

1977-1978

Eighteenth Annual Report
of the
European Free Trade
Association



Geneva-September 1978

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I. The year in EFTA: July 1977 to June 1978

This was the first full year of industrial free trade between the EFTA countries and the European Community; and it passed during a period in which world trade grew very slowly and the prospects of a general economic revival weakened. The continued slow growth inevitably created difficulties for nations as dependent on international trade as the seven EFTA countries for which, on average, exports account for almost a quarter of gross national product. In the calendar year 1977, although their exports increased by over 12 per cent in value, they had a combined trade deficit of \$12.9 billion, which was \$2.4 billion higher than in the previous year.

In some EFTA countries the constraints exercised by their balances of payments grew more serious during the year and it became necessary, in varying degrees, to adopt or to tighten generally restrictive policies. But in most EFTA countries it proved possible to keep unemployment rates down to relatively low levels. At the same time more active steps were taken to fight against inflation. Moreover, EFTA countries have adopted positive adjustment policies, recognizing that in the current international economic situation they face important structural problems.

Despite these problems, and despite the keener international competition for markets which faced manufacturers both on their home ground and in their search for foreign outlets, the EFTA countries maintained a good record during the year by not adopting any new measures to limit imports. In almost all parts of the world protectionist pressures were growing and a greater variety of trade protection measures were introduced or contemplated. But the EFTA countries remained committed to the full observance of the rules of the free trade system in Western Europe and the full respect of the liberal world trading system, which indeed they hoped to see strengthened through a successful conclusion of the Multilateral Trade Negotiations taking place in the framework of the GATT.

Within EFTA itself one of the main tasks of the year was to go ahead with the work of translating into specific proposals for action the long-term strategy for the EFTA countries that was agreed at the Vienna Summit in May 1977. This Summit called for intensified co-operation within the Association and stressed the desirability of a further development of economic relations with the European Community. At the Ministerial meeting of the EFTA Councils in October 1977 the Ministers instructed the Councils at official level to begin to draw up a programme of measures to consolidate free trade and to intensify consultations within EFTA on matters of common economic interest. The Councils were also to follow closely the development of economic relations

between individual EFTA countries and the Community in order to be able to identify specific subjects on which co-operation might be desirable or necessary.

Among the first results of the subsequent deliberations was a decision to study the importance of non-tariff barriers in the free trade system. So far as consultations on economic matters are concerned, the working methods of the Economic Committee were changed so as to permit a greater concentration on the implications of general economic developments for the EFTA countries and to extend the perspective beyond the short term. At their meeting in May 1978 the Ministers also agreed that there should from time to time be special meetings at official level to discuss the development of relations with the Community both in the context of the Free Trade Agreements and in other fields of economic co-operation.

At the same meeting the Ministers called for studies to be undertaken within EFTA on several subjects including the question of avoiding government subsidies to export credits in internal EFTA trade, the economic consequences of Greek membership of the Community for the free trade relations between the EFTA countries and the Community, and the possibilities of new forms of assistance to Portugal.

Closer contact was established during the year between the EFTA Councils and the national parliaments through the establishment of a Committee of Members of Parliament of the EFTA countries, which held its first meeting in November 1977. Members of Parliament from these countries had met informally on many occasions in the past to discuss EFTA matters, and it was at their suggestion that the new Committee was created. It serves as a consultative body on matters within the scope of the Association's work and as a channel of information on these matters between EFTA and Members of Parliament.

The views of industry, commerce, trade unions and other economic interests in the EFTA countries are presented to the Councils through the Consultative Committee which continued to make a valuable contribution to the work of the Association. The Committee again received useful reports from its Economic and Social Sub-Committee. At both its meetings the Consultative Committee considered a trade union proposal that there should be a tripartite conference to discuss economic policies, full employment, prices and financial stability, with governments, trade unions and employers from all EFTA and EC countries taking part. The Committee also asked that the EFTA Ministers should reaffirm their determination to fight protectionism and work for a successful conclusion of the Multilateral Trade Negotiations taking place in the framework of GATT.

The EFTA Industrial Development Fund for Portugal, which was established by all the EFTA countries with the aim of contributing to the development of Portuguese industry and thus helping to consolidate the country's democratic institutions, completed its first year at the end of January 1978. EFTA and the EFTA countries continued to assist Portugal in other ways, both bilateral and multilateral, and the Councils are now to examine whether new forms of assistance to Portugal in the fields of export promotion, tourism and investment could be envisaged.

Throughout the year the EFTA countries were engaged in negotiations with Spain with the aim of establishing a multilateral free trade agreement. The ultimate goal was the extension to Spain of the free trade system that already links all the EFTA countries and the European Community. As a first step towards this, the multilateral agreement would give EFTA exporters of industrial goods the same access to the Spanish market as EC exporters have in virtue of the trade agreement of 1970 between Spain and the EEC, and would give Spanish exporters of industrial goods the same access to EFTA markets as they have to the Community market. Progress was made on many of the points to be included in the agreement but a few questions remained unsettled at the end of June 1978. A new round of negotiations was scheduled to take place in September 1978. Throughout the year there were also bilateral negotiations between individual EFTA countries and Spain in order to reach agreements on agricultural products.

The possibilities of meeting the wish of the Yugoslav Government for a more intense co-operation with EFTA were explored during the year in meetings which led to the establishment of a Joint EFTA-Yugoslavia Committee. As a specific manifestation of the interest in collaboration it was also agreed to organize a meeting to discuss practical methods of increasing Yugoslav exports to EFTA countries.

II. Internal developments in EFTA

Tariffs and quotas

Tariff reductions on industrial goods

In accordance with the timetable laid down on its accession to EFTA Iceland's import duties were reduced from 30 to 20 per cent of the basic duties on 1st January 1978. Two more annual 10 per cent reductions will bring the rate to zero on 1st January 1980.

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 quota for the import of rubber boots in Sweden was abolished from 7th December 1977 so far as imports from EFTA (and the EC) are concerned.

The quotas on the import of some consumer goods, introduced by Portugal in February 1977, remained in force but with some changes in the list of products covered. See "Consultations and complaints".

Amendment to Annex G to the Convention

An amendment to Annex G to the Stockholm Convention which would enable the Councils to authorize Portugal, at its request, to introduce or increase import duties on certain industrial products came into force on 2nd May 1978. The duties would, however, have to be abolished at the latest on 1st January 1985. The purpose is to assist the development of Portuguese industry and thus strengthen the Portuguese economy. As was recorded in the 1976-1977 Annual Report the amendment, approved by the Councils, needed to be accepted by all EFTA countries before it could come into force.

Origin rules

A new text of Annex B to the Stockholm Convention which contains the EFTA origin rules was approved by the Councils in December 1977 and came into force from 1st January 1978.¹ Some consequential amendments to Article 7 of the Convention came into effect at the same time on the basis of the same decision.

The new text involves no changes of substance, and the origin rules remain, with few exceptions, identical with those in the Free Trade Agreements between each of the EFTA countries and the European Communities. The revision was undertaken for two reasons : to incorporate all amendments made since 1st April 1973 (the date of the first tariff cuts under the FTAs) in a single and therefore clearer text ; and to include alterations made necessary by the revision of the international Customs Co-operation Council Nomenclature, from which 90 tariff headings no longer of significance to international trade had been removed.

At the same time Part II of Annex B was deleted. This contained provisions for the tariff treatment of goods that were en route on 1st April 1973.

Charges other than tariffs

Finnish import equalization tax

In March 1978 the Committee of Trade Experts submitted a report to the Joint Council on the prolongation of the Finnish equalization tax on imports of products which, when produced in Finland, are affected by a hidden tax burden. The tax, which had been in force since 1971, was prolonged for one year until the end of 1978. At the same time the rates were adjusted to take account of an up-to-date basis for calculating the tax and of an increase in the turnover tax. The Committee did not explore the legal aspects of the matter but several members recalled the agreement on tax rebates reached in Copenhagen in 1965 and pointed out that the continuing application of the tax caused concern and might lead to demands for similar compensation systems in other countries. The Joint Council noted the Committee's report.

The Icelandic import equalization tax

On 6th May 1978 the Icelandic Parliament passed a law introducing an equalization tax which would be levied, at a rate of 3 per cent of the Customs value, on the import of industrial products which are also produced in Iceland.

¹ Decision of the EFTA Council No. 12 of 1977 and Decision of the Joint Council No. 4 of 1977, adopted on 13th December 1977.

The tax was to compensate for the cascading effect of the sales tax levied at various stages of production on the corresponding domestic products. The law, which had not been implemented at the end of the year under review, was to remain in force until 1980 when it was planned to replace the sales tax by a value-added tax.

The Finnish turnover tax system

The Committee of Trade Experts was informed in March 1978 that from 1st July 1978 sales from domestic producers to wholesalers would be subject to turnover tax. The application of this tax from 1st September 1976 to imports only, had led the Committee to conclude in June 1977 that the revision contained an element of less favourable treatment of imported products ; this element will now disappear.

Agriculture

Annual review of agricultural trade

The annual review of agricultural trade within EFTA was carried out by the Councils in December 1977 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 ; these are listed in Parts II and III of Annex D to the Stockholm Convention.

The report showed that whereas total intra-EFTA imports rose by 5.3 per cent in value in 1976, intra-EFTA imports of these agricultural products fell by 4.9 per cent to \$308 million. This sum represented 2.9 per cent of all intra-EFTA imports. Sweden was once again the biggest importer of these agricultural products from the other EFTA countries, taking 34.4 per cent of the total, and the biggest exporter, supplying 44.7 per cent of the total.

Processed agricultural products

The Committee of Trade Experts continued to review all notifications from EFTA Governments concerning changes in the levies they place on imports of processed agricultural products or in any other measures they apply in order to compensate for differences between the domestic and the world market prices for agricultural raw materials.

The purpose of the review is to ensure that the compensation does not exceed the amount necessary to offset the differences in the prices at which the raw materials are available to the processing industries in the various countries. Five EFTA Governments use measures of these kinds. Particular attention was paid by the Committee to the risks of overcompensation that might arise in some cases through the use of calculations based on standard recipes for the products rather than on the actual proportions of the ingredients.

Duties on Finnish imports of agricultural products

A revision of the Finnish import régime for agricultural products which, among other things, involved replacing specific levies on a number of goods by *ad valorem* duties or variable levies or both was notified to the Joint Council and examined in the Committee of Trade Experts. The Finnish view, expressed in the Committee, that no changes had been introduced so far as the EFTA free trade system was concerned was not disputed.

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 in Article 31 of the Stockholm Convention.

The effects on trade of some actions taken earlier by the authorities in Finland and Portugal, and still in force during the year, were examined by the Committee of Trade Experts and the Councils: their findings are reported below.

Finland: cash payments for imports

The Committee of Trade Experts completed an examination of the trade effects of the Bank of Finland's requirement that cash payment for a number of products should be made before Customs clearance. The obligation, which is an element in the Bank's generally restrictive monetary policy, was extended to cover slightly more than 30 per cent of all Finnish imports from 1st July 1977. The Committee concluded that it was difficult to isolate the quantitative effects on imports into Finland from those of other measures affecting imports and from the impact of the general recession. Several delegations stated their concern that the system might lead to demands for similar measures in other EFTA countries. The Committee expressed the hope that an improvement in the Finnish economic situation would permit the abolition of the cash payment requirement as soon as possible. The Joint Council took note of the Committee's findings in February 1978. The range of products subject to the cash payment rule was reduced from 12th May 1978 when Finnish monetary policy was slightly relaxed as a result of an improvement in the country's economic situation.

Finland: surcharges on imports of tights and of rubber boots

The surcharges levied on the import into Finland of low-priced tights (since 27th December 1976) and low-priced rubber boots (since 9th February 1977) remained in force. The Committee of Trade Experts, which had been given the task of keeping the matter under constant review, examined the most up-to-date statistics at each of its meetings. The statistics showed that no

imports of either tights or rubber boots had entered Finland from EFTA countries at prices below the reference prices at which imports become liable to surcharge.

Portugal : balance of payments measures

The trade effects of measures applied by Portugal in its attempt to reduce a growing balance of payments deficit were examined by the Committee of Trade Experts at the request of the Councils, which had decided in November 1977 to keep the measures under review. The deficit rose from 37,599 million Portuguese escudos in 1976 to 57,214 million in 1977. The principal measures concerned were a surcharge (of 30 per cent or 60 per cent) on imports of many products, an obligation to deposit temporarily 50 per cent of the value of imports of a more limited number of products, and global import quotas for some products.

The import deposit scheme, which had been introduced in October 1976, was abolished at the end of 1977. The surcharges, first imposed from May 1975 at lower rates, were maintained in force and the range of products liable to the 60 per cent rate was extended in February 1977. Global quotas for some consumer goods and for unassembled cars for assembly in Portugal were brought in at the same time; the number of items subject to quotas was reduced from 1st January 1978. Of imports from EFTA 46 per cent were covered by the 30 per cent surcharge in 1977 and 0.75 per cent by the 60 per cent rate; and 0.53 per cent of imports from EFTA were covered by the quotas.

In its report to the Councils in March 1978 the Committee of Trade Experts recognized the severity of the Portuguese balance of payments position. It also expressed the hope that the measures applied to deal with the problem would be replaced by internal measures which would make it possible to abolish all restrictions on imports. The Committee noted also the difficulties experienced by some countries as regards the import registration system in Portugal, and noted the Portuguese assurance that efforts would be made to overcome the difficulties which were due to changes introduced in the data-processing system. The Councils noted these conclusions the following month and expressed their satisfaction at the ending of the import deposit scheme. At the Ministerial meeting of the Councils in May 1978 the Portuguese Minister announced the intention of the government to reduce the 30 per cent surcharge to 20 per cent on 1st October 1978, and to 10 per cent on 1st April 1979, and to abolish it on 1st October 1979. The 60 per cent surcharge would be maintained temporarily. He also said that the import quota system would remain in force until the end of March 1979 but that an increase in the quotas had been introduced.

Steel : surveillance measures in four EFTA countries

At the request of the European Community the six EFTA countries which produce steel bilaterally negotiated arrangements to ensure that EFTA exporters complied with the steel pricing system applied by the ECSC as part

of its programme to deal with the crisis in the steel industry. Subsequently four of these EFTA countries introduced arrangements for surveillance of the prices of some steel imports. No quantitative restrictions on imports are involved, the purpose being in each case to obtain information quickly on import prices and trends. The methods used by Finland and Sweden involve the issuing of automatic licences; Austria modified its import declaration system; and Switzerland required (for concrete reinforcing bars only) an import declaration. All these arrangements were noted by the Councils. The Committee of Trade Experts discussed these arrangements in June 1978 and found that no negative effects on EFTA trade had so far been detected, apart from the formalities to be observed. Any delegation could, however, revert to the matter if it so desired.

Non-tariff barriers to trade

In working out a programme to consolidate free trade EFTA is to give special attention to the field of non-tariff barriers. This was one of the points agreed by EFTA Ministers in October 1977 when discussing the steps to be taken in EFTA to implement the long-term strategy for economic co-operation formulated at the Vienna Summit.

At official level the Councils therefore considered the possibilities of further action in this field and agreed in February 1978 that an attempt should be made to evaluate the importance of non-tariff barriers to trade within the European free trade area.

The Councils thereupon invited the EFTA Governments to notify the Secretariat by 1st November 1978 of any such barriers which caused difficulties for trade within EFTA. In addition the Secretariat was to collect information on the work being done by the Community and in other international organizations on non-tariff measures which might affect trade. Throughout, the work being done on non-tariff measures in the Multilateral Trade Negotiations was to be kept in mind.

At the request of the Councils the Committee of Trade Experts drew up a form for the notification of non-tariff barriers and suggested a classification to be used for the purpose. The Committee of Trade Experts will later identify the areas where non-tariff barriers cause most difficulties for exporters.

Technical barriers to trade

A notification procedure for the more specific purpose of identifying potential technical barriers to trade has been in use in EFTA for some years. These are the barriers that may arise from differences in the technical requirements laid down for particular products in the individual countries. By this procedure, which is kept under review by the Committee of Trade Experts,

the EFTA countries notify each other in advance of any new or amended technical regulations which they intend to put into force. In the twelve months under review there were thirty-eight notifications.

EFTA's contribution to the removal of technical obstacles has also taken the form of working out international arrangements which make it possible to overcome the hindrances that are created when products have to be tested or inspected in order to ensure that national technical requirements are fulfilled. In the past this work led to the setting up of the schemes and conventions described in Section III which are independent of EFTA and also include countries from outside EFTA.

Two new reciprocal recognition schemes in force

Two new schemes of this kind came into force between EFTA countries on 1st January 1978. One relates to lifting appliances of all kinds for transporting either passengers or goods. The other concerns appliances that use liquid fuels for heating (such as oil burners, domestic boilers and oil stoves).

Both schemes are based on the principle that the authorities in a country importing these appliances will recognize the tests and inspections carried out in the country from which they are exported. Both were first worked out by expert groups set up by the Councils for the purpose and then approved by the Committee of Trade Experts whose recommendation that the schemes should be established was accepted by the Councils in June 1977.

The schemes, each of which takes the form of an agreement between the authorities responsible in EFTA countries for approving the appliances, apply at present only between EFTA countries. They are however open to the participation of the corresponding authorities in other countries.

The participants in the lifting appliances scheme are the authorities in Austria, Finland, Iceland, Norway and Switzerland. In the case of heating equipment using liquid fuel the approval bodies in all EFTA countries are taking part. Fuller details were given in the April 1978 issue of the EFTA Bulletin.

Registration of pharmaceutical products

Proposals for overcoming the commercial difficulties that arise from differences in national procedures for the registration of pharmaceutical products were considered by the Councils in February 1978.

The proposals had been worked out by an ad hoc group of experts which in the course of nine meetings had examined the nature of the difficulties and reviewed the work being done on registration in other international bodies and in particular the relevant EEC directives. It came to the conclusion that harmonization of national requirements would not solve the problem for the time being, but that it would be possible to lessen the effects of national differences by establishing a system in which registration authorities would exchange reports on the evaluation of particular products.

These evaluation reports would be drawn up by the authority in the country in which the product was first registered and would contain chemical, pharmaceutical, pharmacological, toxicological and clinical data about the product, together with the authority's evaluation of the data.

The Councils endorsed the proposals and set up a drafting group of registration experts and other officials from the EFTA countries to work out the legal text of an arrangement of this kind. The drafting group began its work at a meeting in April.

Trade mark law

The ad hoc group of EFTA experts on trade mark law met three times during the year to continue their study of the implications for the EFTA countries of the work being done within the EEC to create a trade mark system for the Community. In June 1978 the group presented a report to the Councils in which it stated that the system envisaged was of concern to the EFTA countries because of the close commercial ties between them and the Community. The expert group recommended that it would be advisable to make contact with the European Communities on this subject because of the wish to avoid so far as possible the creation of barriers to trade between the sixteen countries.

The EFTA Industrial Development Fund for Portugal

By the end of June 1978 the EFTA Industrial Development Fund for Portugal, through which all the EFTA countries are contributing to the growth of Portuguese industry, had approved loans totalling Esc. 1,472 million (the equivalent of about \$31.5 million) to assist in the financing of fifty-seven specific investment projects in Portugal.

The Fund had completed its first year of operations on 31st January 1978 and at that stage the value of the loans approved by it had amounted to Esc. 941 million for a total of forty-seven projects. When the Fund's first annual report was presented to the Councils in April 1978 the Portuguese Delegate to the Councils stated that the Fund had played a very important rôle in his country's economic and financial situation through its support for Portuguese enterprises.

Intended primarily to help in the modernization or creation of small and medium-sized firms, loans were granted by the Fund both for investments in new equipment in already existing factories, where increased production will provide greater security for the labour force, and for the construction of new manufacturing capacity. Three loans were granted under the Article in the Fund's Statutes which, within certain limits, permits the financing of project studies, technical assistance or research and the granting of loans for specific projects on more favourable terms.

One of the projects to which the Fund is contributing is designed to attract industry to regions in Portugal with ample manpower resources but few manufacturing facilities. A non-profit-making public enterprise is to create three industrial estates which will have the necessary infrastructure and be equipped with standardized factories for renting. It will also construct and lease factories on the estates for the particular requirements of manufacturers. It is estimated that the three estates will provide about 7,500 jobs when the factories are all completed and in use. Including these, 8,910 new jobs will be created once all the investment projects have been carried out.

Firms in many sectors of industry are benefiting from the operations from the Fund. So far, two sectors have received relatively large proportions of the total loans: the textile industry, which accounts for 24 per cent of the funds committed up to the end of June 1978, the electrical equipment industry, which accounts for a further 17 per cent. Companies located in thirteen of the eighteen districts of mainland Portugal have so far benefited from loans.

As required by its Statutes the Fund may not as a rule provide the full financing of any project. Thus the total value of the projects for which the Fund granted loans up to the end of June 1978 amounted to Esc. 3,960 million, of which the Fund provided 37 per cent. Investment in machinery and equipment was by far the largest part of the total commitment of funds. Purchases from Portugal and the other EFTA countries are estimated to account for Esc. 1,400 million.

By the end of June 1978 the Fund had called up contributions to a total value of 13,700,000 Special Drawing Rights from the seven EFTA countries. The size of the Fund itself is 84,604,516 SDRs—the equivalent of \$100 million when the decision to create the Fund was taken on 6th November 1975—and the national contributions are being made available in five annual instalments, to be drawn on as and when required to finance particular projects.

Subject to the supervision of the EFTA Council, with the full participation of the representative of Finland, a Steering Committee is responsible for the Fund's operations. It met four times during the twelve months to the end of June 1978 and in that period approved twelve loans totalling Esc. 968 million. The Executive Commission in Portugal, which is responsible for the administration of the Fund and for deciding on requests for loans not exceeding 200,000 SDRs in each case, approved seventeen loans amounting to Esc. 178.5 million in the same period.

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 three times 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 10th and 11th November 1977 the Committee noted that there was a marked slowdown in economic activity in several important OECD countries and that the international expansion earlier expected for the second half of 1977 and the beginning of 1978 no longer seemed likely. Unemployment continued to be unacceptably high and surpluses and deficits on external balances remained nearly unchanged. From a review of the prospects for the individual EFTA countries it appeared that the outlook varied considerably in several important respects and that some EFTA countries were still facing serious problems.

When it met again, on 8th-10th March 1978, the Committee, as requested by the Councils, agreed on some general proposals about the organization of its work in the future in the light of the objective of intensifying consultations within EFTA on subjects of common economic interest. These proposals, which were subsequently endorsed by the Councils, were that discussions in the Committee on international matters should concentrate on their implications for the EFTA countries and should not be restricted to short-term considerations, and that at any one meeting reviews of developments in EFTA countries should be limited to two or three countries and cover also longer-term structural questions. These reviews should be mainly concerned with an analysis of developments and economic policies that would permit a comparison of the situation in individual EFTA countries. Thus the economic situation and prospects of Austria and Finland were discussed in depth at the Committee's meeting in March. The Committee also agreed that special subjects should be on the Agenda as and when they were considered useful.

At the same meeting the Committee observed that the prospects for faster growth in the OECD area had still not improved and that it was likely that unemployment would continue to increase. The divergences in national current account positions remained very considerable with the majority of the small countries showing deficits. Moreover, a number of countries were still experiencing serious inflationary pressures. The Committee concluded that the economic situation in the OECD area created difficulties for most EFTA countries. The Committee noted that it was particularly useful for the EFTA countries to exchange views on economic policy questions in such a situation.

The Committee met again on 6th and 7th June 1978. It observed that the prospects for a fast and sustained rate of growth in the OECD area had not improved, and that protectionist pressures were gaining ground in many countries. Furthermore, although the current account deficits of some countries had been reduced, the pattern of surpluses and deficits on current account remained very uneven. The majority of the smaller countries continued to show deficits. In view of the changing pattern of international economic developments the Committee recognized the need for structural adjustments. The economic situation in Norway and Portugal as well as the policies applied in these countries were also discussed.

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. A representative of Yugoslavia was present at two of the meetings as an observer.

The Committee completed reports to the Councils on several matters which they had referred to it. These were the Finnish cash payments system, the Portuguese balance of payments measures, the Finnish import equalization tax, and the form of notification procedure to be used in assembling information on non-tariff barriers to trade. The Committee's findings are summarized elsewhere in this report under these headings. Other specific questions examined in the Committee and mentioned elsewhere in this report were the revision of the Finnish import levy system for agricultural products and the Finnish surcharges on imports of low-priced tights and low-priced rubber boots.

At each meeting the Committee reviewed 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. Article 21 of the Stockholm Convention requires the notification of measures of this kind in order to ensure that they involve no overcompensation.

The Committee also kept under review the implementation of the 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 schemes and conventions which are the subject of Section III of this report, as well as the two new schemes—for lifting appliances and for heating equipment using liquid fuel—which came into force between EFTA countries on 1st January 1978. In addition the Committee examined the possible implications for trade of EC directives on pharmaceutical products, hot water meters, and electrical equipment for use in potentially explosive atmospheres.

The links between the Committee of Trade Experts and the Council were strengthened by a decision which provides that reports will be given to the Council on each meeting of the Committee.¹ Previously only reports on matters specifically referred to the Committee had been presented to the Council.

The Committee of Origin and Customs Experts

The Committee of Origin and Customs Experts, whose members are officials from each of the EFTA countries, met seven times in the course of the year under review. In November 1977 it completed the task of preparing a consolidated text of the origin rules in EFTA—which with few exceptions

¹ Decision of the Council No. 1 of 1978, adopted on 25th January 1978.

are identical with those contained in the Free Trade Agreements with the EEC—which incorporates all the decisions taken since the coming into force of the Agreements. It also incorporates amendments made necessary by the revision of the classification of goods in the Customs Co-operation Council Nomenclature. The consolidated text proposed by the Committee was subsequently approved by the Councils.

The Committee also considered, in September 1977, the final details of the common system under which the five EFTA countries which give tariff preferences to the developing countries would apply cumulative origin treatment in order to increase the volume of trade benefiting from the preferences. The five countries—Austria, Finland, Norway, Sweden and Switzerland—had announced their intention to grant cumulative treatment at the June 1977 meeting of the UNCTAD Special Committee on Preferences. The common system, which will come into force from 1st July 1978, will be applied to imports from developing countries that belong to regional economic groupings.

Possible amendments to the origin requirements for some products were under consideration in the Committee, which also exchanged views on the proposals for simplifying the origin rules which the EFTA countries had presented to the EEC in 1975. In addition the Committee discussed some aspects of the administration of the origin rules.

A proposal, originating from the Parliamentary Assembly of the Council of Europe, that the EFTA and EC countries should seek to apply uniform rules for minor non-commercial imports by travellers crossing national borders was one of the items discussed by the Committee at its meeting in April. The Committee agreed to revert to it at its next meeting.

The Consultative Committee

The Consultative Committee, which consists of representatives of industry, commerce, trade unions and other economic interests in the EFTA countries, met in November 1977 and April 1978.

On both occasions there was a long discussion of the economic outlook for the EFTA countries. Deep concern was expressed about the continuing recession in the world economy, the persistence of high rates of unemployment, especially among young people, and the growing difficulties experienced by small nations such as the EFTA countries. The fight against inflation was considered not to have been very successful, and the need for a restructuring of industry and trade was emphasized. No improvement was seen between the two meetings. At the April meeting speakers emphasized the danger that it would not be possible for the major industrialized countries to realize the growth targets which they envisaged, and argued that the targets themselves were insufficient to reduce the level of unemployment in the near future.

There was general agreement that in such conditions there was a risk of a greater spread of protectionist tendencies and that the tendencies should be resisted. Some speakers drew attention in particular to the need to support a renewal of the OECD trade pledge by which the industrialized countries

undertook not to take measures unilaterally to restrict trade, and stressed the importance of a successful outcome of the Multilateral Trade Negotiations taking place in the GATT.

Other speakers, particularly from the trade union organizations, emphasized the necessity for programmes to restore full employment and combat inflation through internationally co-ordinated measures. Trade union representatives proposed at the November meeting that governments, trade unions and employers in EFTA and in the EC should hold a tripartite conference in 1978. This proposal was repeated at the April meeting when the trade union speakers asked the Committee to express its support for a tripartite conference and suggested that it should be held under the auspices of the Council of Europe. Although there was no consensus on this point at the meeting, the EFTA Ministers in May 1978 generally welcomed the invitation from the Norwegian Government to host a tripartite conference on the employment situation in Western Europe.

The Committee also received reports on the meetings of its *Economic and Social Sub-Committee*. The latter's study of floating exchange rates, which showed that floating had not had the expected influence on balances of payments on current account, aroused considerable interest and its proposal to examine more closely the role of export and import prices in the process of incomes formation in each EFTA country was supported by the Committee in April.

Another proposal considered by the Sub-Committee, that there should be an investigation of whether and to what extent government aids to industry might lead to distortions of trade and therefore conflict with the spirit of the Stockholm Convention, also received the support of the Committee. The Sub-Committee had expressed its concern at the increasing use by governments of subsidies and other forms of support for industry both in EFTA and in other parts of the world. It was recognized by the Consultative Committee that increasing state intervention could lead to conflicts between national policies and the internationally agreed rules for free trade, although some speakers pointed out that the intervention might have the purpose of maintaining employment or of temporarily assisting a reconstruction of industries that were exposed to acute difficulties.

The Committee therefore supported the Sub-Committee's suggestion that information should be collected on all forms of aid given by governments to specific branches of industry and to the export industry in general in EFTA countries, and that the views of all the economic circles represented in the Consultative Committee should be obtained. The Sub-Committee should then examine both the positive and the negative aspects of these support measures : the threat to free trade as well as their relevance in dealing with structural problems. In carrying out this study, account should be taken of the work being done on this subject in other organizations such as the OECD and the Nordic Council.

The Committee also paid particular attention to the negotiations taking place for a multilateral free trade agreement between the EFTA countries and Spain. The need for a balanced agreement was emphasized by several speakers.

The Committee was also invited by the Councils to advise on practical ways and means of increasing commercial and industrial co-operation between EFTA and Yugoslavia. A meeting in October 1977 of the EFTA-Yugoslavia Joint Working Group had shown the will of the two sides to intensify their co-operation on a multilateral basis without duplicating the co-operation that was already practised on a bilateral level. In practice this would mainly involve a collaboration between individual economic enterprises. The Consultative Committee agreed to prepare for a detailed consideration of this at its next meeting.

The Committee also received a report on a meeting held in March between members of the Committee and members of the External Relations Section of the Economic and Social Committee of the European Community. The discussions had shown that all sixteen countries were to a large extent experiencing the same economic problems and that there was general agreement on the need for co-operation in dealing with them.

An Austrian proposal, originally advanced at the EFTA Summit meeting in Vienna, that EFTA countries should co-operate in seeking ways and means of promoting joint ventures in third countries was also briefly discussed by the Committee which agreed to set up a working group to advise on practical ways of bringing about such co-operation.

Finally, the Committee agreed in April that its future meetings would be prepared in detail by its Agenda Committee which would also act as a drafting group during the meetings in order to formulate texts of proposals on which the Committee was unanimous.

The Economic and Social Sub-Committee of the Consultative Committee

There were two meetings during the year of the Economic and Social Sub-Committee in which economic and social problems arising from the process of integration in EFTA are examined in a smaller group: one representative of employers, of trade unions and of government from each EFTA country, although the government officials may not join in the formulation of any recommendations. Reports on these meetings were presented to and discussed in the Consultative Committee, as is mentioned above.

The Committee of Members of Parliament of the EFTA countries

A Committee of Members of Parliament from the EFTA countries was established by decision ¹ of the EFTA Councils at Ministerial level in October 1977 and the Committee held its first meeting on 25th November of the same

¹ Decision of the Council No. 11 of 1977, adopted at the meeting on 13th and 14th October 1977.

year. Mme Gertrude Girard-Montet (radical democrat, Switzerland) was elected Chairman of the Committee and Mr. Lennart Pettersson (social democrat, Sweden) Vice-Chairman.

According to the terms of the decision the Committee, which is to meet at least once a year, is to serve as a consultative body to the Councils on matters within the scope of the work of the Association and as a channel of information on such matters between EFTA and Members of Parliament in the EFTA countries. The creation of the Committee had been proposed by parliamentarians, who had been meeting regularly but informally ever since 1963 to discuss EFTA matters. These meetings had, however, not had any formal status within the framework of the Association.

At the meeting in November the Committee agreed on the terms of a resolution in which it stated that positive action was necessary in the industrialized countries in order to bring down unemployment and to defeat protectionist tendencies. The industrialized countries "should therefore agree on concerted measures to stimulate their economies. The big industrial countries with a good balance of payments position have a special responsibility and should take initiatives in this direction."

The Committee also took the view that a tripartite conference in Western Europe, as proposed by the trade union representatives in the Consultative Committee, could make a valuable contribution towards bringing about the concerted action necessary.

Reviewing the activities of EFTA the Committee expressed its support of the main lines of the strategy defined at the Vienna Summit meeting of the EFTA countries, noting that they coincided with the views formulated on a number of occasions at earlier meetings of EFTA Parliamentarians.

Other standing committees

The Budget Committee met once during the year to prepare the budget for the financial year 1978-1979.

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. The Bulletin also, as in past years, contained reports on economic developments in the EFTA countries, including during the year under review a series of articles on the state of industries in these countries in the current economic climate. The circulation of the Bulletin was 36,000.

In view of the deliberations within EFTA on the possibilities of intensifying the economic co-operation that exists between the EFTA countries and the

European Community, the Bulletin began to publish a series of articles on the extent to which individual EFTA countries are already co-operating with the EC and on the particular fields in which they are exploring the scope for further collaboration.

Other publications during the year under review were the 17th Annual Report of the Association and "EFTA Trade 1976", the latest in the annual series of trade studies prepared by the EFTA Secretariat. Up-dated editions of the folder leaflet "EFTA—What it is, What it does" were published in English, French and German. On behalf of the Pharmaceutical Inspection Convention the Secretariat also published the collected papers presented at a seminar held in June 1977 under the auspices of the Convention.

The EFTA Council and the Joint Council of EFTA and Finland

During the twelve months covered by this report the EFTA Council and the Joint Council of EFTA and Finland held 27 meetings, all of them simultaneous, including two at Ministerial level.

From 1st July to 31st December 1977 the Chairmanship of both Councils was held by Switzerland and the Vice-Chairmanship by Austria. From 1st January to 30th June 1978 the Chairmanship of both Councils was held by Austria. The Vice-Chairmanship of the EFTA Council was held by Iceland and that of the Joint Council by Finland.

Administration and Finance

The Secretariat

At the end of June 1978 there were 32 officials in the Professional category on the staff of the Secretariat, one consultant and 40 General Service staff members, of whom 6 were employed on a half-time basis.

Finance

The net budget for the financial year 1977-1978 was 9,057,367 Swiss francs. For the financial year 1978-1979, beginning on 1st July 1978, the budget was established at S. Frs. 9,772,318 gross which, after deduction of estimated income of S. Frs. 371,400, leaves a net sum of S. Frs. 9,400,918 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 1977-1978 and 1978-1979 budgets was, in percentages, as follows :

	1977-1978	1978-1979
Sweden	28.572	28.653
Switzerland	26.093	25.501
Austria	15.306	15.330
Norway	11.370	11.748
Finland	10.933	11.175
Portugal	6.268	6.160
Iceland	1.458	1.433

III. Co-operation in other fields

The reciprocal recognition schemes

Four international schemes designed to facilitate trade by making possible the reciprocal recognition of national tests and inspections of particular groups of products continued to operate throughout the year under review. Each of these schemes, as well as the two conventions described in this section, were originally worked out in EFTA but are independent of it, and the participation in them is in no way limited to the EFTA countries. In fact the participation in them, unlike the schemes mentioned on page 17, already includes a number of non-EFTA countries, some of them countries which are members of the European Community. A substantial part of the trade in many of the products covered by these arrangements takes place between EFTA countries and other European countries. The Parliamentary Assembly of the Council of Europe appealed to all of the Council's member countries in October 1977 to take part in these schemes and conventions.

In the scheme relating to *ships' equipment* the participation since 8th February 1978 of the authority responsible in the Federal Republic of Germany for supervising the safety of ships' equipment has made the number of non-EFTA countries represented equal to that of EFTA countries. When officials from the ten authorities participating met in Geneva in April 1978 they expressed their satisfaction with the operation of the scheme which had continued to function well and had greatly reduced the amount of time which marine surveyors had had to spend on inspecting equipment abroad. The participants are the authorities responsible for approving any kind of ships' equipment in Denmark, Finland, the Federal Republic of Germany, Iceland, the Netherlands, Norway, Portugal, Sweden, the United Kingdom and Yugoslavia.

The scheme for *agricultural machines and tractors* has fewer countries represented in it but when the participating authorities met in Geneva in October 1977 they concluded that in general the scheme was working well. The number of test reports they had accepted in the twelve months to the end of August 1977 was substantially higher than in the previous twelve months although part of the explanation was that the introduction of new safety regulations in Finland had made it necessary for test reports to be presented and accepted there for all types of imported tractors. The participants in the scheme are the approval bodies in Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Representatives of the bodies responsible in ten countries for the approval of *gas appliances* agreed in Geneva in December 1977 to set up a working group to study the possibilities of making better use of the gas appliances scheme. Since national regulations differed widely in many respects and were often available only in the national language, the scope for co-operation between testing institutions and approval bodies was limited. The working group will present a report to the next meeting of the participating approval bodies. The countries covered by the scheme are Austria, Denmark, Finland, Iceland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

At a meeting in Geneva in May 1978 of the authorities participating in the scheme for *pressure vessels* a discussion of the functioning of the scheme led to the conclusion that it was very useful and working well. On the same occasion the authorities revised Article 8 of the scheme, which deals with the considerations governing the recognition of testing or inspecting bodies, to provide for a review every five years of the list of these recognized bodies. The participants in the scheme are the authorities 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.

Pharmaceutical Inspection Convention

Ireland acceded on 8th December 1977 to the Convention for the Mutual Recognition of Inspections in respect of the Manufacture of Pharmaceutical Products. The Convention is now in operation in twelve countries: Austria, Denmark, Finland, Hungary, Iceland, Ireland, 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 Convention countries 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 inspections carried out in the country of manufacture.

The Committee of Officials, which has the task of ensuring that the Convention works effectively and is applied in a uniform way, met in Geneva in November 1977 and May 1978. Since one of its main tasks is to promote the mutual training of inspectors, on whose inspection of the whole process of manufacturing pharmaceutical products the Convention is based, the Committee continued to pay particular attention to the need to secure a uniform understanding and interpretation of the basic standards of good manufacturing practices established under the Convention.

Seminars for senior inspectors have been the chief medium used to this end. The most recent one was held in Oslo in June 1978 when the subject was large volume parenterals. A training course for newly-qualified inspectors—the first of its kind—was held in Sunningdale, in the United Kingdom, in March. Its purpose was to familiarize the participants with the Convention's

basic standards of good manufacturing practice in a particular field, that of the manufacture of tablets. Inspectors were present from most Convention countries and also from the Federal Republic of Germany and Romania.

Hallmarking Convention

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—met in Geneva in October 1977 and in Sweden in May 1978. The Convention is in force in Austria, Finland, Sweden, Switzerland and the United Kingdom. Articles of gold, silver and platinum that have received the international hallmark—the “common control mark”—from an assay office in one of these countries are admitted into the other countries without further assay or marking.

Statistics produced at meetings of the Standing Committee showed that manufacturers were increasingly making use of the facilities provided by the Convention. Some 400,000 articles of precious metals had been marked with the common control mark during 1977.

The Committee continued its work of co-ordinating, for the purposes of the Convention, the methods used in the five countries for assaying and marking various kinds of articles of precious metals. It also considered what action should be taken in view of the resolution of the Parliamentary Assembly of the Council of Europe inviting all members of the Council to adhere to the Convention.

IV. External relations

The EFTA countries continued to make use of the opportunities provided by the EFTA relationship for consultations between them on general trade matters as well as on other issues related to the objectives of the Stockholm Convention. The progress of their negotiations for a multilateral free trade agreement with Spain was also the subject of consultations within EFTA ; and the EFTA framework was used for preparations for meetings conducted with the aim of intensifying co-operation with Yugoslavia on a multilateral basis. There were also informal discussions within the EFTA framework in advance of meetings in several international organizations when matters of economic interest to the EFTA countries were on the Agenda.

Relations with the European Communities

Trade relations with the European Communities are based on the Free Trade Agreements which bring together the EFTA countries and the EC in a free trade system which has removed the tariff barriers to almost all trade in industrial products between the sixteen countries.

The bilateral Joint Committees, which have the responsibility of administering the free trade agreements, met twice during the year. They found that the agreements were in general working satisfactorily, although several EFTA countries pointed to the growth in their trade deficits with the EC. In 1977, as is shown in Section V, the deficit recorded in the trade between the EFTA countries and the EC amounted to \$11.8 billion while the total deficit on all the trade of the EFTA countries came to \$12.9 billion.

The EFTA countries stressed the importance of further simplifying the rules of origin applied under the FTAs, and the Community expressed its readiness to give priority to a consideration of the proposals for simplification which had been presented by the EFTA countries at earlier meetings of the Joint Committees.

The outlook for the steel industry was examined at each of the biannual meetings of the bilateral Joint Committees that deal with steel matters under the separate free trade agreements on steel between the EFTA countries and the Community.

At the request of the EC there were negotiations in the early part of 1978 between the EC and the six EFTA countries in which steel is produced. In the Community minimum prices for a few steel products and guidance prices

for others had been set by the Commission in order to stabilize the market. The Community then embarked on negotiations with steel-producing countries in all parts of the world, beginning with the EFTA countries, with the aim of ensuring that these prices would not be undermined by imports. In the case of the six EFTA countries the negotiations produced agreement that their deliveries of the steel products concerned would not enter the EC at prices more than 3 per cent below the relevant minimum or guidance prices. There are no quantitative restrictions on EC imports of steel products from EFTA countries.

In February 1978 there was an informal meeting between the EFTA Secretariat and the services of the Commission of the EC for an exchange of information on recent developments within EFTA and the EC.

Relations with Spain

Negotiations for a multilateral free trade agreement between the EFTA countries and Spain, which had begun on 28th June 1977, continued throughout the year. The object of the negotiations was in the first place to secure for EFTA exporters of industrial products the same degree of access to the Spanish market as EC exporters have on the basis of the trade agreement of 1970 between the EC and Spain, and to give Spanish exporters of industrial products the same access to EFTA markets as they have to the Community market. The agreement was also to contain a dynamic element which would provide for further measures of liberalization to be taken later with the aim of achieving full free trade in industrial products. On the assumption that the Spanish negotiations for accession to the Community succeed, the trade relations between the EFTA countries and Spain would thereafter be based on an extension to Spain of the existing Free Trade Agreements.

At the opening session it was agreed to set up four working groups to examine the technical aspects of a possible agreement. One dealt with the product coverage of the agreement and the question of quantitative restrictions; another considered the system of origin rules to be applied; a third studied what special provisions would be necessary to take account of the economic situation of Portugal; and the fourth had the task of formulating general and legal aspects of the agreement. Six plenary meetings (after the opening one) were held in the twelve months to review the progress made in the working groups and to work out possible compromises on points left unsettled. By the end of June 1978 provisional agreement had been reached on most of the contents of the agreement but a few important questions remained open. The negotiations were to be resumed in September 1978. Throughout the year there were also bilateral negotiations between individual EFTA countries and Spain on the tariff treatment of agricultural products.

Relations with Yugoslavia

In response to the wish of the Yugoslav Government to establish closer relations with EFTA the EFTA-Yugoslav Joint Working Group, which had

not met for six years, discussed the possibilities of increasing co-operation between EFTA and Yugoslavia at meetings held in Geneva in October 1977 and June 1978. On both occasions the Yugoslav Delegation was headed by the Government Minister, Chairman of the Yugoslav Commission for Co-ordination of Co-operation between Yugoslavia and the EEC and EFTA, and the EFTA Governments were represented by the Heads of their Permanent Delegations to EFTA. The meeting was chaired by the Secretary-General of EFTA.

At the first of these meetings there was a wide-ranging discussion on the possibilities of co-operation in such fields as trade promotion, the removal of technical barriers to trade, industrial co-operation and tourism. In June the EFTA countries and Yugoslavia reaffirmed their will to seek ways and means of increasing economic co-operation between them and agreed to establish a Joint EFTA-Yugoslavia Committee. The Joint Committee has three tasks : to deal with economic questions of interest to the EFTA countries and Yugoslavia ; to explore areas in which co-operation could be begun or extended on a multilateral basis, and to stimulate further bilateral co-operation. The Joint Committee will be chaired in turn by a representative of an EFTA country and a representative of Yugoslavia, and it will normally meet in Geneva though it may also meet in Yugoslavia.

It was also agreed in June, in view of the general desire to promote trade, that a meeting of business representatives and foreign trade officials should be held in Geneva early in 1979 in order to discuss practical methods of increasing Yugoslav exports to EFTA countries.

Relations with international organizations

There were consultations within the EFTA framework on a number of matters of interest 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 : 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 some of their meetings. There was also a meeting in April 1978 between the EFTA Secretariat and the OECD Secretariat.

Close links were maintained with the Council of Europe. In October 1977 the 16th and 17th Annual Reports of EFTA were presented to the Parliamentary Assembly of the Council of Europe by Mr. Ernst Brugger, the Swiss Federal Councillor, as Chairman of the EFTA Council at Ministerial level at that time. The Parliamentary Assembly unanimously welcomed the determination of the EFTA Governments, as expressed at the Vienna Summit, to strengthen the role of EFTA as a framework for consultations on subjects of common economic interest associated with the objectives of the Association. The Assembly expressed its support for EFTA's work on the abolition of non-tariff barriers to trade and stressed the importance of the extension of the

free trade system to other European market economy countries. It also expressed its support for the further improvement and simplification of the origin rules applied in EFTA and under the Free Trade Agreements. In addition, it proposed that there should be uniform regulations in EFTA countries and in the EC for minor non-commercial imports by travellers in order to give the free trade system in Western Europe more impact on public opinion.

At each of the two meetings of the Committee of Ministers of the Council of Europe held during the twelve months under review, progress reports on EFTA activities were presented by the Ministerial representative of the country holding the chairmanship of EFTA at the time : Mr. Pierre Graber, the Swiss Federal Councillor, in November 1977, and Mr. Willibald Pahr, the Austrian Foreign Minister, in April 1978. One of the themes discussed at the April meeting was the trade union proposal that a tripartite conference of representatives of governments, employers and workers on the employment situation in Europe should be held within the Council of Europe.

EFTA was represented at the first two meetings of the Administrative Council of the European Patent Organization, with which it has observer status. The European Patent Convention, which entered into force in October 1977 and has been ratified by nine of the sixteen signatory States, provides for the granting of European patents which protect the rights of an inventor in as many of the EPC countries as he names when applying for a patent. EFTA was also represented at the meetings of the Interim Committee of the Community Patent Convention and its working groups. The Community Patent Convention, which deals with the effects of a European patent for the EC countries, is expected to come into force in 1981.

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.

V. EFTA trade in 1977

Since all the EFTA countries are small and highly dependent on external trade their foreign trade in 1977 not surprisingly reflected the particularly sharp slowdown in world trade in that year. From the end of the second world war until quite recently world trade rose at a much faster rate than world output, thus contributing to the general increase in welfare. But last year the volume of world trade increased at only about the same rate as total world output. While in 1976 the volume of international merchandise exports had still risen by 11 per cent, last year it increased by only 4 per cent and most of this increase occurred in the first half of the year.

The increase in the value of world trade in 1977 was 13 per cent, which was substantially more than the gain in volume. This is to be explained by the combination of two factors : the rise in the unit costs of exports in most countries and the depreciation of the dollar against some of the other major currencies.

The main reason for the slackening in world trade was the fall in the rate at which output in the industrial countries expanded. Their gross national product, which had grown by 5 1/2 per cent in 1976, rose by only 3 1/2 per cent last year. The increase in the volume of their exports fell from 14 per cent in 1976 to between 4 and 5 per cent in 1977. The rise in their imports slowed down from 10 1/2 per cent in 1976 to about 4 or 5 per cent in 1977. The volume of their imports from OPEC increased by only 1 to 2 per cent because of the more modest growth in the demand for oil imports while the volume of their exports to OPEC rose by some 10 per cent. In fact the OPEC surplus is estimated to have fallen from \$64 billion in 1976 to \$60 billion last year.

The oil-importing developing countries managed to reduce their trade deficit from \$27 billion in the previous year to \$20 billion in 1977. Their export earnings rose by about 20 per cent, about half of the rise resulting from price increases. The state-trading countries also reduced their deficit, from a peak of \$10 billion in 1975 to \$7 billion in 1976 and \$2 billion in 1977. The value of their exports last year increased by 15 per cent while the value of their imports rose by only 10 per cent.

Trade balances

The combined trade deficit of the USA, Canada, Japan and the industrial countries of Western Europe increased from \$ 38 billion in 1976 to \$42 billion in 1977. Although the increase was moderate the distribution of the deficit was very uneven and, particularly in Western Europe, the smaller countries carried the bulk of it. Because of the high level of the foreign debt that some of these countries have accumulated over recent years several of them have had to adopt stronger demand restraining policies so as to control their external deficits.

Taken together, the EFTA countries recorded a sharply increased deficit in 1977 (Table 1). For most of them the growth in domestic output was greater than in most of the larger industrial countries, especially in Europe, so that import demand was fairly buoyant. The total trade deficit increased from \$10.5 billion in 1976 to \$12.9 billion last year. Finland was the only EFTA country to have a trade surplus, albeit a small one, as a result of the fairly strong stabilizing measures it adopted during the year. There were particularly big increases in the Austrian and Norwegian deficits while the Swiss trade accounts went from a slight surplus in 1976 to a small deficit in 1977, although one that was still well below those recorded by Switzerland in the early 1970s. As in previous years the lion's share of the EFTA trade deficit was accounted for by trade with the European Community : \$11.8 billion out of the total of \$12.9 billion represented the deficit of the EFTA countries in trade with the EC.

The world trade of the EFTA countries

Table 2 summarizes the unadjusted import and export figures for each of the EFTA countries last year and shows the change from the previous year. A picture of the evolution of trade during the period can be obtained from the moving averages of seasonally adjusted figures for three months, which are used for the graph. These seasonally adjusted figures show that the total exports of the EFTA countries, which increased during most of 1976, fell in the first four months of 1977, rose somewhat from April to August and then remained more or less stable. The import trends were similar except that both the decline and the recovery were somewhat steeper.

As Table 2 shows, the total value of EFTA exports reached \$65.4 billion in 1977. The increase was 12.2 per cent, which is very close to the rate of growth in the value of total world trade. Imports into the EFTA countries rose even more : by 14.0 per cent to \$78.2 billion. Both imports and exports rose more than in 1976 but there is little doubt that the greater part of the increase reflects higher prices rather than an acceleration in the volume of trade.

All EFTA countries increased both their imports and their exports. In fact for most of them the rate of increase of their total exports indicates that they managed to improve their position in world trade. The highest rate of growth in exports (27.5 per cent) was recorded by Iceland but the value of its trade is relatively low. More substantial rises in exports were reported by Switzerland, Finland and Austria.

Iceland also showed the greatest percentage increase in imports but the biggest rise in the value of imports was recorded by Switzerland with a rise of \$3.1 billion or 21.3 per cent. Imports into Austria, Portugal and Norway also grew by more than the average. Sweden's trade showed the least change during the year, its exports rising by only 3.1 per cent and its imports by only 4.8 per cent.

Intra-EFTA trade

As in the previous two years intra-EFTA trade, which accounts for 17 per cent of the total exports of the seven countries, rose less in 1977 than total EFTA exports or exports to the EC. The value of intra-EFTA exports rose by 10.3 per cent to \$11.3 billion, after a rise of only 3.9 per cent in the previous year. Finland had the highest rate of increase in intra-EFTA exports (25.6 per cent). Iceland was the only country to report a fall in its exports to its partners in EFTA. On the other hand it showed the biggest percentage increase in intra-EFTA imports while the purchases of Finland and Portugal from the other EFTA countries fell.

From the seasonally adjusted three-month moving averages it appears that intra-EFTA exports fell quite steeply from February to May, recovered between May and October and then remained stable in the final months of the year.

EFTA-EC trade

EFTA's trade with the European Community—the destination of almost 47 per cent of EFTA's exports and the source of 54 per cent of its imports—increased more than either its total trade or the trade between the EFTA countries. Since 1st July 1977 the trade in almost all industrial goods between the seven EFTA countries and the nine members of the EC has been free of import duties on the basis of the Free Trade Agreements between each of the EFTA countries and the EC. Even though this free trade was reached gradually over a period of 4 1/2 years, it will still be some time before the full effects of freeing the trade between the sixteen countries are seen, but the 1977 figures indicate that the effects are at work.

EFTA's exports in that year to the Community rose by 12.3 per cent and totalled \$30.5 billion while its imports from the EC rose by 16.7 per cent to \$42.3 billion. In the previous year there had been increases of 10.2 per cent in exports and 15.7 per cent in imports.

All the EFTA countries increased both their exports to and their imports from the EC. The increase in exports was particularly high for Iceland, Switzerland and Austria and well below the average for Sweden. Imports rose most steeply for Iceland and Austria and least for Finland and Sweden.

Seasonally adjusted figures indicate that EFTA imports from the Community fell slightly during the first half of 1977 and then gradually increased throughout the rest of the year while exports remained virtually stable until July and thereafter tended to rise at a moderate rate.

EFTA trade with the United States

Last year's relatively high rate of growth of gross national product in the United States is clearly reflected in the development of EFTA trade with the US. While in 1976 EFTA exports to the US had increased by only 4.2 per cent, they rose last year by 20.3 per cent to a total of \$3.5 billion. The rate of growth of imports accelerated from 2.0 to 13.4 per cent to bring the 1977 value to \$4.7 billion.

There were particularly big increases in exports from Finland, Austria, Iceland and Sweden while Norway's exports fell. Purchases from the US went up most in Portugal and Austria but fell in Iceland and Finland.

EFTA trade with Eastern Europe

EFTA imports from and exports to Eastern Europe increased less than total EFTA trade. Imports rose by 10.4 per cent in 1977 and exports by 7.0 per cent, compared with 12.9 and 5.2 per cent respectively in 1976. The resulting improvement in Eastern Europe's trade balance with the EFTA countries was in line with the general improvement in its trade balance. In fact its trade with EFTA showed a small surplus, with imports into EFTA totalling \$5.42 billion and EFTA exports amounting to \$5.37 billion. All EFTA countries increased their purchases from Eastern Europe, although the rate of increase for Portugal and Sweden was only 0.3 per cent. Iceland's exports to Eastern Europe rose particularly steeply while those of Portugal and Sweden fell.

EFTA trade with the rest of the world

In trade with the countries included in the group "rest of the world", EFTA imports and exports rose at the same rate, i.e. 13.5 per cent. This compares with an increase in EFTA exports of 8.2 per cent and in imports of 16.5 per cent in 1976. All EFTA countries increased their imports from this group of countries and all of them, except Sweden, also increased their exports. The imports of the EFTA countries combined reached \$14.5 billion and their exports \$14.7 billion.

TRADE BALANCES OF THE EFTA COUNTRIES

Table I

(in million US dollars)

	1973	1974	1975	1976	1977
Austria . . .	— 1,749	— 1,862	— 1,874	— 3,016	— 4,425
Finland . . .	— 504	— 1,325	— 2,115	— 1,051	+ 58
Iceland . . .	— 67	— 186	— 179	— 66	— 93
Norway . . .	— 1,539	— 2,145	— 2,479	— 3,190	— 4,165
Portugal . . .	— 1,114	— 2,190	— 1,892	— 2,404	— 2,895
Sweden . . .	+ 1,529	— 504	— 395	— 870	— 1,071
Switzerland . .	— 2,096	— 2 511	— 345	+ 73	— 288
Total EFTA . .	— 5,540	— 10,724	— 9,279	— 10,524	— 12,879

EFTA TRADE IN 1977
(and percentage change from 1976)

Table II

	EFTA		EC		USA		Eastern Europe		Rest of World		World	
	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%	\$ mill.	%
<i>Imports (c.i.f.)</i>												
Austria	1,317.0	17.2	9,292.2	27.2	424.3	23.0	1,256.0	14.9	1,934.7	16.7	14,224.2	23.4
Finland	1,594.0	— 7.2	2,625.6	2.3	356.1	— 6.8	1,794.5	11.5	1,250.6	11.9	7,620.8	3.1
Iceland	124.3	42.5	287.5	41.3	39.8	— 18.4	74.2	14.2	78.7	25.3	604.5	29.4
Norway	3,196.3	18.5	5,838.2	18.3	787.5	9.7	395.1	15.5	2,665.2	10.3	12,882.3	16.0
Portugal	411.5	— 7.4	2,135.6	28.8	502.1	31.9	164.4	0.3	1,686.6	7.6	4,900.2	16.3
Sweden	3,262.4	0.9	10,202.7	4.4	1,428.6	10.2	1,138.6	0.3	4,045.1	8.7	20,077.4	4.8
Switzerland	1,313.2	12.3	11,935.4	21.5	1,203.3	19.0	598.5	19.8	2,877.1	26.9	17,927.5	21.3
Total EFTA . . .	11,218.7	7.1	42,317.2	16.7	4,741.7	13.4	5,421.3	10.4	14,538.0	13.5	78,236.9	14.0
<i>Exports (f.o.b.)</i>												
Austria	1,314.5	6.9	4,852.3	22.4	305.2	36.6	1,419.9	10.3	1,907.1	5.9	9,799.0	15.2
Finland	1,842.4	25.6	2,784.9	15.4	340.0	88.3	1,709.4	13.5	1,002.0	29.2	7,678.7	21.1
Iceland	74.7	— 10.4	157.3	24.3	154.6	33.6	62.1	50.0	62.6	84.7	511.3	27.5
Norway	1,584.9	6.3	4,762.1	7.3	361.3	— 3.1	275.8	0.4	1,733.5	29.5	8,717.6	10.1
Portugal	303.0	3.7	1,037.3	11.3	134.4	10.0	80.4	— 3.6	450.4	18.3	2,005.5	10.8
Sweden	4,330.1	8.3	8,774.5	2.2	1,017.8	19.9	941.2	— 8.8	3,942.4	— 0.8	19,006.0	3.1
Switzerland	1,875.2	9.9	8,125.1	21.6	1,158.3	13.4	883.1	11.2	5,597.9	20.6	17,639.6	18.8
Total EFTA . . .	11,324.8	10.3	30,493.5	12.3	3,471.6	20.3	5,371.9	7.0	14,695.9	13.5	65,357.7	12.2

PERCENTAGE SHARES OF IMPORTS AND EXPORTS IN 1977

Table III

	EFTA		EC		USA		Eastern Europe		Rest of World		World	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Austria . . .	9.3	13.4	65.3	49.5	3.0	3.1	8.8	14.5	13.6	19.5	100.0	100.0
Finland . . .	20.9	24.0	34.5	36.3	4.7	4.4	23.5	22.3	16.4	13.0	100.0	100.0
Iceland . . .	20.6	14.6	47.6	30.8	6.6	30.2	12.3	12.1	13.0	12.2	100.0	100.0
Norway . . .	24.8	18.2	45.3	54.6	6.1	4.1	3.1	3.2	20.7	19.9	100.0	100.0
Portugal . . .	8.4	15.1	43.6	51.7	10.2	6.7	3.4	4.0	34.4	22.5	100.0	100.0
Sweden . . .	16.2	22.8	50.8	46.2	7.1	5.4	5.7	5.0	20.1	20.7	100.0	100.0
Switzerland . . .	7.3	10.6	66.6	46.1	6.7	6.6	3.3	5.0	16.0	31.7	100.0	100.0
Total EFTA . .	14.3	17.3	54.1	46.7	6.1	5.3	6.9	8.2	18.6	22.5	100.0	100.0

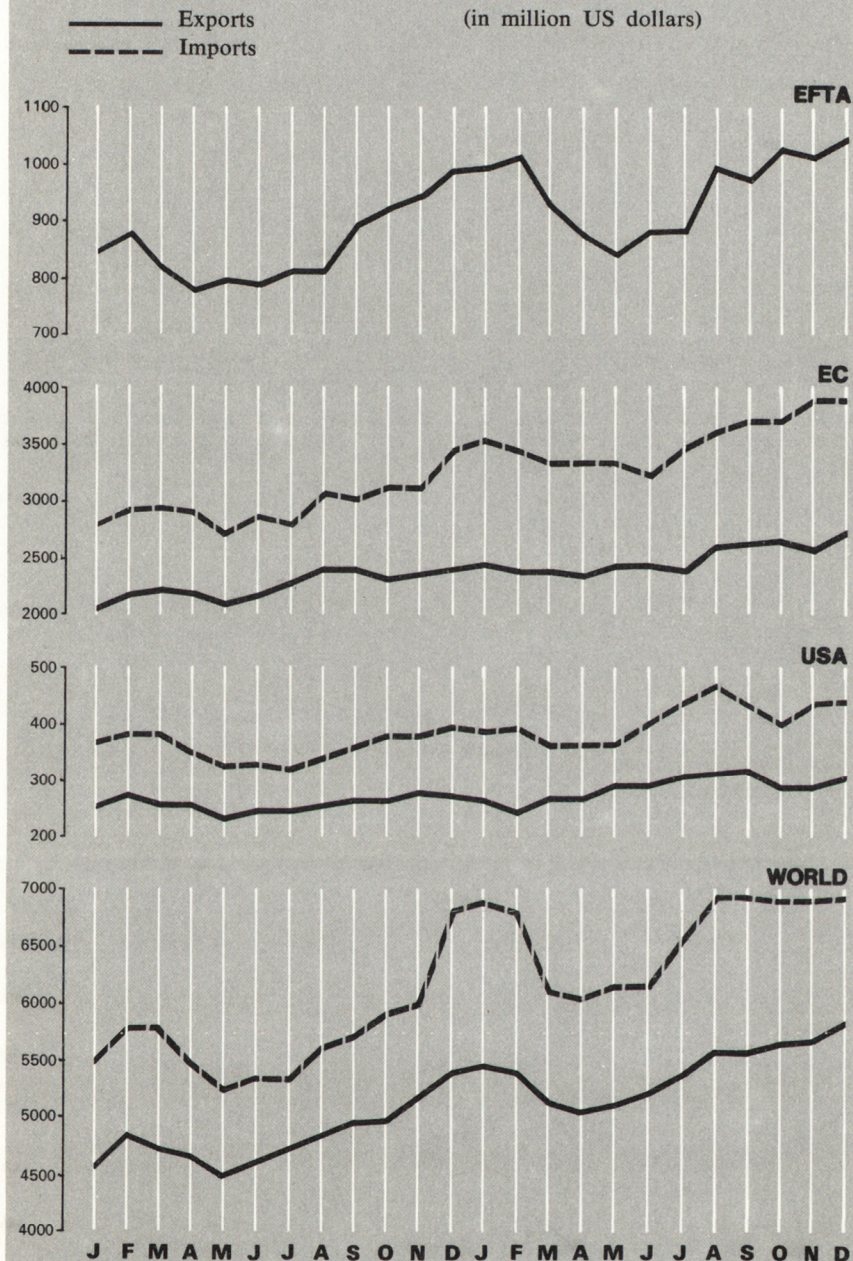
INTRA-EFTA TRADE IN 1977

(Exports f.o.b., and percentage change from 1976)

Table IV

Exporter	Importer	Austria	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	EFTA
Austria	\$ mill. Percentage change		89.7 — 11.6	2.3 — 20.7	139.6 15.2	41.3 — 11.4	345.2 0.5	696.5 13.5	1,314.5 6.9
Finland	\$ mill. Percentage change	68.0 52.5		9.9 19.3	416.9 84.9	21.1 13.4	1,206.5 11.8	120.1 31.0	1,842.4 25.6
Iceland	\$ mill. Percentage change	0.2 0	10.1 48.5		9.3 — 11.4	28.7 — 31.7	12.1 10.0	14.4 11.6	74.7 — 10.4
Norway	\$ mill. Percentage change		254.4 48.6	59.5 79.8		53.7 19.1	1,090.6 — 3.3	74.5 8.3	1,584.9 6.3
Portugal	\$ mill. Percentage change	22.8 — 6.9	24.7 1.2	1.6 33.3	66.8 31.8		126.0 — 10.8	61.1 21.5	303.0 3.7
Sweden	\$ mill. Percentage change	281.7 11.5	1,135.9 — 4.4	37.2 36.8	2,420.2 16.6	115.2 — 13.3		339.9 5.3	4,330.1 8.3
Switzerland	\$ mill. Percentage change	939.4 18.8	145.8 — 6.6	5.0 19.0	210.2 10.9	155.4 9.0	419.5 — 0.7		1,875.2 9.9
EFTA	\$ mill. Percentage change	1,364.3 17.8	1,660.6 0.8	115.5 50.2	3,263.0 22.0	415.4 — 2.9	3,199.9 2.4	1,306.5 12.6	11,324.8 10.3

EFTA TRADE : JANUARY 1976 TO DECEMBER 1977
 Three months moving averages of seasonally adjusted figures
 (in million US dollars)



Appendix

Geneva, 13th and 14th October 1977

Ministerial meetings of the EFTA Councils

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 13th and 14th October 1977. The meeting was chaired by Mr. Ernst Brugger, Federal Councillor and Head of the Federal Department of Public Economy of Switzerland.

The Ministers agreed that the general economic prospects gave cause for deep concern. On present indications, productive activity was again slowing down and rates of growth would in many countries fall short of the aims established earlier in the year. The Ministers were particularly concerned that this would mean a continuation of high unemployment. Moreover, for the EFTA countries, which depend to a great extent on international trade, the slackness of world demand made it more difficult to maintain a sufficient degree of economic activity at home. The Ministers therefore agreed with the conclusion reached at the Annual Meeting of the IMF on the need for a general revival of economic activity and noted that some action was already being taken in some of the larger economies, which bore a special responsibility in this respect. Care should also be taken to ensure that stimulative action did not create new inflationary pressures or interfere with efforts to control such pressures.

The Ministers were especially disturbed by the reappearance of protectionist tendencies and measures, often in new disguises. In a number of cases the effects of the international recession, which has been felt particularly severely in some industries, and the increased international competition in many sectors had given rise to demands for greater protection against imports. In the face of these developments the EFTA Governments confirmed their commitment to liberal world trade policies, in accordance with internationally agreed rules. They welcomed the renewal of the OECD Trade Pledge for a

further year. Ministers were convinced that protective measures were counter-productive, both in hampering the development of international trade to the detriment of all countries and in delaying the necessary restructuring of factors of production.

The Ministers stressed the value of intensified international co-operation to remedy the situation and reiterated the determination of all the EFTA Governments to play their full part. The multilateral trade negotiations now going on in the framework of the GATT, aiming at a substantial reduction of barriers to trade, were clearly among the most important elements of such co-operation. The Ministers expressed satisfaction that a new impetus had now been given to the negotiations and were looking to substantial progress in early 1978.

The multilateral trade negotiations would also provide an opportunity for seeking solutions to the trade problems of developing countries and were an important element in the continuation of the North-South Dialogue. The Ministers reaffirmed their wish to contribute constructively in the other fora dealing with the continuing dialogue, especially in the context of the implementation of the integrated programme on commodities and in the negotiations on the Common Fund.

Referring to the Declaration by Heads of Government and Ministers of the EFTA countries at the Vienna meeting on 13th May 1977, the Ministers instructed their representatives in Geneva to continue and to intensify their work on the further development of free trade and other related matters in Europe and on making better use of the EFTA relationship.

Ministers noted with satisfaction that multilateral negotiations had been opened between the EFTA countries and Spain soon after the Vienna meeting, aimed at the establishment of free trade relations, and expressed their hope for speedy and substantial progress. The Ministers also welcomed the re-activation of EFTA co-operation with Yugoslavia in the meeting of the EFTA-Yugoslav Joint Working Group which had taken place earlier in October.

When reviewing the activities of the Association, the Ministers expressed their satisfaction with the useful work done in the Consultative Committee, particularly at the special meeting held in Stockholm in February. They also agreed to establish a Committee of Members of the Parliaments of the EFTA countries, which would serve as a consultative body to the Councils and as a channel of information on the work of the Association between EFTA and Members of Parliament.

The next meeting at Ministerial level will take place on 24th and 25th May 1978.

Geneva, 25th and 26th May 1978

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 25th and 26th May 1978 under the chairmanship of Mr. Willibald P. Pahr, the Austrian Foreign Minister.

The Ministers devoted their attention primarily to certain aspects of the current economic situation which were of relevance to the EFTA countries. The rates of growth expected in many countries were insufficient to ensure a reduction in unemployment and the Ministers agreed that in this situation all countries in a position to participate, and particularly the larger and stronger economies, should take concerted action to ensure an early upswing in international economic activity. They expressed the hope that the high-level meetings taking place in the next weeks would result in re-establishing confidence and in setting the foundation for a favourable development. The EFTA countries would, as part of this effort, also take all the steps possible which would permit a balanced development of their economies. Care should also be taken to ensure that stimulative action did not create new inflationary pressures or interfere with efforts to control such pressures.

The continuation of the slow growth of world demand and production and the threat to employment had partly been responsible for the spreading of protectionist pressures and actions on a scale and in forms that were deeply disturbing and counterproductive. The Ministers reaffirmed that they were determined to contribute effectively to the maintenance and development of a liberal international trading system, stressed the importance of a renewal of an appropriately strengthened OECD Trade Pledge, and emphasized again, also in this context, the importance of a revitalized world economy.

Ministers emphasized the special character of the relations between the European Community and the EFTA countries as major trading partners linked by the Free Trade Agreements. The full implementation of these agreements should be secured. The EFTA Convention and the Free Trade Agreements are important parts of the international trading system. It is essential that the rules of this system are followed by all parties in spite of temporary difficulties of adjustment encountered in the world economy as a whole.

Ministers also expressed satisfaction at the progress made in the multilateral trade negotiations in the framework of the GATT and considered it essential to pursue the efforts to achieve substantial results in these negotiations by the target date of mid-July. They also hoped that all the countries concerned would continue to seek the widest possible trade liberalization, where appropriate by improving their offers. They reaffirmed their conviction that, particularly in the present economic situation, a successful conclusion of the multilateral trade negotiations was of the greatest importance for the maintenance of a liberal world trading system.

Ministers reviewed the work being done in EFTA to realize the long-term strategy for economic co-operation agreed at the EFTA summit meeting in Vienna a year ago. They took note of initiatives concerning the enlargement of co-operation between individual EFTA countries and the European Community as well as of the steps taken to strengthen intra-EFTA co-operation.

The Ministers welcomed the efforts being made by the Portuguese Government in order to improve the economic situation of the country and to restore confidence in Portugal. Ministers took note with satisfaction of the results achieved by the EFTA Industrial Development Fund for Portugal in its first full year of operation.

Ministers reiterated their appreciation of the valuable contribution by the Consultative Committee to the work of the Association. They generally welcomed the invitation from the Norwegian Government to hold in Oslo a tripartite conference of the representatives of Governments, employers and workers of the countries of Western Europe, on the employment situation in Europe.

After hearing a report on the first meeting of the Committee of Members of Parliament of the EFTA countries, the Ministers welcomed the active interest of Members of Parliament in the work of the Association and the close contacts now established between the Councils and the national Parliaments.

Ministers took note of the present situation in the negotiations between the EFTA countries and Spain for a multilateral trade agreement and reaffirmed their interest in the continuation of these negotiations.

The next meeting of the Councils at Ministerial level will be held in Geneva on 23rd and 24th November 1978.

European Free Trade Association

July 1977-June 1978

MEMBER COUNTRIES :

Austria Iceland Norway Portugal Sweden Switzerland

ASSOCIATE : Finland

CHAIRMANSHIP OF EFTA COUNCILS

July 1977 - December 1977 Switzerland

January 1978 - June 1978 Austria

HEADS OF PERMANENT DELEGATIONS TO EFTA

Austria :	E. Nettel
Finland :	P. Kaarlehto
Iceland :	H. Kröyer
Norway :	J. Cappelen
Portugal :	A. de Carvalho
Sweden :	C. De Geer
Switzerland :	C. Jagmetti

EFTA STANDING COMMITTEES

Agriculture and Fisheries Committee

Budget Committee

Committee of Origin and Customs Experts

Committee of Trade Experts

Consultative Committee

Economic Committee

Economic Development Committee

EFTA SECRETARIAT

Secretary-General

C. Müller

Deputy Secretary-General

A. Langeland

Principal Secretariat Officers

Secretary-General's Office. Director : M. Vahlquist

Trade Policy Affairs. Director : E. Pajari

Legal Affairs. Director : A. Gaeta

Economic Affairs. Director : J. Lanner

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