

1971-1972

Twelfth Annual Report
of the
European Free Trade
Association



Geneva-September 1972

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I. Survey of the year

The year in EFTA: July 1971 to June 1972

Decisions on the future patterns of economic relations in Western Europe were taken very rapidly between 1st July 1971 and 30th June 1972. Successful negotiations for membership of the European Communities by three EFTA countries, Denmark, Norway and the United Kingdom—and also by Ireland—culminated on 22nd January 1972 in the signature of the Accession Treaty in Brussels. By the same date, the six other EFTA countries—not candidates for membership—had all begun negotiations with the Commission of the European Communities, seeking special relations agreements based on the principle of free trade in industrial products. At the end of the twelve months' period to which this report is devoted, these bilateral negotiations had reached an advanced stage, with all concerned determined to complete the negotiations in July. This date would leave the second half of 1972 free for ratification procedures in all the countries involved and would enable the special relations agreements to come into effect on 1st January 1973, the same day as the three acceding countries enter the Communities. As the negotiations progressed during the year, one topic was a standing item on the Agenda of the EFTA Councils: the consideration of the specific means by which the free trade already achieved between the EFTA countries could be maintained in the new economic configuration of Western Europe. On all sides the desire was that no new barriers to intra-European trade would be erected as a consequence of the enlargement of the Communities. Towards the end of the year, the six non-candidate countries began to discuss the shape and scope of the future EFTA after the departure of the three acceding countries.

The countries acceding to the European Communities

Last year's annual report noted that Denmark, Norway and the United Kingdom had already made significant progress in their membership negotiations by the middle of 1971. Several very difficult questions had, however, still to be negotiated, and the process of doing so took all the rest of the year but in January 1972 the Accession Treaty was signed.

The completion of the negotiations did not automatically mean that the three candidates would take up membership. Various constitutional requirements had still to be met.

In the case of the United Kingdom, a full debate on the principle of membership took place in the House of Commons in October 1971 and ended on the 28th of that month with 356 votes for entry and 244 against. Early in 1972, the Government submitted to Parliament a Bill, now being debated, to make the necessary legislative changes attendant upon accession to the European Communities.

In Denmark and Norway the procedure was different. The decision to enter the Communities was still subject in both countries to constitutional requirements which would not be met until the autumn of 1972. In the case of Denmark, the Ratification Bill was to be submitted to a decisive referendum on 2nd October 1972. In Norway also, a referendum was to be held, on 24th and 25th September, although of an advisory character only. After the result of the referendum is known, the vote on the Ratification Bill is to take place in Parliament; a three-fourths majority of its membership is required for its passage.

It follows from these differing situations that the question of withdrawal from EFTA by the three acceding countries required differing treatment. The case of the United Kingdom was straightforward. In a letter dated 17th December 1971, she gave the required twelve months' notice of withdrawal from EFTA, under Article 42 of the Stockholm Convention, to take effect at the end of 1972. The other EFTA Governments agreed that if for some reason the United Kingdom wished to revoke her notice of withdrawal from the Convention before it became effective, it was not their intention to raise objections.

Neither Denmark nor Norway, however, were able to give the required twelve months' notice. In view of this and taking into account that all EFTA countries desired that the treaty and the agreements to be concluded with the EC should enter into force at the same time and that they had a strong interest to safeguard the free trade already established between them, the EFTA Governments agreed that, subject to their constitutional procedures, they would undertake to work out in due time appropriate solutions to meet the requirements of the Danish and Norwegian Governments.

The non-candidate countries

As recorded in last year's annual report two rounds of fact-finding exploratory talks took place between the six non-candidate countries and the Commission of the European Communities between November 1970 and April 1971. Subsequently the Commission prepared a report to the Community Council of Ministers, in which it made two alternative proposals:

- (a) a two-year standstill on the existing level of trade barriers between the Community and the non-candidates, to be followed by negotiations;
- (b) immediate negotiations for special relations agreements with the non-candidates, based on the principle of arriving at free trade in industrial products over a five-year transitional period.

This report was made public on 18th June 1971 and each of the non-candidate countries immediately made known their view that the first proposal was unacceptable, but that they would welcome the second. In October the Community Council of Ministers gave a negotiating mandate to the Commission based on the principle of free trade in industrial products with, in addition, recognition that some concessions would be required in agricultural and fisheries products in the proposed agreements with Portugal and Iceland, for whom such trade is very important.

The formal negotiations between each of the non-candidates and the European Commission opened at the beginning of December 1971. It was the general wish expressed at the opening meetings that the negotiations were to be completed in time for the agreements to enter into force on 1st January 1973. All six non-candidates also regarded it as essential that the free trade already achieved in EFTA should be maintained and that the agreements should be in conformity with the GATT. Another point in common was that the non-candidates proposed that a cumulative origin system similar to that already used in EFTA should be adopted in the agreements. Apart from such common points, each country stressed those objectives appropriate to its own economic situation.

The negotiations continued in the framework of four working parties, dealing with industrial problems, agricultural trade, institutional questions and products within the province of the European Coal and Steel Community. These working parties had many sessions in the first three months of 1972, culminating in plenary negotiating meetings at the end of March. Agreement in principle was reached on a number of important constituent parts of the prospective special relations agreements. However, a number of problems of crucial importance to the individual non-candidate countries remained unsolved. In the case of Iceland, particular difficulty was encountered because of the Community attitude to the Icelandic decision to extend her fisheries limits from 12 to 50 miles on 1st September 1972.

At the end of April 1972 the Community Council of Ministers agreed to make certain amendments to the negotiating mandate to meet some of the requests of the non-candidate countries, and the second phase of the negotiations began in mid-May. The Community Council of Ministers also stated that it was their firm intention to finalize the special relations agreements before the summer recess. A further series of negotiations in working parties took place in May, followed by plenary sessions in June. At the end of that month a number of important questions were still unsettled, particularly concerning "sensitive products", agricultural trade and the rules of origin.

Maintaining the free trade achieved in EFTA

The work of the EFTA Councils during the past twelve months was devoted to a very large extent to the question of maintaining, in the future pattern of West European trade, the free trade already achieved in EFTA.

In accepting the prospect of admitting new members, the European Communities took as their point of departure that their enlargement should not entail the re-erection of trade barriers in Europe. Thus the negotiations with candidates and non-candidates alike have taken place throughout on the basis that the free trade already established in EFTA would continue in the future, not only between the six non-candidate countries but also between them and their former EFTA partners.

The problem facing the EFTA Councils was to work out the means by which this large design could most smoothly be completed from the point of view of the EFTA countries. The maintenance of free trade between the three acceding countries caused no difficulty since it would be governed by the provisions of the Treaty of Rome. The free trade between the non-candidates themselves would continue to be governed by the EFTA Convention suitably modified. Whether the free trade already achieved could be maintained between the acceding countries and the non-candidate countries depended upon the contents of the special relations agreements.

A number of aspects of the maintenance of the free trade, such as rules of origin, rules of competition and safeguard clauses and the treatment to be given to processed foodstuffs and other agricultural and fisheries products, were the subject of detailed examination by expert groups and by the EFTA Councils during the year. The results were of assistance to the non-candidate countries in their negotiations with the Communities and had an influence on the emerging pattern of the agreements. This work of the Councils was reinforced by a regular exchange of information between all the EFTA countries. This process was valuable not only in ensuring a co-ordinated approach to the problems by the non-candidates but also in keeping the acceding countries fully informed so that they could act more effectively in their consultation procedures with the European Communities in Brussels.

The future of EFTA

As it will be clear from the foregoing, the working hypothesis of the EFTA Councils during the past year has been that three Member Countries will leave the Association at the end of 1972 and that the new network of special relations agreements with the Communities will come into effect at the beginning of 1973, simultaneously with the enlargement of the Communities. As a consequence, there were discussion between the six non-candidate countries on the future of their trading relationships with each other. Since at that time the results of the Danish and Norwegian referenda were not known and since final agreement had not been reached with the Communities on the contents of the prospective special relations agreements, these discussions could only be tentative. It was, however, agreed by the six non-candidates that they wished to maintain the free trade achieved between them in EFTA, in addition to the free trade arrangements they intended to conclude with the enlarged EC. They were of the opinion that the legal instrument for admi-

nistering free trade between themselves should continue to be the Stockholm Convention (with the FINEFTA Agreement) appropriately modified. There would continue to be need for an executive organ and for a permanent Secretariat.

EFTA trade in 1971

In the twelve years from 1959—the last year before tariff reductions in EFTA began—to 1971, intra-EFTA imports increased by 278 per cent, i.e. at an average annual compound rate of 11.7 per cent. This compares with a rise in total EFTA imports in this period of 161 per cent (8.3 per cent per annum), in imports from the EEC of 200 per cent (9.6 per cent per annum) and in imports from the United States of 149 per cent (7.9 per cent per annum). A comparison of the rates of growth of exports gives a very similar picture. Intra-EFTA imports in 1971 again increased more than total EFTA imports and also more than imports from all other regions.

Total trade

In 1971 both exports and imports of the EFTA countries continued to expand rapidly, although less so than in 1970. Total exports (f.o.b.) increased by 10.7 per cent (1970: 12.9 per cent) to 47,881 million US dollars, while total imports (c.i.f.) rose by only 7.9 per cent (1970: 16.1 per cent) to 55,243 million dollars.

The biggest rise (13.8 per cent) in total exports was recorded by the United Kingdom, the only EFTA country whose exports increased more in value in 1971 than in 1970. Exports from all the other EFTA countries were higher than in the previous year, but, with the exception of Denmark, the rate of increase in their exports was less than in 1970. The expansion in EFTA's imports from the world was limited by the absence of any growth in Sweden's imports during 1971 and by the small (3.2 per cent) increase in Denmark's imports. A more reliable picture of trade developments in the course of the year is given by a comparison of three-months' moving averages of exports and imports, seasonally adjusted, at the beginning and end of the period. The averages for the three months to the end of March and the three months to the end of December 1971 show that the total exports of the EFTA countries were growing at a compound monthly rate of 0.9 per cent, while total imports were rising by only 0.5 per cent per month.

EFTA trade rose strongly during the first three months of 1972. The value of total EFTA exports and total EFTA imports was \$13,170 million and \$15,604 million respectively. Seasonally adjusted, total exports were 13.6 per

cent higher in the first quarter of 1972 than in the last quarter of 1971, while total imports rose by 13.9 per cent.

Intra-EFTA trade

Intra-EFTA trade (measured by exports f.o.b.) rose by 10.4 per cent in value (1970 : 19.3 per cent) to \$13,413 million. This increase was slightly less than that in total EFTA exports but more than the rise in total EFTA imports. Sweden, with a growth of 11.2 per cent in its exports to its EFTA partners, achieved, for the first time, the largest share of intra-EFTA trade. Her exports to the other countries of the Association were \$3,362 million in 1971, even greater than those of the United Kingdom (\$3,340 million). Switzerland, Portugal and Austria all increased their exports within EFTA by over 15 per cent, and only Iceland reported a fall in its sales to the other EFTA countries. A comparison of the three-months' moving averages for the beginning and the end of the year gives a compound growth rate of 0.9 per cent per month for intra-EFTA exports, compared with 1.7 per cent per month in 1970. Intra-EFTA trade recorded a very sharp increase of 13.5 per cent (seasonally adjusted) between the last quarter of 1971 and the first quarter of 1972, rising to a value of \$3,796 million.

EFTA-EC trade

Exports from EFTA to the six Member countries of the European Community in 1971 rose by 7.5 per cent (1970 : 15 per cent) to \$12,181 million and imports from the Community grew by 9.2 per cent (1970 : 18.7 per cent) to reach \$17,653 million. Thus, while the exports of the EFTA countries to the EC rose less in 1971 than their total exports, their imports from the Common Market showed a bigger increase than their imports from the world as a whole.

Of the Nordic countries, only Denmark and Sweden increased their sales to the EC, but there were substantial rises in exports to the Community from Switzerland and the United Kingdom. With the exception of Denmark and Sweden all the EFTA countries increased their purchases from the EC. In percentage terms the biggest increase was recorded by Iceland, but three of the largest markets in EFTA for Community products—the United Kingdom, Switzerland and Austria—reported an increase in their imports which was above the EFTA average. (On the basis of three-months' moving averages of seasonally adjusted figures, exports to the EC grew by 1.0 per cent per month and imports by 0.7 per cent.) Seasonally adjusted, EFTA's exports to and imports from the EEC increased by 11.4 per cent and 17.7 per cent respectively between the last quarter of 1971 and the first quarter of 1972. The value of exports in the first quarter of 1972 was \$3,427 million and that of imports \$5,224 million.

EFTA trade with the United States

Exports from the EFTA countries to the United States rose by 14.1 per cent in 1971, compared with 4.2 per cent in the previous year, to reach \$4,432 million. EFTA's imports from the United States, however, fell by 4.2 per cent to \$4,740 million, in contrast to the 11.5 per cent rise recorded in 1970. Trade with the United States was affected by a number of special factors in the latter part of 1971, including a long dock strike, the upward fluctuations of European currencies against the dollar, and the 10 per cent import surcharge imposed on 15th August 1971. The three-months' moving averages show compound monthly rates of change during 1971 of approximately — 0.3 per cent for exports and — 2.7 per cent for imports. EFTA trade with the USA rose in the first quarter of 1972 at a much faster rate than trade with any of EFTA's other major trading partners, but this may have partly reflected the after effects of the US dock strike. Exports to and imports from the USA in the first quarter of 1972 amounted to \$1,216 million and \$1,393 million respectively.

EFTA trade with Eastern Europe

EFTA's exports to Eastern Europe fell by 1.2 per cent in 1971 to \$2,077 million. Finland, Portugal, Sweden and the United Kingdom reported a drop in their exports but Denmark achieved an increase of 23 per cent and Austria, the second largest exporter to this area among the EFTA countries, raised its exports by 3.2 per cent. Imports from Eastern Europe grew by 8.1 per cent to \$2,546 million, despite a 4.2 per cent decline in imports into the United Kingdom. In absolute terms, the biggest increases were reported by Norway and Finland.

EFTA trade with the rest of the world

EFTA countries' exports to the rest of the world rose by 14.3 per cent to reach \$15,779 million in 1971. The biggest single factor in this expansion was the increase of 18.1 per cent to \$10,838 million in United Kingdom exports. EFTA's imports from the rest of the world grew by 9.9 per cent to \$16,313 million. This increase was more evenly distributed among the EFTA countries, although all except the United Kingdom, Switzerland and Austria reported lower increases in 1971, than in the previous year. Only Finland, with a 15 per cent drop, reduced its imports from the rest of the world in 1971.

EFTA TRADE IN 1971

Table 1

(in million US dollars and percentage change 1970-1971)

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	812.4	17.0	2,313.2	16.3	153.8	26.8	376.7	13.1	480.8	17.3	4,136.9	16.6
Denmark	1,887.8	3.8	1,443.4	— 1.1	378.5	15.6	136.9	— 7.1	682.3	7.6	4,526.9	3.2
Finland	1,137.6	10.1	735.6	3.8	125.5	— 8.3	512.7	20.6	283.4	— 15.0	2,794.8	6.0
Iceland	84.9	25.2	58.1	34.5	21.8	71.7	21.1	24.9	23.7	41.9	209.6	33.2
Norway	1,758.1	6.7	983.8	7.0	240.6	— 10.0	162.2	97.3	875.3	12.2	4,020.0	8.7
Portugal	438.9	13.8	581.0	12.7	121.6	13.3	21.7	146.6	608.4	13.0	1,771.6	13.9
Sweden	2,734.1	3.3	2,300.1	— 3.2	557.6	— 8.5	332.5	0.5	1,071.9	3.0	6,996.2	0.1
Switzerland	1,369.1	16.1	4,180.7	10.6	511.7	— 7.1	143.9	6.9	979.9	18.9	7,185.3	11.1
United Kingdom . .	3,767.6	11.0	5,059.3	15.7	2,628.4	— 6.7	838.6	— 4.2	11,307.6	10.2	23,601.5	8.6
EFTA			17,653.2	9.2	4,739.5	— 4.2	2,546.3	8.1	16,313.3	9.9	55,242.8	7.9
<i>Exports (f.o.b.)</i>												
Austria	875.4	15.2	1,212.6	7.7	126.9	7.5	385.0	3.2	530.0	10.5	3,129.9	9.6
Denmark	1,810.0	9.2	798.7	7.0	272.7	3.6	139.7	23.0	545.9	7.4	3,567.0	8.4
Finland	1,084.5	8.4	524.1	— 2.3	113.3	4.5	342.3	— 5.3	291.4	— 3.0	2,355.6	2.1
Iceland	52.4	— 6.8	17.6	— 28.5	54.9	24.8	16.3	10.1	8.5	21.4	149.7	2.1
Norway	1,231.8	7.8	694.1	— 4.7	177.5	25.9	61.4	1.2	355.5	— 6.9	2,520.3	2.7
Portugal	389.0	16.0	185.9	7.5	101.3	23.4	6.4	— 16.9	350.0	0.7	1,032.6	9.2
Sweden	3,361.7	11.2	1,966.5	5.2	481.6	18.1	307.3	— 9.4	1,257.6	10.1	7,374.7	8.7
Switzerland	1,267.7	16.3	2,156.8	12.4	491.4	6.7	212.6	0.6	1,601.5	10.0	5,730.0	11.6
United Kingdom . .	3,340.1	8.2	4,624.2	9.9	2,612.4	15.7	606.1	— 2.4	10,838.5	18.1	22,021.3	13.8
EFTA	13,412.6	10.4	12,180.5	7.5	4,432.0	14.1	2,077.1	— 1.2	15,778.9	14.3	47,881.1	10.7

Source : OECD and national Statistics.

INTRA-EFTA TRADE IN 1971

Table 2

(in million US dollars and percentage changes 1970-1971) (Exports f.o.b.)

Exporter	Importer	Austria	Denmark	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	United Kingdom	EFTA
Austria	\$m		69.3	40.7	0.8	42.4	25.9	122.4	349.7	224.1	875.4
Percentage change			10.7	9.1	60.0	12.8	— 1.5	— 1.8	18.1	28.0	15.2
Denmark	\$m	55.8		78.4	22.7	263.4	20.0	576.3	105.7	687.6	1,810.0
Percentage change		15.3		1.6	18.2	11.9	25.0	3.7	26.4	10.4	9.2
Finland	\$m	21.8	92.3		3.8	89.2	5.6	371.7	51.4	448.9	1,084.5
Percentage change		19.8	— 2.0		11.8	4.7	— 33.3	6.7	29.1	11.6	8.4
Iceland	\$m	0.6	10.8	2.6		2.3	9.0	6.3	1.1	19.6	52.4
Percentage change		— 40.0	— 4.4	0.0		— 4.2	50.0	— 35.7	— 71.1	1.6	— 6.8
Norway	\$m	18.0	186.0	67.0	10.3		22.2	428.7	27.7	472.0	1,231.8
Percentage change		12.5	5.3	10.9	24.1		82.0	7.8	— 12.9	7.2	7.8
Portugal	\$m	15.0	26.5	14.8	1.0	13.9		57.8	26.5	233.5	389.0
Percentage change		11.1	1.9	— 18.7	100.0	2.2		14.7	32.5	20.9	16.0
Sweden	\$m	134.6	733.0	463.2	11.8	757.1	48.5		215.1	998.4	3,361.7
Percentage change		32.0	10.2	8.8	61.6	3.0	13.3		9.6	17.8	11.2
Switzerland	\$m	326.4	104.4	68.8	3.3	81.0	78.4	188.6		416.7	1,267.7
Percentage change		22.2	8.0	15.6	73.7	24.2	31.5	9.5		13.3	16.3
United Kingdom	\$m	254.9	558.6	342.0	28.8	425.0	254.3	920.2	556.2		3,340.1
Percentage change		17.1	5.2	10.5	29.1	1.9	19.5	5.3	10.7		8.2
EFTA	\$m	827.1	1,780.9	1,077.5	82.5	1,674.3	463.9	2,672.0	1,333.4	3,500.8	13,412.6
Percentage change		20.9	7.0	8.8	29.7	5.1	20.8	5.5	13.6	14.1	10.4

Source : OECD and national Statistics.

Economic developments in the EFTA countries

Austria's real gross national product increased in 1971 by 5.2 per cent, compared with 7.8 per cent in the previous year. While foreign demand contributed much less to the expansion than in other recent years, all the domestic demand components rose. The value of commodity imports rose by 16.6 per cent and that of commodity exports by 9.6 per cent. The commodity trade deficit increased from \$723 million in 1970 to \$1,020 million in 1971, but this was matched to a large extent by an increase in net earnings from tourism. Special controls on bank liquidity were adopted in 1971. Consumer prices rose by 4.7 per cent over the year. Results for the first months of 1972 indicate only a slight further slowdown in economic activity and a rise in real GNP of some 4 per cent is forecast for the year as a whole.

In 1971 *Denmark's* real gross national product rose by 3.5 per cent. However, private consumption increased by only 1.8 per cent, total investment fell by 1.2 per cent and public consumption rose by 7.1 per cent. Total demand therefore grew much more slowly than total supply. It has been a major aim of Danish economic policy since 1969 to reduce the pressure of domestic demand so as to release resources for export industries and for import-competing industries. Seasonally adjusted, the current account of the balance of payments improved in 1971 in each quarter and the current account deficit for 1971 as a whole amounted to \$458 million, compared with \$542 million in 1970. The improvement in the balance of payments continued in the first quarter of 1972 and GNP is expected to rise slightly more in 1972 than in 1971.

The economy of *Finland* was in a recession in 1971. Demand in the most important export markets was slack and, in addition, some severe strikes took place in the first half of the year. Capital investment fell and consumer demand rose only very slowly. The growth of total production was only a little more than 1 per cent. Costs and prices increased considerably throughout the year, much faster than in the two previous years. As the growth rate of imports and even more so of exports retarded, with volumes actually declining, the trade and current account deficits continued to increase. The deficit on current account rose from \$239 million in 1970 to \$342 million in 1971. In the first quarter of 1972 imports of goods and services grew somewhat more slowly than exports and the current account deficit was somewhat reduced. Real gross domestic product is expected to increase $3\frac{1}{2}$ per cent and the current account is expected to improve slightly. The new collective wage settlement agreement for the year starting in April 1972 will give an average annual pay improvement of nearly 8 per cent for industrial workers and of almost 10 per cent for workers in the distributive and allied trades and costs are expected to rise slightly less than in 1971.

The economy of *Iceland* continued to expand strongly in 1971 and the real gross national product rose by 9 per cent. The rigid price freeze introduced at the end of 1970 and enforced until the end of 1971 reduced the rate of inflation, which at 12.3 per cent was still high, but close to the

average rate of the 1960s. A fall in the fish catch meant that in spite of continued rises in export prices, foreign income was only slightly higher than in 1970, whereas imports rose sharply, sending the trade account into a deficit of \$70.3 million. The over-all balance of payments was, however, as favourable as that of 1970, since there was a large net inflow of capital. Expectations of a growth of 7 per cent in real gross national product in 1972 depend heavily on conditions in high-productivity manufacturing industries since the fish catch is unlikely to rise by more than 4 per cent. Prices are again rising fast, as the effects of the big pay settlements of 1971 work through the economy.

Norway had a year of continued high economic activity in 1971, but with signs of decreasing demand pressures. The real gross national product increased by 5.0 per cent, compared with a rise of 3.5 per cent in 1970. The shipping sector contributed strongly to the rise in 1971. The deficit on the current account of the balance of payments was \$387 million, i.e. about twice as high as in 1970, reflecting a deterioration of the terms of trade, a slight increase in commodity exports and a strong increase stagnation in commodity imports. Total foreign exchange reserves decreased by \$97 million to \$1,042 million. In the first half of 1972 the rise in total output and employment slowed down somewhat. For the year as a whole an increase in real GNP of 4.5 per cent is forecast.

According to recent estimates *Portugal's* real gross national product increased in 1971 by 4.9 per cent, against 8.4 per cent in 1970. As in previous years, the greatest contribution to the expansion of the economy came from manufacturing output. Public consumption rose by about 10 per cent, i.e. slightly less than in 1970, but domestic consumer's expenditure increased sharply, following wage rises, increases in emigrants' remittances and extended credit facilities. Imports of goods and services rose by nearly 15 per cent. Consumer prices increased by about 10 per cent, the highest annual increase for many years. The foreign reserves of the escudo area grew in 1971 by more than \$275 million, a record annual rise, and reached \$1.8 billion.

In 1971 the *Swedish* economy showed strong signs of recession. Real gross national product increased by only 0.3 per cent, compared with an increase of 4.7 per cent in 1970, and the rate of unemployment rose from 1.5 per cent in the last quarter of 1970 to 2.9 per cent in the last quarter of 1971. Final domestic demand was 2 per cent less than in 1970, largely due to a decline in stocks and a sharp rise in private savings. Commodity imports decreased by 5.4 per cent and commodity exports increased by 5 per cent. The current account of the balance of payments recorded a surplus of \$175 million, after a record deficit of \$304 million in 1970. Economic policy was progressively eased in the course of 1971. The Swedish economy is now returning to a reasonable rate of growth. In the first half of the year fixed capital formation and consumption in the private sector were the principal expansionary forces. Real GNP is forecast to increase by 3.4 per cent.

Switzerland's rate of growth of real GNP is estimated to have fallen slightly from 4.6 per cent in 1970 to 4.2 per cent in 1971. All domestic

demand components, especially investment, contributed to the continued economic expansion. The continued high level of demand, together with the labour shortage, contributed to a further acceleration of cost and price increases. From December 1970 to December 1971 consumer prices rose by 6.6 per cent. Economic policy has remained restrictive. Restrictive monetary measures have included the adoption of special minimum bank reserve requirements and direct regional controls on the demolition of dwellings and the start of new building projects. The value of commodity imports and exports increased by more than 11 per cent. The commodity trade deficit rose from \$1,330 million in 1970 to \$1,464 million in 1971. For 1972 a continuation of the high level of activity is expected and real GNP is forecast to grow by almost 4½ per cent.

The *United Kingdom's* balance of payments continued in substantial surplus in 1971. The surplus on visible trade was \$728 million compared with only \$17 million in 1970. A greatly increased invisible surplus was also achieved and there was a very large amount of capital and unidentified inflows totalling \$5,500 million. Although exports were buoyant, the large trade surplus was to an important extent due to the low level of demand resulting from the slow economic expansion. Real gross domestic product rose by only 1 per cent in 1971, and as GDP rose less than productivity there was a consequent rise in unemployment. Retail prices, which had been rising at an annual rate of 11 per cent in the first half of the year, rose at a rate of 6 per cent in the second half and this rate of increase was maintained into 1972. Under the impact of reductions both in overtime and rates of pay settlements, average earnings were also rising more slowly, with the rise of 3.8 per cent for the six months ending in November 1971 compared with 7.6 per cent for the same period in the previous year. The Government introduced measures in July to stimulate demand with the strongest effects shown in sales of motor vehicles and other consumer durables. Investment has remained low, but is expected to revive in mid-1972, in response to the tax reductions and investment incentives introduced in the 1972 budget. Trends in industrial production, exports and imports in the first quarter of 1972 have been obscured by the effects of the miners' strike, but the official target of two years of expansion at an annual rate of 5 per cent should be attainable.

II. Internal developments in EFTA

Tariffs and quotas

Tariff reductions on industrial goods

Only Portugal and Iceland continue to levy import duties on industrial imports from other EFTA countries. 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. These arrangements are currently under review and it is expected that a new régime will be implemented as from 1st January 1973.

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.

In accordance with the provisions of Annex G of the Convention, the Councils continued to examine annual statistical information covering the years 1964 to 1967 inclusive provided by the Portuguese authorities on the percentage of exports of items under Annex G, and their relation to production in Portugal. In cases where this percentage was found to exceed 15, the items in question were made subject to a faster tariff dismantlement than the timetable applicable to Portuguese products as set out in Annex G. In addition, the Portuguese authorities have transferred a number of other items either to the régime of free trade or of an accelerated tariff dismantlement.

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 1972 in the manner provided for by the Convention as amended by the terms of Iceland's accession, so that the remaining restrictions, with a few exceptions, will be eliminated by the end of 1974.

Origin rules

The EFTA origin system has continued to work satisfactorily and only changes of a minor nature have been made. The qualifying processes for furfuryl alcohol¹ and polyvinyl acetate², which were introduced on a temporary basis, were further prolonged until December 1972 because of the continuing shortage within EFTA of certain raw materials. In addition, Schedules I, II and III to Annex B of the Convention were amended to take account of certain changes in the Brussels Nomenclature³.

Annexes D and E of the Convention

Following the changes in the Brussels Tariff Nomenclature referred to in paragraph 40 above, the EFTA Councils agreed, in November 1971, on certain consequential amendments, inter alia, of Annexes D and E of the Convention listing the agricultural and fish products which are not subject to EFTA tariff treatment.

Charges other than tariffs

Revenue duties

The Councils are considering proposals by the Portuguese authorities to introduce new taxation systems for manufactured tobacco goods and for spirituous beverages, including changes in the revenue duties imposed on such goods entering Portugal, so as to bring them into conformity with the Convention.

¹ Decision of the Council No. 4 of 1972 and Decision of the Joint Council No. 1 of 1972.

² Decision of the Council No. 5 of 1972 and Decision of the Joint Council No. 2 of 1972.

³ Decision of the Council No. 15 of 1971 and Decision of the Joint Council No. 6 of 1971.

Internal taxes

In 1968 the Councils instructed the Customs Committee to retain certain internal taxation rates or systems on its Agenda. Most of these were amended by the countries concerned in 1968-1971; only three outstanding taxes remain to be amended and it is expected that progress will be made by the end of this year.

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. Austria and Switzerland were, therefore, authorized in 1970 to apply a system of variable import levies for the products in question. The 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 those raw materials in the processed product. The levies are determined at six-monthly intervals and are changed, if necessary, on 1st January and 1st July of each year.

The Austrian turnover tax system

Following an examination of the Austrian turnover tax refund system used in conjunction with the "Zollfreizonen" (free zones) and "Vormerkverkehr" (temporary admission) systems, which the Committee of Trade Experts had carried out at the beginning of 1971, new provisions for turnover tax refunds on exports entered into force on 1st January 1972.

As regards the introduction of a value-added tax system, which would replace the cumulative turnover tax system, a draft Bill was passed by the Austrian Council of Ministers in January 1972, and was approved by Parliament in June 1972. The date for the introduction of the VAT system is 1st January 1973.

Finnish import equalization tax

In June 1971 Finland introduced, on a temporary basis, an import equalization tax on all imported processed products, which, when domestically produced, are affected by hidden taxes ("taxes occultes"). The tax was originally valid until 31st December 1971, but was later extended until 31st December 1972. Following the Councils' preliminary examination of the system, the Committee of Trade Experts considered, in September 1971 and in March and June 1972, the possible implications for EFTA trade of

the import equalization tax. The Committee expressed concern about the possible trade effects of the tax and the hope that it would be abolished as soon as possible. It was agreed that the matter should be kept under review.

Technical and other administrative barriers to trade

Pressure vessels

The authorities responsible in the EFTA countries for approving pressure vessels are parties to the scheme for the reciprocal recognition of tests and inspections carried out on pressure vessels, which entered into force on 1st January 1971. These authorities met in January and May 1972 in order to review the operation of the scheme. In addition they drew up a model form of declaration for initial inspection and individual testing carried out on a pressure vessel (other than a gas cylinder).

Ships' equipment

The expert group on marine life-saving and fire-fighting equipment met in November 1971 and April 1972. The group discussed certain amendments to the scheme for the reciprocal recognition of tests and inspections carried out on ships' equipment, which entered into force on 1st January 1971, and considered two agreements on common requirements for ships' equipment, i.e. lifeboat engines, and davits and winches, respectively. Such agreements on common requirements would constitute an important supplement to the scheme.

Agricultural machines and tractors

The scheme for the reciprocal recognition of tests carried out on agricultural machines and tractors for operational safety and ergonomics and for road traffic safety has been approved by the participating authorities and noted by the Council, and submitted to the participating authorities with a view to the entry into force of the scheme on 1st September 1972. It applies to machines, implements and vehicles for use in agriculture, horticulture and forestry, and their accessories, with the exception of electrical equipment, which are subject to the approval of a national authority.

Gas appliances

The scheme for the reciprocal recognition of tests and inspections carried out on gas appliances is expected to be noted by the Council and to enter into force on 1st August 1972. It covers any appliance using one or more of "gas families" 1, 2 or 3 as defined by the International Gas Union, and related accessories and fittings, which are subject to the approval of a participating approval body.

Reciprocal recognition schemes : common features

These four reciprocal recognition schemes are open to accession by competent authorities or bodies of other countries. In drawing up the accession clauses particular attention was paid to the proposed GATT Code of Conduct for preventing technical barriers to trade. Therefore the accession clauses already incorporated in the schemes or under consideration provide that competent authorities or bodies which are situated in a GATT country may participate in a scheme by merely submitting a request for participation which expresses willingness to accept the scheme and which gives a description of the approval requirements and the relevant technical institutions of the country concerned. Although the schemes were worked out within the framework of EFTA they constitute independent agreements. They will however retain an institutional link with EFTA, and the Secretariat services necessary for their operation will where requested be provided by the staff of the EFTA Secretariat.

Pharmaceuticals Convention

The Convention for the Mutual Recognition of Inspections in respect of the Manufacture of Pharmaceutical Products, which was signed in Geneva on 8th October 1970 by all nine EFTA countries and by the Principality of Liechtenstein, has now been ratified by eight States, Sweden, Norway, Denmark, Iceland, Finland, Portugal, the United Kingdom and Austria. It entered into force on 26th May 1971 in respect of the first five States to ratify it. The process of ratification is not yet completed in the remaining signatory States.

The Convention applies to any medicine or similar product, intended for human use, which is subject to control by health legislation. A prerequisite 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. The first meeting took place in Geneva on 16th May 1972.

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

Other activities relating to pharmaceuticals

The working party on pharmaceutical inspections which had been set up to prepare for the operation of the Pharmaceuticals Convention completed the elaboration of "Basic Standards of Good Manufacturing Practice for Pharmaceutical Products", which was published by the EFTA Secretariat in April 1972, and compiled a Guide on the Preparation of Information requested under the Convention. Guidelines were also formulated on the handling of starting materials and on the manufacture of sterile products. These documents are intended to further common understanding of pharmaceutical inspections and thus facilitate the exchange of information under the Convention.

The first round of workshops in the different EFTA countries was completed by a visit by a group of EFTA pharmaceutical inspectors to Helsinki in August 1971. In April 1972 a new type of technical activity—part seminar, part workshop—was organized in Stockholm, and representatives from the Canadian and United States authorities also participated. The theme was the avoidance of contamination. The meeting ended with a visit to a Swedish pharmaceutical manufacturer.

By the end of the year under review preparations were at an advanced stage for a seminar on "The Quality of Pharmaceutical Products—the Rôle of the Inspector". It is being organized by the EFTA Secretariat in co-operation with the Ecole Nationale de la Santé Publique, Rennes, France, and will take place at the school from 27th to 29th September 1972. The seminar, which will be open to pharmaceutical inspectors and officials of national health authorities within EFTA and the EC, is intended to provide a forum for the exchange of information and experience in the field of inspections, with special reference to those areas where the assessment of the individual inspector is of paramount importance.

Precious metals

In March 1972 the Committee of Trade Experts, with the help of assay masters, drew up a text for a draft Convention on the Control and Marking of Articles of Precious Metals. The agreement provides that where any

article of precious metal has been controlled and marked by an authorized assay office of a Contracting State in accordance with the provisions of the agreement, such article shall be accepted as fulfilling the requirements of the other Contracting States in respect of their national assay and hall marking regulations. It is provided that each article will be marked with a registered responsibility mark, a mark showing an accepted standard of fineness, the mark of the authorized assay office, and a Common Control Mark consisting of a symbol (the representation of a balance) together with a number showing the standard of fineness and a shield indicating the nature of the precious metal. The draft Convention was expected to be noted by the Council early in July 1972 with a view to the signature of the Convention by interested countries in the course of the year.

Origin marking regulations

In December 1971 the Committee of Trade Experts carried out a review of the origin marking regulations of Member States. The review revealed that although progress had been made in some Member States towards abolishing existing origin marking regulations, a number of compulsory origin marking regulations were still maintained in certain countries. The Committee urged Member States to accelerate the abolition of the remaining requirements, giving priority to those of special concern to EFTA trade.

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.

In October 1971 the Agricultural Review Committee concluded its annual review of trade in agricultural goods during 1970. Because the previous annual review report was devoted to a description of developments in agriculture in EFTA as a whole, as well as in each of the EFTA countries, during the nine-year period covered by the annual reviews, it was felt that the 1971 Annual Review should be limited to a factual description of the development in 1970. In view of this, and of the current negotiations and discussions with the EC, the Agricultural Review Committee did not deem it appropriate to draw any more far-reaching conclusions from the 1970 examination.

The report indicates that intra-EFTA exports of agricultural goods increased by 10 per cent in terms of value, while intra-EFTA exports of non-agricultural goods increased by 17 per cent during the same period. On the other hand, in terms of volume agricultural exports declined somewhat.

The Committee's examination of trade developments indicated, inter alia, that the curbing policy in the dairy sector had in some countries led to increased production surpluses of other agricultural products, e.g. eggs and pork. The disposal of some of these surpluses at subsidized prices had had detrimental effects on exports from other EFTA countries.

The Councils at official level agreed in March 1972 that there should be no meeting of the Agricultural Review Committee in the following June, but that in September or October the Councils would review the situation on the basis of a paper to be prepared by the Secretariat.

Possible improvements in intra-EFTA agricultural trade

The Councils decided in June 1971 that certain agricultural products, although contained in Annex D, should be given more liberal treatment in intra-EFTA trade. This decision was implemented at the beginning of September 1971 ¹.

Escape clauses, consultations and complaints

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.

Danish import surcharge

With effect from 20th October 1971, the Danish authorities imposed a temporary import surcharge of 10 per cent on many goods imported into Denmark, as one of a variety of measures aimed at redressing the balance of payments situation and at stabilizing the Danish economy with a view to

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

maintaining the parity of the Danish crown, ensuring full employment and preparing Danish economic life for the challenge which Denmark's accession to the EC would entail. The surcharge of 10 per cent is to be reduced to 7 per cent on 1st July 1972, to 4 per cent on 1st January 1973 and to be eliminated on 1st April 1973.

At the EFTA Ministerial meeting in November 1971 Ministers, while expressing their understanding of the difficult problems facing Denmark, noted with regret the decision to introduce the surcharge; they instructed the Councils at official level to examine the Danish measures and their implications and to keep the matter under review.

The economic aspects were considered by the Economic Committee in January 1972; its report, which stated that while the Danish economic problems were severe enough to require strong measures, it was not convinced that the surcharge was the appropriate measure, was taken into account by the Councils which continue to keep the matter under review. At its meeting in June 1972 the Economic Committee reaffirmed this view.

Measures taken in Sweden to bring forward public procurement

In order to improve the employment situation, certain measures were taken in Sweden during 1971 to bring forward public procurement orders. Since the measures gave rise to some concern as to their possible practical effects on EFTA trade, the Councils instructed the Committee of Trade Experts to examine this aspect of the matter. The Committee noted in its report that the examination had been carried out on the basis of full information provided by the Swedish authorities, and stated that it had not been able to identify any significant practical effects on intra-EFTA trade. The Committee recommended that in future the matter should be dealt with on an ad hoc basis. The Councils noted this report at their meeting on 20th April 1972.

Other questions

Patents

Twenty-one European nations, including all the seven original Member States of EFTA and Finland, have taken part in an intergovernmental conference for the setting up of a European system for the granting of patents. The conference finished its work in June 1972.

The aim of the conference was 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 second preliminary draft of the Convention, together with a first draft of the implementing regulations and the rules relating to fees was published in 1971 and has already been discussed at a fifth intergovernmental conference in January 1972 with non-governmental international organizations representing industry, inventors, patent agents and patent lawyers.

At a sixth session of the conference held in Luxemburg in June 1972 agreement was reached on the final texts. It was decided that the seat of the European Patent Office should be in Munich, with a branch at The Hague. Provision was also made for the examination of some European patent applications at existing national offices for a period of 15 years. The Government of the Federal Republic of Germany issued an invitation for a Diplomatic Conference which is likely to be held in the autumn of 1973 at which the intention is that the convention will be signed.

Study of the effects of the economic division of Western Europe

This study was published in June 1972 under the title: "The trade effects of EFTA and the EEC 1959-67". The new book contained the second stage of the investigation by the EFTA Secretariat which had led earlier to the publication in January 1969 of "The effects of EFTA on the economies of Member States". The Secretariat then worked on the second stage of the investigation which extends the coverage to take account of the European Economic Community and analyses the trade effects of the two blocs on themselves and each other. The second study includes statistics from 1959 to 1967 and considers the years 1965, 1966 and 1967 individually, whereas the first study was concerned only with the effects up to 1965.

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 carried out a study of the effects on prices of tariff dismantling in EFTA. A working party from the EFTA countries agreed that an econometric model proposed by the Secretariat should serve as a basis for the work. However, although a number of different methods of analysis were tried, it proved impossible to arrive at statistically meaningful results, partly because sufficiently detailed statistics were not available. The Council therefore decided that there was no point in continuing the study.

The relation between tariff changes and price movements is fairly complex and it is doubtful whether standard econometric techniques are sufficiently sensitive to identify it, given the statistics available. The work done on this study has, however, proved to be of interest both from a practical and from a theoretical point of view. In particular, the econometric difficulties encountered were instructive in calling attention to the problem of singling out the effects of one comparatively unimportant factor from the effects of several economic influences on a variable such as retail prices.

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.

The Economic Committee

The Economic Committee has continued to concentrate its discussions on current problems, rather than on the general situation in Member countries. At the 15th Meeting of the Committee, on 11th and 12th January 1972, the influence of a number of factors on wage developments in Member States was discussed. After a review of specific economic problems in some Member States, the Committee discussed in some detail recent developments in international and European monetary relations.

At its 16th Meeting on 20th and 21st June, the Committee reviewed some special problems in Member States and continued its discussion of current international and European monetary and economic problems and policies.

The Economic Development Committee (EDC)

The 9th Meeting of the Economic Development Committee took place in Geneva in December 1971.

A report on Industrial Mobility, the fourth in a series of studies on aspects of regional development prepared by an EDC working party was published in September 1971. It has been well received and 7,000 copies have been distributed.

The final report of the EDC working party on Foreign Investment in Tourism in Madeira was submitted to the Council in December 1971.

The Consultative Assembly of the Council of Europe, in a resolution unanimously adopted at its 23rd Session in October 1971, congratulated EFTA "on the contribution that its Economic Development Committee had made to the study of important aspects of how to ensure the development of less-favoured regions in Europe and expressed the hope that this work, which was of the greatest value to Western Europe as a whole, would continue irrespective of the particular arrangements which might be called for in the context of creating a wider Europe".

The Councils have since instructed the EDC to carry out a further study in its series on regional development. The subject of the study, fifth in the series, is "New Patterns of Settlement". The Study is being carried out by a working party, under the Chairmanship of Professor Torsten Hägerstrand of Sweden. Meetings of this working party were held in February and May 1972.

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. These meetings, as usual, preceded meetings of the Ministerial Councils by a few weeks, and reports on them formed separate items on the Ministers' Agendas. The meetings of the Consultative Committee were prepared by an Agenda Committee consisting of one representative from each of the EFTA countries. At the 23rd Meeting in October 1971, the EDC's study on Industrial Mobility was made the subject of a special debate and at the 24th Meeting in April 1972 the Secretariat study "The Trade Effects of EFTA and the EEC, 1959-67" was 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

In accordance with custom, Parliamentarians from the EFTA countries twice met informally in Strasbourg on the occasion of sessions of the Consultative Assembly of the Council of Europe.

Information activities

Throughout the year the major focus of interest in European integration in the Press and other news media was the progress of the negotiations between the EFTA countries and the European Communities. As a result less interest was shown in specifically EFTA matters. There was however throughout the year a sustained flow of requests to the Secretariat for information about EFTA.

New editions in Danish, English and German of the 24-page booklet "Nine countries — One Market" were published during the year. Despite a pruning of the distribution lists for the EFTA Bulletin, the circulation remained high as fresh requests for it were received. Apart from these, six new publications were issued during the year. As usual, the Annual Report was published in English, French and German editions. And a report prepared by working parties of the Economic Development Committee was published in the summer of 1971, under the title "Industrial Mobility" (page 29).

Two of the year's new publications were linked with the pharmaceuticals convention worked out within EFTA and signed on 8th October 1970 by all nine EFTA countries (page 22). The first contained the text of the lectures given at a seminar, held in April 1971 under the auspices of EFTA, on "Safety aspects involved in the packaging and labelling of pharmaceutical products". The lectures were prepared by pharmaceutical inspectors, public health officials and representatives of the pharmaceutical and allied industries in EFTA and other OECD countries. The second—"Basic Standards of good manufacturing practice for pharmaceutical products"—was prepared by the EFTA working party on pharmaceutical standards.

Finally, two new economic studies were published during the year. The first of these—"EFTA Trade 1970"—was the latest issue in the series of annual trade studies published by the EFTA Secretariat. The other was the second stage of a major study of the effects of the division of Western Europe into two trading groups, published under the title "The trade effects of EFTA and the EEC 1959-67". (See page 28.) The whole of the June 1972 issue of the EFTA Bulletin was devoted to a presentation of the conclusions of the study.

The EFTA Information Office in Washington continued to function as a distribution point for all EFTA material, for which there is a steady demand in the United States and in Canada. The monthly newsletter "The Reporter", continues to be published in Washington.

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-five meetings, all of which were held simultaneously. In addition, the two Councils met at Ministerial level in Geneva on 4th and 5th November 1971 and on 4th and 5th May 1972.

For the period 1st July-31st December 1971 Finland carried the Chairmanship of the Joint Council and the United Kingdom the Vice-Chairmanship. The Chairmanship of the Council was held by the United Kingdom and the Vice-Chairmanship by Austria. Finland presided over the simultaneous meetings of the two Councils. The United Kingdom and Austria held the Chairmanship and Vice-Chairmanship respectively of both Councils for the period 1st January-30th June 1972.

Administration and Finance

The Secretariat

On 6th May 1972, Mr. Bengt Rabaeus became the new Secretary-General of the Association following the retirement of Sir John Coulson, K.C.M.G. Mr. Rabaeus had served as Deputy Secretary-General since 1st March 1966. Mr. Alfred Wacker was confirmed in his function of Deputy Secretary-General, the position he has held since November 1966. The period also saw a reduction in the strength of the Secretariat. At the end of June 1972, the staff at the EFTA Headquarters in Geneva totalled 80: of this 37 were in the Professional Category or above and 43 were in the General Service grades. The names of the principal officers are given on the last page. The Washington Information Office continued to function as a distribution point under a locally recruited office manager.

Finance

The net budget for 1971/1972 was 8,106,650 Swiss francs. As changes in the structure of the Association were likely to be introduced after the withdrawal of the acceding countries, a budget for the first half of the financial year 1972/1973 (July/December) was established at S.Frs. 3,879,963 gross which, after deduction of estimated income, left a net sum of S.Frs. 3,785,963 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 1971/1972 were on the following basis (the figures assessed for the first half of the financial year 1972/1973 are shown in brackets): United Kingdom 30 per cent (30 per cent), Sweden 21.149 per cent (20.859 per cent), Switzerland 14.017 per cent (13.966 per cent), Denmark 9.289 per cent (9.280 per cent), Austria 8.128 per cent (8.486 per cent), Norway 6.884 per cent (6.894 per cent), Portugal 3.318 per cent (3.357 per cent), Iceland 0.829 per cent (0.883 per cent). The contribution of Finland, which is an Associate Member, was 6.386 per cent (6.275 per cent).

III. External relations

OECD

The Secretariat was represented at Ministerial meetings of the OECD and at meetings of the Economic Policy Committee, the Trade Committee and at certain meetings of the Industry Committee and of the Economic and Development Review Committee.

GATT

Members of the Secretariat attended, as observers, those GATT meetings of special interest to EFTA. 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.

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.

Council of Europe

The Eleventh Annual Report of EFTA was presented to the Consultative Assembly of the Council of Europe in October 1971. 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 alternatively in Strasbourg and Geneva, and informally between such meetings.

UN 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, in particular those dealing with standardization and non-tariff barriers to trade.

Nordic Council

Representatives of the EFTA Secretariat attended the 20th Session of the Nordic Council held in Helsinki in February 1972. The Session was partly devoted to a discussion of European integration.

Customs Co-operation Council

The Secretariat has been kept informed of developments in the Nomenclature Committee, Permanent Technical Committee and also the Study Group established by the Customs Co-operation Council on the development of a harmonized commodity description and coding system.

Exchange of technical information with the European Communities

In September 1971 there was a further meeting in Brussels between representatives of the EFTA Secretariat and the Commission of the European Communities for an exchange of information on technical matters.

Appendix

Ministerial meetings of EFTA Councils

Geneva, 4th and 5th November 1971

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 4th and 5th November 1971.

In the EFTA Council, with the Finnish Minister taking part in a personal capacity, a full discussion of the present situation and prospects of wider European integration took place. Ministers noted with satisfaction the considerable progress which had been made since their last meeting in the negotiations and discussions of EFTA countries with the European Communities.

The membership negotiations of most of the candidate countries had virtually been completed and it could now be expected that the necessary membership treaty could be signed towards the end of the current year. The prospects for suitable special relations agreements between the Communities and the other EFTA countries had also improved considerably. Ministers hoped that negotiations to this end should start soon and be pressed forward as rapidly as possible. The concept of the Communities would provide a good basis for the negotiations which were about to begin. The Community's desire that no new barriers to intra-European trade would be erected as a consequence of enlargement is in line with the strong interest which EFTA Ministers have expressed and reaffirm in safeguarding as an important part of an enlarged European Community the free trade already established between EFTA countries. The forthcoming agreements should also be in conformity with the GATT. Ministers stressed the importance which they attached to adherence to these objectives in the elaboration of the agreements. The exchange of information and consultations between the EFTA countries would continue during these negotiations.

Ministers emphasized the desire of all concerned that all the agreements between the EFTA countries and the Communities should enter into force at the same time.

Ministers asked the Council at official level to examine the legal and other implications which will arise in the event of some Members acceding to the European Communities, and others establishing special relations with the Communities. They were informed of the intention of the United Kingdom to give notice on 31st December 1971 of their withdrawal from EFTA, to come into effect on 31st December 1972.

During their discussion of developments affecting world trade, Ministers expressed concern that recent monetary and trade measures taken for balance of payments reasons could seriously undermine the progress which has been made towards the reduction of restrictions on world trade. Therefore Ministers hoped that quick solutions could be found in the monetary field and that recently introduced trade restrictions could be removed as rapidly as possible before lasting damage was done, pending the necessary reform of the international monetary system. Ministers stressed the necessity of continued efforts towards freer world trade and underlined the importance which the activities in organizations such as GATT and the OECD will have in this connection.

Ministers stressed the importance of further promoting trade and economic relations between Western and Eastern European countries to the mutual benefit of the parties concerned. They attached special importance to improving the trading possibilities of the developing countries.

The Danish Minister gave an account of the recent measures taken by Denmark to deal with the serious balance of payments situation of his country. Ministers expressed their understanding of the difficult problems facing Denmark, but noted with regret the recent decision of the Danish Government to introduce an import surcharge, particularly in the context of the present world trade situation. They instructed the Councils at official level to examine the matter further.

Ministers agreed that the next regular Ministerial meeting of the Councils will take place in Geneva on 4th and 5th May 1972.

Geneva, 4th and 5th May 1972

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 4th and 5th May 1972. Mr. Michael Noble, Minister for Trade of the United Kingdom, was in the Chair.

In the EFTA Council, with the Finnish Minister taking part in a personal capacity, Ministers reviewed recent developments in European integration.

Ministers welcomed the successful conclusion of the negotiations of Denmark, Norway and the United Kingdom for membership of the Communities and the signature by those countries of the accession treaty in Brussels on 22nd January 1972.

All Ministers expressed their satisfaction that the first phase of the negotiations between the non-candidate EFTA countries and the Community had now been completed and that agreement in principle had been reached on a number of important constituent parts of the prospective special relations agreements. On the other hand Ministers noted with concern that a number of problems of crucial importance to the individual non-candidate countries remained unsolved. They stressed the importance of reaching balanced solutions which would be mutually satisfactory and safeguard the free trade already established between EFTA countries.

The Ministers of the acceding countries stated that they would continue to bear fully in mind the importance of these questions during their consultations with the Communities.

As the agreements should come into force at the same time as the acceding countries enter the Communities, i.e. 1st January 1973, sufficient time must be left for the necessary ratification procedures. For this reason, all Ministers underlined the importance of concluding the negotiations before the summer recess.

Ministers reiterated their conviction, which had also been expressed by the Ministers of the Communities, that all new arrangements would be in conformity with the provisions of the GATT.

Reviewing the international economic outlook, Ministers expressed their satisfaction at the efforts being made by governments and the international organizations concerned to contribute to the solution of the basic problems facing the world economy, including the international monetary problem.

Ministers welcomed the initiatives which had been taken by the European Communities, Japan and the United States in putting forward proposals for a new global trade negotiation in the GATT beginning in 1973. All the EFTA countries expressed their desire to participate in such a negotiation and to do everything possible to bring it to a successful conclusion. They believed that the success of such a GATT negotiation would be greatly to the benefit of the world at large and stressed the view of all EFTA Governments that particular consideration would have to be given to the interests of developing countries.

Ministers reaffirmed their support for the efforts being made in the conference of UNCTAD in Santiago de Chile, to improve the conditions of developing countries with regard to trade, financial and monetary matters. In the view of all EFTA Governments, the interests and needs of developing countries would have to be taken fully into account in all international negotiations.

In welcoming the growth and broadening of East-West economic relations which had in general taken place in recent years, Ministers expressed the hope that these favourable trends would continue to develop along with the overall growth of trade of the EFTA countries.

Ministers paid warm tribute to Sir John Coulson on his retirement as Secretary-General. The services he had rendered to EFTA since 1965 had been of the greatest value and the Association was deeply indebted to him. They expressed satisfaction that continuity in the direction of the Secretariat would be ensured as Sir John would be succeeded by Ambassador Bengt Rabaeus who had been his Deputy since April 1966, while Mr. Alfred Wacker would continue in his function as Deputy Secretary-General.

At the invitation of the Austrian Government Ministers decided to meet again on 16th and 17th November 1972 in Vienna.

European Free Trade Association
July 1971-June 1972

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Portugal	Sweden	Switzerland	United Kingdom

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* Mr. Rabaeus succeeded Sir John Coulson on 6th May 1972.

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