

1978-1979

Nineteenth Annual Report
of the
European Free Trade
Association



Geneva-September 1979

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I. The year in EFTA: July 1978 to June 1979

In the twelve months to the end of June 1979 the EFTA countries experienced a revival of economic activity which, however, was overshadowed towards the end of the period by growing uncertainty. The seven countries shared in and benefited from the higher rate of economic growth in the industrialized countries in the second half of 1978 and the first half of 1979. All of them were able to record improvements in their balances of payments in 1978. The rate of unemployment in most of them remained low by current Western European standards. The rate of inflation was also reduced in most of the EFTA countries.

During the second quarter of 1979 inflationary pressures began to increase in a number of industrialized countries as a result of the sharp upturn in oil prices which was in part caused by the reduction in the supply and stocks of oil and petroleum products that followed the stoppage of production in Iran. The expected repercussions of higher prices for oil, and for other raw materials, on business confidence, inflation and balances of payments gave rise to a widespread concern, reflected in the Ministerial communiqué in May, about the ability of the industrialized countries to avoid a lower rate of economic growth. This was considered to be all the more disquieting because, given the expected rates of economic growth, the increase in the size of the labour force in Western Europe and the normal gains in productivity, it was unlikely that there could be a return to full employment in the 1980s.

It is common ground among the EFTA countries that close international co-operation remains a prerequisite for achieving economic growth together with full employment and price and monetary stability. The application of the concerted action programme adopted by the OECD countries in June 1978 contributed to the expansion achieved during the year under review. When the EFTA Councils met at Ministerial level in May 1979 they concluded from their discussion on the economic outlook that it was essential that the OECD countries should take further measures to pursue the concerted action programme. The maintenance of an open market-oriented economic system is an essential part of that programme.

Internal EFTA activities

The administration and strengthening of the free trade between the EFTA countries remained the constant task of the Association. Efforts continued

to maintain the free trade and to complement it by making further progress towards the removal of non-tariff barriers to trade. This endeavour led successfully to an agreement which will remove unnecessary obstacles to the trade in pharmaceutical products by reducing the cost and time involved in obtaining registration of the products in more than one country. Despite the economic uncertainties the free trade within EFTA continued to work satisfactorily although the particular economic difficulties experienced in Portugal and Iceland made necessary the use of special temporary measures to reduce the large balance of payments deficit in the first country and to prevent a further deterioration in the competitiveness of the industrial sector in the second.

Relations with the European Community

The possibilities of expanding the co-operation between the seven EFTA countries and the European Community were among the main themes of discussion within the Association during the year. The two groups are each other's largest trading partners. And the trade between the two groups in non-agricultural goods—the category of goods which account for all but about 5 per cent of the total exports of the EFTA countries—is governed by bilateral Free Trade Agreements which are to a very large extent identical.

In May 1977 the EFTA Governments, at their summit meeting in Vienna, had expressed their conviction that it would be desirable to develop the co-operation not only within EFTA but also between the EFTA countries and the EC in various ways : through an increased exchange of information, through closer consultations on economic questions, and, where appropriate, through co-ordinated efforts to secure free trade and to improve the general economic environment. A number of matters on which closer co-operation would be of advantage were also identified, some directly related to the main provisions of the Free Trade Agreements, some in other specific fields such as transport policy, research and the protection of the environment, and some of a more general nature such as appropriate consultations and exchanges of information on economic policy questions.

Through the bilateral Joint Committees established under the Free Trade Agreements the individual EFTA countries kept the working of the agreements under review during the twelve months. Individual countries engaged in consultations or reached agreements with the EC in particular fields, or examined with the EC the possibilities of doing so ; and the meetings of the joint committees provided occasions for surveying the progress made in this respect. In some instances there were also exchanges of views between particular EFTA countries and the EC on economic and monetary policies. The seven countries kept each other informed, within the framework of EFTA, on all these matters.

Within the European Community the initial positive reaction to the Vienna declaration was followed by an investigation of the particular possibilities of extending the collaboration with the EFTA countries, the conclusions of which were formulated in a report by the Committee of Permanent Representatives of the EC countries. The report, which was noted by the EC Council of

Ministers in December 1978, in turn singled out a number of fields in which further co-operation with the EFTA countries might be desirable.

This evidence of a corresponding search for new areas in which the EFTA countries and the EC might usefully work together was welcome to the EFTA countries. Individually, they informed the Community of their national interests in pursuing the possibilities of co-operating in particular fields. Together, in the communiqué issued after the meeting of the Councils at Ministerial level in May 1979, they stated their readiness to explore with the EC, on a multilateral basis wherever suitable, ways of strengthening, and developing further, the free trade system which embraces all sixteen countries. More specifically they agreed that a common approach by the EFTA countries and the EC would now be appropriate in such fields as the rules of origin in the Free Trade Agreements, the removal of technical barriers to trade, and trade mark law.

The Ministers recalled that individual EFTA countries had already begun to take part in exchanges of information and informal discussions with the EC on economic policy and monetary matters. They went on to reaffirm the great interest of EFTA countries in continuing and developing these contacts so as to avoid important economic disparities which could jeopardize their economic goals and the benefits deriving from free trade. To this end the EFTA countries intend to explore possibilities for developing appropriate procedures for consultations with the European Community.

The Consultative Committee, which is the channel through which the views of industry, trade unions and other economic interests in the EFTA countries are brought into the discussion of the activities of the Association, took a very active interest during the year in the work of EFTA and in the endeavour to develop further the relationship between EFTA and the EC. The proposals made at their meetings, which are described on pages 28 to 30, are now being examined by the Councils.

Multilateral Free Trade Agreement with Spain

A multilateral Free Trade Agreement between the EFTA countries and Spain was signed in Madrid on 26th June. The success of the negotiations which had as their objective the removal of all tariffs and other obstacles to substantially all the trade between the eight countries was a signal achievement at a time of strong protectionist pressures. The agreement itself is intended to be an important step towards the inclusion of Spain—a candidate for EC membership—in the European free trade system which at present consists of the sixteen countries of EFTA and the EC.

The terms of the agreement, which are described in more detail on pages 37 and 38, state that it will come into force once it has been ratified by all eight countries. If all have not ratified by 1st January 1980, the countries that have done so can meet and decide to put it into effect between them. As a first step the EFTA countries (except for Portugal) will reduce their import duties on almost all industrial products by 60 per cent in one step, and on a few products by 30 per cent or 40 per cent. Spain will reduce its duties

on some industrial products imported from the EFTA countries (other than Portugal) by 60 per cent, and on a large number of these products by 25 per cent. Special provisions governing trade between Spain and Portugal take account of the fact that Spain's industry is much larger and more varied than Portuguese industry.

The immediate effect of the agreement, once it has entered into force, will be to put EFTA exporters on the same footing in the Spanish market as, on the basis of an agreement of 1970, exporters in the EC. The ultimate aim of full free trade will be achieved at the latest on Spain's accession to the EC which will have the consequence that the Free Trade Agreements between the EFTA countries and the EC will also apply to trade between the EFTA countries and Spain.

Co-operation with Yugoslavia

The first meeting of the joint committee established to promote co-operation between EFTA and Yugoslavia was held in the Yugoslav capital in October 1978. Its presence there was a manifestation of the willingness of the EFTA countries to develop the already existing co-operation between the Association and Yugoslavia, thus responding to the wish of the Yugoslav Government to enter into closer economic relations with EFTA. Particular attention was given at the first meeting to the means of promoting trade between the EFTA countries and Yugoslavia. In view of the large and rising Yugoslav deficit in the trade between them a programme was agreed for a special meeting—held in Belgrade in March 1979—to give Yugoslav exporters a greater familiarity with marketing techniques and consumer preferences in the 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 in 1970 Iceland's import duties were reduced from 20 per cent to 10 per cent on 1st January 1979. The final reduction, which will enable products originating in the other EFTA countries to enter Iceland duty free, is due to take place 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 quotas on the import of some consumer goods, introduced by Portugal for balance of payments reasons in February 1977, remained in force at the end of June 1979. See page 17.

Annex G to the Convention

In January 1979 Portugal invoked the provisions (in force since May 1978) of paragraph 6 ter of Annex G to the Convention in a formal request to the Councils for authorization to apply new duties on the import from the other EFTA countries of a number of industrial products. Products under 61 headings or sub-headings of the Portuguese Customs tariff were covered by the request which sought an 18 per cent import duty on most of the products and lower rates on a few of them.

Authorization was given in Council Decisions¹ adopted on 29th March which stipulated that the duties might not be applied to products which are subject to an import surcharge or any other measure restricting imports, and laid down a timetable for the progressive removal of the duties between 1st January 1980 and the end of 1984.

¹ Decision of the Council No. 5 of 1979 and Decision of the Joint Council No. 4 of 1979.

Paragraph 6 ter was added to Annex G as one of the actions taken by EFTA to provide assistance to Portugal in order to help it to overcome its economic difficulties. A list of products to which its provisions might be applied was drawn up in connection with the entry into force of the paragraph.

Under another clause in Annex G—paragraph 6 bis—Portugal asked the Councils in April 1979 for authority to apply duties of up to 20 per cent on imports from other EFTA countries of certain types of products the manufacture of which had recently begun in Portugal. The products concerned are some petrochemicals, fibre glass, aluminium rod and domestic refrigerators and freezing chests. Paragraph 6 bis had also been added to the Annex with the aim of assisting the development of industry in Portugal and makes it possible for Portugal, with the authority of the Councils, to apply new or increased import duties to protect new industries. As instructed by Ministers, the Councils at official level are now considering the request in a positive spirit.

Portuguese request for a standstill on tariff reductions

In April 1979 the Portuguese Delegation informed the Councils that the Portuguese authorities wished to introduce a standstill on its obligation to make further tariff reductions on the import from other EFTA countries of a number of products covered by Annex G to the Convention. The standstill would remain in force until the date on which Portugal accedes to the European Community. The reasons given for the request were : the current difficult economic situation in Portugal ; the need to restructure and modernize several industrial sectors ; the scale of the tariff cuts already made ; the similar request presented to the EC for a standstill under the Portuguese Free Trade Agreement with the EC ; and the intention of avoiding discrimination in the treatment of imports from EFTA and the EC.

According to the Portuguese authorities the products for which the standstill was requested accounted for 12 per cent of imports from the other EFTA countries in 1977. The tariffs on the products concerned have been reduced in varying degrees, the maximum remaining duty being 30 per cent of the basic rates except for those products on which, as was mentioned above, there is now an *ad valorem* duty of 18 per cent. This request also is being considered in a positive spirit by the Councils at official level, as instructed by Ministers.

Origin rules

Amendments and interpretation

During the year under review a few points of detail in the origin rules, which are contained in Annex B to the Convention and which, with few exceptions, are identical to those applied under the Free Trade Agreements

between the EFTA countries and the European Community, were the subject of Council Decisions or of agreed interpretations.

The maximum value for the duty-free import of small consignments of goods originating in EFTA, for which an EUR.1 certificate is not necessary, was raised, as were also the maximum duty-free value for goods brought by travellers from one EFTA country to another as part of their personal luggage, and the maximum duty-free value for small packages received by private persons in the EFTA countries.¹ These values were raised to correspond to those in the rules of origin in the FTAs which had been altered in order to base the limits on the European (Community) unit of account rather than on gold and to take account of the inflation of recent years. The changes amend Articles 8 and 13 of Annex B as well as Appendix 8 to Annex B.

The new value limits are as follows :

- for small consignments, for which an EUR.2 form signed by the exporter or his representative is necessary : 44,700 Austrian schillings, 13,000 Finnish marks, 765,000 Icelandic kronur, 16,150 Norwegian kroner, 136,000 Portuguese escudos, 14,000 Swedish kronor or 5,500 Swiss francs ;
- for minor imports by bona fide travellers, for which no documentation is necessary : 9,000 Austrian schillings, 2,500 Finnish marks, 153,000 Icelandic kronur, 3,250 Norwegian kroner, 27,200 Portuguese escudos, 3,000 Swedish kronor or 1,100 Swiss francs ;
- for small packages sent to private persons, for which also no documentation is necessary : 3,100 Austrian schillings, 900 Finnish marks, 53,000 Icelandic kronur, 1,150 Norwegian kroner, 9,350 Portuguese escudos, 1,000 Swedish kronor or 380 Swiss francs.

Agreement was reached, during the year under review, on the interpretation of certain aspects of the origin rules. No changes in the practices of the national Customs authorities follow from these interpretations which moreover correspond to agreements reached on the interpretation of points in the FTA origin rules.

On two of these points the agreements in EFTA were embodied in Council Decisions.² Firstly, products imported into an EFTA country under a certificate EUR.1 or a form EUR.2, and then re-exported in the same condition or after only minimal processing to the country in which they originated, are covered by the Convention (and therefore normally duty free) when they are re-imported into that country. Secondly, the origin rule for sets (paragraph 5 of Article 8) applies only to goods consisting of articles which have independent

¹ Decision of the Council No. 11 of 1978 and Decision of the Joint Council No. 5 of 1978, adopted on 13th December 1978, and (for the currently relevant Portuguese exchange rate) Decision of the Council No. 4 of 1979 and Decision of the Joint Council No. 3 of 1979, adopted on 22nd March 1979.

² Decision of the Council No. 1 of 1979 and Decision of the Joint Council No. 1 of 1979, adopted on 1st February 1979.

or complementary uses but which are retailed as a group for a specific purpose or activity.

On two other points of administrative practice the agreement reached on the interpretation by the Committee of Origin and Customs Experts was deemed to suffice without Council decisions. One was that the ex-factory price may be used as the basis for deciding when an EUR.2 can be used instead of an EUR.1 certificate (which has to be issued by a Customs authority). The other was that as a general rule EFTA treatment should not be refused until after the authenticity or correctness of the EUR.1 or EUR.2 has been checked, although in exceptional cases it may be refused when it is evident that the goods are of third country origin.

General review of origin rules

Indications that the European Community was considering the possibility of simplifying and improving the origin rules in the FTAs in ways which correspond in part to the proposals put forward by the EFTA countries in 1975 were observed by EFTA's Committee of Origin and Customs Experts which kept developments in this field under review. The EFTA countries had proposed, among other things, the use of a percentage criterion as an alternative to the present processing rules, on the ground that it would be administratively simpler, as well as a wider use of the possibilities of cumulation which allow FTA or EFTA tariff treatment for products which undergo consecutive production processes in more than one tariff area in the larger European free trade system.

Charges other than tariffs

The Finnish import equalization tax

The Committee of Trade Experts was informed in October 1978 that the Finnish import equalization tax would remain in force, with some amendments in its coverage, until the end of 1979 in the absence of a value-added tax system which would make it unnecessary. The equalization tax applies to products which, when produced in Finland, are affected by a hidden tax burden.

The Icelandic import equalization tax

Since 1st July 1978 a 3 per cent import equalization tax has been levied in Iceland on the import of products which are also manufactured in the country. The tax, introduced to compensate for the cascading effect of the sales tax

which is levied at various stages of production on the corresponding domestically manufactured products, is to remain in force until 1980 when the sales tax is expected to be replaced by a value-added tax. The Committee of Trade Experts discussed the equalization tax in October 1978 and agreed that the matter could be taken up again if any member of the Committee thought it necessary.

The Icelandic adjustment levy

After preliminary discussions with the other EFTA Governments Iceland requested authority on 8th May 1979 to introduce a temporary 3 per cent adjustment levy on the import of a large number of industrial products which are also produced by manufacturers in Iceland. Three reasons were given for the request : the increasing difficulties experienced in various sectors of industry in Iceland as a result of the dismantling of tariffs on imports from the other EFTA countries and from the EC ; the need to restructure several industrial sectors ; and internal economic problems, particularly inflation, which discouraged the necessary investment in industry. The levy was a temporary measure to prevent a deterioration before industry in Iceland could benefit from the new industrial development programme which the Government was about to present to the Icelandic Parliament. An examination of the matter by the Deputy Heads of the permanent national Delegations to EFTA led them to recommend that the request should be accepted in accordance with Article 20 of the Convention as applicable to Iceland during the period while it was still reducing its import duties in relation to the other EFTA countries. It was also agreed that the authorization would not constitute a precedent. On 16th May the Councils authorized Iceland to apply the levy until the end of 1980¹ and decided to keep the working of the levy under review.

Agriculture

Annual review of agricultural trade

The annual review of agricultural trade within EFTA was carried out by the Councils in December 1978 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. They are listed in Parts II and III of Annex D to the Convention.

¹ Decision of the Council No. 7 of 1979 and Decision of the Joint Council No. 6 of 1979.

The report, which was noted by the Councils, showed that intra-EFTA imports of these agricultural products rose by 7.1 per cent in value in 1977 to a total of 330 million US dollars. Since the increase was the same as in all intra-EFTA imports, they accounted for the second year running for 2.9 per cent of all intra-EFTA imports. Intra-EFTA exports of these products rose by 8.5 per cent to a total value of 308 million dollars. Their share in total intra-EFTA exports dropped slightly to 2.7 per cent because of the growth of 10.4 per cent in total intra-EFTA exports. In intra-Area trade Sweden continued to be both the biggest importer and the biggest exporter of these agricultural products, receiving 39.4 per cent of the imports and supplying 38.2 per cent of the exports.

Amendments to Annex D to the Convention

Some formal amendments¹ to Annex D were made by the Councils during the twelve months under review. The amendments, which correspond to amendments to the international Customs Co-operation Council Nomenclature, involve no change in the treatment of agricultural goods in EFTA and had in practice been in force since 1st January 1978 on the basis of the national Customs tariffs applied in the EFTA countries.

Processed agricultural products

The Committee of Trade Experts continued to review all notifications from EFTA Governments of changes in the measures which 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, as laid down in paragraph 1 (c) of Article 21 of the Convention, 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 individual EFTA countries.

The Committee had a thorough discussion of the implications of calculating the compensation on the basis of standard recipes for the processed agricultural products rather than on the actual proportions of the ingredients. The conclusion reached was that, although there was a risk of overcompensation if the standard recipes for the calculation did not sufficiently reflect the actual raw material content in particular cases, the Committee's current practice of examining all the changes notified seemed to be the most practical way of dealing with the problem. Also with the aim of averting overcompensation the Committee discussed the exchange rates used in converting world market prices into the currencies of the EFTA countries.

¹ Decisions of the Council Nos. 9 and 10 of 1978 and Decisions of the Joint Council Nos. 2, 3 and 4 of 1978, adopted on 13th December.

Swiss import régime for certain fruit juices

Following bilateral talks between Austria and Switzerland on the tariff treatment of imports of certain fruit juices, Switzerland decided autonomously to give preferential treatment for certain diluted and sweetened fruit juices (peach, blueberry, blackberry and gooseberry) originating in the EFTA countries. These fruit juices are given EFTA tariff treatment in the other EFTA countries.

Consultations and complaints

The general consultations and complaints procedure

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

Finland : cash payments for imports

The Bank of Finland abolished, with effect from 1st March 1979, its requirement that payment for a number of products should be made in cash before Customs clearance.

Finland : surcharges on imports of tights and of rubber boots

As requested by the Joint Council, the Committee of Trade Experts reviewed at each meeting the working of the surcharges levied on the import into Finland of low-priced tights (since December 1976) and low-priced rubber boots (since February 1977). Both measures remain in force until the end of 1979. The up-dated statistics presented at each meeting 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 measures which the Portuguese Government introduced in November 1977 in order to reduce a growing balance of payments deficit remained in force, with one change, throughout the twelve months under review. In

October 1978 the Councils noted with satisfaction that the 30 per cent rate of surcharge, which in 1977 covered 46 per cent of imports from the other EFTA countries, had been reduced as planned to 20 per cent. The rate was further reduced to 10 per cent on 1st April 1979.

The other measures in force at the end of June 1979 were a 60 per cent surcharge on some imports (0.75 per cent of imports from EFTA), and global import quotas for some consumer goods and for unassembled (CKD) cars for assembly in Portugal. The Portuguese current account deficit, which had risen to 57,214 million escudos in 1977, was brought down to 39,000 million escudos in 1978.

Steel : surveillance measures in four EFTA countries

Four EFTA countries—Austria, Finland, Sweden and Switzerland—continued to keep the prices of some steel imports under surveillance after having entered into bilateral agreements with the EC, at the EC's request, early in 1978 in order to ensure that EFTA exporters complied with the steel pricing system applied in the EC because of the crisis in the steel industry. No quantitative restrictions are involved, the purpose of the monitoring being to obtain information quickly on import prices and trends.

Iceland : import deposit scheme for furniture

Since 8th January 1979 importers into Iceland of furniture, including cupboards and cabinets, as well as of windows and doors, have been obliged to deposit 35 per cent of the value of each consignment with the Icelandic Central Bank. The obligation, scheduled to remain in force until the end of 1980, was introduced because of a rapid increase in the import of furniture in the previous two years, partly as a result of the gradual reduction in tariffs on imports from EFTA and the EC. (By the beginning of 1979 these tariffs had been cut to 10 per cent of the original basic duties.) The increase was considered a significant threat to the domestic industry whose share of the local market had fallen from 95 per cent in 1970 to between 50 and 70 per cent according to the type of furniture. Imports from all countries are subject to this import deposit scheme.

The scheme was introduced without warning in Iceland, to avert the possibility of stockpiling, and was notified after the event to the Councils which instructed the Deputy Heads of Delegation to examine it. The Deputies subsequently reported that the state of the furniture industry in Iceland seemed to indicate that the serious difficulties did result from the rapid increase in imports which itself was largely due to the dismantling of tariffs. In the special circumstances of the case Deputies recommended that the Councils should authorize Iceland to apply the scheme temporarily under the provisions of Article 20 of the Convention although they regretted that authorization had not been sought in advance. The scheme should be kept under review.

The Councils took decisions to this effect on 25th April but stipulated that the authorization should expire on 8th July 1980.¹ Article 20 sets a limit of eighteen months on the use of measures of this kind.

Austria : reference prices for tights

On 6th November 1978 Austria reintroduced minimum reference prices for the import of tights made of synthetic fibres, accompanied by authority to impose a levy to compensate for the differences between the prices at the Austrian border and the minimum reference prices. Regulations of the same kind were in force from December 1975 to November 1977 because of a rapid rise in the import of low-priced tights which had caused a sharp drop in production in Austria. The reintroduction was motivated by the continuation of the same trends. The Austrian production, trade and price statistics were considered at each subsequent meeting of the Committee of Trade Experts, which found that exports from the other EFTA countries to Austria had not been affected by the reference price system.

Switzerland : border charge on fish-meal

From 1st October 1978 Switzerland reintroduced a special border charge in the form of a price supplement levied on the import of fish-meal from all countries. This action again brought fish-meal within the Swiss system of price supplements which are levied on animal feeding-stuffs as a regulatory measure designed to limit any excess production of agricultural products, and which are considered to be an integral part of Switzerland's agricultural policy. An element of preference for imports originating in EFTA is applied in the case of fish-meal through the refund to importers of a portion of the price supplement.

When Switzerland informed the Councils in September 1978 that the price supplement was to be reintroduced—it had most recently been in force in the twelve months from 1st April 1976—the Swiss Delegation recalled that when the Stockholm Convention was negotiated Switzerland accepted the deletion of fish-meal (and certain other feeding-stuffs) from Annexes D and E to the Convention only with the reservation that this did not entail the abolition of the special border charge.

The other delegations recalled their view that fish-meal was by definition a free trade product since it was not included in either of those Annexes. Accordingly the other delegations reiterated their positions and reserved the right to revert to the matter.

¹ Decision of the Council No. 6 of 1979 and Decision of the Joint Council No. 5 of 1979.

Export credits

Following instructions from Ministers the Councils in July 1978 set up a group of experts to study the possibility for EFTA countries to agree to avoid government subsidies for credits for exports to EFTA countries. An agreement of this kind would require them to apply stricter rules between themselves than those which are permitted under the OECD Agreement on officially supported export credits.

The group agreed that it would be desirable to continue to avoid, so far as possible, the use of official support for interest rates in connection with trade between the EFTA countries. It also noted that the EFTA countries were prepared to examine the possibility of joining in an arrangement by which they and other countries would aim to abolish official support for interest rates in connection with export credits, and it took the view that the OECD would be the appropriate forum for further discussion on this point. The expert group's report was noted in November by the Councils which agreed to consider in due course the need to convene another meeting of the group.

Non-tariff barriers to trade

With the aim of consolidating the present free trade, as part of the long-term strategy for economic co-operation that was formulated at the Vienna summit in 1977, EFTA continued to pay particular attention to the problem of non-tariff barriers to trade within the European free trade area.

At the request of the Councils, the Committee of Trade Experts considered a number of aspects of the problem at its meeting in April 1979. In order to make it possible to identify areas in which non-tariff barriers to trade between the EFTA countries caused most difficulties to EFTA exporters, the individual countries had notified the Association of practices known to them which could hamper trade, and these were considered by the Committee.

The Committee also discussed non-tariff barriers to trade within the larger European free trade system, concentrating especially on the question of how to strengthen the co-operation between the European Community and the EFTA countries in the more specific field of technical barriers to trade. These are the barriers that result from the existence of national differences in the standards and other technical requirements for particular types of product. In accordance with its policy of not harmonizing standards or technical requirements within so small a body as EFTA the Association has encouraged its members to participate actively in the work of international standards-writing organizations. It has also pioneered reciprocal recognition arrangements (see Chapter IV) as a means of overcoming the effects of national differences in this sphere, when any kind of test or inspection is required to ensure that national specifications are fulfilled. Within the EC directives are worked out

which lay down standards or requirements for the whole of the Community which are based so far as possible on international standards.

The Committee recommended that the EFTA countries should welcome the possibility, implied in recent EC discussions on this subject, of having consultations with the EC on Community directives already in force, with the aim of eliminating any technical barriers that result from the directives, and that the EFTA countries should welcome Community participation in the reciprocal recognition arrangements worked out in, though independent of, EFTA. The EFTA countries should also welcome close co-operation with the EC in standards-writing organizations such as the world-wide ISO and IEC and the Western European bodies such as CEN and CENELEC.

In addition the Committee concluded that in general it would be desirable that there should be consultations between the EFTA countries and the EC when Community directives are being prepared and when individual countries are planning to introduce new national technical regulations, and that the possibility of co-operation at this stage should be studied further. The implication of the new GATT code on technical barriers to trade would have to be considered in this connection. Finally, the Committee suggested that the possibility of widening co-operation in this field should be kept under review whenever a multilateral approach seemed to be useful.

After a preliminary consideration of other kinds of non-tariff barriers to trade within the European free trade system the Committee agreed to revert to the subject.

Technical barriers to trade

The EFTA countries use a notification procedure to inform each other in advance of any new or amended technical regulations which they plan to put into force, the purpose being to identify potential technical barriers to trade. In October 1978 the Committee of Trade Experts agreed that in future the working of the procedure would be reviewed only once a year instead of at each of its meetings, although any particular problems relating to the procedure could be brought up at other times. The reason for this change was that no new questions of principle were arising in the discussion either of the general features of the procedure or of the difficulties of observing it in some countries because of the autonomy of the bodies that draw up the regulations. The first of these annual reviews was carried out in February 1979. During the twelve months covered by this report a total of thirty-six notifications were made by four countries.

The Committee of Trade Experts considered the usefulness of applying the reciprocal recognition principle, as described in Chapter IV, to some other suggested categories of product (toxic products, plastic materials and articles intended to come into contact with foodstuffs, as well as textile machines). It had not decided, by the end of June 1979, whether current trade flows and the differences in national requirements for the products concerned made it necessary to devise reciprocal recognition arrangements for the products. An analogous application of the principle of mutual recognition, which is the core of these arrangements, is described in the following paragraphs.

Registration of pharmaceutical products

An international scheme which will make it possible to overcome commercial difficulties that arise from differences in national procedures for the registration of pharmaceutical products came into force in June 1979. Representatives of five EFTA countries—Austria, Finland, Norway, Sweden and Switzerland—agreed on 13th June to put it into force immediately although the full operation of the scheme will only be achieved once the authorities participating have had some experience of its actual working.

The essence of the scheme is that registration authorities, who are responsible for authorizing the marketing of pharmaceutical products in their own countries, will have the possibility of asking their counterparts in other countries that join the scheme for "evaluation reports" on products already registered in their countries. The evaluation reports would contain all the necessary scientific data as well as the authority's evaluation of the data. The request for an evaluation report would be made only when a manufacturer has applied for the registration of a particular product, and the registration authority may consider the information in the report as sufficient evidence for authorizing the sale of the product or may require additional data or tests.

In February 1979 the Committee of Trade Experts expressed its view that the scheme, which had been worked out by an ad hoc group of experts from the EFTA countries, would help to eliminate obstacles to international trade in pharmaceutical products which result from the repeated and time-consuming evaluation of scientific data necessary for registration of the same product in several countries. The Councils noted the scheme in May and convened the meeting of experts which in June made the necessary preparations for it to be put into force.

Trade mark law

In July 1978 the Councils considered a report, prepared by an ad hoc group of experts from the EFTA countries, on the implications for these countries of the work being done within the EC to draw up a regulation for a trade mark system for the Community. The experts stated the system envisaged was of concern to the EFTA countries because of the close commercial ties between them and the Community. They also generally took the view that a harmonization of certain elements of substantive trade mark law in the EFTA countries and the EC would be desirable. Following the discussion in the Councils the views of the EFTA experts were drawn to the attention of the authorities in the nine EC countries and of the Commission of the EC. In March 1979 the Councils agreed to reconvene the expert group before the end of 1979, when the Commission's final draft of the regulation is expected to be ready, for an exchange of views on the Community trade mark system with the aim of working out if possible a co-ordinated EFTA position which might be recommended to the EFTA Councils.

The EFTA Industrial Development Fund for Portugal

In the twelve months to the end of June 1979 the EFTA Industrial Development Fund for Portugal, through which all the EFTA countries contribute to the growth of industry in Portugal, granted loans totalling 906 million escudos (the equivalent of about \$18.5 million) to assist in the financing of 47 specific investment projects in Portugal.

During this period most of the loans, which are intended primarily to help in the modernization or creation of small and medium-sized firms in Portugal, were provided for investments in new equipment for already existing factories where increased production will provide greater security for the 7,477 persons employed. In a smaller number of cases the credits are being used for the construction of new manufacturing capacity which will create 1,310 new jobs.

Recognition of the need to improve managerial techniques and vocational training for industry in Portugal led the Fund's Steering Committee to study during the year the possibility of providing assistance in this field. As a first step it decided to support the training of export managers.

Since the Fund first came into operation on 1st February 1977 it has granted loans totalling 2,326 million escudos (approximately equal to \$47.4 million) towards the financing of 82 investment projects in the country. The Fund may not normally put up the whole of the cost of the projects, and the total investment in them amounts to 6,171 million escudos, the share of the Fund thus being 37.7 per cent.

Firms in many sectors of industry are benefiting from the support of the Fund. The industries which have received the largest shares of loans from the Fund since it came into operation are the electrical equipment industry (18 per cent), the textile industry (16 per cent), the paper industry (13 per cent) and the foodstuffs industry (10 per cent). Companies located in thirteen of the eighteen districts of mainland Portugal had received loans by the end of June 1979.

In the twelve months to the end of June the Fund called up contributions to a total value of 9,500,000 Special Drawing Rights from the seven EFTA countries, bringing the total of called-up contributions from the start of the Fund's operation to 23,200,000 SDRs. The size of the Fund itself, excluding interest on the loans and on the deposit of contributions, is 84,604,516 SDRs, the equivalent of \$100 million when the decision to create the Fund was taken on 6th November 1975. 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 a representative of Finland, a Steering Committee is responsible for the Fund's operations. It met three times during the twelve months to the end of June 1979 and in that period approved 4 loans totalling 391 million escudos. The Executive Commission in Portugal, which is responsible for the administration of the Fund and for deciding on requests for loans not exceeding 1.2 million SDRs in each case, approved 38 loans amounting to 515 million escudos in the same period.

Other forms of assistance to Portugal under consideration

The possibility of providing new forms of assistance to Portugal in the fields of export promotion, tourism and investment was examined during the year by the Councils. After discussion between the Portuguese authorities and the Secretary-General on possible specific actions in this field, a report was presented to Ministers in May 1979. The Ministers instructed the Council at official level to consider the matter in a positive spirit.

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 EFTA Council and the Joint Council of EFTA and Finland

The activities of the EFTA Council and of the Joint Council of EFTA and Finland are presented throughout this report under the appropriate subject headings. During the twelve months covered by the report they held 25 simultaneous meetings, including two at Ministerial level. The communiqués issued after the Ministerial meetings are reproduced in the appendix.

From 1st July to 31st December 1978 the Chairmanship of the Joint Council was held by Finland (presiding at the simultaneous meetings), the Chairmanship of the EFTA Council by Iceland and the Vice-Chairmanship of both Councils by Iceland. From 1st January to 30th June 1979 Norway held the Chairmanship of both Councils and Iceland the Vice-Chairmanship. The normal rotation of the Chairmanship was altered by agreement between Iceland and Norway in order to enable Norway as Chairman to invite the Ministers to a Council meeting in Bodø, Norway, in the spring rather than the winter of 1979.

The Economic Committee

The Economic Committee, which consists of officials from the finance ministries and central banks of the EFTA countries, met twice during the year to exchange views on international economic and monetary developments and review the economic and financial policies of the EFTA countries.

At the first of the meetings, on 6th to 8th November 1978, the Committee observed that there were somewhat better prospects for a faster rate of growth in the OECD area in general and especially in the European OECD countries, though there was only a frail basis for optimism. There was little likelihood of a general reduction in the rate of unemployment in the OECD area and the outlook for the second half of 1979 was not very promising. The pattern of current account balances seemed to be improving but it was still most probable that there would be little change in the position of the large surplus countries. On developments in the international monetary markets the Committee recognized that the continuing exchange rate instability was having unsettling effects especially on the willingness of the business community to undertake new investments.

At the same meeting the Committee continued its discussion of the implications that a continuation of low economic growth rates would have for the EFTA countries. It reviewed the possible actions which they could take in order to improve their economic prospects and in particular to maintain competitive advantages in international trade and, if possible, increase their shares of foreign markets. The Committee thought that it would be most useful in future to compare the actions taken by individual EFTA countries for this purpose.

In accordance with the decision reached by the Committee in March 1978, that at any one meeting it should concentrate its review of national developments on two or three EFTA countries, it discussed in November the economic situation and prospects in Iceland, Sweden and Switzerland. It reviewed the policies adopted by these countries, giving particular attention to medium-term prospects and to the structural adjustment policies required.

The Committee's second meeting—the first it had held outside Geneva—was in Vienna on 2nd to 4th May. It found that there had been a substantial revival in economic activity in Western Europe, with a growth rate close to 4 per cent in the preceding twelve months. The growth had been accompanied by lower rates of inflation in many countries and by considerably improved balances of payments in a number of small countries, but not by any significant reduction in unemployment. The measures taken by governments in 1978 as part of the policy of concerted action in the OECD countries had made a significant contribution to the revival which, together with the balance of payments improvements, could open up the possibilities for a prolonged period of moderate growth, leading in time to a lower rate of unemployment.

The Committee nevertheless concluded that the international outlook was uncertain. The increases in the prices of oil and some raw materials in the early part of the year might lead to lower growth rates in many European countries. The possibility could therefore not be excluded that there would

be a significant slowing down in the rate of economic growth in Western Europe towards the end of 1979 and in early 1980. The Committee took the view that a continuation of the concerted action policy would be appropriate.

The establishment earlier in 1979 of the European Monetary System (EMS) in the EC was welcomed by the Committee as part of the endeavours to create greater international monetary stability. The Committee agreed to continue to exchange views on the EMS.

The three countries whose economic situation was reviewed at the May meeting were Austria, Finland and Norway. (The situation in Portugal had been discussed in June 1978.) The Committee found that the three countries had been able to increase their exports substantially partly because of the revival of economic activity in Europe and partly through the improved competitiveness of their industries. Unemployment rates in Austria and Norway were among the lowest in the OECD area while the high level of unemployment was a major concern for economic policy in Finland. Austria had for several years maintained one of the lowest inflation rates among OECD countries; in Norway the wage and price freeze seemed to be working as intended and had brought inflation down to one of the lowest rates in Europe; and Finland had also reduced inflation noticeably in the previous twelve months, taking it to below the OECD average. All three countries had substantially improved their balances of payments.

The Committee also had a preliminary discussion on the Consultative Committee's request that EFTA statistics should be presented in such a way as to be comparable with EC statistics. It will revert to the matter at its next meeting after its members have been able to consult statistical experts in their own countries.

The Committee of Trade Experts

The Committee of Trade Experts, which consists of officials from each of the EFTA countries, met four times during the year. A representative of Yugoslavia attended two of the meetings as an observer.

Many of the matters discussed in the Committee during the year were within the general field of technical barriers to trade. It kept under review current developments in the working of the international schemes and conventions which are the subject of Chapter IV of this report, and considered the possibility and desirability of devising similar arrangements for some other categories of products but had not arrived at a conclusion by June 1979.

The Committee also studied a number of general and specific aspects of the problem of dealing with technical barriers to trade in view of the efforts in both EFTA and the EC to remove the effects of some of these obstacles to the free movement of goods. The general considerations are summarized in the section on non-tariff barriers to trade (page 20). On more specific matters, the Committee recommended in the case of electrical equipment for use in potentially explosive atmospheres that the EC Commission should be

informed of the EFTA interest, from a commercial point of view, in the EC's work in this field. The Committee also submitted a report to the Councils (see page 21) on the draft international scheme on the registration of pharmaceutical products which had been worked out by EFTA experts.

Other matters dealt with by the Committee during the year and mentioned elsewhere in this report were the price compensation measures applied by EFTA Governments in connection with processed agricultural products, the surcharges on Finnish imports of tights and rubber boots, the import equalization taxes applied in Finland and Iceland, and the use in Austria of reference prices for the import of tights.

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 during the year. The main results of its work are described under the heading of "origin rules" (pages 12 to 14). In addition the Committee discussed the possibility of applying segregation by accounting methods instead of physical segregation when distinguishing between materials of EFTA (or FTA) origin from those originating in third countries.

As requested by the Councils the Committee discussed a recommendation made by the Parliamentary Assembly of the Council of Europe that the European free trade system would have more impact on public opinion if there were uniform regulations in the EFTA countries and in the EC for minor non-commercial imports by travellers. The Committee concentrated its attention on the general value limits for exemption from duties and taxes rather than on the specific provisions relating to such products as cigarettes, wines and spirits. It made a comparison of the limits at present in force and concluded that both within EFTA and within the sixteen countries in the European free trade system harmonization would involve adopting the most liberal of the rules at present in force or proposed. When the Councils noted the report, in January 1979, they recognized that harmonization would be meaningful only if applied to all sixteen countries.

Finally, the Committee also exchanged views on the common system used since 1st July 1978 by five EFTA countries for the application of cumulative origin treatment to imports from developing countries which belong to regional economic groupings.

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 October 1978 and April-May 1979.

Discussing the general economic outlook at its meeting in October 1978 some members of the Committee showed their concern at the absence of any real signs of faster expansion in the European countries, the unlikelihood of any fall in the rate of unemployment, the continuing though somewhat reduced disparities in the balances of payments in the OECD countries and the persisting instability of exchange rates. It was the general view that an economic upturn could be brought about only by a concerted policy which would improve employment prospects, diminish the pressures for protectionism and allow for the necessary structural adjustments.

A number of speakers referred to the granting of State aids by governments in times of economic difficulties, some arguing that in the long run State aids would be detrimental to the employment situation in all the EFTA countries, others contending that these aids were designed to protect employment and that in many countries governments regarded the maintenance of full employment as the first priority of economic policies. Trade union representatives concluded that, since this priority was widely shared, there was a need for a better dialogue on economic policies and on economic co-operation. The Council of Nordic Trade Unions would therefore propose to the Councils at Ministerial level that EFTA should be more active in this respect, that the role of the Consultative Committee in EFTA should be strengthened, that there should be closer relations between EFTA and the EC on economic policies and finally that there should be a joint meeting between the Consultative Committee and the Councils at Ministerial level to discuss these matters.

The prospect of the creation of a European Monetary System (EMS) in the EC, which came into operation five months later, led many speakers to advocate that the EFTA Governments should closely follow this attempt to bring about greater international monetary stability and that, after carefully assessing the advantages and disadvantages of the EMS, they should consider participating in it actively.

In April 1979, when the first part of the Committee's spring meeting was held, the discussion of the general economic situation was concentrated on several basic features. The members of the Committee recognized that there had been an improvement in the rate of economic growth since about the middle of the previous year, partly because of the policy of concerted action in the OECD countries, but they were preoccupied by the persistence of unemployment in the industrialized countries. Trade union members of the Committee emphasized that the prospects for a continued growth of economic activity were threatened by the recent rises in oil prices, inflation, the tax squeeze and the need for structural changes, which might give rise to demand-restricting measures. The growth in the size of the labour force in most European countries in the next five years and the presence of unused industrial capacity would reduce the effect of an economic upturn on the level of employment. Adjustment policies would have to be carefully planned so that workers moved from unproductive jobs could be transferred to jobs that were viable, and the policies would have to be backed by general and selective measures to increase demand.

It was generally accepted that protectionism was not a way out of the current economic difficulties. Representatives of industry and employers pointed out that protectionist measures on the part of the industrialized countries were on the increase and were more commonly taking disguised forms such as government aids, import quotas, minimum price systems and import surveillance, voluntary restraint agreements and administrative barriers. The recent rises in oil and commodity prices were destabilizing factors which carried a further risk of appeals for assistance against international competition. Protectionism would make new non-inflationary growth impossible and deny growth industries the resources they need.

The substantial results achieved in the Multilateral Trade Negotiations in the framework of GATT were welcomed by the Committee both as an international step away from protectionism and as an important contribution to the further liberalization of world trade. Speakers stressed that the results of the negotiations would have to be consolidated through the ratification of the agreed texts as they stood, and through the acceptance of the agreement by as many countries as possible. The lack of an agreement on safeguard clauses was however regretted since it would clearly be in the interest of all countries to obtain a system of consultations and international supervision for safeguard measures.

The Committee also dwelt on the question of relations between the EFTA countries and the European Community, noting that the relationship was now in an important new phase. The Community had manifested its readiness to seek a wider co-operation with the EFTA countries, in response to the declaration of the EFTA Governments, in May 1977, that it would be desirable to develop the existing co-operation between the EFTA countries and the Community. The EC had identified a number of spheres in which there might be more co-operation, including economic and monetary policy, environment, transport and the abolition of non-tariff barriers to trade. In the Consultative Committee speakers advocated that EFTA and the EFTA Governments should make concrete proposals so that a regular and lasting dialogue and co-operation could be established. The Committee expressed the wish to be informed on developments in the relations between the EFTA countries and the EC so that it could give its opinions and advice to the Councils on the subject.

The consequences of the growing economic importance of the newly industrializing countries for the future of international trade were also considered by the Committee which found that a deeper knowledge of the manifold problems involved should be acquired before any attempt was made to draw any conclusions.

The Committee also discussed reports from its Economic and Social Sub-Committee on government aids and on the role of exports and imports in the process of income formation. It was agreed that the reports, which are summarized below, should be presented to the Councils. Several proposals were put forward for new studies by the Sub-Committee and it was agreed that the proposals should be put to the Councils.

The second part of the meeting was held in Bodø immediately before the spring session of the EFTA Councils at ministerial level so that the Ministers could take part in the discussions, as had been proposed by the trade union

representatives. The discussions dealt both with the role of EFTA in economic co-operation in Western Europe and with the relations between the Committee and the Councils. Trade union speakers recalled their appeals, reiterated the week before at the third congress of the European Trade Union Confederation, for co-operation between EFTA and the EC in a number of fields including employment policy and economic policy. Many other speakers supported the case for more co-operation on economic policy matters as a way of bringing about a greater convergence of economic trends in EFTA and EC countries since on current forecasts it was unlikely that there could be a return to full employment in the 1980s in the absence of changes in economic policy. Moreover, at the Vienna summit meeting the EFTA Governments had declared their interest in greater co-operation between the EFTA countries and the EC, and the EC had responded favourably to this declaration.

Other members of the Committee emphasized that the main contribution of EFTA to economic co-operation in Western Europe lay in the maintaining and furthering of free trade as the means of achieving the objectives of the Association. They argued that open markets and free trade stimulate investment, make possible the positive structural adjustments which economic developments have shown to be necessary, and thus help to create new and secure jobs. They were nevertheless prepared to discuss possible pragmatic ways of strengthening the role of the organization as a framework for consultations on subjects of common economic interest related to the objectives of the Association and of developing the existing co-operation within EFTA and—in varying degrees of intensity—between EFTA countries and the European Community by means of increased exchange of information and closer consultations on economic questions.

All the participants agreed that the debate had been very valuable, particularly because it enabled the representatives of economic circles in the EFTA countries to engage in a direct dialogue with the Ministers. The Ministers had been present on one earlier occasion: the special meeting of the Committee in February 1977. At the meeting that followed Ministers recognized the concern expressed by the Committee at the seriousness of current economic problems and requested the Councils at official level to examine all the proposals put forward at the meeting and to report to Ministers at their next meeting, in November 1979.

The Economic and Social Sub-Committee of the Consultative Committee

The Economic and Social Sub-Committee met three times during the year under review. Two main subjects were discussed by the Sub-Committee which consists of 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.

The first subject, a continuation of the Sub-Committee's study of floating exchange rates, was the role of export and import prices in the process of

income formation in each EFTA country. The Sub-Committee reached the conclusion that in recent years, because of the rise in oil prices and the differences in the levels of inflation and of economic activity in the big industrialized countries, it would have been impossible to apply fixed exchange rates. The system of floating exchange rates was considered to have worked reasonably well although some members thought it had not lived up to expectations.

The evolution of export and import prices was, however, thought to have been more important for the formation of incomes than the exchange rate system itself. The Sub-Committee found that movements in the external value of currencies tended to be reflected in import prices, but with a time-lag. These in turn were passed on, though in some cases only partly, into domestic prices which then influenced wage developments. Rising export prices could also lead to pressures for wage increases when it was expected that higher prices might increase company profits. The Sub-Committee thought, however, that for lack of detailed data it would be difficult to make a complete assessment of the role of export and import price changes.

Government aids to industry were the other main subject examined by the Sub-Committee. Its report dealt solely with direct State measures to support specific industries and groups of companies, and was based entirely on information provided by the EFTA Governments on the methods and scale of the direct assistance they gave to industry and in particular to export industries. Special attention was given to aid to sectors of industry that had been faced with new patterns of international demand and competitiveness.

The Sub-Committee, in a report which represented a consensus, acknowledged that governments had recognized the need for structural change which required a reduction of capacity in industrial sectors which had been severely affected by long-term changes in the world economy and a transfer of resources to expanding sectors of the economy. It also observed that in most cases government aid granted for this purpose had been linked to commitments to reduce capacity eventually. It accepted that in this context temporary aid might be an appropriate device for making the speed of adjustment socially acceptable, especially so far as employment is concerned. The Sub-Committee added that it expected governments not to delay the restructuring process unduly and, to this end, to reduce the aid to declining industries as rapidly as possible. An improvement in the state of the world economy should facilitate this process. The Sub-Committee stated finally that the use of permanent government aid to preserve employment in sectors of industry where economic indicators pointed to inefficient use of resources was unacceptable.

The Committee of Members of Parliament of the EFTA countries

The second meeting of the Committee of Members of Parliament of the EFTA countries was held in Stockholm on 12th and 13th October 1978. Mr. Lennart Pettersson, a Swedish Social Democrat, was elected Chairman in

succession to M^{me} Gertrude Girard-Montet, a Swiss Radical Democrat. The Committee serves 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 these matters between EFTA and Members of Parliament in the EFTA countries.

The Committee expressed deep concern about the continuing high level of unemployment and voiced the hope that concerted action to achieve faster and balanced economic growth would prove to be successful and that price inflation would be kept under control.

The necessity of resisting pressures in favour of protectionist measures was stressed by the Committee which pointed out that successful action to improve the employment situation would make it easier to resist such pressures. It was recognized that the widespread use of protectionist measures would be particularly harmful for small industrialized countries with a large export sector. The Committee emphasized the need to adopt positive adjustment policies in order to support the structural developments required in the current economic situation.

Recognizing the destabilizing effects, particularly on business confidence, of the recent international currency disturbances, the Committee expressed the hope that the efforts being made at the time to establish a stable European Monetary System would lead to success.

In a review of the activities of the Association the Committee manifested its support for the measures being taken to strengthen co-operation within EFTA, in particular for the increased attention being given to the implications of general economic developments for the small countries, highly dependent on international trade, that form EFTA.

The presence of the Committee in the Swedish capital made it possible to achieve in part another aim of the Committee which is to enable the Members of Parliament to become more familiar with conditions in the individual EFTA countries. Reports were presented on a number of aspects of Swedish economic life and the visiting Members of Parliament expressed their interest in the reports which they described as very useful.

Other standing committees

The Budget Committee met once during the year to prepare the budget for the financial year 1979-1980.

Information activities

The Councils reviewed the information policy of the Association on the basis of a report prepared by the Deputy Heads of the national delegations with the assistance of some specialists in information activities. The report pointed to a number of developments that had occurred since information

policy was last reviewed five years previously : the virtual completion of the free trade system in Western Europe ; the agreement of the EFTA Governments in May 1977 to work for the strengthening of co-operation in EFTA, the development of the trade and economic co-operation with the European Community and the extension of the free trade system to other European countries ; the worsening of the economic situation and the consequent threat of a recurrence of protectionism ; and the movement towards closer international co-operation with the aim of overcoming current economic difficulties and maintaining a liberal world trading system.

The Councils endorsed the conclusion reached by the Deputy Heads that EFTA needed to have a more active and more open information policy in order to make the advantages of free trade and the contribution of EFTA to the free trade system better known and understood, and to bring out the commitment of the EFTA countries to a liberal international trading system and their opposition to protectionism.

On the implementation of information policy the Councils agreed that a periodical newsletter should be published as a supplement to the EFTA Bulletin which will henceforth be published six times a year, that an annual EFTA prize or scholarship should be awarded, and that each of the EFTA Governments should appoint one official to be responsible in its capital for information about EFTA's activities.

Publications

The EFTA Bulletin, which has a circulation of 36,000, continued to report on all activities of the Association and also contained a number of articles on the relations between the individual EFTA countries and the European Community and on the scope for increasing the co-operation between them. A special issue of the Bulletin was devoted to Yugoslavia in connection with the current search for new forms of co-operation between EFTA and Yugoslavia.

Other publications issued during the year under review included the 18th Annual Report of the Association, the second annual report of the EFTA Industrial Development Fund for Portugal and « EFTA Trade 1977 », the latest in the annual series of detailed trade studies prepared by the EFTA Secretariat. On behalf of the Pharmaceutical Inspection Convention the Secretariat published the collected papers presented under the auspices of the Convention at seminars held in March 1978 and June 1978.

Administration and Finance

The Secretariat

The appointment of Mr. Charles Müller as Secretary-General of EFTA was extended for a further three years by the EFTA Council at its Ministerial meeting on 23rd and 24th November 1978.

The Council agreed on 13th November 1978 to appoint Mr. Magnus Vahlquist as Deputy Secretary-General in succession to Mr. Arne Langeland when the latter was appointed a Director-General in the Norwegian Ministry of Commerce and Shipping.

At the end of June 1979 there were 32 officials in the Professional category on the staff of the Secretariat, one consultant and 41 General Service staff members, of whom 8 were employed on a half-time basis.

Finance

The net budget for the financial year 1978-1979 was 9,400,918 Swiss francs. For the financial year 1979-1980, beginning on 1st July 1979, the budget was fixed at 9,680,124 Swiss francs gross which, after deduction of estimated income of 371,400 francs, leaves a net sum of 9,308,724 francs to be financed by contributions from the EFTA States.

The scale of contributions to the budget is determined by reference to the gross national products at factor costs of the EFTA countries. The basis for the contributions for the 1978-1979 and 1979-1980 budgets was, in percentages, as follows :

	1978-1979	1979-1980
Sweden	28.653	28.634
Switzerland	25.501	25.000
Austria	15.330	15.698
Norway	11.748	12.209
Finland	11.175	11.192
Portugal	6.160	5.814
Iceland	1.433	1.453

III. 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 EFTA framework was used in particular for consultations on matters relating to the Free Trade Agreements between the EFTA countries and the European Community and to the possibility of extending the co-operation between the EFTA countries and the EC ; on the content of the multi-lateral free trade agreement between the EFTA countries and Spain which was initialled in December 1978 and signed in June 1979 ; and on the search for new forms of co-operation with Yugoslavia. There were also informal discussions within the EFTA framework in advance of meetings of some international organizations when matters of economic interest to the EFTA countries were on the agenda.

Relations with the European Communities

The Free Trade Agreements between the EFTA countries and the European Community (both EEC and ECSC) which have removed the tariff and quota barriers to almost all trade in industrial products between the sixteen countries constitute the basis of the trade relations between the EFTA countries and the EC. One measure of the strength of this relationship is that the EC accounts for roughly half of EFTA's trade (see Table IV) and that EFTA accounts for about a quarter of the EC's external trade.

The bilateral Joint Committees, which administer the Free Trade Agreements, met twice during the year. They found that the Agreements were in general working well although some EFTA countries drew attention to the difficulties experienced in the paper sector, in which the EC tariffs will not be finally abolished until the end of 1984, and in the steel sector. Several EFTA countries were able to report improvements in their trade balances with the EC but in some cases deficits were still causing concern.

At most of the Joint Committee meetings there was also an exchange of views on the co-operation between individual EFTA countries and the Community in fields outside the Free Trade Agreements ; and both in the bilateral Customs Committees and in the Joint Committees the EFTA countries recalled their proposals, put forward in 1975, for a simplification and improvement of the origin rules in the Free Trade Agreements.

The possibilities of intensifying and broadening the co-operation between the EFTA countries and the EC, in pursuit of the declaration of the EFTA Governments at their Summit Meeting in Vienna in May 1977, were further explored in the EFTA framework during the year. In December 1978 the Council of the EC adopted a report which expressed the wish to improve the co-operation under the FTAs and to extend the co-operation with EFTA countries to areas not covered by the FTAs wherever this might be of mutual interest. At the Ministerial meeting of the Councils in May 1979 the Ministers of the EFTA countries expressed their satisfaction at the positive and constructive reactions on the part of the Community. They reiterated their conviction that all EFTA countries and the Community would benefit from the development of their co-operation. They stressed that the EFTA countries were prepared to explore with the European Community, on a multilateral basis wherever suitable, ways of strengthening and developing further the free trade system. To supplement actions undertaken on a bilateral basis between the EFTA countries and the Community, the EFTA countries agreed that already at this stage a common approach would be appropriate in fields such as the origin rules, the removal of technical barriers to trade and trade mark law.

Exchanges of information and informal discussions on economic policy and monetary matters had already been initiated between individual EFTA countries and the European Community. EFTA countries are greatly interested in continuing and developing these contacts so as to avoid important economic disparities which could jeopardize their economic goals and the benefits deriving from free trade. To this end the EFTA countries intend to explore possibilities for developing appropriate procedures for consultations with the European Community. The full text of the communiqué is given in the Appendix.

At a meeting in Geneva in April 1979 between members of the EFTA Consultative Committee and a delegation from the External Relations Section of the Economic and Social Committee of the European Communities the evidence of the willingness of both sides to extend their co-operation was welcomed. There was a lively exchange of views on the areas which could be included in the dialogue between the EFTA countries and the EC. At the same meeting, which was the fifth of its kind, the restructuring of industry was also discussed, with particular attention being given to the industrial policies of the EC. Finally it was again confirmed that there should be two meetings a year between these representatives of economic circles in the EFTA countries and the EC.

In January 1979 there was another informal meeting between the EFTA Secretariat and the services of the Commission for an exchange of views on recent developments within EFTA and the EC. And in March 1979 Mr. Charles Müller, Secretary-General of EFTA, visited Mr. Wilhelm Haferkamp, the Vice-President of the Commission for external relations, for an exchange of views on relations between the EFTA countries and the EC.

Relations with Spain

A multilateral free trade Agreement between the EFTA countries and Spain was initialled in Geneva in December 1978 after eighteen months of negotiations and signed in Madrid on 26th June 1979. The final objective of the Agreement is to abolish all tariffs and other obstacles on substantially all the trade between the seven EFTA countries and Spain and thus to contribute to the inclusion of Spain in the European free trade system which comprises the sixteen countries of EFTA and the European Community.

The starting point for the negotiations was the trade agreement of 1970 between the European Economic Community and Spain. As a first step the new Agreement provides for tariff cuts on industrial products equal to those contained in the 1970 Agreement. The EFTA countries, apart from Portugal, will thus reduce their import duties on almost all industrial products by 60 per cent in one step. On a few sensitive products the reduction will be either 30 or 40 per cent. At the same time Spain will reduce its duties on some industrial products imported from the EFTA countries by 60 per cent and on a large number of industrial products by 25 per cent. Spain will also grant on some fish products the same concessions as it has given to the EEC countries.

The provisions governing trade between Portugal and Spain take account of the fact that Spain's industry is larger and more varied than Portugal's. During a first phase, lasting four years, Portugal will therefore in most cases reduce its tariffs less sharply than the reductions vis-à-vis Spain agreed by the other EFTA countries. A second phase, the length of which is to be determined no later than 7 1/2 years after the entry into force of the Agreement, is intended to lead to the elimination of all obstacles to trade between Portugal and Spain.

Concessions by both sides on trade in agricultural products are contained in separate bilateral agricultural agreements between Spain, on the one hand, and Austria, Finland, Norway, Portugal, Sweden and Switzerland on the other.

The Agreement spells out a clear commitment of the signatory States to the goal of free trade and to this effect it has been agreed that any further concessions on industrial products given by Spain to the EC would also be granted to the EFTA countries, and that any such concessions given by the EC to Spain would likewise be granted by the EFTA countries. In addition there will be an annual review of the possibility of taking further steps to liberalize trade, and before the end of 1982 there will be a comprehensive examination of the possibility of making substantial progress towards the elimination of the remaining obstacles to trade.

The rates from which the negotiated tariff cuts will be made by the EFTA countries are the most-favoured-nation (m.f.n.) rates in force in the individual EFTA countries on 1st January 1978 on their imports from third countries. But for products on which tariff cuts result from the Multilateral Trade Negotiations in GATT the lower rates will be the basis from which the EFTA countries will make reductions under the EFTA-Spain Agreement. For its part Spain will base its tariff cuts on the Customs duties it applies at any given time.

The Agreement contains a general prohibition against quantitative restrictions on imports. The exceptions from the general rule are limited on the EFTA side to a few products on which the EFTA countries are entitled to apply such restrictions under their Free Trade Agreements with the EC. The exceptions on the Spanish side imply that Spain from the outset may maintain the restrictions at present applied and listed in the Agreement. The Agreement envisages, however, the progressive elimination of these restrictions and provides for an annual increase of the relevant quotas of at least the same magnitude as applied to quotas under the 1970 Agreement with the EEC. The introduction of new restrictions will be possible only in exceptional circumstances and after consultations.

The Agreement contains provisions intended to secure fair competition. With regard to cartels and enterprises with a dominant position, the provisions reflect the concept in the EFTA countries' Free Trade Agreements with the EEC. On public aids, and in particular aids to exports, it was agreed that every effort would be made to avoid measures that may disturb competition. If this nevertheless should be the case the other side is entitled to take safeguard measures.

A Joint Committee, consisting of representatives of each country party to the Agreement, will supervise the implementation of the Agreement and take the necessary steps for the further removal of obstacles to trade. It will also serve as a forum for consultations.

The EFTA-Spain Agreement will apply also to Liechtenstein as long as the present Customs union between Liechtenstein and Switzerland remains in force.

Relations with Yugoslavia

The Joint EFTA-Yugoslavia Committee, which was established in June 1978, held its first meeting in Belgrade on 30th and 31st October 1978. Its tasks are 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 between the individual EFTA countries and Yugoslavia. Mr. Stojan Andov, member of the Yugoslav Federal Government and President of the Yugoslav Commission for the co-ordination of co-operation between Yugoslavia and the EEC and EFTA, was elected chairman of the meeting.

The Committee had a full discussion on the trade relations between the EFTA countries and Yugoslavia, with particular reference to the substantial Yugoslav trade deficit. It agreed on the programme for a special meeting, subsequently held in Belgrade in March, which was designed to give Yugoslav exporters and export organizations a fuller knowledge of the possibilities of access to the EFTA markets.

The possible role of long-term industrial co-operation as a means of securing a harmonious development of economic relations was also examined by the Committee. It agreed to consider at its next meeting the question of arranging special meetings to discuss and promote industrial co-operation

between enterprises in the EFTA countries and in Yugoslavia in the light of the experience gained at the special meeting in March. The Yugoslav Delegation also expressed interest in co-operation in tourism and transport, and the Secretary-General of EFTA drew attention to the possibilities of co-operation provided by EFTA's work on the elimination of technical barriers to trade.

At the special meeting in March experts from Austria, Finland, Norway, Sweden and Switzerland described the market opportunities in their countries, with particular emphasis on the long list of products in which the Yugoslav Chamber of Economy had expressed special interest. All the EFTA speakers stressed the open character of their national markets which made them highly competitive so that exporters had to make a substantial marketing effort to find and develop sales outlets. The texts of the statements made at the meeting will be published this summer in a booklet which will be distributed to a large number of enterprises in Yugoslavia.

Relations with international organizations

Within the EFTA framework there were consultations on a number of matters of interest to the EFTA countries that were on the agenda of other international organizations concerned with trade. These included the General Agreement on Tariffs and Trade (GATT), particularly in connection with the Multilateral Trade Negotiations, the Organization for Economic Co-operation and Development (OECD) and the UN Economic Commission for Europe (ECE). To follow the work being done in these bodies members of the Secretariat attended some of their meetings as observers.

Close links were maintained with the Council of Europe. In November 1978 and in May 1979 progress reports on the activities of EFTA were given to the Committee of Ministers of the Council of Europe by Mr. Thorvald Stoltenberg, the Under-Secretary of State in the Norwegian Ministry of Foreign Affairs, on the first occasion and by Mr. Knut Frydenlund, the Norwegian Foreign Minister, on the second. In February 1979 the Parliamentary Assembly's Sub-Committee on relations with international organizations visited EFTA in preparation for the presentation of EFTA's eighteenth and nineteenth Annual Reports to the Parliamentary Assembly in October 1979. The EFTA Secretariat continued to maintain regular contacts with the Secretariat of the Council of Europe and a meeting between the two Secretariats was held in October 1978.

The Presidium of the Nordic Council, under the chairmanship of Mr. Trygve Bratteli, the former Norwegian Prime Minister, visited the EFTA Secretariat in October 1978 for an exchange of information on the activities of EFTA and on the role of the Nordic Council as an initiating and advisory body for Nordic co-operation.

EFTA was represented at the three meetings held during the year of the Administrative Council of the European Patent Organization with which EFTA has observer status. Of the EFTA countries, Austria (since 1st May 1979), Sweden and Switzerland are members of the Organization. EFTA was also

represented at the meetings of the Interim Committee of the Community Patent Convention and of the Interim Committee's working parties which are preparing for the entry into force of the Community Patent Convention. This Convention provides for the possibility of participation, on the basis of special agreements, of European countries which are not members of the EC.

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 their meetings.

Close contacts were maintained with the European Trade Union Confederation (ETUC), which unites central trade union organizations in Western European countries. The Councils agreed to finance two studies that are being undertaken by the European Trade Union Institute, one on economic policies which influence industrial structure and free trade in Western Europe and one on the social and economic effects of the enlargement of the EC and its implications for trade and labour policy in Western Europe. An observer from the ETUC attended both meetings of the Consultative Committee. The Union of Industries of the European Communities (UNICE), with which the federations of industries in the EFTA countries are associated, was also represented at the meetings of the Consultative Committee.

IV. International co-operation on non-tariff barriers to trade

A number of aspects of the co-operation within EFTA or between EFTA countries in fields outside the Stockholm Convention are described in Chapter III under the title "External Relations". In the paragraphs that follow an account is given of the working during the year of a number of international arrangements which were originally worked out in EFTA but are independent of it. Their purpose is to facilitate trade by overcoming the obstacles which arise when national authorities prescribe tests or inspections to ensure that particular categories of product fulfil national requirements.

The reciprocal recognition schemes

Of these arrangements, six take the form of international schemes which are intended to facilitate trade by making possible the reciprocal recognition of national tests and inspections of particular types of product. The participation in the schemes in some cases include a number of non-EFTA countries, some of which are members of the European Community.

The participants in the scheme relating to *ships' equipment* are the authorities responsible for approving any kind of ships' equipment in ten countries : Denmark, Finland, the Federal Republic of Germany, Iceland, the Netherlands, Norway, Portugal, Sweden, the United Kingdom and Yugoslavia. When officials from the authorities participating in the scheme met in Geneva in May 1979 they expressed satisfaction at the way in which the scheme was working although they noted that shipbuilding activity had been at a low level.

In the case of the scheme relating to *agricultural machines and tractors*, the participating authorities agreed at a meeting in October 1978 that the scheme continued to work well and that no difficulties had been encountered in its operation. The national safety regulations for combine harvesters in the eight countries covered by the scheme were examined on that occasion and it was agreed that at their next meeting they would complete a list setting out in a uniform way the current safety regulations so that authorities, manufacturers and importers would have a clear statement of the national requirements. The participants in the scheme are the authorities responsible for approving agricultural machines and tractors in Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

A simplified procedure for obtaining approval for gas appliances under the scheme relating to *gas appliances* came into force on 1st June 1979. The

change had been recommended by an ad hoc working group which had pointed out that some manufacturers preferred to have their appliances tested in the countries to which they wished to export. The recommendation was drawn up in November 1978 at a meeting of representatives of the national approval bodies from the countries covered by the scheme : Austria, Denmark, Finland, Iceland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

Authorities responsible for approving static pressure vessels, gas cylinders and other transportable pressure vessels are participating in the scheme for *pressure vessels*. At a meeting in May 1979 they observed that the scheme continued to work well and to be useful for the manufacturers of pressure vessels. The scheme is in force in Austria, Denmark, Finland, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The national authorities participating in the scheme relating to *heating equipment using liquid fuel*, which came into force on 1st January 1978, met for the second time in October 1978. The scheme applies to such products as oil burners, domestic boilers, oil stoves, portable heaters and portable cooking and lighting appliances, and at present the participating authorities are from the seven EFTA countries only. At the October meeting guidelines for the criteria for recognizing testing and inspection bodies were agreed.

The scheme relating to *lifting appliances*, which also came into force at the beginning of 1978 is at present in force in Austria, Finland, Iceland, Norway and Switzerland. The criteria for recognizing testing and inspection bodies were agreed at the second meeting of the participating authorities which was held in September 1978 but had not been formally adopted by all the authorities by the end of June 1979.

Pharmaceutical Inspection Convention

There were two meetings during the year of the Committee of Officials which has the task of ensuring that the Pharmaceutical Inspection Convention works effectively and is applied in a uniform way. The Convention is at present in force in twelve European 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 consumption 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.

When the Committee met in December 1978 it discussed a report on a visit which some of its members had made to Hamburg in order to become acquainted with the pharmaceutical inspection system applied in the Federal Republic of Germany. The Committee reached the conclusion that the Federal Republic, which had expressed an interest in acceding to the Conven-

tion, had the national arrangements necessary to apply an inspection system similar to that referred to in the Convention.

In addition the Committee decided to set up a working group to prepare for a revision of the Convention's guidelines for the manufacture of sterile products ; and accepted an invitation from Finland to hold a seminar in Helsinki in June 1979 at which the need for a revision of the "Basic Standards of Good Manufacturing Practice for Pharmaceutical Products" was discussed.

At its meeting in May 1979 the Committee of Officials discussed a report on the visit made by members of the Committee to Romania in April because of the Romanian interest in the Convention. The conclusion reached was that Romania had the national arrangements necessary to apply an inspection system similar to that referred to in the Convention.

The Committee of Officials continued to plan seminars as a means of training national inspectors in the application of the Convention. It agreed plans for the holding of seminars for senior inspectors in Switzerland in 1980, in Hungary in 1981 and in the United Kingdom in 1982, and for a training course for young inspectors in 1980 in Copenhagen and another, in a place yet to be selected, in 1981.

The Committee also heard a report on the progress made by the working group on the revision of the guidelines on the manufacture of sterile products and agreed on the elaboration of a new survey of the Convention countries' national systems of inspections.

Hallmarking Convention

In the calendar year 1978 some 750,000 articles of precious metals were marked with the common control marks, the hallmarks applied under the international Hallmarking Convention to indicate that the articles—of gold, silver or platinum—meet the Convention's standards of fineness. The Standing Committee established to supervise the operation of the Convention noted in January 1979 that this showed that manufacturers were increasingly making use of the Convention, since in the previous year the figure had been about 450,000. It was nevertheless agreed that more publicity should be given to the Convention in order to stimulate the interest of other countries, including EC countries. The Convention is in force in Austria, Finland, Sweden, Switzerland and the United Kingdom.

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.

V. EFTA trade in 1978

The value of world trade, expressed in dollars, rose by 14 per cent to \$1,280 billion in 1978. The growth in the volume of world trade was 5 per cent. Higher domestic prices for exported goods and the depreciation of the dollar in relation to other currencies contributed more or less equally to the difference between the increase in volume and the increase in value. In volume the growth in world trade was a little higher than in 1977, when it was 4 per cent, but considerably lower than in 1976, when it was 11 per cent.

EFTA countries, as small countries very dependent on trade, benefited from last year's acceleration in the growth of world trade. Expressed in dollars as in Table II, their exports added together rose by 20.8 per cent, which is more than the rise in world trade and more than the 12.1 per cent rise recorded for the EFTA countries in 1977. When the trade figures are stated in national currencies, as in Table III, they show different rates of growth (or fall) which reflect varying degrees of depreciation or appreciation of the dollar in relation to national currencies. National statistics on the volume of exports show that most EFTA countries, and EFTA as a whole, increased exports more than the world average. The figures are as follows: Austria 11 per cent; Finland 7 per cent; Iceland 16 per cent (but two-thirds of this resulted from a running down of stocks of export goods); Norway 13 per cent (but only 6 per cent if oil, ships and drilling platforms are excluded); Portugal 13 per cent; Sweden 7 per cent; and Switzerland 5 per cent. On the basis of these figures, the volume of exports from EFTA as a whole grew by about 8 per cent in 1978. In the rest of this chapter only the dollar figures are used because, even though for several countries the growth rates given are largely the result of changes in exchange rates, the dollar figures still provide the best basis both for a comparison of developments in the individual countries and for a description of trends in EFTA as a whole.

In increasing the value of their foreign trade the EFTA countries joined in the general expansion in the trade of the industrialized countries, which buy slightly over three-quarters of the exports of the EFTA countries. Trade between the industrialized countries, though it grew no more in volume than world trade as a whole, rose by 18 per cent in value last year. One of the main reasons for this general trend was that the prices of manufactures increased more than the prices of raw materials, which brought about a significant improvement in the terms of trade of industrialized countries in general but only for two of the EFTA countries, Iceland and Switzerland. For the EFTA countries as a whole the rise in the value of exports was due mainly

to their success in increasing their shares of foreign markets, through policies designed to restrain the rise in labour costs, rather than to favourable price trends.

Success in increasing their sales to the European Community, which is by far their largest export market, was one of the main elements in the growth of the trade of the EFTA countries last year. Their exports to the EC were 26.4 per cent higher in 1978 than in the previous year.

Trade balances

The trade balances of the EFTA countries moved in the same direction as the combined trade balance of the OECD countries. The OECD group of countries—the USA, Canada, Japan and the industrialized countries of Western Europe—switched from a combined trade deficit of 23 billion dollars in 1977 to a surplus of 3 ³/₄ billion dollars last year. The EFTA countries taken together cut their trade deficit from the record level of 12.9 billion dollars in 1977 to 6.3 billion dollars last year.

Finland, the only EFTA country to record a trade surplus (of 58 million dollars) in 1977, achieved a surplus of 703 million dollars in 1978. Sweden moved from a deficit of 1 billion dollars in the previous year to a surplus of 1.2 billion dollars in 1978. The other five EFTA countries managed to reduce their trade deficits: the most substantial reduction being realized by Norway which cut its deficit from 4.2 billion dollars in 1977 to 1.4 billion dollars last year. The policy measures which most EFTA countries had felt constrained to apply in order to reduce their foreign trade deficits and which had curtailed the growth in the demand for imports was one of the main reasons for the improvement in the trade balance of the EFTA countries as a group.

As in previous years the EFTA countries, taken together, incurred a large deficit in their trade with the European Community. This deficit, totalling 9.1 billion dollars, was also reduced in comparison with 1977 but still exceeded the total trade deficit of EFTA. There was also a deficit (of 1.1 billion dollars) in the trade of the EFTA countries with the USA but a modest surplus (270 million dollars) in trade with Eastern Europe and a surplus of 3.3 billion dollars in trade with the rest of the world.

The world trade of the EFTA countries

The combined exports of the seven EFTA countries amounted in 1978 to 79 billion dollars, which is approximately 6.5 per cent of world trade. As is evident from the figures already cited, the rise (of 20.8 per cent) in the dollar value of their exports was considerably more than the rise in the value of world trade as well as being somewhat higher than the rise in trade between the industrialized countries. It also implied a faster rate of export growth than the EFTA countries were able to report in the previous year.

This acceleration was apparent in the exports from EFTA to all the groups of countries that are shown separately in the tables, but with one exception: intra-EFTA trade. Exports to the EC grew by 26.4 per cent, which is twice

the rate of increase recorded in 1977. Sales to the "rest of the world" (all countries outside EFTA, the EC, Eastern Europe and the USA) advanced by as much as 63 per cent. The actual trade figures, not seasonally adjusted, are given in Table II a.

For each of the EFTA countries there was an increase in the value of their exports, the biggest increases being recorded by Switzerland (33.4 per cent), Austria (24.2 per cent) and Iceland (23.5 per cent). The depreciation of the dollar and appreciation of their currencies explains a large part of the rise in the value of the exports from Switzerland and, though to a lesser extent, from Austria.

By contrast, the combined value of the imports of the EFTA countries rose by only 8.9 per cent to a total of 85.3 billion dollars. (In 1977 there had been an increase of 14.0 per cent.) The slowing down largely reflected the effects of the demand management policies applied in several EFTA countries with the aim of reducing their trade deficits. In most EFTA countries the volume of imports either fell last year or increased only slightly. An exception was Switzerland where there was an increase of 10.5 per cent. The reduced import demand in the EFTA countries was of course the reason for the small size of the increase in the value of intra-EFTA trade.

All EFTA countries except Norway showed increases in the value of their imports but the increases were fairly modest in Finland, Portugal and Sweden. The only big rise (32 per cent) was reported by Switzerland, the appreciation of the franc having made foreign goods more competitive with domestic products.

From the graph, which shows three-month moving averages of seasonally adjusted data, changes in trends during the year can be seen. From this it appears that total EFTA exports were growing particularly in the second and fourth quarters of the year and that imports were rising in the first half of the year, with a further rise occurring towards the end of the third quarter.

Trade within the European free trade system

The exports from the EFTA countries to each other and to the EC, with which they are linked by bilateral free trade agreements, increased by 20.7 per cent in 1978 to a total of 50.5 billion dollars. Taking this growth into account, intra-EFTA trade (measured in exports) constituted 15.1 per cent of the total trade of the seven countries and their exports to the Community 48.8 per cent of the total.

Since the free trade agreements came into force in 1973, EFTA's trade with the EC has been increasing more rapidly than intra-EFTA trade, and it continued to do so last year which was the first full year after the final removal (on 1st July 1977) of the tariffs on almost all industrial goods traded within the sixteen-nation free trade system. The difference in the relative growth rates during this period appears to indicate an adjustment in trade patterns to the removal, sought ever since the founding of EFTA, of the tariff barriers on trade with countries which, in varying degrees, have traditionally been among the principal trading partners of the EFTA countries.

For the Community also the EFTA countries as a group are important trading partners, accounting for 22.5 per cent of EC exports and 19.5 per cent of EC imports in 1978.

Intra-EFTA trade

The value of intra-EFTA trade, measured in exports, rose by only 5.4 per cent in 1978 (compared with 10.3 per cent in the previous year) to bring the total to 11.9 billion dollars. As is clear from the figures in Table II this was a much smaller increase than those which the EFTA countries were able to record both in their total trade and in their exports to the EC. But the factor already mentioned—policies adopted to redress payments imbalances—appears to have been the main reason for this slower growth, which also manifested itself in the moderation in the rise (of 8.9 per cent) in the EFTA countries' imports from all sources.

Switzerland and Austria were the countries which recorded the biggest rises, of 18.2 and 15.6 per cent respectively, in the value of their exports to their partners in EFTA. Exports to the rest of EFTA from both Sweden and Finland rose only slightly and Norway reduced its exports to other EFTA countries. On the import side the biggest increase in the value of deliveries from the other EFTA countries was recorded by Switzerland (30 per cent).

The seasonally adjusted figures indicate that intra-EFTA trade declined in the first quarter of 1978, recovered in the second and third quarters but then turned down again, ending the year only slightly above the level of the end of 1977.

EFTA trade with the EC

The share of the European Community in the trade of the EFTA countries increased in 1978. The combined total of the EFTA countries' exports to the EC were 26.4 per cent higher in value than a year earlier and amounted to 38.5 billion dollars. Imports from the EC rose by 12.5 per cent in value to reach the total of 47.6 billion dollars. As a result the deficit in EFTA's trade with the EC came to 9.1 billion dollars.

As a result of the growth in trade last year, the share of EFTA's exports going to the EC increased from 47 to 49 per cent and the share of the EC in EFTA's imports rose from 54 to 56 per cent.

Switzerland, which raised its sales to the EC by 36.8 per cent to just over 11 billion dollars, overtook Sweden to become the principal EFTA source of exports to the EC in 1978. Sweden's exports nevertheless rose by 16.9 per cent, and both Austria and Portugal increased their exports to the EC by more than the EFTA average.

Switzerland was also the largest market in EFTA for imports from the EC, and its imports rose by 34.5 per cent in value. Sweden, in contrast, increased its imports from the EC by only 2.9 per cent and Norway reported a fall of 11.9 per cent in imports from the EC.

Seasonally adjusted figures for EFTA as a whole indicate that exports to the EC were rising towards the middle of the year and then, after a slight slowing down, returned to mid-year levels in the closing months of 1978.

EFTA trade with the United States

The trade between the EFTA countries and the US increased even more rapidly in 1978 than their trade with the EC. EFTA exports to the US rose by 32.9 per cent to 4.6 billion dollars which is about 5.7 per cent of their total exports. And EFTA's imports from the US rose by 17.5 per cent to nearly 5.6 billion dollars, equivalent to 6.5 per cent of all imports into EFTA. The expansion of the US economy during the year was thus reflected in the trade of the EFTA countries.

Apart from Finland, all EFTA countries increased their sales to the US, with above average rises being reported by Norway (49.1 per cent), Switzerland (43.1 per cent) and Sweden (33.9 per cent). All EFTA countries except Norway increased their imports from the US, Switzerland showing by far the largest gain (47.1 per cent).

EFTA trade with Eastern Europe

EFTA's trade with Eastern Europe again showed a lower rate of expansion than EFTA's total trade. Imports, which had risen by 10.4 per cent in 1977, rose only by 4.1 per cent last year to reach a total of 5.6 billion dollars. Above average increases were recorded by Switzerland (40.1 per cent) and Austria (12.2 per cent).

Exports, after growing in 1977 by 7.0 per cent, rose by 10.1 per cent last year to a total of 5.9 billion dollars. The most significant increases were achieved by Switzerland (20.9 per cent) and Austria (17.8 per cent).

EFTA trade with the rest of the world

The trade of the EFTA countries with the rest of the world rose particularly sharply. Exports were 63.0 per cent higher at 18 billion dollars and imports 38 per cent higher at 14.6 billion dollars. The surplus in this trade helped to reduce appreciably the combined deficit of the EFTA countries.

Since "the rest of the world" consists of a very large and heterogeneous collection of countries, which account for 22.7 per cent of EFTA's exports and 17.2 per cent of its imports, it is impossible to make any general observations on last year's growth in trade. So far as exports are concerned, increased sales to African and Far Eastern countries appear to be one of the main reasons for the higher exports. Exports to the oil-producing countries in OPEC grew by 16.0 per cent in value while imports from OPEC dropped by 1.4 per cent.

Trade balances of the EFTA countries

Table I

in million US dollars

	1973	1974	1975	1976	1977	1978
Austria . . .	— 1,749	— 1,862	— 1,874	— 3,016	— 4,421	— 3,838
Finland . . .	— 504	— 1,325	— 2,115	— 1,051	+ 58	+ 703
Iceland . . .	— 67	— 186	— 179	— 66	— 96	— 35
Norway . . .	— 1,539	— 2,145	— 2,479	— 3,190	— 4,162	— 1,403
Portugal . .	— 1,114	— 2,190	— 1,892	— 2,404	— 2,932	— 2,752
Sweden . . .	+ 1,529	— 504	— 395	— 697	— 1,031	+ 1,235
Switzerland .	— 2,096	— 2,511	— 345	+ 73	— 361	— 238
EFTA . . .	— 5,540	— 10,724	— 9,279	— 10,351	— 12,945	— 6,328

EFTA trade in 1978 : in million US dollars

Table II a

	EFTA	EC	USA	Eastern Europe	Rest of World	World
<i>Imports (c.i.f.)</i>						
Austria . . .	1,447.2	10,460.2	484.5	1,402.1	2,198.3	15,992.3
Finland . . .	1,659.6	2,806.8	395.1	1,793.9	1,208.8	7,864.2
Iceland . . .	147.7	314.3	47.4	68.3	89.4	667.1
Norway . . .	3,002.2	5,141.3	775.6	319.5	2,118.7	11,427.3
Portugal . .	458.3	2,370.1	611.6	133.5	1,601.5	5,175.0
Sweden . . .	3,357.1	10,514.9	1,500.6	1,084.1	4,073.1	20,529.8
Switzerland .	1,705.0	16,035.1	1,771.4	837.5	3,282.2	23,631.2
Total EFTA .	11,777.1	47,642.7	5,586.2	5,638.9	14,642.0	85,286.9
<i>Exports (f.o.b.)</i>						
Austria . . .	1,552.4	6,372.8	364.1	1,668.4	2,196.3	12,154.0
Finland . . .	1,915.6	3,270.1	337.7	1,753.5	1,289.8	8,566.7
Iceland . . .	81.9	206.3	185.3	48.8	110.3	632.6
Norway . . .	1,521.9	5,976.3	538.2	318.9	1,668.8	10,024.1
Portugal . .	325.3	1,345.0	168.7	74.5	509.7	2,423.2
Sweden . . .	4,390.1	10,302.5	1,373.4	983.7	4,715.4	21,765.1
Switzerland .	2,155.3	11,050.9	1,665.3	1,061.5	7,459.8	23,392.8
Total EFTA .	11,942.5	38,523.9	4,632.7	5,909.3	17,950.1	78,958.5

EFTA trade in 1978 : in million US dollars

Table II b

Percentage change from 1977

	EFTA	EC	USA	Eastern Europe	Rest of World	World
<i>Imports (c.i.f.)</i>						
Austria . . .	10.0	12.7	14.3	12.2	59.4	12.5
Finland . . .	4.1	6.9	10.7	0	40.1	3.2
Iceland . . .	18.1	8.6	18.2	— 8.6	16.1	9.7
Norway . . .	— 6.0	— 11.9	— 1.4	— 19.1	2.8	— 11.2
Portugal . .	10.2	9.8	20.5	— 19.7	39.8	4.5
Sweden . . .	2.7	2.9	4.5	— 5.0	49.7	2.1
Switzerland .	30.0	34.5	47.1	40.1	42.7	32.0
Total EFTA .	4.9	12.5	17.5	4.1	38.0	8.9
<i>Exports (f.o.b.)</i>						
Austria . . .	18.2	31.5	19.3	17.8	63.2	24.2
Finland . . .	4.0	17.4	— 0.7	2.6	81.8	11.5
Iceland . . .	9.3	30.9	19.5	— 21.5	120.6	23.5
Norway . . .	— 3.9	25.6	49.1	15.7	11.2	15.1
Portugal . .	6.4	28.6	24.5	— 8.1	22.1	19.8
Sweden . . .	1.0	16.9	33.9	4.1	58.9	14.0
Switzerland .	15.6	36.8	43.1	20.9	85.5	33.4
Total EFTA .	5.4	26.4	32.9	10.1	65.0	20.8

EFTA trade in 1978 : in national currencies

Table III a

Value in millions

	EFTA	EC	USA	Eastern Europe	Rest of World	World
<i>Imports (c.i.f.)</i>						
Austria (Sch.) . .	20,985	151,672	7,026	20,331	31,875	231,888
Finland (Mk) . .	6,821	11,536	1,624	7,373	4,968	32,322
Iceland (Kr.) . .	40,824	86,845	13,092	18,875	24,684	184,321
Norway (Kr.) . .	15,731	26,940	4,064	1,674	11,469	59,879
Portugal (Esc.) . .	20,178	104,354	26,930	5,879	70,513	227,854
Sweden (Kr.) . .	15,140	47,422	6,768	4,889	18,370	92,589
Switzerland (Fr.) .	3,052	28,703	3,171	1,499	5,875	42,300
<i>Exports (f.o.b.)</i>						
Austria (Sch.) . .	22,494	92,342	5,276	24,175	31,824	176,112
Finland (Mk) . .	7,873	13,440	1,388	7,207	5,301	35,209
Iceland (Kr.) . .	22,820	57,491	51,629	13,596	30,750	176,286
Norway (Kr.) . .	7,990	31,376	2,825	1,674	8,762	52,627
Portugal (Esc.) . .	14,390	59,502	7,464	3,297	22,551	107,203
Sweden (Kr.) . .	19,799	46,464	6,194	4,437	21,266	98,161
Switzerland (Fr.) .	3,849	19,737	2,974	1,896	13,323	41,779

Table III b

Percentage change from 1977

	EFTA	EC	USA	Eastern Europe	Rest of World	World
<i>Imports (c.i.f.)</i>						
Austria (Sch.) . .	— 3.5	— 1.1	0.3	— 2.0	0.2	— 1.3
Finland (Mk) . .	6.2	9.0	13.2	1.9	— 1.4	5.2
Iceland (Kr.) . .	64.2	51.0	64.4	27.0	56.7	52.4
Norway (Kr.) . .	— 7.5	— 13.3	— 3.0	— 20.4	— 19.1	— 12.6
Portugal (Esc.) . .	26.7	26.3	38.6	— 7.6	8.0	20.2
Sweden (Kr.) . .	3.4	3.5	5.5	— 4.4	1.1	2.7
Switzerland (Fr.) .	— 3.2	0.2	9.8	4.4	— 14.9	— 1.7
<i>Exports (f.o.b.)</i>						
Austria (Sch.) . .	3.6	15.3	4.7	3.1	1.1	8.9
Finland (Mk) . .	6.0	19.8	1.3	4.6	31.3	13.8
Iceland (Kr.) . .	53.2	83.4	67.6	9.9	146.7	73.0
Norway (Kr.) . .	— 5.2	23.8	47.0	14.1	— 5.0	13.5
Portugal (Esc.) . .	23.1	48.6	43.9	6.2	29.7	38.5
Sweden (Kr.) . .	1.6	17.7	35.2	4.8	19.9	14.8
Switzerland (Fr.) .	— 14.1	1.6	7.4	— 10.1	— 0.4	— 0.9

Percentage shares of imports in 1978

Table IV a

	EFTA	EC	USA	Eastern Europe	Rest of World	World
Austria . . .	9.1	65.4	3.0	8.8	13.7	100.0
Finland . . .	21.1	35.7	5.0	22.8	15.4	100.0
Iceland . . .	22.1	47.1	7.1	10.2	13.4	100.0
Norway . . .	26.3	45.0	6.8	2.8	19.1	100.0
Portugal . .	8.9	45.8	11.8	2.6	30.9	100.0
Sweden . . .	16.4	51.2	7.3	5.3	19.8	100.0
Switzerland .	7.2	67.9	7.5	3.5	13.9	100.0
Total EFTA .	13.8	55.9	6.5	6.6	17.2	100.0

Percentage shares of exports in 1978

Table IV b

	EFTA	EC	USA	Eastern Europe	Rest of World	World
Austria . . .	12.8	52.4	3.0	13.7	18.1	100.0
Finland . . .	22.4	38.2	3.9	20.5	15.0	100.0
Iceland . . .	13.0	32.6	29.3	7.7	17.4	100.0
Norway . . .	15.2	59.6	5.4	3.2	16.6	100.0
Portugal . .	13.4	55.5	7.0	3.1	21.0	100.0
Sweden . . .	20.2	47.3	6.3	4.5	21.7	100.0
Switzerland .	9.2	47.3	7.1	4.5	31.9	100.0
Total EFTA .	15.1	48.8	5.9	7.5	22.7	100.0

Intra-EFTA trade in 1978

Table V a

Exports f.o.b., in million US dollars

Importer	Austria	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	EFTA
Exporter								
Austria . . .		93.7	3.5	135.1	49.2	327.4	943.5	1,552.4
Finland . . .	62.0		12.9	430.9	14.4	1,251.8	143.6	1,915.6
Iceland . . .	0.3	14.3		9.6	25.8	10.7	21.2	81.9
Norway . . .	57.9	190.5	54.0		47.3	1,085.4	86.8	1,521.9
Portugal . . .	25.9	25.7	4.8	65.7		113.9	91.3	325.3
Sweden . . .	292.0	1,240.9	53.2	2,235.0	129.1		439.9	4,390.1
Switzerland . .	1,085.5	161.4	6.9	221.6	181.9	498.0		2,155.3
EFTA . . .	1,523.6	1,726.5	135.3	3,095.9	447.7	3,287.2	1,726.3	11,942.5

Table V b

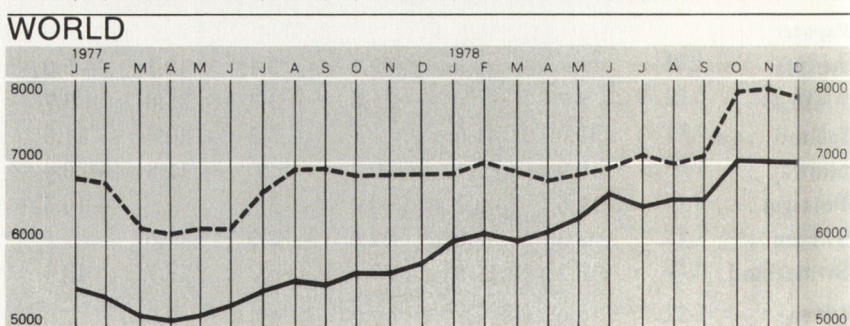
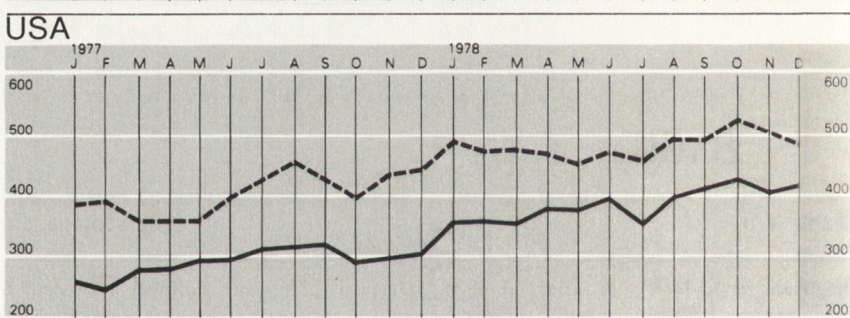
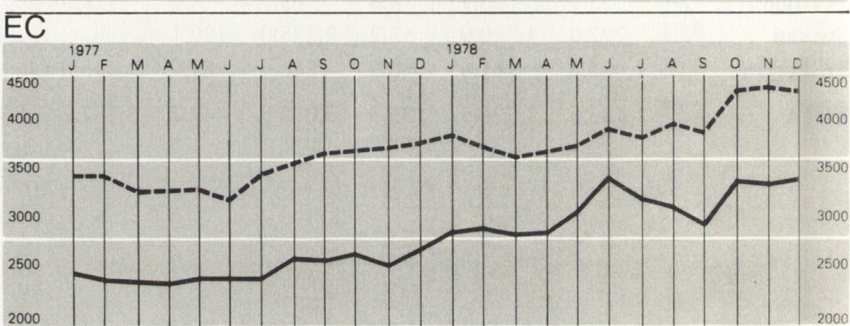
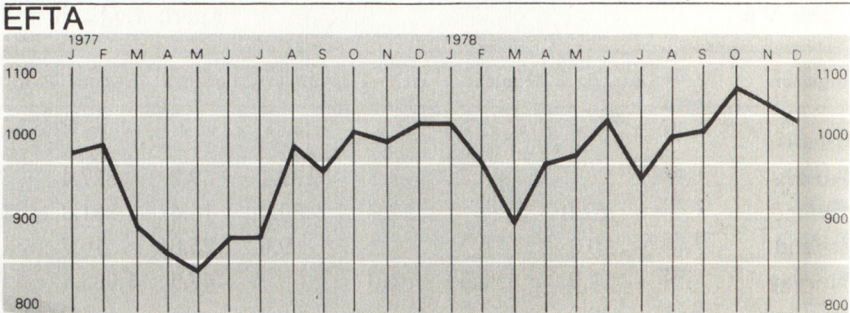
Percentage change from 1977

Importer	Austria	Finland	Iceland	Norway	Portugal	Sweden	Switzerland	EFTA
Exporter								
Austria . . .		4.6	52.2	— 3.1	19.1	— 5.0	35.6	18.2
Finland . . .	— 8.7		31.6	3.3	— 31.8	3.7	19.7	4.0
Iceland . . .	50.0	41.6		3.2	— 10.4	— 11.6	47.2	9.3
Norway . . .	10.9	— 25.1	— 9.2		— 11.8	— 0.4	16.7	— 3.9
Portugal . . .	12.6	3.2	200.0	— 5.5		— 10.4	48.2	6.4
Sweden . . .	3.3	8.8	42.6	— 8.0	11.6		28.9	1.0
Switzerland . .	16.2	11.5	40.8	6.0	17.7	19.4		15.6
EFTA . . .	12.0	3.7	17.2	— 5.4	7.9	2.8	32.0	5.4

EFTA trade January 1977 to December 1978

Three months' moving averages of seasonally adjusted figures, in million US dollars

Exports ——— Imports - - - - -



Appendix

Ministerial meetings of the EFTA Councils

Geneva, 23rd and 24th November 1978

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Geneva on 23rd and 24th November 1978 under the Chairmanship of Mr. Paavo Väyrynen, the Finnish Minister of Foreign Affairs, who is the current Chairman of the Joint Council.

Need for more international economic co-operation

The Ministers expressed their concern at the international economic situation which was characterized by continuing low rates of economic growth, persistent unemployment, monetary instability, balance of payments difficulties, inflationary pressures and the threat of a recurrence of protectionism.

Ministers stressed that, despite somewhat higher rates of growth recently, international economic co-operation needed to be intensified in order to give a greater vigour to the international economy and improve the employment situation. Therefore it was necessary to fulfil the intentions of the OECD programme for concerted action. They emphasized also the importance of maintaining the co-operation exemplified by the renewal of the OECD Trade Pledge in order to enable all countries to adhere to their commitment to a liberal world trading system. Ministers supported all attempts being made to restore monetary stability and welcomed the efforts of the European Community to establish a European Monetary System. The possibility should be kept open for other European countries to determine their relationship with it at an appropriate time.

Early conclusion of Multilateral Trade Negotiations urged by Ministers

Ministers stressed the importance of achieving a balanced and substantial settlement before the end of this year in the Multilateral Trade Negotiations. Success would not only contribute to a further liberalization of world trade but also give increased transparency and discipline to the world trading system. Furthermore it would strengthen the GATT as a necessary framework for the expansion of international trade in the decades ahead, benefiting both industrialized and developing countries.

Ministers therefore noted with satisfaction that progress had recently been made towards solving some of the remaining problems in key areas of the negotiations. The EFTA Ministers urged all parties to pursue the negotiations in Geneva with the objective of an early conclusion of all outstanding issues in spite of certain setbacks in developments of relevance to these negotiations. They reaffirmed their commitment to contribute to an early and successful outcome of the negotiations, thus stressing the importance of maintaining liberal trade policies.

Support for North-South co-operation

Ministers recognized that the North-South dialogue was a permanent and dynamic feature in the international economic relations of today. They felt that global interdependence required constructive and differentiated approaches, each group of countries and each individual country accepting their share of responsibilities. Ministers expressed the commitment of their Governments to a successful conclusion to the current negotiations and in particular to those on a Common Fund. Such a new global instrument to deal with commodity problems would break important new ground in the field of international economic co-operation by serving as the key instrument in attaining the agreed objectives of the integrated Programme for Commodities. Ministers also agreed to work towards reaching the widest possible understanding, at UNCTAD V, on both immediate and long-term action to deal with problems of international economic co-operation, particularly co-operation for development.

Relations with the European Community

Ministers discussed the experience as regards the functioning of the Free Trade Agreements between their respective countries and the European Community and expressed general satisfaction with the way in which those agreements had contributed to the free flow of trade in Europe. They stressed the importance of fully adhering to the objective of total free trade also with respect to the sensitive products in accordance with the agreed time-tables. The situation in the paper sector gave rise to particular concern in this con-

text. They also stressed that the special arrangements relating to the trade in steel products should be only temporary and applied without interfering in the free trade established in Europe. Ministers were convinced that the operation of the Free Trade Agreements would benefit from a further simplification and improvement of the rules of origin as proposed by the EFTA countries.

The multilateral free trade agreement with Spain

Ministers expressed satisfaction that the negotiations between the EFTA countries and Spain had now virtually been concluded and that a multilateral free trade agreement between them would be initialled on 7th December. This achievement constituted an essential step towards the extension of the European free trade system and was at the same time a manifestation of the will of the EFTA countries to increase their co-operation.

Increased co-operation with Yugoslavia

Ministers noted with satisfaction that a Joint EFTA-Yugoslavia Committee had been established in June in order to intensify the economic co-operation between the EFTA countries and Yugoslavia, and had held a first meeting in Belgrade on 30th and 31st October. They welcomed the Joint Committee's decision to sponsor a special meeting on trade promotion in Belgrade next March, as well as its thorough exploration of other specific areas of common actions.

Intensified EFTA co-operation

Ministers expressed their satisfaction with the EFTA work under the Stockholm Convention. They reaffirmed the determination of their Governments, expressed at the Vienna Summit last year, to further develop and strengthen the co-operation between their countries. This determination was reflected also in other activities, particularly in the work being done on the removal of technical barriers to trade and the greater use being made of the Economic Committee for consultations on matters of common economic interest. It had also been clearly shown by the recent development of the relations of EFTA countries with Spain and with Yugoslavia.

Ministers welcomed the active interest shown in the work of the Association by the newly created Committee of Members of Parliament of the EFTA countries at their recent meeting in Stockholm. They also expressed their appreciation of the continued contribution of the Consultative Committee to the work of EFTA. Ministers emphasized that both Committees were of great importance to the activities of the Association since they provided a valuable link with the parliaments and the main sectors of economic life in the EFTA countries.

Prolongation of the appointment of the Secretary-General

Ministers noted with appreciation the willingness of the Swiss Government to continue to make Mr. Charles Müller available to EFTA and decided to prolong his appointment as Secretary-General until January 1982.

Ministers to meet in Norway

The Councils accepted an invitation from the Norwegian Government to hold their next meeting at Ministerial level in Bodø on 21st to 23rd May 1979.

Bodø, Norway, 21st and 22nd May 1979

Communiqué

The EFTA Council and the Joint Council of EFTA and Finland met at Ministerial level in Bodø on 21st and 22nd May 1979. Mr. Hallvard Bakke, the Minister of Commerce and Shipping of Norway, was in the chair.

Progress in EFTA co-operation

Importance of maintaining free trade

Ministers noted that despite the world-wide economic difficulties and uncertainties the free trade within EFTA had continued to work satisfactorily. They stressed the importance of ensuring that the free trade is maintained and that it is complemented by further progress towards the removal of non-tariff barriers to trade. In this connection they emphasized the value of the work done in the Committee of Trade Experts on the elimination of non-tariff barriers to trade. They welcomed the agreement of the EFTA countries to create a new arrangement to facilitate trade in pharmaceutical products as another useful step to that end.

Consultative Committee

Ministers expressed their appreciation of the active participation of the Consultative Committee in the co-operation in EFTA. At the Consultative Committee meeting on 21st May, in which the Ministers participated, a number of proposals to strengthen EFTA and to intensify co-operation with the European Community were discussed. Ministers agreed on the importance of these questions and requested the Councils at official level to examine the proposals made in the Committee and to report back to Ministers at their next meeting.

Continued support to the Portuguese economy

Ministers pledged their continuing support to Portugal through the activities of the EFTA Industrial Development Fund and through various other forms of assistance to Portuguese industry. Ministers considered new steps to assist the development of the Portuguese economy and instructed the Councils at official level in Geneva to consider this matter further in a positive spirit.

Forthcoming signature of agreement with Spain

Ministers expected that the signature of the multilateral free trade agreement between the EFTA countries and Spain would take place in the very near future and that the agreement would be put into force as early as possible. This would constitute an essential step towards the extension of the European free trade system.

Co-operation with the European Community

The EFTA countries and the European Community are each other's biggest trading partners. The EFTA countries are the market for about a quarter of the external exports of the EC. The European Community is also by far the largest market for EFTA exports.

Ministers expressed their satisfaction at the positive and constructive reactions on the part of the European Community to the declaration of the EFTA Governments, at the summit meeting in Vienna, of the desirability of further developing the co-operation between the EFTA countries and the European Community by means of an increased exchange of information and closer consultations on trade and economic questions and, where appropriate, co-ordinated efforts in order to secure free trade, to extend co-operation in economic fields complementary to free trade, and to improve the general economic environment.

Ministers observed that the concrete and constructive work being done by all parties concerned showed that there was wide agreement among the countries of EFTA and the Community on the advantages of still further improving and perfecting the operation of the Free Trade Agreements between the EFTA countries and the European Community and they emphasized the importance of the smooth functioning of the Agreements.

Ministers were convinced that all EFTA countries and the Community would benefit from the development of their co-operation. The EFTA countries are prepared to explore with the European Community, on a multilateral basis wherever suitable, ways of strengthening and developing further the free trade system. To supplement actions undertaken on a bilateral basis between the EFTA countries and the Community, the EFTA countries agreed that

already at this stage a common approach would be appropriate in fields such as the origin rules, the removal of technical barriers to trade and trade mark law.

Exchanges of information and informal discussions on economic policy and monetary matters have already been initiated between individual EFTA countries and the European Community. EFTA countries are greatly interested in continuing and developing these contacts so as to avoid important economic disparities which could jeopardize their economic goals and the benefits deriving from free trade. To this end the EFTA countries intend to explore possibilities for developing appropriate procedures for consultations with the European Community.

Ministers welcomed the coming into force of the European monetary system as part of the international effort to restore monetary stability.

Ministers expected that the enlargement of the European Community would lead to further liberalization of trade and observed that the Free Trade Agreements would be applicable to the new members from the entry into force of the treaties of accession. This would ensure an equal treatment for all the participants in the free trade system.

International economic relations

Concerted action programme to be pursued

Reviewing the general economic situation Ministers noted that there had been a revival in economic activity in Western Europe, with a growth rate close to 4 per cent in the past twelve months. They expressed concern, however, at the recent rises in the prices of oil and important raw materials adding to the inflationary pressures, the remaining payments imbalances and the persistence of high rates of unemployment in industrialized countries. These developments made it essential that the OECD countries should take further measures to pursue their concerted action programme and in particular to bring down the rate of unemployment. Ministers also stressed the importance of making economies in the consumption of oil. A renewal of the OECD Trade Pledge would be an additional reinforcement of the liberal world trading system.

Satisfaction at results of Multilateral Trade Negotiations

Ministers expressed their satisfaction at the positive results so far achieved in the Multilateral Trade Negotiations. They expected that all the countries which had participated in the negotiations would make every effort to settle the remaining questions and to implement the whole of the contents of the agreements without delay. This would be the best way of reducing the dangers

of renewed protectionist pressures, providing a sound framework for the conduct of international trade and bringing about a further liberalization of world trade to the benefit of developed and developing countries alike.

UNCTAD V

Ministers welcomed the agreement reached in March in UNCTAD on the fundamental elements of a common fund to be established in order to stabilize commodity prices. Ministers also stressed the importance of the ongoing UNCTAD V in Manila, where the issues of global economic relations were being discussed. They expressed the hope that the work being done at that conference would provide a basis for a further strengthening of the world economy by a recognition of the mutual benefits that are to be derived from co-operation based on partnership and equity in international trade.

Ministers underlined that a liberal and efficient international shipping system was necessary for world trade.

Next meeting

The next meeting of the Councils at Ministerial level will be held in Geneva on 22nd and 23rd November 1979.

European Free Trade Association

July 1978 - June 1979

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ASSOCIATE : Finland

CHAIRMANSHIP OF THE EFTA COUNCIL

July 1978 - December 1978 Iceland

January 1979 - June 1979 Norway

CHAIRMANSHIP OF THE JOINT COUNCIL OF EFTA AND FINLAND

July 1978 - December 1978 Finland

January 1979 - June 1979 Norway

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Finland : P. Kaarlehto

Iceland : H. Kröyer

Norway : J. Cappelen

Portugal : A. de Carvalho

Sweden : C. De Geer

Switzerland : C. Jagmetti

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Budget Committee

Committee of Origin and Customs Experts

Committee of Trade Experts

Committee of Members of Parliament of the EFTA countries

Consultative Committee

Economic Committee

Economic Development Committee

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