current account deficit to \$ 226 million. A large inflow of short-term capital was more than sufficient to cover the deficit on the basic balance. The growth in domestic demand slowed down further at the beginning of 1971, mainly because of a fall in the rate of growth of private fixed investment and of stock-building. Prices and costs, on the

other hand, are now rising at a significantly faster rate than in 1970. An improvement of the external accounts was expected in 1971, but the long strike in the metal, engineering and building industries in the first quarter created new problems. Official estimates for 1971 forecast a rise in real GDP of some 3 per cent.

The year 1970 was a year of significant economic expansion in *Iceland* and the rise in real gross national product is put at 6 per cent. It is estimated that there was a surplus of \$ 13.6 million in the balance of payments in 1970, compared with \$ 19 million in 1969. This change reflects a substantial reduction of the capital account surplus, which was unusually large in the previous year because of an exceptional inflow of long-term capital. The reduction in the surplus of the capital account was only partly offset by the increased value of exports, especially of fish, fish products and aluminium, and the allocation of Special Drawing Rights. The continued recovery in the domestic economy, which had begun in 1969, was however accompanied by severe inflationary pressure following increases in basic wage rates averaging about 18 per cent, which were agreed in the early summer, after extensive strikes. The substantial rise in fish prices on foreign markets also contributed to the inflation. To bring the situation under control, a statutory price freeze was established, covering the period November 1970-August 1971. In the early months of 1971 the economy continued to grow vigorously and a rise in real GNP of 5.5 per cent is unofficially forecast for the year as a whole.

Norway's real gross national product increased in 1970 by 3.5 per cent, compared with 4.2 per cent in 1969. A rise of 4.8 per cent in the volume of commodity exports and strong growth of domestic demand, especially for investment goods, were responsible for this development and led to a high degree of capacity utilization, a strong increase in imports (12.3 per cent in volume excluding the shipping sector) and sharply rising prices and wages. About half of the increase in consumer prices of almost 11 per cent resulted from the tax reform introduced at the beginning of 1970. As a consequence of the vigorous rise in activity, the current account of the balance of payments produced a deficit of \$ 183 million in 1970, compared with a surplus of \$ 134 million in 1969. In the early part of 1971 economic activity has continued buoyant and for the year a rise in real GNP of 4.4 per cent is forecast.

According to official estimates *Portugal's* real gross national product increased in 1970 by 6.6 per cent, against 4.5 per cent in the preceding year. Private consumption is estimated to have risen by more than 10 per cent, public consumption by 3.6 per cent and total fixed investment by 4.5 per cent. Consumer prices rose by 5 per cent, or slightly less than in the preceding year. The deficit of the trade balance increased to \$ 633 million, but there was a substantial surplus on the invisibles balance and the reserves of the escudo area increased by \$ 88 million.

Sweden's rate of growth of real gross national product slowed down from 5.6 per cent in 1969 to 4.8 per cent in 1970. This reflected limitations of supply rather than weakening demand. Pressures on the labour market have increased and the rise of prices and wages accelerated in 1970. A reduc-

tion in net public sector demand and a progressive tightening of monetary policy has tended to restrain the growth of domestic demand. The volume of exports increased by 10 per cent and the volume of imports by 9.5 per cent. The deficit of the current account was \$ 317 million, a deterioration of \$ 123 million compared with 1969. But Sweden's foreign exchange reserves increased slightly by \$ 38 million, excluding Special Drawing Rights, since the capital account swung from a net deficit in 1969 into a large net surplus in 1970. A sharp decline in the rate of economic growth is expected in 1971 and real GNP is forecast to grow by only 2.5 per cent.

The growth of the *Swiss* real gross national product slowed down from 5.9 per cent in 1969 to about 4.3 per cent in 1970 as a result of capacity restraints. Foreign demand, rising by 7.6 per cent, contributed only half as much to economic growth as it had a year earlier, but domestic investment rose sharply. The volume of imports increased by 13.4 per cent and the surplus on the current balance of payments disappeared. The increase of 5.4 per cent in consumer prices from December 1969 to December 1970 was one of the highest recorded in Switzerland since the end of the war. To restrain demand pressures, monetary policy was tightened under an agreement between the National Bank and the Bankers' Association and public authorities have postponed some new building projects. Available indicators show a continuation of a high level of demand in the early months of 1971 and real GNP is forecast to grow again by 4.5 per cent. In May 1971 the Swiss franc was revalued by 7.07 per cent. This amounts to an effective revaluation of just over 5 per cent. The change in the exchange rate was accompanied by some special measures to restrain demand at strategic points, in particular a control over construction activity.

The *United Kingdom's* balance of payments developed favourably in 1970, mainly because visible trade moved from a deficit in 1969 to virtual balance. The surplus on the current account in 1970 is estimated at \$ 1,490 million, compared with \$ 1,049 million in 1969, while the total currency flow showed a significant improvement, reflecting a substantial inflow on capital account. In the first five months of 1971 visible trade was at first in deficit, partly as a result of the effects of a postal strike, and then moved into surplus; the current account was in surplus in the first quarter and there was a further large currency inflow. Gross domestic product at constant prices rose as slowly in 1970 as in 1969; by 1.6 per cent. Domestic demand, particularly consumers expenditure, provided the main stimulus, not the external balance of goods and services as in 1969. The slow rate of economic growth was accompanied by a high and rising level of unemployment, and also by a high rate of inflation. The index of retail prices rose by 6.4 per cent in 1970 compared with 5.4 per cent in 1969 and the total registered as unemployed in Great Britain rose to a monthly average rate of 2.6 per cent in 1970 and reached a not seasonally adjusted rate of 3.3 per cent by March 1971. The prospects for 1971 depend very much on the success of the Government's policy to contain inflation. The 1971-1972 budget provides a modest stimulus to economic expansion and real GNP is expected to increase by about 3 per cent between the first halves of 1971 and 1972.

II. Internal developments in EFTA

Tariffs and quotas

Tariff reductions on industrial goods

Import duties on industrial imports from other EFTA countries are applied only by Portugal and Iceland. In the case of Portugal, the present rate of duty on goods covered by paragraph 4 of Annex G to the Convention is 50 per cent of the basic rate ; this will be reduced by 10 per cent on 1st January 1973, 1st January 1975 and 1st January 1977, and will be eliminated by 1st January 1980.

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 Annex G timetable.

In the case of Iceland, the import duties were reduced on average by 30 per cent on its accession to EFTA on 1st March 1970 ; from 1st January 1974 they will be reduced annually by 10 per cent of the basic duties and will be eliminated by 1st January 1980.

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. As regards Iceland, the global quotas which are still maintained on a small number of products were increased by 20 per cent on 1st January 1971 in the manner provided for by the Convention, so that the remaining restrictions, with a few exceptions, will be eliminated by the end of 1974.

The origin rules

The EFTA origin system has continued to work satisfactorily, and only some minor changes have been made. The qualifying processes for furfuryl

alcohol ¹ and polyvinyl acetate ², which were introduced on a temporary basis, were prolonged for a further year (until May and June 1972, respectively) because of the continuing shortage within EFTA of certain raw materials. In addition, Schedule I to Annex B of the Convention was amended to take account of a textual change in the Brussels Nomenclature ³.

The examination of the origin rules by the Committee of Trade Experts and the Customs Committee to see whether changes could be made in the rules in order to stimulate intra-EFTA trade (provided that such changes would not lead to distortion of trade) has been completed. As was mentioned in the Tenth Annual Report, some of the recommendations made by the Committees have already been put into force.

The general reaction in EFTA countries was that the administrative arrangements for implementation of the origin rules were satisfactory, but a revised EFTA declaration form 2 was introduced on 1st April 1971 ⁴; this will reduce the administrative burdens for some exporters in claiming EFTA tariff treatment.

Texturized yarns

Four Nordic EFTA States, Denmark, Finland, Norway and Sweden, invoked, as from the beginning of March 1970, paragraph 3 of Article 4 of the Convention and applied amended origin requirements to imports of certain textiles into their territories. These requirements permit the use of certain non-Area synthetic yarns which had been texturized within the Area (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.

The Customs Committee has subsequently reviewed the operation of the scheme on two occasions. Initially the Committee found that the scheme had not at that stage given rise to any serious difficulties but that it was too early to judge its full effects, since existing stocks were still being used. At its second review the Committee reported that verification enquiries had shown that most declarations were correct and that, in those few cases where incorrect declarations were made, it was not evident that the "Nord" scheme was responsible. In June 1971 the Councils noted the conclusions of the Customs Committee but reserved the right to revert to the matter if need arose.

¹ Decision of the Council No. 6 of 1971 and Decision of the Joint Council No. 2 of 1971.

² Decision of the Council No. 7 of 1971 and Decision of the Joint Council No. 3 of 1971.

³ Decision of the Council No. 14 of 1970 and Decision of the Joint Council No. 8 of 1970.

⁴ Decision of the Council No. 1 of 1971 and Decision of the Joint Council No. 1 of 1971.

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.

Charges other than tariffs

Revenue duties

In September 1970 the Councils agreed that because of special economic difficulties the Faeroe Islands should be permitted to postpone the elimination of the protective element contained in certain revenue duties from 31st December 1972 until 31st December 1974.

Other border charges

Following a previous examination by the Committee of Trade Experts of other border charges, such as fees for special Customs services, statistical charges, town dues, and traffic fees, the Councils had agreed that the Committee should reconsider these charges from time to time. An examination of certain charges was carried out in the autumn of 1970. Special attention was given to the need to ensure that the charges in force do not contain any protective or restrictive elements and do not exceed the actual cost of services rendered.

Internal taxes

In 1968 the Councils instructed the Customs Committee to retain certain internal taxation rates or systems on its Agenda. Several were amended in 1968-1970 ; in the year under review two more taxes were amended by the countries concerned. Amendments to the outstanding items are being considered.

Different price levels for agricultural raw materials

In some Member States, domestic producers of certain processed food-stuffs, treated as industrial products in EFTA, must pay substantially higher prices for their agricultural raw materials than those paid by producers in

other EFTA countries, who may obtain their raw materials at world market prices. In the case of Austria and Switzerland this problem was dealt with before 1st January 1971 by authorizing these two countries to retain 40 per cent of their basic duties on certain sugar confectionery and biscuits and—in the case of Austria—also on chocolate. In November 1970 the Councils decided upon the details of an agreement reached by Ministers the previous May by which this arrangement was replaced from 1st January 1971 by a system of variable import levies¹. These levies are calculated on the basis of the difference between world market prices and domestic prices for the raw materials concerned, taking into account the content of these raw materials in the processed product. This method provides for a more precise calculation of the price differences and thus makes possible the determination of levy rates which give more accurate compensation. The levies are to be determined at six-monthly intervals and will be changed, if necessary, on 1st January and 1st July of each year.

Austrian turnover tax : export refunds

An examination of the Austrian turnover tax refund system used in conjunction with the “Zollfreizonengeschäfte” (free zone) and “Vormerkverkehr” (temporary admission) systems began in 1970. It was alleged that the combination enabled Austrian exporters to receive by way of refund more than the amount of tax they had borne.

It was generally agreed by the Committee of Trade Experts that where extensive use was made of “Vormerkverkehr” or “Zollfreizonengeschäfte” systems, cases of over-compensation could and did in practice occur. At the EFTA Ministerial meeting in Reykjavik in May 1971 the Austrian Minister announced that his Government would put to Parliament a Bill the aim of which was to comply with the recommendations of the Committee. A report on the results of the constitutional procedures will be submitted to the EFTA Councils.

The rules of competition

A report by a special study group set up to review the rules of competition (Articles 13-16 of the Stockholm Convention) was discussed by the Councils in October 1970 and some of the problems involved were considered by Ministers at their meeting in Geneva in November 1970. No further action in this field is envisaged for the time being, but specific cases regarding the applica-

¹ Decision of the Council No. 13 of 1970 and Decision of the Joint Council No. 7 of 1970.

tion of the rules of competition are in general dealt with in the Committee of Trade Experts.

Technical and other administrative barriers to trade

Agreement was reached during the year on three schemes designed to eliminate some important obstacles to trade caused by technical and administrative regulations of various kinds in force in EFTA countries.

The EFTA approach to such obstacles is to give strong encouragement to the work undertaken in more comprehensive international organizations to harmonize technical specifications or standards, and at the same time to reduce the trade impact of national requirements. It attempts to do the latter by making it possible for national authorities to accept reports from the inspectorates in other countries on tests or inspections carried out to see that products conform to the importing country's technical specifications.

A pharmaceutical convention and two schemes relating to pressure vessels and ships' equipment are already in force, and not limited to EFTA participation. The pharmaceutical convention has as its legal basis an agreement entered into by States whereas the others take the form of agreements between the approval authorities responsible for the administration of compulsory technical requirements.

Considerable progress has been made in working out agreements of this second type on agricultural machinery and tractors and on gas appliances. Work has also recently been resumed on a draft agreement on the control and marking of articles of precious metals. This agreement too is based on the principle of mutual recognition of inspections.

Pharmaceutical Convention

A Convention for the mutual recognition of inspections in respect of the manufacture of pharmaceutical products was signed in Geneva on 8th October 1970 by all nine EFTA countries and by the Principality of Liechtenstein. The Convention has since been ratified by six States, Sweden, Norway, Denmark, Iceland, Finland and Portugal, and came into force in respect of the first five States on 26th May 1971, and in respect of the sixth on 4th August 1971. The process of ratification was not completed by the end of June 1971 in the other signatory States.

The Convention applies to any medicine or similar product, intended for human use, which is subject to control by health legislation. A pre-requisite is

that each of the Contracting States should have a system of inspection control to ensure that pharmaceutical products manufactured within its territory are produced to appropriate standards. The Convention provides that the Contracting States will exchange, on the basis of these inspections, such information as is necessary for the health authority in an importing country to be able to recognize, as equivalent to its own, inspections carried out in the country of manufacture.

To ensure that the Convention works effectively, and that it is applied in a uniform way, there are to be meetings at least once a year between the appropriate authorities of each of the Contracting States. At these meetings they are to make recommendations for standards of good manufacturing practice, exchange experience on ways of making effective inspections, and promote the mutual training of inspectors.

There is also provision for other States, which can apply a comparable inspection system, to accede on invitation to the Convention. Accession is by invitation because of the technical character of the Convention. The intention is to facilitate the widest participation.

A working party set up last year to prepare for the operation of the Convention is now engaged in formulating recommendations on basic standards for the manufacture of pharmaceutical products and on the form and content of the information reports to be exchanged under the Convention.

As last year, a group of inspectors from the EFTA countries has taken part in a series of visits to manufacturers in order to exchange information and see the different national inspection systems in operation in the EFTA States. The visits this year were to factories in Norway, Portugal and Switzerland, and the participants, who will shortly have completed visits to all the EFTA countries, have become increasingly familiar with the inspection systems and procedures in force.

A seminar, organized by EFTA, on "Safety aspects involved in the packaging and labelling of pharmaceutical products" took place from 21st to 23rd April 1971 in Geneva. Participation was open to pharmaceutical inspectors, public health officials and representatives from industry in EFTA and other OECD countries. A series of lectures given by experts in the field of packaging and labelling, followed by extensive discussion, allowed the 120 participants to study many technical, psychological and administrative aspects of this important sphere of pharmaceutical production. Moreover there was a unique occasion to establish personal contact between inspectors and participants from industry, as well as between inspectors from various countries. The lectures will be published.

Pressure vessels

The scheme relating to pressure vessels came into force on 1st January 1971. The products covered range from aerosol cans and gas bottles to petrochemical equipment and electricity generating boilers. It is largely

because pressure vessels of one kind or another are used in such a wide range of industrial and other activities that they were the subject of one of EFTA's first schemes for the reciprocal recognition of tests.

The parties to the scheme are the authorities responsible in each of the EFTA countries for approving pressure vessels, and in essence the agreement means that tests and inspections which are required in a country into which pressure vessels are to be imported can be carried out by an approved body in the exporting country (or in other participating countries). Fuller details of the scheme were given in the EFTA Bulletin Vol. XII, No. 1.

Ships' equipment

The scheme on ships' equipment, which also came into force on 1st January 1971, is essentially similar. It applies to any kind of ships' equipment, such as life-saving and fire-fighting equipment, which is subject to the requirements and approval of a national authority. In this case the parties to the agreement are the maritime administrations of Denmark, Finland, Iceland, Norway, Portugal, Sweden, the United Kingdom and Yugoslavia. Fuller details of this scheme were also given in the EFTA Bulletin Vol. XII, No. 1.

Agricultural machinery and tractors, and gas appliances

Schemes on similar lines for the mutual recognition of tests, one relating to agricultural machinery and tractors, and one dealing with gas appliances, were finalized by expert groups in the first half of 1971. They are likely to come into effect shortly.

Control and marking of articles of precious metals

In June 1971 work was resumed in the Committee of Trade Experts on a draft agreement on the control and marking of articles of precious metals. Discussion of the subject had earlier been suspended partly because the United Kingdom was engaged in a review of its hall-marking legislation, and partly because it seemed at the time that the EEC was tending towards a more liberal system than that provided for in the draft EFTA agreement. The Committee of Trade Experts decided to resume discussions of the draft agreement as the United Kingdom had made good progress in its review. The draft agreement provides that any article of precious metals controlled and marked by an authorized assay office in accordance with the provisions set out in the agreement will be accepted as fulfilling the requirements of each contracting State concerning the control and marking of such articles.

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.

The 1970 report of the Agricultural Review Committee, which was approved by the Councils in December 1970, describes developments in regard to agriculture within EFTA during the nine-year period covered by the annual reviews. It shows that intra-EFTA trade in agricultural goods during the period 1961-1969 increased by 39 per cent, while intra-EFTA trade in non-agricultural products increased by 131 per cent during the same period. Imports of agricultural goods from non-EFTA countries during 1961-1969 increased by 16 per cent. Imports from the EEC, however, increased by 43 per cent.

At the end of June 1971 the Committee started its review of agricultural trade in 1970 and it is expected that the review will be completed in September or October.

Possible improvements in intra-EFTA agricultural trade

At the Ministerial meeting in May 1970 it was agreed that all Member States should consider practical possibilities for further improvement in the conditions for intra-EFTA trade in agricultural products, in the interests of those Member States whose economies depend to a great extent on the export of agricultural goods. In June 1971 the Councils decided that certain agricultural products contained in Annex D should be given liberal treatment when traded within EFTA. This Decision¹ will enter into force on 1st August 1971 provided no Member State has notified an objection before that date. The provisions of the Decision will then be implemented on and after 1st September 1971 (2nd September as far as the United Kingdom is concerned).

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

¹ Decision of the Council No. 11 of 1971 and Decision of the Joint Council No. 5 of 1971.

fish fillets into the United Kingdom. It 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 import régime is to improve conditions in 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 are to 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 in three stages for these imports, are to be enforced by the Governments of the four supplying countries (Denmark, Iceland, Norway and Sweden) for sales of fillets to the United Kingdom.

Agreement on second-stage minimum prices with effect from 1st January 1971 was reached in October 1970, and after a meeting in Reykjavik in May 1971 agreement was reached on the minimum prices for the third stage, to come into effect on 1st September 1971.

Escape clauses, consultations and complaints

A review of the escape clauses of the Stockholm Convention was completed during the second half of 1970. At an earlier stage in the review, as was noted in the last annual report, the Councils had agreed to extend until 31st December 1970 the date by which they had to decide whether provisions similar to Article 20 of the Stockholm Convention should take effect after that date. The Article deals with difficulties in particular sectors of industry or particular regions.

The subject was discussed by Ministers at their meeting in Geneva in November 1970 and in the light of an agreement which they reached the Council decided on the text ¹ of a new Article 20 of the Convention. According to the new Article any escape measure to deal with difficulties in particular sectors of industry or particular regions is subject to prior approval by the Council: unilateral action by Member States is excluded. In some cases, decisions of the Council may be taken by majority vote. The Decision entered into force on 1st January 1971. The text is at Annex.

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 year.

¹ Decision of the Council No. 15 of 1970 and Decision of the Joint Council No. 9 of 1970.

United Kingdom import deposit scheme

The import deposit scheme introduced in the United Kingdom in December 1968 was abolished in December 1970. By the beginning of the year under review the rate of the deposit—initially 50 per cent of the value of goods imported into the United Kingdom—had been reduced to 30 per cent. It was cut to 20 per cent on 1st September 1970 and the scheme was not renewed when the relevant legislation expired on 4th December 1970.

Other questions

Patents

Nineteen European nations, including all the seven original Member States of EFTA, are now taking part in an intergovernmental conference on patents which is being held on the initiative of the EEC.

The aim of the conference is to create a convention which would enable a European patent to be granted by a European patent office. Applications would have to include the names of the particular States for which a patent is required. When granted, the European patent would have the same effect as a national patent granted in each of the States named by the applicant. There would also be a second convention entered into by the EEC countries under which there will be a unitary Community patent for such countries. The proposed arrangements owe much to the EFTA working party on patents which put forward in 1967 the concept of a two-part solution.

The fourth session of the conference was held in April 1971 to consider a second preliminary draft convention. This draft had been drawn up by four working parties (on each of which EFTA countries are represented) after comments on an earlier incomplete draft had been received from non-governmental international organizations representing industry, inventors, patent agents and patent lawyers. The fourth session also discussed a first draft of the Implementing Regulations and a model draft of the rules relating to fees. These drafts are to be printed for discussion at a meeting with non-governmental international organizations which may be held in January 1972. The hope is that on the basis of this discussion it will be possible to prepare a final text for consideration at a diplomatic conference early in 1973.

Another development in this field was the successful result of the Strasbourg Conference on the International Classification of Patents. A convention was signed on 24th March 1971 by thirty countries including Austria, Denmark, Finland, Liechtenstein, Norway, Sweden, Switzerland and the United Kingdom. This convention broadened the European Patent Classification so as to make it open to membership from all Paris Union countries. This classification will now be under the supervision of the World Intellectual

Property Organization (WIPO) which is the successor to BIRPI and which administers all the Paris Union Treaties and the PCT.

In view of the heavy demands on the resources of the national patent offices in EFTA countries in their active participation in these projects, the Councils, in February 1971, decided not to pursue for the time being the proposal made by the Swiss Delegation. This proposal was that there should not be an obligation to work a patented invention in every EFTA country as long as products could be imported from another EFTA country in sufficient quantity to satisfy the demand at a reasonable price. Substantial investigation of the problem had been made by experts. Nevertheless comments from capitals revealed that there were some fundamental issues involved which would require fuller inquiries before any question of a multilateral agreement could be contemplated. The Councils invited interested Member States to consider the possibility of entering bilateral agreements on the pattern of those concluded by Switzerland with the Federal Republic of Germany and with the United States.

Company law

A study by the EFTA Secretariat on the case for harmonizing national company law and on the issues involved in a supranational company law was considered by the Councils in July 1970. The study outlined the problems that arise from the fact that companies have become international in many respects whereas the laws applicable to them have remained national and are often contradictory. Some possible solutions were described in the study and the work undertaken so far in Europe in the field of harmonization of company laws and towards the creation of a European company was reviewed. At the request of the Councils a second study was prepared by the Secretariat to cover more recent developments within the EC. Both studies were considered by the Councils in January 1971 when it was agreed to revert to the matter when advisable.

Study of the effects of the economic division of Western Europe

In January 1969 the EFTA Secretariat published "The effects of EFTA on the economies of Member States". This contained 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. 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, which will extend the analysis so as to take account of the effects of the creation of the European Economic Community. The new study will include statistics for 1965, 1966 and 1967 and is due for completion in the second half of 1971.

Study of the effects on prices of tariff dismantling

In accordance with a decision taken by the Ministerial Councils in London in May 1968, the Secretariat is continuing a study of the effects on prices of tariff dismantling in EFTA. A working party from the EFTA countries has 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 a majority of the EFTA countries have provided the statistics required. Computer work has begun and it is hoped that the study will be completed in the second half of 1971.

Study of the relative factors in the development of production in EFTA countries

Following a request of the Consultative Committee, the Councils decided to instruct the Secretariat to prepare a paper analysing the relative factors in the development of production in EFTA countries with special reference to wages and productivity. A special paper on the subject was presented to the Consultative Committee in May 1971.

Different price levels for consumer goods in EFTA countries

At the request of the Consultative Committee, the Secretariat completed a study on this subject which was presented to the Consultative Committee in May 1971. The study showed remarkable variations in price of the same consumer articles in the different EFTA countries, and there seemed to be no discernible pattern in the differences.

The Association with Finland

As in the past few 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 groups that were held during the year.

June 1971 marked the tenth anniversary of Finland's association with EFTA. Over that period co-operation under equal rights and obligations between Finland and the EFTA Member States developed to the fullest satisfaction of all Members of the Association Agreement.

The Economic Committee

In accordance with the decision taken at the Ministerial meeting in London in May 1968, the Economic Committee has continued to concentrate its discussions on special current problems, rather than on the general situation in Member countries. At the 13th Meeting of the Committee, on 5th and 6th January 1971, the problem of inflation in all Member States was discussed in some detail. After a review of special economic problems in some Member States, the Committee discussed at some length the implications of recent European Community proposals for closer international economic and monetary co-operation.

At its 14th Meeting, on 29th and 30th June 1971, the Committee concentrated on certain new problems in Member States and continued its discussion of current international and European economic problems and policies.

Economic Development Committee

A working party of the Economic Development Committee completed during the year a study on industrial mobility. This is the fourth in the series of studies on aspects of regional development policy in EFTA which have been prepared by working parties of this Committee.

The aim of the study was to examine both existing and likely problems of securing industrial mobility, and also the methods available to this end. In the light of existing industrial structures and possible developments in the EFTA countries, the working party considered 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. The report of the working party will be published in the second half of 1971.

Another working party of the Economic Development Committee completed a study on foreign investment in Madeira.

The Consultative Committee

The Consultative Committee, which brings together representatives of industry, commerce and the trade unions in EFTA countries, held two meetings under the Chairmanship of the Chairman of the Ministerial Council during the twelve months covered by this report. On both occasions the meeting preceded a Ministerial Council conference and the Chairman's report on each meeting formed a separate item on Ministers' Agenda. The meetings

of the Committee were, as last year, prepared by an Agenda Committee consisting of one representative from each of the EFTA countries. At the 21st Meeting in October 1970, the rules of competition and escape clauses in EFTA and in the European Communities were made the subject of a special debate ; and at the 22nd Meeting, held in Reykjavik in May 1971, different price levels for consumer goods and relative factors in the development of production were dealt with in the same way.

In addition to these 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.

EFTA Parliamentarians

As in recent years, Parliamentarians from EFTA countries twice met informally in Strasbourg in connection with the sessions of the Consultative Assembly of the Council of Europe. The Vice-Chairman of the EFTA Ministerial Council, Mr. Ernest Brugger, Swiss Federal Councillor, participated in the meeting in September 1970. One of the main subjects of discussion at the meeting in January 1971 was monetary co-operation.

Information activities

In the Press and other news media, interest in European integration centred on the negotiations and discussions of the EFTA countries with the European Communities, with a consequent reduction in interest in specifically EFTA affairs. There was however throughout the year a sustained flow of requests to the Secretariat for information about EFTA. The requests come not only from EFTA but increasingly from EEC countries, from Eastern Europe and from other countries.

A noteworthy feature of the past year or so is that a number of academic studies of EFTA or of aspects of its work have been published in several countries, notably Switzerland, the United Kingdom and Poland.

More specialized audiences are being sought to spread information about the agreements entered into by the EFTA Governments for the mutual recognition of inspections of various products. These agreements require the full knowledge and co-operation of the industries concerned. For this reason, specialized press conferences are being arranged at which representatives of the specialist trade journals are to be briefed by experts from the national inspection authorities. The first such briefing, on the pharmaceutical convention, was held in Geneva in April 1971.

The circulation of the EFTA Bulletin continued to grow during the year. Recent EFTA publications include the pharmaceutical convention, which was issued in English, French, German and Italian. This is the first time that EFTA has published in Italian anything other than information leaflets. Other publications produced during the year were the Tenth Annual Report, "EFTA trade in 1969"—the latest issue of the annual trade study, distributed in December 1970—and a revised bound edition of "Public procurement in EFTA". The new edition of the latter gives more recent details about the purchasing requirements of major government authorities or public enterprises in the EFTA countries. A list of the authorities responsible in Iceland for the administration of compulsory technical regulations was printed for inclusion in "Compulsory technical regulations", which was originally published before Iceland acceded to EFTA. A reprint of "Regional policy in EFTA: an examination of the growth centre idea" was issued.

Since 1st January 1971 the EFTA Information Office in Washington operates mainly as a distribution point for all EFTA information material, for which demand in the United States and Canada continues to be active. "The Reporter", published in Washington, is now prepared by the Press and Information Department in Geneva.

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-seven meetings, all of which were held simultaneously. The two Councils met at Ministerial level in Geneva on 5th and 6th November 1970 and in Reykjavik on 13th and 14th May 1971.

For the period 1st July-31st December 1970 Sweden carried the Chairmanship of the two Councils and Switzerland the Vice-Chairmanship. For the period 1st January-30th June 1971 the Chairmanship of the two Councils was held by Switzerland, the United Kingdom carrying the Vice-Chairmanship of the Council and Finland that of the Joint Council.

Administration and finance

The Secretariat

The only change in the structure of the Secretariat during the year was the amalgamation of the Administration Department and Finance Office to form a new Administration and Finance Department. At the end of the

year the staff at the EFTA headquarters in Geneva totalled 91 ; of these 45 were in the Professional category (or above) and 46 were in the General Service grades. The names of the principal officers are given on the last page. From 1st January 1971, the Director of the Washington Information Office was transferred to headquarters as Head of the Press and Information Department. The Washington Office is now run by a locally recruited Office Manager.

Finance

The net budget for 1970-1971 was 7,695,000 Swiss francs. The budget for the financial year 1971-1972 commencing 1st July 1971 has been established at S.Fr. 8,278,500 gross, which after deduction of estimated income of S.Fr. 171,850 leaves a net sum of S.Fr. 8,106,650 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 product at factor cost, with the qualification that no Member is required to contribute more than 30 per cent of the net expenditure of the Association. The individual national contributions for 1970-1971 were on the following basis (the figures assessed for 1971-1972 are shown in brackets) : United Kingdom 30 per cent (30 per cent), Sweden 19.93 per cent (21.149 per cent), Switzerland 14.19 per cent (14.017 per cent), Denmark 9.65 per cent (9.289 per cent), Austria 8.29 per cent (8.128 per cent), Finland 7.41 per cent (6.386 per cent), Norway 6.78 per cent (6.884 per cent), Portugal 2.95 per cent (3.318 per cent), Iceland 0.80 per cent (0.829 per cent).

III. External relations

EFTA-Yugoslav relations

A meeting of the EFTA-Yugoslav Joint Working Group was held in December under the Chairmanship of the Secretary-General. The Group discussed recent developments in Yugoslav trade with EFTA countries and other questions of technical and economic co-operation. The Yugoslav Representatives expressed the interest of their authorities in participating in certain EFTA agreements on mutual recognition of tests or inspections. (Subsequently the Yugoslav authorities have become party to the ships' equipment scheme.) They also suggested some five or six projects for consideration by the Economic Development Committee.

The Joint Working Group expressed its satisfaction at the improvement experienced in the mutual trade relations between Yugoslavia and EFTA countries, although the Yugoslav balance of payments deficit gave rise to some concern.

GATT

Members of the Secretariat attended as observers those GATT meetings of special interest to EFTA, and in particular the meetings of the Committee on Trade in Industrial Products at which non-tariff barriers to trade were discussed. Periodic meetings have continued to be held between the Heads of EFTA Delegations to GATT for consultation on general trade policy questions of concern to EFTA countries. The Secretariat assisted the national delegations to EFTA during the discussions in GATT relating to Iceland's accession to EFTA and FINEFTA.

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. Exchanges of view have taken place between EFTA countries on major issues concerning developing countries.

OECD

The Secretariat was represented at 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 of the OECD. A further inter-secretariat meeting with the OECD was held in October 1970 when there was an open exchange of information and views on a great number of matters, including economic policy, trade, taxation, conditions of competition, consumer protection and tourism.

Council of Europe

The Tenth Annual Report of EFTA was presented to the Consultative Assembly of the Council of Europe in September 1970. 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.

Economic Commission for Europe

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

Customs Co-operation Council

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

Nordic Council

Representatives of the EFTA Secretariat attended the 19th Session of the Nordic Council held in Copenhagen in January 1971. The Session was partly devoted to a discussion of European integration.

Contact with non-governmental international organizations

A number of non-governmental international 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, in particular those of the European Standards Co-ordinating Committee (CEN).

Appendix I

Ministerial meetings of EFTA Councils

Geneva, 5th and 6th November 1970

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 5th and 6th November 1970 under the Chairmanship of Mr. Kjell-Olof Feldt, Sweden's Minister of Commerce.

In a review of current activities of the Association, Ministers noted that EFTA's trade had continued to grow in the first half of the year, and that further progress had been made towards the removal of non-tariff barriers to trade. They welcomed in particular the signing of the Convention on inspections of pharmaceutical manufacturing, which should provide a stimulus to trade and which is open to the participation of other countries. They expressed the hope that the Convention would be ratified as soon as possible by all EFTA countries.

EFTA Ministers, with the Finnish representative taking part in a personal capacity, had a full discussion of the prospects of achieving wider European integration. They expressed their satisfaction with the progress achieved so far in the negotiations between the European Communities and the three EFTA countries which had applied for membership and with the fact that all the other EFTA countries would start their discussions in Brussels this month.

Ministers welcomed the fact that following the opening of negotiations for accession on 30th June 1970, the Chairman of the Council of Ministers of the European Communities stated that the Community considers it desirable that agreements with the various EFTA countries should come into force at the same time. This indeed corresponded with the conviction of EFTA Ministers recorded in their last communiqué, the full terms of which they reaffirmed. Ministers emphasized their strong interest in safeguarding, as an important part of an enlarged European Community, the free trade already established between EFTA countries. They declared that they would continue to work towards this end.

Ministers noted that, with the starting of negotiations and discussions between all EFTA countries and the Communities, the procedure on which they had already agreed for a continuous exchange of information and for consultation would come fully into effect.

Ministers have repeatedly stressed their determination to do all they can, in GATT and elsewhere, to ensure that the momentum of world trade liberalization should be maintained. At their present meeting they expressed their concern regarding recent developments that could lead to the introduction of new restrictions on trade. They emphasized the importance for the world economy of liberal trade policies which have played, and still play, a prime rôle in assuring economic growth in all parts of the world. Ministers continued to give their full support to the work being done in GATT in this context. They also noted with satisfaction the results recently achieved on the establishment of a generalized scheme of preferences for the benefit of the developing countries, and emphasized the necessity of settling at an early date the points that are still open. They expressed their determination to undertake the necessary steps for the early implementation of the scheme.

On the invitation of the Government of Iceland, the next ordinary meeting of the Councils at Ministerial level will be held in Reykjavik on 12th and 13th May 1971.

Reykjavik, 13th and 14th May 1971

Communiqué

On the invitation of the Government of Iceland, the EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level on 13th and 14th May 1971 at Reykjavik, the hospitable capital of the newest Member of EFTA. Mr. E. Brugger, Swiss Federal Councillor, Head of the Federal Department of Public Economy, was in the Chair.

In the EFTA Council, with the Finnish Minister present in his personal capacity, Ministers held a full discussion of the prospects for wider European integration which had always been the main objective of EFTA. They welcomed the progress made since their last meeting in November 1970 in the negotiations and exploratory talks between the EFTA countries and the European Communities.

On the negotiations of the candidates for Community membership, Denmark, Norway and the United Kingdom, Ministers noted that a great deal had been accomplished and agreement reached on a large number of matters. They were especially glad to note the significant progress made in the meeting just concluded in Brussels between the United Kingdom and the Communities. Ministers furthermore considered that the exploratory talks of recent months between the EFTA countries not seeking membership and the Communities should provide a suitable basis for their forthcoming negotiations. They expressed confidence that a basis had now been laid for the solution of the outstanding problems in respect of all EFTA countries.

Ministers reaffirmed their strong interest in safeguarding, as an important part of an enlarged European Community, the free trade already established between EFTA countries. They reiterated their desire, which is in line with that expressed by the Communities, that all the accession treaties and special relations agreements should come into force at the same time; all these arrangements should be in conformity with the GATT.

The Association is engaged in finding workable solutions to the practical problems involved in the maintenance of the free trade already achieved in EFTA. All Ministers expressed appreciation for the work already done and instructed the Councils at official level, assisted by the Secretariat, to pursue it vigorously.

Ministers held a general discussion of the world trade situation, during which reference was made to recent events in the monetary field. Emphasis was laid on the importance of current work in GATT on non-tariff barriers and on the preparation of future negotiations for the further liberalization of world trade. Ministers were pleased to note the support for this work recently expressed by the world business community through the International Chamber of Commerce. They emphasized that developments in Western Europe should not prejudice efforts to promote trade with other important areas, including trade between East and West. Ministers noted with satisfaction that the

generalized preference scheme for the benefit of the developing countries would soon be brought into effect, according to the principles laid down both in the OECD and UNCTAD.

Ministers noted with satisfaction the continued increase in trade of the EFTA countries and particularly in their trade with each other, which in 1970 had shown a larger increase than in any year since the Association was founded. This once again illustrated the advantages which the EFTA countries had obtained from the abolition of barriers to trade between them. Ministers also noted that June 1971 would mark the tenth anniversary of Finland's association with EFTA. Over that period the co-operation under equal rights and obligations between Finland and the EFTA Member States had developed to the fullest satisfaction of all Members of the Association Agreement.

Noting that the necessity for national inspection, for health and safety purposes, of the production of certain goods could result in considerable non-tariff barriers to trade, Ministers welcomed the new agreements which had been concluded for the mutual recognition of inspections of a number of important articles of trade : pharmaceuticals, pressure vessels and ships' safety equipment. These agreements were open to the membership of other countries with comparable inspection systems and Ministers would welcome interest on the part of such countries. They also hoped that these agreements would be followed by others concerning different products.

Ministers agreed that the next regular Ministerial meeting of the Councils will take place in Geneva on 4th and 5th November 1971.

Appendix II

Text of new Article 20 of Stockholm Convention

Article 20

Difficulties in particular sectors

1. If, in the territory of a Member State,

(a) unforeseen and serious difficulties arise or threaten to arise in a particular sector of industry or region, and

(b) to remedy the situation the enforcement of measures which derogate from the Convention or from decisions or agreements reached under the Convention is required,

that Member State may, if so authorized by prior decision of the Council, temporarily apply such measures in accordance with terms and conditions which the Council may include in its decision. The Council shall take this decision as soon as possible.

2. Such measures shall be applied for a period of not more than eighteen months unless the Council decides on an extension.

3. If, in order to avoid a rapid deterioration of the situation, immediate application of measures is indispensable, the Council shall, upon request of the Member State concerned and without prejudice to subsequent decisions by the Council, decide within fifteen days after the matter has been referred to it what measures that Member State may apply immediately. The request shall demonstrate the urgency of and necessity for such measures.

4. A Member State applying measures according to paragraph 1 or 3 of this Article shall report to the Council on the operation and effects of these measures. The Council may at any time consider these measures and make recommendations designed to moderate any damaging effect of the measures or to assist the Member State concerned to overcome its difficulties.

5. When considering what measures may be applied according to paragraph 1 or 3 of this Article preference shall be given to measures which will allow the pursuance of the objectives of the Association and the maintenance of the trade benefits of other Member States.

6. Measures authorized in accordance with paragraph 1 or 3 of this Article shall be applied in such a way as to give like treatment to all Member States, unless the Council decides otherwise.

7. Decisions of the Council under paragraphs 1 and 3 of this Article concerning import duties, quantitative import restrictions and other measures with similar effect, as well as recommendations referred to in paragraph 4 of this Article, shall be made by majority vote.

European Free Trade Association
July 1970-June 1971

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Portugal	Sweden	Switzerland	United Kingdom

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