

1976-1977

Seventeenth Annual Report
of the
European Free Trade
Association



Geneva-September 1977

ERRATUM

Seventeenth Annual Report of the
European Free Trade Association

Page 39. The sentence beginning eleven lines from the bottom of the page should read :

"Formal negotiations between the EFTA countries and Spain were accordingly opened in Geneva on 28th June."

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Table of contents

I. THE YEAR IN EFTA : JULY 1976 TO JUNE 1977	7
II. THE VIENNA MEETING	9
III. INTERNAL DEVELOPMENTS IN EFTA	11
<i>Tariffs and quotas</i>	11
Tariff reductions on industrial goods	11
Quantitative import restrictions	11
Amendments to Annex G to the Convention	12
<i>Origin rules</i>	12
Changes introduced during the year	12
Effects of changes in Customs classification	13
<i>Charges other than tariffs</i>	13
The Finnish import equalization tax	13
The Finnish turnover tax system	14
<i>Agriculture</i>	14
Annual review of agricultural trade	14
Processed agricultural products	14
Agricultural concessions to Portugal	15
<i>Escape clauses, consultations and complaints</i>	16
The general consultations and complaints procedure	16
Finland : temporary import restrictions on consumer durables	16
Finland : import deposit scheme	16

Finland : cash payment for imports	16
Portugal : balance of payments measures	17
Norway : licensing of some textile imports	17
Finland : origin marking regulations	18
Sweden : global quotas for footwear imports	18
Austria : reference prices for imported tights	18
Sweden : licensing of some textile imports	18
Switzerland : border charges on some animal feeding-stuffs	18
Finland : surcharge on imports of tights and of rubber boots	19
<i>Technical barriers to trade</i>	19
The "INST" procedure	19
Preparation of new reciprocal recognition schemes	19
Registration of pharmaceutical products	20
Trade mark law	20
<i>Assistance to Portugal</i>	21
Industrial Development Fund for Portugal	21
Industrial co-operation : the Paues Plan	22
Other forms of assistance to Portugal	22
<i>The Association with Finland</i>	23
<i>The Economic Committee</i>	23
<i>The Committee of Trade Experts</i>	24
<i>The Committee of Origin and Customs Experts</i>	25
<i>The Consultative Committee</i>	25
<i>The Economic and Social Sub-Committee of the Consultative Committee</i>	27
<i>Other standing committees</i>	28
<i>EFTA Parliamentarians</i>	28
<i>Publications</i>	29
<i>The EFTA Council and the Joint Council of EFTA and Finland</i>	30

<i>Administration and Finance</i>	30
The Secretariat	30
Finance	30
 IV. CO-OPERATION IN OTHER FIELDS	33
The reciprocal recognition schemes	33
Pharmaceutical Inspection Convention	34
Hallmarking Convention	34
 V. EXTERNAL RELATIONS	37
Relations with the European Communities	37
Relations with other market economy countries in Europe . .	39
Relations with Yugoslavia	39
Relations with international organizations	40
 VI. EFTA TRADE IN 1976	41
Trade balances	41
Total trade	42
Intra-EFTA trade	42
EFTA-EC trade	43
EFTA trade with the United States	43
EFTA trade with Eastern Europe	43
EFTA trade with the rest of the world	44
 Appendix : Lisbon meeting of the Ministerial Councils : commu- niqué	49
The Vienna summit : communiqué and declaration .	51
Consultative Committee meeting, September 1976 : statement	57
Stockholm meeting of the Consultative Committee : communiqué	61

I. The year in EFTA: July 1976 to June 1977

The twelve months covered by this report formed a period in which the main day-to-day task of the Association was as usual to administer the free trade between the seven countries of EFTA. But it was also a period of intense reflection on the future which is only incompletely reflected in the technical sections that follow in this annual report: reflection on the prospects for Western European economies and the world economy in general during months in which the revival of trade and economic activity had lost its earlier momentum; and reflection on the strategy to be adopted by EFTA after the accomplishment of its objective of free trade in Western Europe.

During the twelve months unemployment remained at a high level in Western Europe as a whole, and even in those countries, several of them in EFTA, in which the percentage of the labour force out of work remained low, the threat of unemployment persisted. Inflation, or the danger of renewed inflation, continued even though the various countries had had different degrees of success in restricting it. There were also considerable payments imbalances overshadowing world trade and business activity generally.

Despite the difficult economic situation facing the EFTA countries, there was very little recourse to protectionist measures to isolate individual countries from the general slackness of the world economy. A number of restrictive actions that had been taken earlier were in fact ended. Indeed one of the encouraging aspects of world trade in this period was that, despite the growth in the pressure in many industrialized countries in favour of restrictions to shield particular sectors, there was a general consensus that the problems of individual industries could not be solved by the unilateral limitation of competitive imports.

In these difficult circumstances the progress towards free trade in Western Europe continued. On 1st July 1977, the day after the period covered by this report, the final duties on most industrial trade between the sixteen countries in EFTA and the European Community were removed on schedule. There remain duties on a number of industrial products—particularly paper and some metals—but there is a firm timetable for the removal of these duties. In all other respects the free trade in industrial goods, which the EFTA countries set as a goal as long ago as the late 1950s, has been realized.

This free trade does not yet extend to all the market economy countries of Western Europe but a new step towards the completion of this design was taken when the EFTA countries expressed their wish in May 1977 to open negotiations with Spain as soon as possible on a multilateral trade agreement

with the final objective of establishing free trade in industrial goods between them. The proposal was accepted by the Spanish Government on 27th May and negotiations were formally opened in Geneva on 28th June.

After informing its partners in EFTA of its intention, the Portuguese Government presented a request for membership of the European Community on 28th March 1977. The application was regarded with understanding and sympathy by the other EFTA Governments which noted that the Portuguese action was compatible with the preservation of the free trade established within EFTA—free trade had been maintained with Denmark and the United Kingdom after their accession to the EC—and with the maintenance of close relations and co-operation with all EFTA countries.

The approach of 1st July 1977 and the uncertainties about the world economic outlook combined to focus attention on the growing interdependence of the countries of Western Europe and indeed of all the nations of the world. The implications were widely discussed in the EFTA countries during the year, and the discussions were reflected and carried forward in a number of meetings held within the framework of EFTA.

The Consultative Committee provided a forum for deliberations in which the experience and ideas of a large body of representatives of the various sectors in the EFTA countries—employers, trade unions, chambers of commerce and other national interests—were brought to bear on these matters. One of the four meetings which the Committee held during the year was of particular significance. Members of the governments of the EFTA countries participated in this meeting, which was held in Stockholm in February 1977, and there was a full debate on the economic situation and on future developments in Western Europe.

A general consensus emerged from the meeting that priority must be given to the objective of achieving a lasting return to full employment and at the same time of obtaining sustained growth and economic stability.

From the communiqué issued at the end of the meeting it is clear that the participants attached great importance to the maintenance of free trade in EFTA and to the continuation of a liberal policy on world trade. They rejected protectionism, asserting that it provided no solution to economic problems.

The Committee also stated that the free trade achieved in Western Europe needed to be safeguarded and that closer consultations on economic questions would be required. To this end the Committee recommended that the possibility of further pragmatic and practical contacts between the EFTA countries and the EC should be explored.

II. The Vienna meeting

A summit meeting of Members of Government of the EFTA countries was held in Vienna in May 1977 at the invitation of the Federal Chancellor of Austria. The conference was outside the institutional framework of EFTA. The participants were the Prime Ministers and other Ministers from all the EFTA countries, and upon invitation the Secretary-General of EFTA was also present. This was the first time in eleven years that a meeting between EFTA Governments had been held at this level. In part the meeting served to mark the achievement on 1st July 1977 of free trade in an area covering almost the whole of Western Europe, but it was also an occasion to discuss the future role of the EFTA countries in the context of European and world economic co-operation and development, and it charted a future course for the EFTA countries and the Association. The agreement reached on this occasion was formulated in a communiqué and declaration that are given in full in the Appendix to this report.

The Ministers expressed concern over the economic situation in Europe and emphasized that close international co-operation between all parties concerned was a prerequisite for achieving economic growth with full employment, combined with lower inflation rates.

On EFTA itself, they reaffirmed the commitment of the EFTA Governments to the concept of free trade, the consolidation of free trade and the intensification of co-operation in all trade matters. The EFTA Governments also resolved to strengthen the role of the organization as a framework for consultation on subjects of common economic interest related to the objectives of the Association.

On relations with the European Community they began by noting the increased interaction between the economies of the sixteen countries in EFTA and the EC and stressed the importance of ensuring that the advantages derived from free trade are not jeopardized as a result of diverging economic developments and policies. They concluded that it would be desirable to develop, in varying degrees of intensity, the co-operation between the EFTA countries and the European Community by means of an increased exchange of information and closer consultations on economic questions and, where appropriate, co-ordinated efforts in order to safeguard free trade and to improve the general economic environment. They also mentioned certain matters which might in particular be the objects of closer co-operation: the promotion of a stable economic growth, the fight against unemployment and inflation, and the securing of monetary stability. The Ministers identified a

number of other fields of interest for wider economic co-operation, and also drew attention to the mutual benefit for the EFTA countries and the EC that could be derived from a simplification and improvement of the origin rules in the free trade agreements.

The Ministers also turned their attention to wider aspects of economic co-operation. They confirmed the readiness of the EFTA countries to join in efforts towards a fruitful expansion of trade on the basis of reciprocity with the East European countries, thus intensifying economic co-operation throughout the whole of Europe. They also reaffirmed the commitment of the EFTA Governments to liberal world trade policies, their full support of the Multilateral Trade Negotiations in the framework of GATT and of the efforts of the OECD to maintain an open trading system. And they reiterated their will to contribute constructively to an increased participation of the developing countries in the world economy.

III. Internal developments in EFTA

Tariffs and quotas

Tariff reductions on industrial goods

Of the EFTA countries, only Iceland and Portugal are still permitted to levy import duties on industrial products imported from other EFTA countries.

In accordance with the timetable laid down on its accession to EFTA Iceland's import duties were reduced from 40 to 30 per cent of the basic duties on 1st January 1977. Three more annual 10 per cent reductions will bring the rate to zero on 1st January 1980.

Portuguese import duties on most goods covered by paragraph 4 of Annex G to the Stockholm Convention were reduced from 30 to 20 per cent of the basic duties on 1st January 1977 and are to be abolished from 1st January 1980. For about 160 tariff headings Portugal was authorized in December 1976¹ to extend the timetable until 1st January 1985. On all but three of these headings the duties are to be reduced from 30 to 20 per cent of the basic duty on 1st January 1983.

Quantitative import restrictions

Iceland continues to apply quotas to the import of a few goods containing sugar, which is not a free trade product in EFTA.

The global import quotas on leather shoes, plastic shoes and rubber boots, introduced by Sweden on 5th November 1975 for reasons of defence policy, remained in force throughout the twelve months covered by this report. For leather and plastic shoes the Swedish Government decided to remove the quotas from 1st July 1977 according to a government proposal for the restructuring of the shoe industry which was accepted by the Swedish Parliament. The quota for rubber boots is to remain in force in its present form until the end of December 1977.

¹ By Council Decision No. 16 of 1976 and Decision of the Joint Council No. 10 of 1976, adopted on 16th December 1976.

Quantitative restrictions on the import into Portugal of goods not accounting for more than 5 per cent of total imports in 1976 were included in a package of measures introduced by the Portuguese Government on 25th February 1977. The package was designed to help to overcome the country's economic crisis.

Amendments to Annex G to the Convention

An amendment to Annex G, empowering the Councils to authorize Portugal to prolong until the end of 1984 the timetable for the removal of tariffs on some products, came into force at the end of August 1976 after the necessary constitutional approvals had been obtained in the EFTA countries. In response to a Portuguese request the Councils decided in December 1976, as was mentioned above, to permit a prolongation for some 160 tariff headings and laid down a timetable for the reduction of the duties on these products. For all but three of the products the duty is to be reduced to 20 per cent on 1st January 1983 and to zero on 1st January 1985. The timetables for products covered by the other three headings will also lead to nil duties on 1st January 1985.

Subject to the necessary constitutional approvals the Councils also decided on a new amendment¹ to Annex G which would enable them to authorize Portugal, on its request, to apply an import duty until 1st January 1985 on particular products. Portugal had asked in June 1976 to be able to impose duties of up to 20 per cent on the import of products of kinds that are manufactured in Portugal but by industries that were in a particularly difficult economic situation. A list of products to be covered by this concession was established at the Ministerial meeting in Lisbon. A number of goods were mentioned in the original request which, after the deletion of some items in an initial discussion, related to about 3.2 per cent of Portuguese imports in 1974 according to the Portuguese authorities.

Origin rules

Changes introduced during the year

The origin rules applied in EFTA, which with few exceptions are identical with those in force under the free trade agreements which each of the EFTA countries has with the European Communities, were kept under review during the year. Two decisions amending the rules were adopted by the EFTA

¹ Decision of the Council No. 15 of 1976 and Decision of the Joint Council No. 9 of 1976, adopted on 16th November 1976.

Council and endorsed by the Joint Council of EFTA and Finland, and came into force on 1st December 1976. Corresponding decisions came into effect under the FTAs at the same time.

The first decision¹ involved a variety of changes in the detail of the rules for a number of products, affecting both List A and List B in Part I of Annex B to the Convention. The changes were made to take account of developments in the techniques used in the manufacture of the products concerned and in the international economic conditions of trade in them. The eighth supplement to the loose-leaf edition of the Convention includes the new rules for these products.

The second amendment² clarified the meaning of a term used in the rules relating to drawback (Article 23 of Part I of Annex B) without altering the basic principle that finished goods originating in EFTA may not benefit both from EFTA (duty-free) tariff treatment and from drawback of duties on imported materials incorporated in the finished goods.

Effects of changes in Customs classification

At the request of the Councils, the Committee of Origin and Customs Experts has been studying the implications for the origin rules of proposed amendments to the internationally agreed classification contained in the Customs Co-operation Council (CCC) Nomenclature. In June 1976 the CCC recommended extensive changes in the nomenclature in order to bring it into line with current production techniques and trade patterns, and the changes are expected to come into force on 1st January 1978. The aim of the Committee's examination is to see that the revision, which will entail adjustments to the wording of the origin rules, will not alter their substance.

Charges other than tariffs

The Finnish import equalization tax

No change was made, in the twelve months to the end of June 1977, in the provisions of the Finnish import equalization tax. The tax, which has been in force since June 1971, applies to the import of products which, when produced in Finland, are affected by certain indirect taxes for which there is no compensating tax at the border.

¹ Decision of the Council No. 13 of 1976 and Decision of the Joint Council No. 7 of 1976, adopted on 4th November 1976.

² Decision of the Council No. 14 of 1976 and Decision of the Joint Council No. 8 of 1976, adopted on 4th November 1976.

The Finnish turnover tax system

From 1st September 1976 there was a change in the Finnish turnover tax system. The matter was brought up in the Committee of Trade Experts because the representative of another EFTA country took the view that the change seemed to involve discrimination against imported goods. The Finnish representative explained that the system was being revised in two phases, the first applying to imports and the second, to come into force in 1978, applying to the domestic trade. The effect in the first phase was that importers would have to pay the turnover tax at an earlier stage, but the tax was refundable or deductible except if the importer was selling directly to the final consumer. The Committee concluded that the change contained an element of less favourable treatment of imported goods. The Finnish representative emphasized that the difference was considerably alleviated or even removed because the tax was refundable and because credit time was allowed for paying Customs invoices.

Agriculture

Annual review of agricultural trade

The annual review of agricultural trade within EFTA was carried out by the Councils in December 1976 on the basis of a report prepared by the Secretariat. The review covers the trade in agricultural products which do not benefit from EFTA tariff treatment.

The report showed that intra-EFTA imports of these goods amounted in 1975 to 324 million US dollars, which was 3.3 per cent of total intra-EFTA imports. The increase in the value of intra-EFTA agricultural imports was 8.6 per cent, compared with a rise of 5.4 per cent in total intra-EFTA imports. In this trade Sweden was both the largest importer, taking 39 per cent of the total, and the largest exporter, supplying 41 per cent of the intra-EFTA exports of agricultural goods.

Processed agricultural products

Five EFTA Governments apply measures—such as variable import levies—in order to compensate for differences between the domestic and the world market prices for agricultural raw materials—which are not eligible for EFTA tariff treatment—when they are used in the production of certain other goods, mostly processed foodstuffs, which are duty free in EFTA. This is permitted by paragraph 1 (c) of Article 21 of the Convention as a way of ensuring that the competitiveness of industries which process these raw materials is not affected by the fact that the prices at which the materials are available to them differ from country to country. Neither Iceland nor Portugal applies price

compensation measures. Iceland however applies an import surveillance system for certain bakers' wares in the absence of a price compensation scheme.

Paragraph 1 (e) of Article 21 provides that any such measures, as well as any changes in the measures, must be notified to the Councils in advance. During the twelve months under review there were a number of notifications of this kind, involving adjustments made to take account of movements in world market prices of raw materials, and all were examined by the Committee of Trade Experts.

The Committee also completed in February 1977 a study of possible guidelines to be used in order to ensure that the other main stipulation of Article 21 is fulfilled: that the compensation measures should not exceed the differences between the domestic prices and the world market prices of the raw materials. At an earlier stage the Committee had recommended to the Councils a set of guidelines for use when world market prices are below domestic prices, which is the normal relationship so far as the EFTA countries are concerned. For this purpose the Committee identified the relevant world market prices (in most cases, the prices at the EEC frontier) for the commodities most widely used in the manufacture of the products in question.

The evolution of world prices for some of these commodities, and especially for sugar, showed however that the price relationship could be reversed. A Council request for proposals for guidelines to be used in such abnormal situations led to further discussions in the Committee before it presented to the Councils its recommendations for both kinds of price relationship. The guidelines originally recommended for use in normal situations were still thought to be valid, but for occasions when the price relationship is reversed the Committee recommended that the calculation of the appropriate price compensation should be based on the EEC threshold price, plus an amount to be agreed depending on the prevailing circumstances in the EEC and EFTA countries. In May 1977 the Councils approved these guidelines and recommended that the EFTA Governments should follow them. They also instructed the Committee to review the guidelines annually.

Austria and Switzerland held bilateral consultations during the year on the differences in the tariff treatment of certain fruit and vegetable juices. Both sides hoped that the consultations could be completed during the latter part of 1977. When the results of the bilateral discussions are known the Councils will revert to the matter.

Agricultural concessions to Portugal

From 1st January 1977 Switzerland abolished its duties on the import from EFTA countries of some agricultural products that are of particular interest for Portugal. This was in response to a Portuguese request for agricultural concessions from its partners in EFTA which, as was mentioned in the Sixteenth Annual Report, had already led to tariff reductions by several other EFTA countries. Switzerland's removal of tariffs related mainly to some kinds of fruit and vegetable, and applies to imports from all EFTA countries ¹.

¹ Decision of the Council No. 17 of 1976, adopted on 16th December 1976.

Escape clauses, consultations and complaints

The general consultations and complaints procedure

No EFTA State made use during the year of the general consultations and complaints procedure provided for by Article 31 of the Stockholm Convention.

Some actions by some EFTA Governments, notified to the Council or the Joint Council, were subject to less formal methods of examination. In the case of matters that were first brought up before the end of June 1976, the Sixteenth Annual Report describes the course of discussion of them to that date. The paragraphs that follow present the situation at the end of June 1977 as well as the action taken in EFTA during the year in the case of new measures.

Finland : temporary import restrictions on consumer durables

Certain consumer durables which account for some 2 per cent of Finland's imports are subject to licensing—the licences are granted automatically—as a temporary measure to protect the Finnish balance of payments. Since no changes were made during the year under review in the range of products covered by the restrictions there was no discussion of the subject.

Finland : import deposit scheme

The import deposit scheme, introduced by the Finnish Government in March 1975 for balance of payments reasons and originally covering about 50 per cent of all imports into the country, was abolished at the end of 1976.

Finland : cash payment for imports

From 1st March 1977 the range of imports for which the Bank of Finland requires that payment should be made immediately in cash was extended to include some raw materials and semi-finished products. About one-third of Finnish imports are now covered by this requirement compared with some 18 per cent when the cash payment obligation was introduced in June 1973. The extension was decided on as a part of the generally restrictive monetary policy pursued by the Bank. After receiving notification of the measure the Joint Council asked the Economic Committee to examine the cash payment scheme. When the Committee's views were reported to it in June the Joint Council requested the Committee of Trade Experts to examine the trade effects of the scheme, as extended in March, and to report back to the Joint Council.

Portugal : balance of payments measures

On 25th February 1977 the EFTA countries were informed of the decision of the Portuguese Government to put into force a package of economic and financial measures in order to stimulate the Portuguese economy. The package included the prolongation of surcharges on imports as well as a variety of new actions : a 15 per cent devaluation of the escudo, facilities to encourage private savings as well as investment in industry and agriculture, higher subsidies for cereal production combined with a freeze on the prices of essential foods, quotas on the import of certain consumer goods, and restrictions on the use of non-Portuguese ships when public bodies import or export goods, though they would be applied without prejudice to agreements and international conventions ratified by the Portuguese authorities.

The surcharge scheme, which had first come into force temporarily on 31st May 1975 with the rates fixed at 20 and 30 per cent, was extended (for the third time) to 31st March 1977, with the rates raised to 30 and 60 per cent, and then to 31st December 1977 ; with some products previously included in the 30 per cent list transferred to the list subject to a 60 per cent surcharge. The obligation to deposit in advance 50 per cent of the value of imports for a number of products was introduced on 14th October 1976. The Portuguese Government declared that the deposit scheme would be in force as long as it is considered useful as a way of overcoming the current difficulties. Both measures had previously been the subject of examination in EFTA, the surcharge system on several occasions. The delegations from the other EFTA countries had expressed their understanding of the difficulties facing Portugal. Some also voiced regrets that the restrictions on imports had been prolonged and, in October, strengthened. They maintained that in the long run Portugal's economic problems should be solved by the use of internal measures.

In its official notification on 15th April 1977 of the main outlines of the February decisions the Portuguese Delegation described the package as aimed at steering the country towards a strict austerity policy, at increasing production, productivity and investment and reducing the balance of payments deficit which rose by 51 per cent to 73.7 billion escudos in 1976. The prolongation of the surcharge scheme was directly linked with the need to reduce the persistent payments deficit, as was also the introduction of import quotas which were presented as a temporary measure, the life of which would depend on success in increasing domestic production. Since not all the details of the Portuguese measures were available at the end of the year under review the Councils were unable to complete their discussions of the measures.

Norway : licensing of some textile imports

On two occasions during the twelve months to the end of June 1977 the Norwegian Government added items to the list of clothing and textile products which are temporarily subject to licensing for surveillance purposes. Licences are granted automatically and are not intended to restrict imports.

Finland : origin marking regulations

The Finnish regulations requiring that the name of the country of origin of certain types of consumer goods should appear on the product or on its packing remained in force at the end of June 1977.

Sweden : global quotas for footwear imports

The Swedish Government decided to abolish from 1st July 1977 the global quotas on the import of leather and plastic shoes which had been introduced in November 1975 for reasons of defence policy. It took this decision since the Swedish Parliament had approved Government proposals for the restructuring of the shoe industry. The global quota on the import of rubber boots, which had been brought in at the same time, was to remain in force in its present form until the end of 1977.

Austria : reference prices for imported tights

The system of minimum reference prices for imported tights made of synthetic fibre, introduced in Austria in December 1975, was prolonged with some modifications for one year from 1st November 1976. Reference prices were laid down because of a steep rise in the import of low-price tights into Austria, and the system was prolonged in the absence of any change in the conditions that had led to its introduction. The Austrian authorities have power to impose a levy to compensate for differences between the prices at the border and the minimum reference prices.

Sweden : licensing of some textile imports

The surveillance system for the import of certain textiles into Sweden, in force since 1st January 1976, was altered from 6th June 1977 to exempt imports from the EFTA countries and the EC from surveillance.

Switzerland : border charges on some animal feeding-stuffs

The price supplements levied by Switzerland since 1st April 1976 on imports of fish-meal and some other animal feeding-stuffs which are duty free in EFTA were suspended from 1st April 1977. Market prices for these products had risen to such an extent by that date that it was no longer considered necessary to impose these charges in order to prevent overproduction of certain meat and dairy products. When informing the Councils of the suspension the Swiss Delegation stressed that the system of price supplements had always been an integral part of Swiss agricultural policy and that Switzerland continued to reserve the right to impose the price supplements. The other delegations welcomed the suspension but stressed that the feeding-stuffs in question were by definition free trade products in EFTA.

Finland : surcharges on imports of tights and of rubber boots

To cope with the severe problems of discontinued or reduced production and of unemployment, aggravated by a rapid increase in the volume of low-price imports, the Finnish authorities imposed a surcharge on the import of tights for six months from 27th December 1976—which was later extended for twelve months—and on the import of rubber boots for twelve months from 9th February 1977. The surcharge is levied on imports from all sources entering the country at prices below certain basic reference prices, the amount of the surcharge being equal to the difference between the lower price and the basic price.

At the request of the Joint Council both measures were examined by the Committee of Trade Experts. The Committee considered that the surcharges did not seem to have immediate effects on EFTA exports of tights and had no direct effects for the time being on EFTA exports of rubber boots. It felt, however, that the levying of a surcharge on products of EFTA origin would not be in conformity with the Stockholm Convention. In June the Joint Council agreed with this finding and requested the Committee of Trade Experts to keep the Finnish measures under constant review.

Technical barriers to trade

The "INST" procedure

At its meeting in February 1977 the Committee of Trade Experts reviewed the working of the "INST" procedure by which the EFTA countries notify each other in advance of any new or amended technical regulations that they plan to put into force which might affect the trade between them. The arrangement had been revised in 1975 in order to make advance notification easier but it was thought to be too early to assess the effects of the revision. The Committee considered that the procedure as such was adequate but agreed that an effort should be made to see that it is used more effectively and that all countries issuing technical regulations should endeavour to implement the procedure.

Preparation of new reciprocal recognition schemes

The establishment of international schemes designed to overcome technical barriers to trade for two groups of products was recommended by the Committee of Trade Experts in June 1977. The products were lifting appliances (such as lifts, hoists and cranes) and heating equipment using liquid fuels (such as oil burners, domestic boilers and oil stoves). The schemes had been worked out by two expert groups which had been asked by the Councils two

years earlier to consider the possibility of devising international arrangements for the reciprocal recognition of tests and inspections carried out on these products.

Their proposals were similar to the schemes described in Section III : the essential principle is that the authorities in the country importing these products would recognize, as equivalent to their own, the tests and inspections carried out in the country from which they are exported. The Committee of Trade Experts examined the proposals at two meetings during the year and, having ascertained that there were no similar arrangements in force in other contexts for these products and therefore no possibility of duplication, recommended to the Councils that the schemes should be established, to come into effect from 1st January 1978. The Committee believed that in principle the participation in the schemes should be as wide as possible but concluded that it was important to put the arrangement into effect between the EFTA countries as soon as possible.

Registration of pharmaceutical products

The EFTA group of experts on the registration of pharmaceutical products continued its work on the preparation of a standard form of report on the evaluation of pharmaceutical products which might serve to reduce the time and the cost involved in obtaining registration of the products in more than one country.

Having studied at an earlier stage the registration requirements in the EFTA countries as well as the relevant EEC directives the experts examined in detail the form and the contents of a possible international "evaluation report". This would be a report drawn up by a pharmaceutical registration authority and containing chemical, pharmaceutical, pharmacological, toxicological and clinical data about the product together with the authority's evaluation of the data.

A report of this kind, compiled by the authority in an EFTA country when the product is first registered, could be presented in connection with the manufacturer's application for registration of the product in another EFTA country. The registration authority there could then decide if, and to what extent, it could accept the tests, analyses and evaluation presented in the report.

At its meeting in June 1977 the ad hoc group completed its work on the contents of such evaluation reports as well as on the practical arrangements for the transmission of the reports from one registration authority to another. The group plans to present its findings and conclusions to the Councils later in 1977.

Trade mark law

An EFTA ad hoc group of experts on trade mark law met in February 1977 at the request of the Councils to consider the implications for the EFTA countries of the work now being done within the EEC to create a trade mark

system for the Community. The experts noted with satisfaction that the proposed system is based on the principle of free accessibility and stressed that it would be in the mutual interest of EFTA and Community countries to exchange information in the field of trade mark law in order to avoid unnecessary differences in national legislations and possible new barriers to trade. The group thought that it would be in the interest of the EFTA countries to be informed of future developments in this field within the Community and, whenever possible, to make their views known to the Community. The Councils took note of the report and agreed that the Secretariat should keep itself informed on developments in the EEC.

Assistance to Portugal

Industrial Development Fund for Portugal

The 100 million dollar EFTA Industrial Development Fund for Portugal came into operation on 1st February 1977 after functioning on an interim basis for five months. The creation of the Fund, to which all the EFTA countries are contributing financially, was one of the main elements in the response of the EFTA countries to Portuguese requests for assistance in bringing about an economic recovery as a means of consolidating the country's new democratic institutions. The Fund's objective is to provide finance for specific projects, particularly for the reconstruction or creation of small and medium-sized enterprises in the public and private sector.

In order to give financial assistance as early as possible, the Councils decided¹ in September 1976 to establish an Interim Steering Committee and to lay down interim provisions for the financial operations of the Fund. The first loan to be granted—a credit of 65 million escudos—was approved by the Interim Steering Committee on 26th October 1976 at its second meeting.

The interim arrangements were formally superseded when the Steering Committee met for the first time on 20th June 1977. It confirmed the guidelines on which the Interim Steering Committee had been operating, specifying among other things that the Fund would contribute to the development of industry in Portugal by furthering productive investment that fits into the general view of the development of the Portuguese economy. The projects financed should show results that are acceptable both economically and socially. The guidelines also state that the loans given by the Fund should provide for physical changes in existing enterprises or for the physical establishment of new ones; and that it is especially manufacturing industry that is to be assisted by the Fund, although projects in the sphere of mining, agriculture and fisheries, as well as productive services such as tourism, are also eligible.

¹ Decision of the Council No. 12 of 1976 and Decision of the Joint Council No. 6 of 1976, adopted on 8th September 1976.

The Committee also approved a loan of 45 million escudos for a second project submitted by the Executive Commission of the Fund in Lisbon, which consists of members of the Board of the Banco de Fomento Nacional, which in addition presented a report on its activities since 1st February. This showed that the Executive Commission until the end of May had approved twenty-three applications of smaller size for loans totalling 203 million escudos. Together with the loans approved by the Steering Committee, the credits approved by the Fund thus totalled 313 million escudos. The total value of the investment in the twenty-five projects was however much higher than this—some 580 million escudos—since the initiators of the projects had also obtained finance from other sources. In accordance with its Statutes the Fund may not as a rule provide all the finance necessary for a project.

The national contributions to the Fund are being made available to it in five equal annual instalments. From 1st February 1983 the contributions will bear interest at the rate of 3 per cent a year. The repayment of the contributions is to be made in equal annual instalments in the last fifteen years of the Fund's twenty-five year life.

Throughout its life it will act as a genuine fund. Since the sums lent to enterprises may on repayment be used again to finance other projects and since borrowers will pay interest in accordance with normal banking principles, the total amount available for investment over the whole of the period will be much above 100 million dollars.

Industrial co-operation : the Paues plan

The possibilities of providing assistance to Portugal through direct co-operation between firms there and firms in the other EFTA countries were discussed at a meeting of representatives of EFTA federations of industries held immediately after the February 1977 meeting of the Consultative Committee. The suggestion had originally been put forward in the Committee by Mr. Wilhelm Paues of the Federation of Swedish Industries. Enquiries made by the Portuguese Industrial Association showed that there was a very varied range of matters in which Portuguese companies would welcome direct co-operation. At the February meeting the decision was taken to begin with a number of test cases through bilateral contacts between the industrial federations.

Other forms of assistance to Portugal

The substance of other forms of assistance provided in response to Portuguese requests is described elsewhere in this report. They include the decisions relating to Portuguese imports of products covered by Annex G to the Convention, which lays down special arrangements for Portuguese import duties. The purpose here was to give Portuguese industries, especially industries that mainly serve the domestic market or are experiencing particular difficulties, an additional but limited measure of protection. In addition easier access to the Swiss market was given to a number of agricultural products that are of

particular interest to Portugal : similar action had previously been taken by several other EFTA countries.

On a bilateral basis technical assistance is being given to Portugal in a variety of fields by the other EFTA countries. Several of these have established bilateral joint committees with Portugal to supervise assistance programmes that are already established and to consider new fields in which their know-how and experience can contribute to the economic advancement of Portugal.

The Association with Finland

Meetings of the EFTA Council continued to be held simultaneously with those of the Joint Council of EFTA and Finland. Representatives of Finland took part in the meetings of committees and working groups that were held during the year. Finland also participated fully in the work of the EFTA Council in supervising and giving guidance to the Industrial Development Fund for Portugal, and was represented in the Steering Committee of the Fund.

The Economic Committee

The Economic Committee met twice during the year to review the economic situation in the EFTA countries and exchange views on international economic and monetary developments.

At its meeting on 3rd and 4th November 1976 the Committee concluded that the pause in the world economic revival was a ground for concern. Three main reasons for the pause were identified : consumer and business confidence had not been re-established ; some sectors—one example was steel—had experienced setbacks ; and there were still structural problems. While in the view of the Committee it was at that time perhaps too early to advocate stronger stimulating measures, it was necessary to be prepared to act if that should prove desirable in the near future.

Special attention was given by the Committee to the situation in Portugal where, although there had been a moderate recovery in production, unemployment remained at a high level, the balance of payments deficit was still deteriorating and inflation increasing.

When the Committee met again on 2nd and 3rd June 1977 it noted that the new upswing that had appeared by the end of 1976 had in general been weaker than had originally been expected. It was likely that there would be

only a slow and protracted revival in economic activity in Western Europe and that particular difficulties would continue for the smaller countries with balance of payments problems. The Committee recognized that in the current economic situation there were increasing pressures for protectionism in many countries and that in some cases protectionism was taking new forms that were difficult to control officially. It was important, the Committee concluded, that the OECD Trade Pledge should again be renewed in June.

The Committee of Trade Experts

The Committee of Trade Experts, which consists of officials from each of the EFTA countries, met three times during the year.

At each meeting it examined the price compensation measures applied by EFTA Governments in order to compensate for differences between the domestic prices and the world market prices of agricultural raw materials incorporated in certain processed agricultural products. The purpose of the examination was to ensure that the compensation, as required by Article 21 of the Stockholm Convention, does not exceed the actual differences between domestic and world market prices. The Committee also completed a report to the Councils in which it recommended guidelines that should be followed in applying measures of this kind.

The Committee also kept under review the implementation of the "INST" procedure by which the EFTA countries notify each other in advance of any new or amended technical regulations they plan to introduce. It also discussed developments relating to the international schemes and conventions, originally worked out in EFTA but independent of the Association, which are designed to overcome technical obstacles to the trade in certain products by the use of a system of reciprocal recognition of tests and inspections carried out on the products. The possibility of applying such a principle to other products was also considered : see page 19.

In addition the Committee examined a number of matters specifically referred to it by the Councils. These included the emergency actions taken by Finland in order to reduce imports of low-price tights and rubber boots, on which it presented a report to the Joint Council. It also presented a report to the Councils on a subject originally raised in the Consultative Committee : the requirement in some countries that the declaration of contents of consumer goods should be given in the language of the importing country. It expressed its sympathy with the interest of protecting the consumer that was the basis of such requirements, particularly in the case of the labelling and packaging of food, but recommended that EFTA should not change its policy of not setting up standards of its own in this any more than in any other context. Instead, support should be given to the work already being done in this field in other international organizations.

The Committee of Origin and Customs Experts

The Committee of Origin and Customs Experts, which also consists of officials from each of the EFTA countries, met six times during the year. Its main task is to advise the Councils on matters relating to the rules of origin in force within EFTA and under the Free Trade Agreements between each of the EFTA countries and the European Communities. The Committee was engaged in a detailed study of the implications for the origin rules of the extensive changes in the classification of goods for Customs purposes recommended by the international Customs Co-operation Council. It also discussed the technical aspects of producing a consolidated text of the origin rules which would incorporate all the decisions taken since the coming into force of the Free Trade Agreements. And it considered whether the five EFTA countries that give tariff preferences to developing countries should grant cumulative origin treatment to them under the Generalized System of Preferences on the basis of a system common to all of them. Cumulative origin treatment would make it possible to increase the volume of imports benefiting from the preferences. The Committee expected to complete its work on all these matters by the autumn of 1977.

The Consultative Committee

The Consultative Committee, which consists of representatives of industry, commerce, trade unions and other economic interests in the EFTA countries, held two special meetings during the year in addition to two regular meetings.

The special meetings were convened to study proposals put forward in May 1976 by the trade union members of the Committee with the object of increasing international economic co-operation in Western Europe at a time when the national economies were becoming more and more interdependent.

At the special meeting on 10th September 1976 the consensus of a large majority of the Committee was embodied in a statement (reproduced in the Appendix). This recommended to the Councils that in accordance with the objectives of the EFTA Convention the Councils should continuously study economic developments in Western Europe in order to strengthen EFTA co-operation in the pursuit of full employment, balanced economic growth, and financial and monetary stability ; and that EFTA, and the EFTA countries, should seek to improve the exchange of information with the European Communities on economic and social developments in Western Europe in order to promote consultation and co-operation with the EC on economic policies.

There were also proposals relating to the work of the Committee itself, and finally a recommendation that it should hold another special meeting to discuss the economic situation within the EFTA area and Western Europe

as a whole, especially so far as employment, balanced economic growth and financial and monetary stability are concerned.

When these recommendations were discussed by Ministers in November 1976 the first two were referred to the Councils at official level for further consideration, and the final one was accepted. The second special meeting was accordingly convened for the 14th and 15th February 1977.

In the meantime there had been a discussion of the international economic situation at the regular meeting of the Committee on 11th and 12th October 1976. A deep concern was expressed about the apparent slowdown in the economic revival of the earlier part of the year. The experience of the individual EFTA countries had varied considerably, particularly in terms of their ability to maintain a high level of employment, to hold down the rate of inflation and to achieve satisfactory current account balances. But there was a general disquiet about the possible effects of a renewed slackening of economic activity in the world.

At the wish of the Committee the EFTA States were represented at the February meeting, held in Stockholm, by members of government, most of them the Ministers of Trade. In addition to representatives from the trade unions, employers and other organizations in the seven countries, the participants included, as speaking observers, the Chairman of the European Trade Union Confederation (ETUC), which unites the central trade union organizations in almost all Western European countries, and the Secretary-General of the Union of Industries of the European Community (UNICE), with which the national federations of industries in the EFTA countries are associated.

The Committee reached agreement on the terms of a communiqué which stated that "priority must be given to the objective of achieving a lasting return to full employment and at the same time of obtaining sustained growth and economic stability as basic conditions for achieving a satisfactory level of employment". The communiqué, which is given in full in the Appendix, noted that differences in the economic performance of individual countries reflected in part differences in the choice of national policies, and concluded that closer co-operation between governments on economic policy was required.

The meeting also stressed the importance of further efforts to liberalize world trade and rejected protectionism as a solution to economic problems. Welcoming the establishment of industrial free trade between the EFTA countries and the EC from 1st July 1977, the Committee recognized that technical improvements in the operation of the Free Trade Agreements would be beneficial to all parties. It also considered that this free trade needed to be safeguarded and that closer consultations on economic questions would be required. The Committee added that to this end further pragmatic and practical contacts between the countries of EFTA and the EC should be explored.

A number of other matters were discussed by the Committee at the two regular meetings. In October there was a review of the assistance being provided to Portugal by EFTA. Relations with the developing countries was the theme of a statement made by a Norwegian industrialist in order to raise a number of questions for consideration at later meetings in view of the inter-

national efforts to achieve a new economic order. The first comments on the statement suggested that particular attention should be given to the need to increase exports of industrial products from the developing countries, the problems arising from the transfer of technology, the positive role which the EFTA countries could play in this respect and the probable consequences for industry in the developed countries.

In June the Committee had a first discussion of the results of the previous month's meeting of Prime Ministers and other members of government from the EFTA countries. The members of the Committee welcomed the acknowledgement by the Prime Ministers of the urgency of the need to create more jobs while continuing to reduce inflation—a judgement which matched the consensus reached by the Committee at its meeting in Stockholm. The summit meeting had also emphasized the necessity of greater co-operation within EFTA, and the desirability of further developing trade and economic relations with the EC, and this too was formulated in ways which largely coincided with the views of the Committee and especially its advocacy of pragmatic and practical contacts with the EC.

The Committee's review of the economic situation revealed little evidence of any change since its previous meeting. It was suggested that a number of matters could usefully be examined by the Economic and Social Sub-Committee. These included a study of the economic situation in the light of the findings of the Stockholm and Vienna meetings, the problems raised by the existence of floating exchange rates, the impact of structural problems on the level of industrial activity in Western Europe and the relationship between inflation and unemployment.

A report on the meeting held the previous day between members of the Committee and members of the External Relations Section of the Economic and Social Committee of the European Communities was given to the Committee. This was the third informal meeting between them, and the Committee noted that there was a marked interest in continuing the dialogue, which was fully in the spirit of the Stockholm and Vienna meetings.

The Economic and Social Sub-Committee of the Consultative Committee

There were two meetings during the year of the Economic and Social Sub-Committee which in March 1976 had begun to examine the underlying forces threatening employment in the EFTA countries. The Sub-Committee consists of one representative of employers and one of trade unions from each country together with one official from each of the seven countries who may speak but not join in the formulation of any recommendations.

A preliminary report on its findings was presented by its Chairman to the Consultative Committee in October 1976. He particularly stressed the semi-independence from international economic developments which could be

achieved in smaller countries by the application of a determined policy. The semi-independence should be used to seek to maintain growth and a high level of employment when export demand is weak as a result of economic developments in big countries.

In its final report, which was one of the papers presented to the Stockholm meeting of the Consultative Committee, the Sub-Committee stressed the urgent need for an increased and improved economic co-ordination in the whole of the OECD area. In the view of the Committee the big industrialized countries in the OECD should embark on a programme of economic expansion, applying selective supply management and labour market policies rather than general measures in order to lessen the risk of further inflation. Selective policies had been successfully carried out in several EFTA countries to improve labour mobility and keep employment at a high level, and the Committee thought that these policies should be continued and extended. The Committee also suggested that it was necessary to establish a secure foundation for workable incomes policies, accompanied by and forming part of more general price policies to prevent unjustified increases in costs. As a whole the measures adopted should aim at the creation of an economic and social situation characterized by a better equilibrium and greater equity.

Other standing committees

The Budget Committee met once during the year to prepare the budget for the financial year 1977-1978.

EFTA Parliamentarians

A proposal that a parliamentary committee should be established within EFTA was debated in Geneva on two occasions by Members of Parliament from the EFTA countries. The suggestion had originally been raised at the 1975 annual meeting of EFTA Parliamentarians.

At the annual meeting of EFTA Parliamentarians on 26th October it was agreed that a final decision on the proposal should be postponed until after the meeting of Prime Ministers from the EFTA countries in May 1977. When they met again accordingly on 17th June they agreed to propose to the Councils that a Parliamentary Committee should be established which would be a consultative body able to make proposals to the Councils on matters within the scope of the Convention. It was also agreed that the participation of Parliamentarians in the work of EFTA should remain sufficiently informal to allow a free exchange of opinions and ideas.

Many aspects of the activities of EFTA were also discussed at both meetings of the Parliamentarians. In October they emphasized the need to avoid adopting measures to restrict trade, and pointed to the value of the work being done in EFTA on the removal of technical barriers to trade.

In June they welcomed the strategy for EFTA's future activities which had been agreed on in Vienna and in particular its emphasis on increasing co-operation in EFTA and on developing the co-operation between the EFTA countries and the European Community.

Publications

The EFTA Bulletin, published nine times a year, continued to be the main channel for information about EFTA. The editorial policy remained one of giving the maximum information on the current activities of the Association. Thus almost the whole of the March issue was devoted to the special meeting of the Consultative Committee held in February. Each issue contained reports on other meetings of committees and working groups and accounts of Council decisions, as well as articles on related matters.

The July-August 1976 issue of the Bulletin included a special 14-page supplement giving statistics about each of the EFTA countries, and the supplement was also made available in booklet form. The April 1977 Bulletin introduced a new feature which is being up-dated in each issue : two pages of economic indicators, with statistics on industrial production, employment, wages and prices in the EFTA countries as well as on their trade.

A new survey of all aspects of EFTA was published by the Secretariat under the title : Structure, rules and operation of the European Free Trade Association. It describes the whole range of the activities of EFTA, with the emphasis on current developments. It also contains the basic text of the Stockholm Convention, an account of the Free Trade Agreements and a section on the reciprocal schemes and conventions. It was published not only in English, French and German, like almost all EFTA publications, but also in Finnish, Norwegian, Portuguese and Swedish versions, in order to be accessible to readers in all EFTA countries.

Other new publications were the 16th Annual Report of the Association and "EFTA Trade 1975", the latest in the annual series of trade studies published by the EFTA Secretariat. A new edition of the bilingual paperback edition of the Stockholm Convention was also published, incorporating all amendments up to July 1977. Four supplements containing amendments were issued to subscribers to the loose-leaf edition of the Convention. On behalf of the Pharmaceutical Inspection Convention the Secretariat published "Stability of Pharmaceutical Products", the collected papers presented at a seminar held in June 1976 under the auspices of the Convention, and "Guidelines for the Manufacture and Analysis under Contract".

Demand for EFTA publications came from all parts of the world. An analysis of the requests received showed that about 40 per cent came from EFTA countries and another 40 per cent from the EC. Many requests also came from the USA and Canada.

The EFTA Council and the Joint Council of EFTA and Finland

During the twelve months covered by the report the EFTA Council and the Joint Council of EFTA and Finland held 30 meetings, all of them simultaneously, including one at Ministerial level.

From 1st July to 31st December 1976 the Chairmanship of both Councils was held by Portugal and the Vice-Chairmanship by Sweden. From 1st January to 30th June 1977 the Chairmanship of both Councils was held by Sweden and the Vice-Chairmanship by Switzerland.

Administration and Finance

The Secretariat

At the end of June 1977 there were 31 officials in the Professional category on the staff of the Secretariat, 2 Consultants and 40 General Service staff members, of whom 4 were employed on a half-time basis.

A working party of government experts met three times during the year under review to draw up draft rules for a pension scheme for the staff of the EFTA Secretariat, based on the pension schemes of other international organizations but adapted to the specific needs of EFTA. In March 1977 the working party presented a report to the Councils with draft rules for an EFTA staff insurance scheme consisting of both a pension fund and a savings fund. The Councils referred the report to the Budget Committee for examination of the budgetary implications. It was subsequently agreed that the operative parts of the staff insurance scheme would be applied from 1st July 1977. The full scheme would come into effect when parliamentary approval had been obtained in one country and when agreement had been reached between the EFTA countries on the guarantee of the payment of benefits under the scheme.

Finance

The net budget for the financial year 1976-1977 was 8,554,821 Swiss francs. For the financial year 1977-1978, beginning on 1st July 1977, the budget was established at 9,463,467 francs gross which, after deduction of

estimated income of 406,100 francs, leaves a net sum of 9,057,367 francs to be financed by contributions from the EFTA States.

The scale of contributions to the budget is determined by reference to the gross national products at factor costs of the EFTA countries. The basis for the contributions for the 1976-1977 and 1977-1978 budgets was, in percentages, as follows :

	1976-1977	1977-1978
Sweden	29.185	28.572
Switzerland	26.370	26.093
Austria	15.259	15.306
Norway	11.111	11.370
Finland	10.371	10.933
Portugal	6.222	6.268
Iceland	1.482	1.458

IV. Co-operation in other fields

The reciprocal recognition schemes

There was an increase during the year in the number of countries participating in the international schemes to overcome technical barriers to trade through the reciprocal recognition of tests and inspections carried out on certain products. The authority responsible in the Netherlands for approving ships' equipment joined the ships' equipment scheme and the Italian authority responsible for the approval of gas appliances joined the gas appliances scheme.

These arrangements, and two others relating respectively to agricultural machines and tractors and to pressure vessels, were originally worked out in EFTA but are independent of it and so not limited to the EFTA countries. Their purpose is to avoid the impediments to trade that otherwise may arise when products that are subject to varying national requirements are liable to tests in each country before they can be put on the market.

The scheme on *ships' equipment* covers all kinds of ships' equipment that are subject to national approval. The participants now are the maritime administrations in Denmark, Finland, Iceland, the Netherlands (since 20th August 1976), Norway, Portugal, Sweden, the United Kingdom and Yugoslavia. They continued to work on the drawing up of common requirements for various kinds of ships' equipment which are not international standards but express the features that are common to the national requirements of these countries, and thus simplify the application of the scheme.

The number of participants in the scheme on *gas appliances* is now ten since the Italian authority joined the scheme on 19th February 1977. The other participants are the authorities responsible for the approval of gas appliances in Austria, Denmark, Finland, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The participants in the scheme on *pressure vessels* are the bodies responsible for approving static pressure vessels, gas cylinders and other transportable pressure vessels in Austria, Denmark, Finland, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom. In the case of *agricultural machines and tractors* the participants in the scheme are the approval bodies in Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Pharmaceutical Inspection Convention

The accession of Hungary to the Convention for the Mutual Recognition of Inspections in respect of the Manufacture of Pharmaceutical Products took effect on 2nd August 1976. The other countries in which the Convention is in operation are Austria, Denmark, Finland, Iceland, Liechtenstein, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The Convention applies to any medicine or similar product, intended for human use, which is subject to control by health legislation. It provides that the Contracting States will exchange, on the basis of 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. A Committee of Officials has the task of ensuring that the Convention works effectively and is applied in a uniform way. The Committee met twice during the year.

At the meeting held in November 1976, the first at which Hungary was represented, the Director of the Hungarian National Institute of Pharmacy gave an account of recent actions undertaken by the Institute in connection with the coming into force of the Convention. The Committee also received an interim report from the working group set up to consider future needs for the training of inspectors. The group stated that particular care would have to be given to the training of young inspectors and of inspectors from countries joining the Convention, particularly in order to ensure that they interpret the Convention's standards and guidelines in a uniform way.

In May the Committee continued its discussions on the training of inspectors. It also examined a working party report on the risks of cross-contamination on manufacturing premises, and began to study the need for guidelines for the stability of pharmaceutical products.

A training course for inspectors was held in Uppsala from 6th to 9th June under the auspices of the Committee. The theme was "modern methodology for the isolation, identification and quantification of drugs and related substances".

Hallmarking Convention

There were two meetings during the year of the Standing Committee established to supervise the operation of the international Hallmarking Convention—the Convention on the Control and Marking of Articles of Precious Metals. The Convention is in force in Austria, Finland, Sweden, Switzerland and the United Kingdom.

On both occasions the Standing Committee concluded that articles of precious metals bearing the "Common Control Mark" were circulating satisfactorily between the five countries. This international hallmark is applied to articles of gold, silver and platinum by designated assay offices in these countries when they are satisfied that the articles meet the standards of fineness recognized by the Convention. Goods marked in this way are admitted into the other countries without further assay or marking.

The Committee also discussed the possibility that articles manufactured in other countries might be marked with the Common Control Mark by the designated assay offices in the Convention countries. The Committee agreed at its meeting in March 1977 that in the case of articles submitted by manufacturers in other countries the Common Control Mark may be applied if the articles bear a responsibility mark which has been registered in an official register of the Convention country concerned and if in other respects they comply with the terms of the Convention. There was also agreement that the Contracting States may accept articles bearing the Common Control Mark and imported from other countries but have no obligation to do so.

V. External relations

The EFTA countries continued to make use of the opportunities provided by the EFTA relationship for consultations between them on general trade questions as well as on other issues related to the objectives of the Convention. Thus the world economic outlook was reviewed at the meeting of the Council at Ministerial level in November 1976 as well as at meetings of the Economic Committee and the Consultative Committee held during the year under review. There were also informal discussions within the framework of EFTA in advance of meetings in a number of international organizations when matters of interest to the EFTA countries in the context of international trade were to be discussed.

Relations with the European Communities

Particular attention was given throughout the year to relations with the European Communities, which in 1976 were the source of 52.9 per cent of the imports of the EFTA countries and the market for 46.6 per cent of their exports. Under the bilateral free trade agreements which each of the EFTA countries has with the EC the final step in the 4 ½-year timetable for the removal of industrial tariffs was taken on 1st July 1977. With some exceptions the trade in industrial goods between the EFTA countries and the EC is now duty free.

The bilateral Joint Committees which have the responsibility of administering these free trade agreements met twice during the year. In each case it was observed that the agreements as such were functioning well despite the difficult international economic situation. A number of specific problems, mostly arising from measures taken in one or other EFTA or EC country because of special difficulties, were discussed bilaterally at these meetings. At the Iceland-EEC meeting in December 1976 the Icelandic Delegation expressed its satisfaction that the EEC's tariff concessions on the import of some Icelandic fish products had finally come into force on 1st July 1976. Before all of these meetings, and all the meetings of the bilateral Customs Committees, there were consultations within the framework of EFTA.

Twice during the year there were informal meetings between the EFTA Secretariat and the services of the Commission of the EC. The exchange of information covered a wide range of the work in progress in EFTA and the EC, and the discussions were characterized as very useful.

In accordance with the desire of EFTA's Consultative Committee that there should be a greater exchange of information with the appropriate bodies of the EC there was an informal meeting in Brussels in October 1976 between members of the Committee and the External Relations Section of the Economic and Social Committee of the EEC. The talks, which were held in a very positive and friendly atmosphere, covered the economic situation particularly so far as employment is concerned, trade relations with third countries, and technical barriers to trade. Both sides expressed the wish to intensify contacts of this kind in order to discuss trade matters and other economic questions of interest to the sixteen countries in EFTA and the EEC. The dialogue was continued at a second meeting held in Geneva on 8th June 1977.

The future scope for relations between the EFTA countries and the European Community was one of the main themes discussed by Prime Ministers and other senior Ministers of the EFTA countries at a meeting held in Vienna on 13th May 1977 at the invitation of the Federal Chancellor of Austria. Though not itself an EFTA meeting, the occasion was marked by the recognition on the part of the EFTA Governments that the growing interdependence of the sixteen nations made it necessary to ensure that the advantages deriving from the free trade are not jeopardized as a result of diverging economic developments and policies. It would therefore be desirable to develop, in varying degrees of intensity, the co-operation that already exists between the countries in the two groups through an increased exchange of information and closer consultations on economic questions and, where appropriate, co-ordinated efforts to safeguard free trade and to improve the general economic environment.

The Ministers went on to identify a number of fields where the possibility of greater co-operation should be explored. These included the stimulation of stable economic growth, the fight against unemployment and inflation, the promotion of monetary stability and the elaboration of concordant legal norms in sectors of common economic interest.

A number of points more directly related to the provisions of the free trade agreements were also made. It was felt that the simplification and improvement of the rules of origin and Customs procedures would benefit both groups. The EFTA Governments also recognized that non-discriminatory access to supplies is as important as access to free markets for the harmonious functioning of the free trade system. The possibility of giving free trade treatment to additional processed agricultural products should be examined. It was also desirable, taking due account of national agricultural policies, to promote the harmonious development of trade in agricultural products by seeking solutions to current difficulties: and attention should be paid to the special importance for some EFTA countries of trade in fish. Other fields mentioned as being of interest for wider economic co-operation include transport policy, research and the protection of the environment. The Ministers concluded that for all these ends contacts between the free trade partners should be intensified on a pragmatic and practical basis.

The meeting noted that there was no evolutionary clause in Finland's Free Trade Agreement with the EEC and that it was the intention of Finland to

develop its relations with the Community in the framework of the objectives of the Agreement.

Relations with other market economy countries in Europe

The Ministers also considered in Vienna the implications of the extension of the free trade system to other market economy countries in Europe. An agreement between Spain and the EC already provides tariff concessions on the trade between them for which there is no counterpart in the trade between the EFTA countries and Spain. To an even larger extent there is free trade between Greece and the Community, and negotiations on Greek membership of the EC have begun. The EFTA Governments welcomed these efforts to complete the free trade system in Western Europe and expressed their readiness to take part in these efforts by the conclusion of appropriate agreements with other market economy countries in Europe. They noted that if interim agreements could be established that were in conformity with the provisions of GATT they would make possible a smooth transition to the application of the Free Trade Agreements to European countries which apply for membership of the Community. As a first step to this end it would be useful to reach agreements for the liberalization of trade in industrial goods corresponding to the existing arrangements between the Community and the countries concerned.

On the basis of a mandate given by EFTA Ministers in November 1976 the Secretary-General of EFTA had already entered into exploratory talks with the Spanish Government on behalf of the EFTA Governments. The situation was discussed at an informal meeting of EFTA Ministers in Vienna on 12th May 1977 as a result of which they informed the Spanish Government of the wish of the EFTA Governments to open negotiations as soon as possible with Spain on a multilateral trade agreement which would have as its final objective the establishment of free trade in industrial goods. When the Swedish Minister of Commerce in his capacity as Ministerial Chairman visited Madrid on 26th and 27th May to confirm the invitation from the EFTA countries he was informed by the Spanish Government that it accepted the proposal. Formal negotiations between the EFTA countries were accordingly opened in Geneva on 28th June.

The Secretary-General of EFTA also visited Athens in May 1977 for exploratory talks on trade between the EFTA countries and Greece. It was agreed to continue the discussions.

Relations with Yugoslavia

The Yugoslav Government invited the Secretary-General to visit Belgrade in April 1977 for exploratory talks on the possibility of developing the existing co-operation between EFTA and Yugoslavia. The interest of the Yugoslav Government in establishing closer economic relations was welcomed by the EFTA Prime Ministers when they met in Vienna the following month. On that occasion they expressed their readiness to seek ways and means of

increasing co-operation with Yugoslavia in the fields mentioned by the Yugoslav Government : trade promotion, industrial co-operation and tourism.

Representatives of Yugoslavia were as usual present as observers at all meetings of the Committee of Trade Experts held during the year.

Relations with international organizations

On a wider international level, there were consultations within the EFTA framework on a number of matters of interest to EFTA that were on the Agenda of other organizations concerned with the context of international trade. These included the General Agreement on Tariffs and Trade (GATT), particularly in connection with the Multilateral Trade Negotiations now being held under its aegis ; the United Nations Conference on Trade and Development (UNCTAD), particularly on its work on the establishment of an integrated programme for commodities as a means of assisting the developing countries ; the Organisation for Economic Co-operation and Development (OECD) ; and the United Nations Economic Commission for Europe (ECE). In order to follow the work being done in these organizations members of the Secretariat attended as observers a number of their meetings.

Close links were maintained with the Council of Europe. Progress reports on the activities of EFTA were presented to the Committee of Ministers of the Council of Europe in January and April 1977 by the Swedish Minister for Foreign Affairs, since Sweden held the Chairmanship of the EFTA Council in the first half of 1977. In December 1976 the Secretary-General of EFTA presented the 16th Annual Report of the Association to the Committee on Economic Affairs of the Parliamentary Assembly of the Council of Europe. There was also a meeting between the EFTA Secretariat and the Secretariat of the Council of Europe in January 1977 when there was an exchange of views on topics relevant to the work of the two Secretariats.

In order to follow the work going on in the international organizations that deal with standardization, representatives of EFTA took part in a number of meetings of these organizations.

In another technical field, EFTA continued to follow the preparations for the introduction of a European patent system. The Secretariat participated in the work of an interim committee which is planning for the entry into force, in the autumn of 1977, of the 16-nation European Patent Convention, as well as in the activities of another interim committee which is preparing for the coming into force of the Community Patent Convention.

VI. EFTA trade in 1976

The volume of world trade, which had fallen by 5 per cent in 1975, is estimated to have risen by 11 per cent in 1976—which is about twice the rate of increase of world commodity output—and thus exceeded its previous peak in 1974 by some 4 per cent. The value of international trade increased in 1976 by almost 12 per cent, to \$980 billion, with the greater part of this increase taking place in the first half of the year.

The fact that there is only a small difference between the rates of increase of world trade in volume and in dollar value is explained to a large extent by the appreciation of the US dollar; the average increase in export prices expressed in national currencies was much higher. In dollar terms, unit prices of exports of manufactured goods from industrial countries remained virtually unchanged and raw materials rose by only some 3 per cent, while export prices of petroleum rose by 5 per cent.

Exports from the industrial countries combined rose by 10 per cent in volume and 11 per cent in value, compared with increases of 6 and 10 per cent respectively in 1975. Their imports rose by 13 per cent in volume and by 14 per cent in value from the depressed level of 1975.

Exports from the oil-importing developing countries, which had fallen slightly in 1975, also recovered in 1976, showing an increase of 17 per cent in value and of 12 per cent in volume terms. But their imports remained practically stagnant in volume. The export earnings of the oil-exporting developing countries also rose by 17 per cent. In volume their exports increased by 12 per cent. The rate of growth in the value of their imports, though remaining higher than that of their export earnings, i.e. about 20 per cent, was only about half as steep as in 1975.

The development of world trade strongly influenced EFTA trade, and the total exports of the EFTA countries increased in 1976 in value by 10.3 per cent, while their imports rose by 10.1 per cent.

Trade balances

The size of trade and payments deficits and their distribution continued to give rise to concern in 1976. The combined trade deficit of the United States and Canada, Japan and the industrial countries of Western Europe, after having fallen sharply to \$11 billion in 1975, rose to \$35 billion in 1976. At the same time, the oil-exporting countries increased their trade surpluses

by \$8 billion to \$65 billion, \$52 billion of which came from trade with the industrial countries.

The \$24 billion deterioration in the trade balance of the Western industrial countries resulted from the interplay of three separate elements. In the trade with these countries there was a reduction in the deficit of the oil-importing developing countries; a reduction in the deficit of the Eastern trading area; and an increase in the surplus of the oil-exporting developing countries. Most of the smaller industrial countries fared particularly badly and their trade deficits increased strongly in 1976. In fact, in 1976 the combined current account deficit of the smaller OECD countries was larger than the OPEC surplus with the OECD area.

Of the EFTA countries only Switzerland produced a trade surplus in 1976 and the trade deficit of the EFTA countries combined rose by 1.2 billion to 10.4 billion dollars. The major part of the deficit was in trade with the EC. The Swiss trade accounts had recorded a deficit of \$2,511 million in 1974, which was reduced to \$345 million in 1975; in 1976 a \$69 million surplus was shown. Austria, Portugal and Norway recorded considerable increases in their trade deficits while Finland and Iceland reported improvements.

Total trade

In dollar terms the value of EFTA exports (f.o.b.) rose in 1976 by 10.3 per cent to 58,245.7 million as against a 7.0 per cent increase in 1975. The acceleration in the rate of expansion was still higher in volume terms as unit prices of exports rose less in 1976 than in 1975. The value of EFTA exports thus increased in 1976 at about the same rate as world exports. EFTA imports rose in value by 10.1 per cent to \$68,675.9 million, against an increase of 4.7 per cent in 1975.

The highest rate of increase of exports among EFTA countries was recorded by Iceland (29.9 per cent). Exports from Finland, Switzerland and Austria rose by 15.7, 14.4 and 13.0 per cent respectively, while Portugal's exports fell by 6.9 per cent. The sharpest increase in imports was in Austria. Imports into Finland and Iceland fell and Sweden's imports increased by only 6.1 per cent.

Seasonally adjusted three months' moving averages indicate that the growth rate of both total exports and imports of the EFTA countries combined increased during the first two months of the year. In March, the rate of growth of imports still accelerated but that of exports fell. Then the rise of both imports and exports slowed until May, but thereafter was on an upward slope for the rest of the year.

Intra-EFTA trade

As in 1975, intra-EFTA trade in 1976 rose less than total EFTA trade. Measured by exports, the value of intra-EFTA trade increased by 3.9 per cent to \$10,257.5 million. The value of intra-EFTA imports rose by 5.2 per

cent. Iceland's exports to the other EFTA countries increased by 27.8 per cent, but remained relatively small in absolute terms. Norway and Portugal recorded falling intra-EFTA exports. On the basis of the seasonally adjusted data the development of intra-EFTA exports followed a generally similar pattern to that of total EFTA trade.

EFTA-EC trade

Exports from the EFTA countries to the EC rose in 1976 by 15.7 per cent to \$27,143.1 million, compared with an increase of 4.1 per cent in 1975. EFTA imports from the EC increased by 10.2 per cent to \$36,322.6 million, against an increase of 3.4 per cent in 1975. Thus, contrary to what happened in earlier years, EFTA trade with the EC increased faster than total EFTA trade and also faster than intra-EFTA trade. The highest percentage increases in EFTA exports to the EC in 1976 were shown by Iceland (63.9 per cent) and by Finland (23.7 per cent). A fall in exports to the EC was recorded by Portugal (4.3 per cent). The highest increase in imports from the EC was shown by Austria (24.7 per cent). Finnish and Icelandic imports from the Communities fell by 8.4 and 8.0 per cent respectively. The seasonally adjusted data show that except in April and May the rate of growth of EFTA trade with the EC accelerated throughout the year.

EFTA trade with the United States

Exports from EFTA to the United States rose by 4.2 per cent to \$2,868.1 million in 1976, as against a fall of 2.1 per cent in 1975. EFTA imports from the USA increased by 2.0 per cent to \$4,172.8 million, after a 10.0 per cent rise in 1975. As in the preceding year, the growth rates of both imports and exports fluctuated fairly widely. Iceland, Switzerland and Austria increased their exports to the United States by, respectively, 27.7, 20.6 and 19.4 per cent last year. Exports from Portugal, Norway and Sweden to the USA fell, while those from Finland showed a marginal increase. Austria increased her imports from the USA by 25.3 per cent. Portugal's and Finland's imports from the USA fell.

EFTA trade with Eastern Europe

EFTA exports to Eastern Europe rose in 1976 by 5.2 per cent to \$5,022.1 million, compared with an increase of 31.4 per cent in 1975. Imports from that area increased in 1976 by 12.9 per cent to \$4,913.3 million, as against a rise of 11.4 per cent in the previous year. The greatest increases in trade with Eastern Europe, both in exports and in imports, were shown by Portugal, 93.2 and 94.7 per cent respectively. Switzerland also increased its imports from Eastern Europe considerably (44.6 per cent), as did Norway (37.9 per cent).

EFTA trade with the rest of the world

The value of EFTA exports to the countries grouped under "the rest of the world" increased in 1976 by 8.2 per cent to \$12,954.1 million (+ 10.3 per cent in 1975), while EFTA imports from the same countries rose by 16.5 per cent to \$12,802.1 million (+ 2.5 per cent in 1975).

TRADE BALANCES OF THE EFTA COUNTRIES

(in million US dollars)

Table I

	1972		1973		1974		1975		1976	
	Jan. - June	Year	Jan. - June	Year	Jan. - June	Year	Jan. - June	Year	Jan. - June	Year
Austria . . .	— 653	— 1,321	— 897	— 1,749	— 988	— 1,862	— 1,040	— 1,874	— 1,396	— 3,015
Finland . . .	— 119	— 252	— 310	— 504	— 515	— 1,325	— 1,213	— 2,115	— 473	— 1,055
Iceland . . .	— 19	— 41	— 13	— 67	— 80	— 186	— 96	— 179	— 23	— 66
Norway . . .	— 578	— 1,091	— 617	— 1,539	— 1,133	— 2,146	— 1,897	— 2,479	— 1,531	— 3,178
Portugal . . .	— 465	— 899	— 261	— 1,114	— 656	— 2,190	— 975	— 1,892	— 973	— 2,485 *
Sweden . . .	+ 213	+ 678	+ 957	+ 1,529	+ 29	— 504	— 251	— 395	— 87	— 701 *
Switzerland . . .	— 859	— 1,618	— 1,013	— 2,096	— 1,403	— 2,511	— 580	— 345	+ 116	+ 69
Total EFTA . .	— 2,480	— 4,544	— 2,154	— 5,540	— 4,746	— 10,724	— 6,052	— 9,279	— 4,367	— 10,431 *

* Preliminary figures.

EFTA TRADE IN 1976

Table II (with rise or fall (—) from 1975)

	EFTA		EC		USA		Eastern Europe		Rest of World		World	
	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%
<i>Imports (c.i.f.)</i>												
Austria	1,122.2	12.4	7,296.6	24.7	344.2	25.3	1,097.6	15.0	1,652.3	25.8	11,512.9	22.6
Finland	1,723.4	— 0.8	2,575.5	— 8.4	382.9	— 8.9	1,616.0	2.9	1,122.6	4.2	7,420.4	— 2.6
Iceland	86.9	— 14.3	202.6	— 8.0	49.0	9.4	64.5	6.6	63.1	4.5	466.1	— 4.4
Norway	2,691.6	8.1	4,924.2	16.3	719.2	4.5	341.9	37.9	2,418.1	20.0	11,095.0	14.7
Portugal	445.2	29.5	1,748.4	13.3	381.3	— 19.8	162.2	94.7	1,554.7	12.3	4,291.8	12.0
Sweden	3,229.1	3.0	9,765.4	2.9	1,288.1	9.0	1,133.4	4.0	3,725.2	18.3	19,141.2	6.1
Switzerland	1,166.7	2.0	9,809.9	11.3	1,008.1	0.1	497.7	44.6	2,266.1	13.8	14,748.5	10.9
Total EFTA	10,465.1	5.2	36,322.6	10.2	4,172.8	2.0	4,913.3	12.9	12,802.1	16.5	68,675.9	10.1
<i>Exports (f.o.b.)</i>												
Austria	1,227.0	6.7	3,964.0	19.4	222.9	19.4	1,287.5	0.6	1,796.6	13.4	8,498.0	13.0
Finland	1,472.4	5.3	2,422.3	23.7	180.5	2.8	1,511.3	14.8	778.7	18.9	6,365.2	15.7
Iceland	83.1	37.8	126.5	63.9	115.3	27.7	40.9	— 0.2	34.1	— 12.6	399.9	29.9
Norway	1,489.2	— 2.2	4,441.5	19.2	372.7	— 10.5	274.8	7.8	1,339.2	5.1	7,917.4	10.0
Portugal	290.6	— 2.1	929.9	— 4.3	122.0	— 13.0	82.3	93.2	381.9	— 21.9	1,806.7	— 6.9
Sweden	3,992.5	3.3	8,587.4	10.5	846.2	— 6.7	1,033.2	— 5.8	3,981.3	5.7	18,440.6	5.9
Switzerland	1,702.7	7.4	6,671.5	18.5	1,008.5	20.6	792.9	6.9	4,642.3	11.4	14,817.9	14.4
Total EFTA	10,257.5	3.9	27,143.1	15.7	2,868.1	4.2	5,022.9	5.2	12,954.1	8.2	58,245.7	10.3

PERCENTAGE SHARES OF IMPORTS AND EXPORTS IN 1976

Table III

	EFTA		EC		USA		Eastern Europe		Rest of world		World	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Austria . . .	9.7	14.5	63.4	46.6	3.0	2.6	9.5	15.1	14.4	21.2	100.0	100.0
Finland . . .	23.2	23.1	34.7	38.1	5.2	2.9	21.8	23.7	15.1	12.2	100.0	100.0
Iceland . . .	18.7	20.8	43.5	31.6	10.4	28.9	13.9	10.3	13.4	8.4	100.0	100.0
Norway . . .	24.3	18.8	44.4	56.1	6.5	4.7	3.1	3.5	21.7	16.9	100.0	100.0
Portugal . . .	10.4	16.1	40.7	51.5	8.9	6.7	3.8	4.6	36.2	21.1	100.0	100.0
Sweden . . .	16.9	21.7	51.0	46.6	6.8	4.6	5.9	5.6	19.4	21.5	100.0	100.0
Switzerland . .	7.9	11.5	66.5	45.0	6.8	6.9	3.4	5.4	15.4	31.2	100.0	100.0
Total EFTA . .	15.2	17.6	52.9	46.6	6.1	5.0	7.2	8.6	18.6	22.2	100.0	100.0

INTRA-EFTA TRADE IN 1976

(Exports f.o.b. with rise or fall (—) from 1975)

Table IV

Exporter	Importer	Austria	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	EFTA
Austria	\$ mill. Percentage change		101.2 1.7	2.8 40.0	120.8 16.9	46.6 28.0	342.4 7.5	613.2 4.0	1,227.0 6.7
Finland	\$ mill. Percentage change	44.7 — 3.0		8.3 — 18.6	226.1 — 12.8	18.7 — 38.9	1,082.7 11.2	91.9 16.9	1,472.4 5.3
Iceland	\$ mill. Percentage change	0.2 0	6.9 53.3		10.4 85.7	41.8 11.2	10.9 53.5	12.9 143.4	83.1 37.8
Norway	\$ mill. Percentage change	45.1 11.6	171.1 — 14.2	33.2 — 24.9		45.5 25.0	1,125.5 — 1.9	68.8 23.3	1,489.2 — 2.2
Portugal	\$ mill. Percentage change	24.3 — 12.6	24.3 — 18.5	1.2 — 42.9	50.9 12.1		139.5 5.1	50.4 — 14.4	290.6 — 2.1
Sweden	\$ mill. Percentage change	252.5 5.0	1,187.0 — 4.8	27.2 0.7	2,071.5 7.2	132.0 41.3		322.3 — 0.7	3,992.5 3.3
Switzerland	\$ mill. Percentage change	789.1 9.8	155.9 1.4	4.2 — 8.7	189.2 9.0	142.5 30.3	421.8 — 0.7		1,702.7 7.4
EFTA	\$ mill. Percentage change	1,155.9 7.7	1,646.4 — 5.0	76.9 — 14.7	2,668.9 5.9	427.1 24.2	3,122.8 4.0	1,159.5 4.2	10,257.5 3.9

Appendix

Lisbon, 11th and 12th November 1976

Ministerial meeting of the EFTA Councils

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Lisbon on 11th and 12th November 1976. The meeting was chaired by Mr. Antonio Barreto, Portuguese Minister of Trade and Tourism.

In reviewing economic developments in the world as a whole and in the EFTA countries, Ministers expressed some concern that in most of the larger countries there seemed to be a pause in the recovery. There was now a question whether economic growth could pick up again without new action to stimulate a revival, especially in major economies which were in a relatively favourable overall economic position. Ministers stressed the necessity for active employment policies and expressed their satisfaction that several EFTA countries had managed, through appropriate internal policies, to maintain employment and economic activity at a reasonable level, although in some cases this had involved balance of payments difficulties. However, unemployment was a serious problem in other countries. At the same time, some countries were still suffering from inflation and furthermore the danger of a new general resurgence of inflation was still widely felt.

Ministers reiterated their conviction that the maintenance of liberal trade policies was essential and that a return to protectionism would not only be harmful to international trade, but would also be counter-productive. They therefore emphasized the importance of the free trade achieved in EFTA and of the Free Trade Agreements of the EFTA countries with the European Communities. Ministers were convinced that the operation of these Agreements would benefit from further simplification and improvement of the rules of origin on the lines proposed by the EFTA countries in March 1975.

Ministers expressed their satisfaction at the progress made regarding the 100 million dollar EFTA Industrial Development Fund for Portugal. Arrangements had been made whereby the Fund had begun to operate on an interim

basis, although the necessary constitutional processes would only be completed in all the EFTA countries early in 1977. The Interim Steering Committee of the Fund had already approved a seven-year credit, totalling 65 million escudos (about 2 million dollars), to increase the production capacity and labour productivity of a Portuguese company engaged in the manufacture of tin plate packages for food products and other purposes, employing 870 people.

Ministers heard reports from the Chairman on recent meetings of the EFTA Consultative Committee. They welcomed the interest shown by the Committee in strengthening EFTA co-operation, which was in line with their general policy that the EFTA countries could derive further benefit from their relationship within the Association by co-operating also in matters relating to the objectives of the Stockholm Convention other than trade. Ministers agreed to the proposal that a special meeting of the Committee be held, with government representatives present, to discuss the economic situation and future developments within the EFTA area and Western Europe as a whole, especially so far as employment, balanced economic growth and financial and monetary stability are concerned. At the invitation of the Swedish Minister, the special meeting will be held in Stockholm on 14th and 15th February 1977.

Ministers recognized the importance of trade and other economic relations with Eastern Europe. They emphasized that full use should be made of the Economic Commission for Europe, particularly in relation to the economic provisions of the Helsinki Final Act which called for multilateral implementation.

Ministers reviewed the current situation in the multilateral trade negotiations within the framework of the GATT. They emphasized the need for more rapid progress in the negotiations, in order to achieve concrete results in 1977. Ministers declared their intention to make every effort to this end. They noted with satisfaction the further concessions which had been made by EFTA countries to the developing countries. Ministers also reiterated their conviction that a liberal and efficient international shipping system was a necessary foundation for a successful world trade system.

Ministers discussed developments in the relations of the industrialized world with the developing countries. They stressed the importance of making progress regarding the follow-up work of UNCTAD IV, in particular in relation to an integrated programme for commodities. Ministers also expressed their hope that the Conference for International Economic Co-operation would bring about positive results.

Vienna, 13th May 1977

The summit meeting

Press communiqué

At the invitation of Dr. Bruno Kreisky, Federal Chancellor of Austria, a Conference of Members of Governments of the EFTA countries took place in Vienna on 13th May at the International Conference Centre in the Hofburg. The delegations were headed by Dr. Bruno Kreisky, Federal Chancellor of Austria, who chaired the Conference ; Mr. Martti Miettunen, Prime Minister of Finland ; Mr. Einar Agustsson, Minister of Foreign Affairs of Iceland ; Dr. Walter Kieber, Prime Minister of Liechtenstein ; Mr. Odvar Nordli, Prime Minister of Norway ; Mr. Mario Soares, Prime Minister of Portugal ; Mr. Thorbjørn Faelldin, Prime Minister of Sweden ; Federal Councillors Ernst Brugger and Pierre Graber of Switzerland. The Secretary-General of EFTA, Mr. Charles Müller, was invited to attend the Conference.

Against the background of the accomplishment of free trade in industrial products on 1st July 1977 between the countries of the European Free Trade Association and the European Community, the Conference discussed the future role of the EFTA countries in the framework of European and world economic co-operation and development.

The Conference exchanged views on the economic situation within EFTA and in the world. It expressed concern over the present economic situation in Europe. The deep recession and the slow recovery had made the fulfilment of central objectives for economic policy difficult. Most countries are confronted with serious structural problems.

The Conference emphasized that close international co-operation between all parties concerned was a prerequisite for achieving economic growth with full employment, combined with lower inflation rates. The Conference noted that the summit meeting in London had been preoccupied with the same problems. It agreed on the urgent need to create more jobs while continuing to reduce inflation.

The Conference noted with satisfaction the realization on 1st July of a free trade market for industrial products of 300 million people, extending over the sixteen countries of the European Free Trade Association and the European Community. The new situation underlined the growing economic interdependence of the whole region. This would require intensified co-operation

within EFTA, including greater use of the organization as a framework for consultations on a wide range of economic questions. The Conference stressed the desirability of a further development of trade and economic relations with the Community, bearing in mind the respective Free Trade Agreements between the EFTA countries and the European Community, and indicated a number of matters on which closer co-operation would be of advantage to all concerned. In this context the Conference expressed its understanding for the application made by Portugal for membership of the European Community and reaffirmed its support for the efforts that are currently being made by Portugal to overcome its economic difficulties, thus contributing to the consolidation of the Portuguese democracy. The wish to bring into the free trade system the other European countries with market economies was also expressed.

The Conference confirmed the readiness of the EFTA countries to join in efforts towards a fruitful expansion of trade on the basis of reciprocity with the East European countries, thus intensifying economic co-operation throughout the whole of Europe.

The Conference reaffirmed the commitment of the EFTA Governments to liberal world trade policies, their full support of the Multilateral Trade Negotiations and of the efforts of the OECD to maintain an open trading system. They reiterated their will to contribute constructively to an increased participation of the developing countries in the world economy.

Heads of Government and Ministers adopted the following Declaration.

Declaration

1. The economic situation and the role of the EFTA countries in international economic co-operation

There is an urgent and general need for national action and international co-operation to create the conditions necessary for the continued recovery of economic growth. The EFTA Governments note with appreciation the consensus reached at the special meeting of the EFTA Consultative Committee in Stockholm in February this year that priority must be given to the objective of achieving a lasting return to full employment and at the same time of obtaining sustained growth and price and monetary stability. In accordance with the objectives of the Association the EFTA Governments will continue to pursue active policies to this end.

The EFTA Governments recognize that their economies react with particular sensitivity to problems in the world economy. The share of external trade in their economies is considerable; while representing only one per cent of world population the EFTA countries together account for 7 per cent of total world trade. Over the years EFTA countries have been in the forefront in promoting free trade and in pursuing active economic policies.

The EFTA Governments welcome the emphasis placed by the Heads of State and Government in the Downing Street Declaration on the urgent task to create more jobs while continuing to reduce inflation. They share the view

that inflation is one of the major causes of unemployment. They are also particularly concerned about the problem of unemployment among young people.

The EFTA Governments confirm their preparedness to co-operate in appropriate international organizations with a view to attaining central goals for the economic policy and they reaffirm their support for the strategy for sustained economic expansion approved by the OECD Ministerial Council.

2. A European market comprising sixteen countries

A new milestone in European economic integration will be reached on 1st July this year, when a free trade system for industrial products comes into being between the sixteen countries of the European Free Trade Association and the European Community; thus a market of 300 million people will be constituted. The EFTA Governments express their satisfaction that in spite of the recession and its negative effects on world trade, the dismantling of tariffs in Western Europe has continued without interruption. The important enterprise of establishing free trade, while representing a challenge to the economies involved, has proved to be viable and is producing substantial advantages for the countries participating in it. Moreover, the dynamic effects resulting from the greater prosperity of the economies of Western Europe are of advantage to all other trading nations.

3. The strengthening of co-operation in EFTA

As in the past seventeen years of its existence, the European Free Trade Association will have an important function to fulfil in the future. It will continue to be a useful and flexible instrument for the participating governments in the pursuit of their objectives regarding European free trade and economic co-operation. In accordance with the Stockholm Convention and in line with their open attitude, EFTA Governments reaffirm their commitment to the concept of free trade, its consolidation and the further intensification of co-operation in the trade field. The EFTA Governments are resolved also to strengthen the role of the organization as a framework for consultation on subjects of common economic interest related to the objectives of the Association. They will make use of it as a forum for joint consideration of wider European and world-wide economic problems in order to make a constructive contribution to economic co-operation in international fora.

4. The development of trade and economic co-operation with the European Community

Free trade relations in Western Europe have resulted in increased interaction between the economies of the countries concerned. It is therefore important to ensure that the advantages deriving from free trade are not jeopardized as a result of diverging economic developments and policies. The EFTA Governments are convinced that it would be desirable to develop the existing co-operation within EFTA and—in varying degrees of intensity—between EFTA countries and the European Community by means of an

increased exchange of information and closer consultations on economic questions and, where appropriate, co-ordinated efforts in order to secure free trade and to improve the general economic environment. Possibilities and methods should therefore be explored of enlarging co-operation in fields such as the stimulation of a stable economic growth, the fight against unemployment and inflation, the promotion of monetary stability and the concordant elaboration of legal norms in sectors of common economic interest.

Mutual benefit could also be derived from the simplification and improvement of the rules of origin and Customs procedures. The EFTA Governments further recognize that non-discriminatory access to supplies is as important as access to free markets for the harmonious functioning of the free trade system.

Concerning processed agricultural products, it should be examined whether a wider range of products can be given free trade treatment. It is also desirable, taking into account agricultural policies, to promote the harmonious development of trade in agricultural products by seeking appropriate solutions to existing difficulties. Attention should be given to the special importance for certain EFTA countries of trade in fish and fisheries products.

Other fields of interest for wider economic co-operation include transport policy, research, and the protection of environment.

To these ends contacts between the free trade partners should be intensified on a pragmatic and practical basis.

It was noted that the Agreement between Finland and the European Economic Community does not contain an evolutionary clause and that it is the intention of Finland to develop her relations with the Community in the framework of the objectives of that Agreement.

5. Portugal

The application by Portugal for membership of the European Community, submitted at the end of March 1977, is regarded with understanding and sympathy by the EFTA Governments. They note that this step is compatible with the preservation of the free trade established within EFTA and with the maintenance of close relations and co-operation with all EFTA countries. The EFTA Governments recognize the importance of supporting Portugal in its efforts to overcome its economic difficulties, thus contributing to the consolidation of Portuguese democratic institutions.

6. Extension of the free trade system to other European market economy countries

The EFTA Governments welcome efforts being made to complete the West European free trade system. They declare their readiness to participate in these efforts by the conclusion of appropriate agreements with those European market economy countries which are not yet fully participating in free trade. Interim agreements in conformity with GATT provisions would harmoniously prepare for the application of the existing Free Trade Agreements to countries which intend to obtain membership of the European Com-

munity. To this end the liberalization of trade in industrial goods, corresponding to the arrangements between the Community and the countries concerned, would constitute a useful first step.

7. Economic relations with Yugoslavia

The EFTA Governments note with satisfaction the wish expressed by the Yugoslav Government to establish closer economic relations with EFTA than those already in existence. They welcome this approach and affirm their readiness to seek ways and means for increased economic co-operation with Yugoslavia.

8. East-West trade and economic relations

All the EFTA Governments were signatories in Helsinki of the Final Act of the Conference on Security and Co-operation in Europe. They confirm their readiness to implement it through unilateral, bilateral and multilateral measures. While noting these possibilities they reaffirm their readiness to join in efforts leading to a fruitful expansion of trade and economic co-operation on the basis of reciprocity : this would strengthen co-operation throughout the whole of Europe. Full use should be made of the international fora available for co-operation, particularly the Economic Commission for Europe, which is playing an increasingly important role in promoting European economic co-operation, including extended co-operation in the field of environment. Progress concerning East-West trade may also be achieved in the Multilateral Trade Negotiations within the framework of GATT.

9. Commitment of the EFTA countries to liberal world trade policies

Regional economic co-operation in Europe has its corollary in world-wide economic co-operation. The EFTA Governments reaffirm their commitment to liberal world trade policies. They will support every effort to bring the Multilateral Trade Negotiations within the framework of GATT to a speedy and successful conclusion. They therefore aim at achieving concrete results in the main areas of negotiations and will take the special interest of the developing countries into consideration. Convinced that protectionism would be harmful and counter-productive, they reject it as a solution to economic problems, and attach great importance to the renewal of the OECD Trade Pledge.

10. Development co-operation and the improvement of North-South relations

The EFTA Governments, welcoming the impetus given in the Downing Street Declaration, confirm their own determination to foster their economic relations with the developing countries and to support practical efforts to that effect made by UNCTAD, GATT and other international bodies. In particular, the EFTA Governments express the hope that the Paris Conference on International Economic Cooperation will result in a significant advance in

international economic co-operation, securing fuller participation in the world economy for the developing countries and taking into account especially the interest of the least developed among them. The EFTA countries pledge their full support of all constructive efforts towards a world economic order based on partnership and equity and reflecting the world-wide interdependence.

2. Commitment of the EFTA countries to liberal world trade policies

Regional economic co-operation in Europe has in conformity with world-wide liberalisation policies. The EFTA countries reaffirm their commitment to the liberalisation of trade and to the reduction of barriers to trade. They will support every effort to bring the liberalisation of trade to a speedy conclusion. This includes the liberalisation of trade in goods, services and intellectual property. The liberalisation of trade in goods, services and intellectual property will take the special interest of the least developed countries into account. Countries that participate in the liberalisation of trade in goods, services and intellectual property will be in a position to economic growth and social progress. They intend to be a member of the OECD Trade

III. Development co-operation and the environment

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Geneva, 10th September 1976

Meeting of the Consultative Committee

Statement

The Consultative Committee discussed at its meetings on 10th and 11th May and on 10th September 1976 the situation of EFTA, the relations between the Consultative Committee and the EFTA Councils and Secretariat as well as future economic development in Europe. The Consultative Committee wishes to make the following statement to the EFTA Governments and the Council of Ministers.

Western Europe will within a short period constitute a free trade area, broadly speaking especially in manufactured goods. At the same time a practical inter-relationship of the economies of the Western European countries is developing. This implies that the economic activities and developments, employment and social developments of these countries are being woven more closely together. It implies furthermore that the economic policies of one country or a group of countries influence developments in other countries, thus creating increasing inter-dependence which calls for co-operation on policies and for common solutions.

In view of this evolution and taking into account the necessity of ensuring stable and balanced economic activity in order to secure full employment, the Consultative Committee considers that closer international co-operation with a view to promoting and mastering international economic and social developments is now required. This is particularly true as regards co-operation in economic policies.

The EFTA countries should therefore make greater use of the possibilities offered by co-operation between themselves and in the framework of EFTA in order to analyse economic developments, consult about and seek to agree on policies in an active way, in particular in relation to and in co-operation with the European Communities in order to facilitate wider Western European economic and social co-operation.

The Consultative Committee wishes to emphasize the immediate interest of the organizations represented in the Committee in such extended economic co-operation within EFTA and Western Europe.

The Consultative Committee intends to prepare recommendations to the Councils especially on economic questions including financial and monetary policies, and also on questions of social policy and other matters concerning

developments in EFTA and in the free trading area of Western Europe, and to work for the strengthening of contacts with the Economic and Social Committee of the EC.

The Consultative Committee therefore recommends :

- (a) that the Councils, in accordance with the objectives set out in the Preamble and in Article 2 of the EFTA Convention, continuously follow and evaluate economic developments in Western Europe, especially the pursuance of full employment, balanced economic growth, financial and monetary stability, with a view to strengthening EFTA co-operation in these fields ;
- (b) that EFTA and EFTA countries seek to improve and broaden the exchange of information with the appropriate bodies of the European Communities on economic and social developments in Western Europe and measures affecting these developments, with a view to facilitating and promoting consultation and co-operation between the European Communities and EFTA and the EFTA countries on economic policies ;
- (c) that in order to improve and strengthen relations between the Consultative Committee and the Councils the Chairman of the Agenda Committee¹ should serve as co-Chairman of the Consultative Committee and attend the meetings of the Council of Ministers when reports on the discussion of the Consultative Committee are dealt with ;
- (d) that in addition to the regular bi-annual meetings further meetings of the Consultative Committee be convened by the Secretary-General at the request of the members of the Committee in order to ensure closer contact between the groups in the Consultative Committee and the Council and to enable the Consultative Committee to keep abreast of events ;
- (e) that the economic and industrial expertise represented in the Consultative Committee should be utilized to a greater extent in the ordinary work of the Association ;
- (f) that the necessary resources for economic policy analyses be allocated.

The Consultative Committee finally recommends :

that a special meeting of the Consultative Committee be organized with the participation of representatives of Member States and Finland for discussions of the economic situation and future developments within the EFTA area and Western Europe as a whole, especially as far as employment, balanced economic growth and financial and monetary stability are concerned. The Committee expressed its desire that the representatives of EFTA States should be members of government and that extended participation should be made possible in accordance with Decision of the Council No. 5 of 1961 as amended by Decision of the Council No. 10 of 1968. The meeting should preferably be held before the end of 1976, and it should be based on documentation to be

¹ This would mean a change in the practice of having the Chairman of the Agenda Committee of the same nationality as the Ministerial Chairman.

prepared by the Economic and Social Sub-Committee of the Consultative Committee, by the Secretariat and by the organizations represented in the Committee. The meeting should evaluate lessons drawn within the EFTA area and the free trading area of Western Europe from the recent economic, monetary and employment crises in Western Europe, and should also discuss ways and means within EFTA and in Western Europe as a whole to avoid a similar situation in the future. The meeting should also discuss the repercussions of the recent economic policy agreements of the OECD Ministerial Council, the Puerto Rico Conference and the EEC Tripartite Conference.

Stockholm, 14th and 15th February 1977

Special meeting of the Consultative Committee

Communiqué

(a) A special meeting of the EFTA Consultative Committee, with the participation of members of governments, representatives of trade unions, employers and of other economic organizations, was convened in Stockholm on 14th and 15th February 1977 for discussion of the economic situation and future developments in the EFTA area and Western Europe as a whole.

(b) The meeting recalled the aim of EFTA to promote European free trade and its objectives as set out in Article 2 of the Stockholm Convention, in particular :

- to promote a sustained expansion of economic activity, full employment, increased productivity and the rational use of resources, financial stability and continuous improvement in living standards ;
- to secure that trade between Member States takes place in conditions of fair competition ;
- to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it.

(c) The meeting expressed concern about the international economic situation. The recession which began in 1974-1975 had led by January 1977 to high unemployment in the majority of the OECD countries. Present projections showed that economic activity in this area would not reach a satisfactory level in 1977.

(d) The meeting had a thorough discussion of the objectives of economic policy especially with regard to employment, balanced economic growth and financial and monetary stability, and came to the following conclusions.

1. There was a general consensus that priority must be given to the objective of achieving a lasting return to full employment and at the same time of obtaining sustained growth and economic stability as basic conditions for achieving a satisfactory level of employment. The same objectives were equally important for all countries of Western Europe and the meeting noted

that similar views had been expressed at the Tripartite Conference of the Communities in 1976.

2. The rate of economic recovery had slowed in the second half of 1976, when final demand failed to increase as originally expected. Almost all countries had now scaled down their expectations for growth in 1977 and unemployment was again increasing and generally was back at its peak level of 1975. The fact that Western industrial countries were pursuing different national policies regarding full employment, balanced economic growth and economic stability, had contributed to greater divergencies in general economic performance. Several EFTA countries had experienced considerable increases in production costs which had reduced the competitiveness of their industries. Economic policies in those countries should therefore aim at reducing cost pressures. A few Western industrial countries registered large balance of payments surpluses, whereas many others experienced weak foreign balances. At the meeting it was stressed that countries in a stronger position should let internal demand expand sufficiently to contribute to a viable international recovery, while not endangering economic stability. The aim of full employment with price stability should be actively pursued. The international economic situation called for closer consultation between governments on questions of economic policy.

3. (a) The meeting noted that from 1974 to 1976 most EFTA countries had managed to keep unemployment fairly low, compared with the rest of the OECD area. In some countries, however, this had resulted in considerable deficits in current balances of payments, large changes in exchange rates, price increases and an erosion of the competitiveness of their industries.

(b) A number of specific measures had been used by some EFTA countries in order to keep employment at a high level, including special measures for the unemployed and for regions and industries with specific problems. Furthermore, demand management had played an important role in most EFTA countries in the effort to create a balance between supply and demand for goods, services and labour.

(c) It was recognized that industrialized countries were at present confronted with considerable structural problems and that adjustments must be attempted which would require increased investment. In this connection the specific need was stressed to provide secure and productive employment for all sections of the labour force, men and women, and to provide appropriate conditions for the recovery of investment in the public and private sectors.

(d) On selective measures, the meeting noted its obvious preference for applying funds now spent on unemployment benefits for more productive ends to create new jobs, encourage job mobility and stimulate business and economic activity.

4. Against the background of the developments in currency markets the meeting discussed the possibilities of promoting better international economic

co-ordination. Among other things, the following were mentioned for further consideration in common by the governments of EFTA countries :

- (a) forward planning of the management and, in case of financial straits, financing of current balance deficits ;
- (b) co-ordinated management of the floating exchange rates system through the IMF code of conduct and other means.

5. The meeting stressed the importance of fulfilling international trade commitments and the OECD Trade Pledge. It underlined the importance of further efforts to expand free trade and it expressed its conviction that protectionism would be harmful and counter-productive and rejected it as a solution to economic problems. It expressed the hope that the Tokyo Round of negotiations in GATT would lead to substantial results and that fruitful collaboration would follow from current deliberations in the Economic Commission for Europe.

6. The meeting agreed that progress towards more balanced and equitable economic relations between developed and developing countries was an essential element of an improved world economy. Efforts should be intensified to strengthen policies to that end.

7. The meeting agreed that the economic situation in Portugal was particularly difficult and required special attention. It recognized that the EFTA Industrial Development Fund, which had come into operation on 1st February 1977, was a valuable contribution to the development of Portuguese industries within the framework of a market economy.

8. The meeting noted that, in accordance with the Free Trade Agreements between the EFTA countries and the European Communities, the import duties on industrial products traded between the two groups would, with certain temporary exceptions, be abolished on 1st July this year. Thus from that date free trade in industrial goods would be established between 16 nations in Western Europe. In welcoming this development, the meeting recognized that further technical improvements in the operation of the Free Trade Agreements could be beneficial to all parties. Furthermore, the meeting considered that the free trade thus created needed to be safeguarded and called for closer consultations on economic questions, bearing in mind the Free Trade Agreements between the EFTA countries and the European Communities. To this end, further pragmatic and practical contacts between the countries of EFTA and the EC should be explored.

9. The meeting welcomed the fact that preparations were now being made for a conference in Vienna of members of government of the EFTA countries at the highest possible level. This would provide a valuable opportunity for further consideration of many of the important questions which had been discussed at the Stockholm meeting.

European Free Trade Association

July 1976-June 1977

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