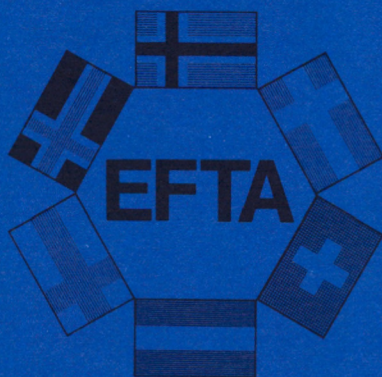


1986

Twenty-sixth  
Annual Report  
of the  
European Free Trade  
Association



Geneva, March 1987

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# Twenty-sixth Annual Report 1986

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# The year in outline

The European Free Trade Association had two main preoccupations during the year. The six member countries individually and EFTA as a whole worked very actively to strengthen their commercial and economic ties with the European Community (EC) and to broaden their cooperation with it in accordance with the joint Luxembourg Declaration of April 1984. The common goal in this respect is to create a single, dynamic and homogeneous economic area out of the six EFTA countries and the twelve members of the EC.

Secondly, the EFTA countries played an active part in the preparations for the new round of GATT negotiations. The reason was their interest, as small but important trading nations, in maintaining and improving the multilateral world trading system based on the principles and rules of GATT.

## Cooperation with the EC

The year brought fresh confirmation at political level on both sides that the EFTA countries and the EC are determined to strengthen and broaden their cooperation with each other.

This was shown firstly by the holding of another meeting between Ministers from the EFTA countries and the Commission of the EC, in Reykjavik in June. They reviewed the state of progress towards the long-term objective of the Luxembourg Declaration. Though they were able to note considerable progress in several areas, their conclusions were more directed to the future, setting early deadlines for certain tasks in hand, agreeing to explore the possibility of increasing the access to public purchasing contracts and to aim at a further simplification of the origin rules in the free trade system, defining the first stage of EFTA-EC cooperation for the protection of the environment.

A second manifestation of the common political will was the formulation in September of the conclusions which the EC Council of Foreign Ministers drew from the Community's ninth annual report on EC-EFTA cooperation. This was the first time that the Ministers had adopted conclusions from one of these reports, and transmitted the conclusions to the EFTA governments. The EC Ministers reaffirmed the determination of the EC Council to consolidate and strengthen cooperation with EFTA while at the same time advancing towards the completion of its own internal market. Here again, the emphasis was not on the path already travelled but on what remained to be done.

In response, the EFTA Ministers issued a statement after the December meeting of the EFTA Council. The statement stressed the common ministerial responsibility, in EFTA and the EC, for giving political impetus to cooperation at all levels. The EFTA Ministers also looked primarily to the future. Considering the removal of trade barriers still in place, and the avoidance of new ones, as essential steps towards the realisation of the objectives of the Luxembourg Declaration, the Ministers drew particular attention to the need for a parallelism between the EC's endeavour to complete its internal market on the one hand, and the evolution of EFTA-EC cooperation on the other. The parallel development is intended to ensure the maximum economic benefits for all eighteen nations.

One notable feature of the year was the successful negotiation of the first multilateral agreement between all the EFTA countries and the European Community. With the aim of simplifying the paperwork involved in connection with EFTA-EC trade in goods, the agreement introduces a single administrative document (SAD) for trade between the EFTA countries and the EC and between the EFTA countries themselves and is intended to replace all national documents for import, export and transit. Due to come into effect from 1 January 1988, the agreement is a significant contribution to the goal of facilitating trade in the European free trade area.

In this context discussions were initiated on the formulation of a convention on a common transit procedure to be introduced in the European free trade area as from 1 January 1988.

Agreement was also reached towards the end of the year on a further simplification of the documentary evidence needed to justify duty-free treatment for imports of EFTA or EC origin. From 1 July 1987 "approved exporters"—those who make frequent shipments and who can provide the guarantees necessary for verifying the origin of the products—will be able to use EUR. 1 certificates valid for one year, and for consignments of small value the EUR. 2 form will be replaced by declarations of origin on the normal commercial invoice. Other changes in origin documentation, including the introduction of general invoice declarations for approved exporters, are under study, also with the aim of facilitating trade.

Conspicuous progress was made in the field of technical barriers to trade, where the removal of technical barriers and a greater degree of standardisation for industrial products on a European scale would be a key element for the achievement of the single market. Agreements reached

during the year between EFTA and the principal standards institutions in Europe strengthened their cooperation and helped to speed up standardisation work and to make it more effective at national level. Particular attention was given to the development of standards in the field of information technology and telecommunications, because of their role in the development of modern industries. EFTA contributed to the launching of cooperation in standardisation work in this area.

The possibilities of cooperating with the EC in industrial research and development have been given a special priority since the Luxembourg Declaration called specifically for cooperation in this field in view of the increasing economic interdependence of EFTA and the EC. By the end of 1986 all EFTA countries apart from Iceland had signed framework agreements for future work on R & D, and an agreement with Iceland was under negotiation. They welcomed the EC's decision of principle to permit enterprises and organisations in the EFTA countries to take part in projects under particular research and development programmes. Particularly relevant are projects in the sectors of telecommunications, information technology, manufacturing techniques and materials. Experts from the EFTA countries emphasised the importance of making the EC aware of the R & D potential within EFTA and the contribution the six countries could make, scientifically and financially, to this cooperation.

It is worth noting here that all EFTA countries are also taking part in EUREKA. This international venture aims at raising the competitiveness of Europe's industries through cooperation between enterprises and research institutions on specific projects in the field of advanced technologies. Its ministerial conference in Stockholm in December emphasised the importance for EUREKA of the establishment of a large, homogeneous, dynamic and outward-looking European economic area and, conversely, the contribution which EUREKA in turn can make to the achievement of the single market.

### **Consequences for EFTA of the enlargement of the EC**

As mentioned in the last Annual Report, negotiations were continuing on the adaptation of the free trade agreements to the entry of Portugal and Spain into the EC. They mainly concerned transitional arrangements for the removal of duties on trade between EFTA and Spain, since there was already a large measure of free trade between EFTA and Portugal, a member of EFTA to the end of 1985. The EFTA countries argued that during the transitional period industrial imports entering Spain from the EFTA countries should be given the same treatment as imports from the EC. Similarly, industrial imports from Spain would be given the same treatment by the EFTA countries as they receive in the EC. This principle was finally accepted. Negotiations were completed in February, in time for the first tariff cuts scheduled for 1 March under the terms of the accession treaty. The active cooperation and coordination between the EFTA countries during the negotiations helped to obtain the generally satisfactory outcome.

## **The new round of GATT negotiations**

All EFTA countries supported the launching of a new round of multilateral trade negotiations in the framework of GATT. They continued throughout the year to hold regular and frequent consultations in order to express common views, where possible, on the state of the preparations. In particular they were able at an early stage to present their conceptions of the requirements in relation to standstill and rollback, the commitment, in other words, to refrain from imposing new trade restrictions inconsistent with GATT in the course of the negotiations and to phase out restrictions applied in recent years or bring them into conformity with GATT. In mid-year they played a large part in the work of a group of developed and developing countries which provided the basis for the declaration adopted at the ministerial meeting at Punta del Este in Uruguay. At the EFTA ministerial meeting in December the Ministers welcomed the launching of the Uruguay Round and committed themselves to work actively for its success.

# The Council

The Council met seventeen times in the course of the year. Two of the meetings were held at ministerial level, one in Reykjavik in May and one in Geneva in December. The ministerial communiqués, and the ministerial statement on cooperation with the European Community adopted at the Geneva meeting, are reproduced in the Appendix. In the first half of the year Iceland had the chairmanship of the Council; in the second half it was succeeded by Norway.

## **Consequences for EFTA of the accession of Portugal and Spain to the EC**

Intense negotiations between the EFTA countries and the EC Commission in January and February were necessary to determine the transitional arrangements for trade between the EFTA countries and Portugal and Spain after the accession of the Iberian countries to the EC. The crux of the negotiations was the timetable for the removal of tariffs on trade with Spain. Agreements in the form of additional protocols to the free trade agreements were initialled on 22 February. The arrangement for trade with Spain in industrial products was that the tariffs would be dismantled in accordance with the same seven-year timetable as applied to EC-Spain trade. The results of the negotiations were considered satisfactory by most EFTA countries but not by Iceland partly because the EC had reimposed import duties on salted fish, for which both Portugal and Spain were important markets, and partly because it did not obtain any improvements in the EC import regime for fisheries products which account for almost all of Iceland's exports to the new EC member countries.

## **Origin rules: simplification**

EFTA continued to stress the need to simplify the origin rules, which identify the products that are entitled to duty-free treatment both in EFTA and under the free trade agreements with the EC.

At both ministerial meetings of the Council during the year Ministers addressed the question. In June they pointed out that, as a result of the tariff cuts agreed in the Tokyo Round of GATT negotiations, the differences between the external tariffs of the EFTA countries and the EC had been reduced and no longer justified the present complicated origin rules. Simplification had thus become a question of greater urgency. In particular they stressed the economic importance of an early simplification of the provisions relating to cumulation which would permit all countries in the European free trade system to be treated as one single area, and all materials, parts and components originating anywhere within the area to be used without disqualifying the finished product from tariff-free treatment. Another specific point was made by Ministers in December: the importance of making the alternative percentage rule (see following paragraph) available not only to the engineering industry but also to other manufacturing industries. The importance of simplifying origin documentation was also stressed by Ministers.

### **Origin rules: the alternative percentage rule**

The alternative percentage rule was applied to the products of the engineering industry for a provisional period of three years from 1 April 1983. In agreement with the EC the use of the alternative percentage rule was made permanent from 1 April 1986.\* As a result the manufacturer may use this provision, that the third-country materials or components do not exceed a certain percentage of the value of the finished product, as an alternative to the often more complicated requirement that the product is made according to the basic processing rules in the free trade agreements.

### **Origin rules: amendments relating to particular products**

The rules relating to a number of categories of product were amended by Council Decision to take into account the use of new manufacturing processes or changes in market conditions.\*\* The amendments, which entered into force on 1 April, affect items in Lists A and B of Annex B to the Stockholm Convention. Similar changes in Protocol No. 3 of the free trade agreements took effect from the same date.

### **Origin rules: amendment of Articles 24 and 25 of Annex B**

In order to take account of the inclusion of Spain in the free trade agreements as a consequence of its accession to the EC in January 1986, the Council decided to amend two Articles in Annex B to the Convention

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\* Decision of the Council No. 3 of 1986, adopted on 6 February.

\*\* Decision of the Council No. 5 of 1986, adopted on 13 March.

with immediate effect.\* The new Article 24 concerns the use of the documents EUR.1 and EUR.2 during the transitional period in which imports from Spain are not fully duty-free. Article 25 contains the provisions of the previous Article 25ter and a new Article 25bis is added which states that the Canary Islands, Ceuta and Melilla are not part of the customs territory of the EC.

### **Origin rules: provisions relating to recorded media**

The Council endorsed the interpretation which the Committee of Origin and Customs Experts gave to the notion of "ex-works price" in the case of recorded media such as recorded videocassettes, records, floppy discs, media carrying computer software and similar products which include an element of intellectual property rights. The ex-works price, for the purposes of the origin rules, may include all costs incurred by the manufacturer with regard to the use of those rights, irrespective of where the holder of the rights resides.

### **Origin rules: Consultative Committee ad hoc group**

In December the Council noted that the Secretary-General intended to reconvene the Consultative Committee's ad hoc group on origin rules which had not met since 1980. Its role would continue to be to convey the views of the organisations represented in the Committee to industrial circles in the EC in order to hasten the process of simplifying the origin rules.

### **Simplification of trade documentation: the SAD**

The possibility of facilitating the flow of trade between EFTA and EC countries by simplifying the documentation necessary for Customs clearance purposes has been on EFTA's agenda since the time of the Luxembourg Declaration. It was then agreed between the EFTA countries that they would consider the "single document" on which the EC was working as a possible model for use also in EFTA-EC trade and intra-EFTA trade. In the EC itself the SAD will replace as many as 70 national documents used for export, transit and import purposes. At the ministerial meeting of the Council in June 1986 the Ministers decided that formal negotiations should be started with the EC on the introduction of a single administrative document (SAD) for trade within EFTA and between the EFTA countries and the EC. The negotiations, which had been preceded by a number of meetings of experts from both sides, led to the initialling on 19 December

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\* Decision of the Council No. 8 of 1986, adopted on 27 June.

of a multilateral agreement for the use of a SAD from 1 January 1988. The agreement is entitled "Convention on the Simplification of Formalities in Trade in Goods". When the EFTA Ministers had a meeting with Mr De Clercq, Member of the EC Commission, in June, there was agreement that a further simplification of the certification of origin should be reached in parallel with the introduction of the SAD.

### **Technical barriers to trade**

The Council took a number of decisions during the year as part of the systematic effort to remove technical barriers to trade, and to encourage the harmonisation of technical regulations, within the European free trade area. The decisions strengthened the relations between EFTA and the leading European standards-writing bodies and boosted European standardisation activities especially in the rapidly developing field of information technology and telecommunications.

### **Framework contracts**

On 28 January, as authorised by the Council, EFTA signed three-year framework contracts with the two principal standardisation institutions in Europe, CEN (the European Committee for Standardisation) and CENELEC (the European Committee for Electrotechnical Standardisation). The contracts are intended to speed up the preparation of uniform European standards, which are voluntary, by introducing the concept of officially sponsored standardisation work. In accordance with the contracts, EFTA may give CEN and CENELEC formal requests, in the form of order vouchers, to draw up standards for a particular range of products. The vouchers define the work to be done, set deadlines and determine EFTA's financial contribution. As there are similar contracts between the EC and CEN and CENELEC, a uniform approach is applied throughout the free trade area.

These framework contracts were fully operational before the end of the year. A number of requests and order vouchers had been forwarded to CEN and CENELEC. A general order voucher of June 1986 laid down EFTA's financial contribution to CENELEC's standardisation work in the electrotechnical fields. The Council approved the negotiation of order vouchers for standards for sixteen items of information technology and telecommunications. CEN was requested to prepare uniform European test methods for assessing the solubility of certain toxic metals, to help to ensure the safety of toys. Similar steps have been taken by the EC.

### **Information technology launch contract**

In view of the increasing importance of information technology and telecommunications as a factor in economic and industrial development, and of the recognised need for standards in this rapidly evolving sector,

the Council acted to help speed up the standardisation work concerned. Accordingly, on 28 January EFTA signed a two-year contract with CEN and CENELEC for the launching of an active standardisation programme in this sector. The contract ensures full EFTA participation and financial support for the build-up of the administrative and technical infrastructure necessary for the ambitious standardisation programme which is being undertaken by these two standards organisations in conjunction with CEPT (the European Conference of Postal and Telecommunications Administrations) with which EFTA also has a cooperation agreement. Under the launch contract EFTA is represented in all committees and steering groups responsible for carrying out the programme. EFTA's financial contribution is mainly intended to cover the cost of additional personnel in CEN/CENELEC and of EFTA's participation in expert meetings. This financial contribution will be replaced, once the launch phase is completed, by payments on the basis of order vouchers.

As has already been mentioned, the Council approved a first set of requests for standardisation work in information technology in March. These requests cover the first phase of the programme for European activities in this field. The main aim of the programme is to ensure the uniform adoption of international standards throughout Western Europe. Discussions have already begun within EFTA, with the EC, and with CEN, CENELEC and CEPT on the second phase of the programme, which is to be completed before the end of 1988. Its purpose is to harmonise technical specifications for the functioning of data processing and telecommunications equipment so as to permit connection and communication between equipment and systems produced by different manufacturers.

### **Testing and certification**

In November the Council accepted a Swiss proposal that the Committee on Technical Barriers to Trade should set up a working group to define an EFTA policy in relation to the testing and certification of manufactured products. The policy, which would be applied in coordination with current activities in the EC, is also to cover the grounds for the accreditation of testing and certification bodies. The reason for the proposal is that standardisation of itself does not guarantee access to markets. There is thus a need for a broadly based system for the reciprocal recognition of tests and certificates.

### **Information procedures**

Since the beginning of 1985 the standards organisations of the EFTA countries and the EC have been systematically exchanging information on draft standards, so that possible sources of new technical barriers to trade can be identified at an early stage. Up-to-date information on draft standards and on standardisation projects is thus continuously available under

this procedure. An additional source of information will be available towards the end of 1987 when the ICONE data base—the comparative index of national and European standards—becomes operational. On 28 January EFTA signed a contract with CEN to support the creation of this computerised data base which will have the latest information on national standards in EFTA and EC countries combined with data on relevant international and European standards.

Experts from the EFTA countries and the Commission reached an understanding during the year on a system for a regular exchange of information on pending technical legislation, a counterpart to the procedure relating to draft standards. The EFTA countries will inform the Commission of all notifications under the INST procedure—the procedure under which they notify each other in advance of any intention to introduce a new or amended statutory regulation enforcing technical requirements that could be of importance to trade. In turn the Commission will inform the EFTA countries of any intention to propose a directive for the harmonising of technical legislation relating to particular products. The EFTA Council endorsed that understanding in June.

### **Annual review of trade in agricultural goods**

Intra-EFTA trade in agricultural goods in 1984 was reviewed by the Council in March on the basis of a report prepared by the Secretariat. The review covered trade in those agricultural products which have not been subject to the tariff-dismantling treatment given to industrial products. Parts II and III of Annex D to the Convention list the products concerned: all agricultural raw materials and some goods produced by processing the raw materials.

The statistics showed that imports of agricultural products from all sources amounted to 6.8 per cent of all imports into EFTA in that year, and that agricultural products came to 2.7 per cent of total EFTA exports. In intra-EFTA trade 2.4 per cent of imports consisted of agricultural goods.

### **Trade in fish and other marine products**

The final report to the Council of the ad hoc group of experts on trade in fish and other marine products was completed in March. The group's task was to determine whether it would be possible to increase trade in these products by cutting or abolishing import duties on products still not duty-free when traded within EFTA. Annex E to the Stockholm Convention lists these products. The group also considered whether a liberalisation could be achieved through new bilateral agreements incorporating tariff concessions. At the June ministerial meeting the representatives of Norway and

Iceland, which together account for 63 per cent of intra-EFTA exports of fish, stated that the group's proposals were too limited for an amendment of the Convention to be worth while but that the subject should remain on the Council's agenda.

### **The EFTA Industrial Development Fund for Portugal**

Although Portugal left the Association on 1 January 1986 to become a member of the European Community, the EFTA Industrial Development Fund for Portugal continued to fulfil its role as a source of loans for fixed investment by small and medium-sized enterprises in Portugal. Through a Council decision, taken in 1985, the Fund will be able to contribute to the growth and development of Portuguese industry up to the year 2002 as originally intended.

In its tenth year of operation, which started on 1 February 1986, the Fund not only continued to operate as before but also significantly increased its loan activity. A recovery in demand for investment, an information campaign launched by EFTA in Portugal on the preservation of the free trade and other links between them, and greater promotional activity by the Executive Commission of the Fund all seem to have played a part in augmenting the demand for new loans.

In the nine months from the beginning of February to the end of October 89 credit operations were approved, compared with 75 in the whole of the previous twelve months. The total value of these credits was slightly over 5,000 million escudos, compared with 4,400 million escudos in the previous twelve months.

This brought the number of loans approved since the Fund started its operations in February 1977 to 435 and the cumulative total of its loans to around 19 billion escudos, the equivalent of US\$130 million. The corresponding projects, including finance from other sources, involved an investment of more than 50 billion escudos (about \$340 million). It is estimated that some 4,500 new jobs have been created and the security of about 67,000 existing ones increased through the work of the fund.

The financing of the Fund has extended to virtually all major sectors of economic activity and to all districts of Portugal and the autonomous regions of the Azores and Madeira Islands.

A fairly large proportion of the investment assisted by the Fund involved the modernisation and re-equipment of industrial units and covered such initiatives as energy saving and the introduction of new technologies.

The assistance of the Fund in the form of loans continued to be supplemented by a programme of management training.

At the meeting of the Steering Committee in Evora (Portugal) on 30 October the decision was taken to call up the remaining contributions of the Contributory States so that the Fund could have at its disposal the full amount of SDRs 84,604,516 with which it was originally established.

## EFTA Industrial Development Fund for Portugal

### Financing granted by sectors of activity\*

1 February 1977 to 31 October 1986

Sectors of activities	Approvals		Projects	
	No. of operations	Amount (thousand escudos)	Total investment (thousand escudos)	No. of jobs created
Agriculture and fishing	59	1,373,371	2,964,877	440
Mining and quarrying	25	1,096,152	2,628,638	383
Foodstuffs and beverages	110	4,382,948	8,206,836	657
Textile, clothing and footwear industries	34	1,920,052	4,660,443	605
Wood, cork, paper and printing industries	37	2,599,883	12,709,234	307
Chemical industries	35	1,195,754	2,936,748	192
Non-metallic mineral product industries	29	1,327,039	2,720,191	300
Metal-working and engineering	75	3,152,920	5,760,535	1,194
Other activities	31	2,102,485	8,100,908	274
<b>Total</b>	<b>435</b>	<b>19,150,604</b>	<b>50,688,410</b>	<b>4,352</b>

\* Net of cancellations.

### Information activities

The principal themes of EFTA information activities during the year were two: EFTA as partner of the EC and the contribution the Association's members can make to the development of a dynamic European economic area, and EFTA as advocate of the world liberal trading system.

The EFTA Bulletin, the main regular publication, continued to appear every three months. Other regular publications were EFTA's 25th Annual Report, the Ninth Annual Report of the EFTA Industrial Development Fund for Portugal, and EFTA Trade 1985.

Five new economic studies were published as Occasional Papers during the year: "Rules of origin and differences between tariff levels in EFTA and in the EC", by Jan Herin; "Government finance and foreign trade in the EFTA countries", by Nils Lundgren; "The regime rate of inflation in the EFTA countries", by Lars Jonung; "A comparative study of the economic developments in Finland, Norway and Sweden 1982-85", by Tuomas Sukselainen; and "Monetary targeting: theory, experiences and implications for the EFTA countries", by Hans Genberg.

A new edition of the folder leaflet "EFTA — What it is, what it does" was published in English, French, German, Norwegian and Swedish versions. A new pocket-sized leaflet containing statistics on EFTA and the EFTA countries appeared in the autumn.

For the use of enterprises in Yugoslavia, an up-dated edition of the "Handbook on EFTA markets for Yugoslav products" was produced. An illustrated brochure on EFTA prepared by the Secretariat was published in Serbo-Croat by Jugoslavijapublik.

On behalf of the Pharmaceutical Convention, the proceedings of a seminar held in Oslo in 1985 were published under the title "Premises for pharmaceutical manufacture".

Audiovisual media were used on a larger scale during the year. For the first time there was an EFTA stand at the International Trade Fair in Zagreb in September, to inform participants in the Fair and the general public of the cooperation between the EFTA countries and Yugoslavia. The 16-minute educational film on EFTA, made by an Austrian company in 1985 with assistance from EFTA and up-dated in the spring, was borrowed and shown by institutions and educational establishments in a number of European countries. The exhibition on EFTA's history and achievements was also up-dated and presented in Lisbon, Oslo, Oxford, Reykjavik and Trondheim.

Universities were an important target for information activities during the year. There was an increasing number of visits by senior officials to address audiences in universities in EFTA and EC countries on EFTA's role in Europe. Once again, scholarships were awarded by EFTA for postgraduate research projects relating to EFTA's part in European integration or to broad issues of European trade and trade policy. The research subjects for which awards were granted in 1986 were: a thesis, forming part of a project on macro-economic effects of protectionism with special reference to EFTA, dealing with flexible exchange rates, commercial and macro-stabilisation policies under alternative wage-setting regimes; and the prospects of market access to China for EFTA countries in the light of China's accession to GATT. Finally, EFTA cooperated with Geneva University's Graduate Institute of European Studies in the preparation of a seminar on "EFTA from yesterday to tomorrow", held in September with the participation of several of EFTA's founding fathers, former and present senior officials and professors from several European universities.

The Secretaries-General and senior Secretariat officials were more frequently invited to speak on EFTA's work and future at meetings and seminars organised by chambers of commerce and other gatherings of businessmen or officials.

## **Finance**

The net budget of the Association for the financial year 1985-86 was 11,825,616 Swiss francs. For the financial year 1986-87, which began on 1 July 1986, the Council set a budget of 12,726,700 francs gross. Taking

into account estimated income of 569,800 francs from other sources, the budget leaves a net sum of 12,156,900 francs to be financed by contributions from the EFTA countries. The increase in the net budget is 2.8 per cent in current prices, slightly below the estimated average rate of inflation for the EFTA countries.

The size of the national contributions to the budget is determined by reference to the gross national products at factor costs of the EFTA countries. When Portugal left the Association at the end of 1985, the contributions of the other six countries had to be recalculated for the second half of the financial year. The basis for the contributions for the second half of the 1985-86 financial year and for the 1986-87 budget was as follows, in percentages:

	1985-86 half year	1986-87
Switzerland	28.08	28.55
Sweden	26.30	25.25
Austria	16.72	17.00
Norway	14.29	14.35
Finland	12.99	13.20
Iceland	1.62	1.65

### **Secretariat**

At the end of December 1986 there were 33 officials in the professional category in the Secretariat, one of whom was employed on a half-time basis, and 37 general service staff members, nine of whom were employed on a half-time basis.

# The Committees

## The Economic Committee

The Economic Committee met in Stavanger, Norway, in May and in Geneva in November. Members of the Committee also had a meeting in Stavanger in May with economists from the Commission of the European Community. Most of the members of the Economic Committee are officials from finance ministries and central banks in the EFTA countries.

Developments in the international economy and in the EFTA countries are regularly reviewed at the Committee meetings in order to provide up-to-date advice to the EFTA Ministers whose meetings are held shortly after those of the Committee. A large part of the discussion of general economic developments deals with short-term prospects and policy problems. The Committee has recently been keeping a watch on the coordination of economic policies between the industrial countries and expressed some concern at its November meeting about the recent weakening of efforts to coordinate.

Recent economic policy strategies and macro-economic performance in the previous three years in Finland, Norway and Sweden were discussed by the Committee in May. The discussion was based on a study later published as Occasional Paper No. 16. The Committee found that in macro-economic terms the three countries had fared better in those years than in the 1970s, and better than the European economy in general. Several problems remained and new ones had emerged more recently, especially in connection with the sharp decline in the price of oil.

A number of other specific matters were discussed in the Committee. It resumed its consideration of the links between developments in the financial position of the public sector and the external balance of the economy. This relationship was examined on the basis of a study on government finance and foreign trade in the EFTA countries. The study was later published as Occasional Paper No. 14, as recommended by the Committee.

Since the possibility of a liberalisation of agricultural trade is one of the matters under consideration as part of the work programme adopted by EFTA in 1984, the Economic Committee, like other EFTA committees, has begun to examine the question. It concerns principally agricultural raw materials and some processed food products on which tariffs have not in general been removed in EFTA's industrial free trade system. The discussion was based on a Secretariat paper which showed that there is no significant difference between the EFTA countries and other advanced Western industrialised countries in either the relationship between demand and supply in the agricultural sector or the degree of trade liberalisation. The paper suggested that there was some room for a liberalisation of trade in agricultural goods within EFTA that would not cause undue strain to the agricultural sectors in the individual countries. It also found that the best strategy, in view of the increasing burden of agricultural support on the national economies, would be a coordinated worldwide reduction in support, as proposed by the OECD, since that would be the least costly procedure for countries with high subsidies and small shares of trade in the subsidised products. The Committee is to resume its consideration of the question at its first meeting in 1987.

There was an exchange of views in the Committee on the general economic conditions which can affect the pace of technological change and growth. The discussion started from a Secretariat study which focused on the distorting effects of regulations and measures that affect trade flows, particularly taxation and public expenditure. The Committee agreed with the general conclusion of the study that the divergence between private and social rates of return which is created by tax systems may possibly slow down technological change and growth. Thus, reforms designed to reduce tax rates and to widen the tax base by limiting the possibilities of claiming deductions would contribute to a greater economic efficiency.

From the middle of the 1970s several industrial countries, one of them being Switzerland, had begun to set explicit targets for the growth of one or more monetary aggregates as the focus of their monetary policies. On the basis of a study later published as Occasional Paper No. 17 the Committee discussed the theoretical and practical aspects of this type of monetary targeting. It found that on the whole the new approach appeared to have been an important factor in bringing inflation rates down and in producing greater economic stability. Of the EFTA countries, only Switzerland consistently applied strict monetary targeting. The other EFTA countries have based their policies on exchange rate objectives.

In a review of developments in the Swiss economy the Committee examined Swiss monetary policy and the results of monetary targeting in the past ten years in some detail. It found that the application of a monetary policy geared to a medium-term goal was one reason for Switzerland's exceptional price stability for most of those years. The insistence on the monetary target, combined with the delayed effects of money supply changes, had however worsened the cyclical downswing in 1982-3. In the current recovery a combination of stimulative fiscal policy and monetary

expansion had helped to bring about an early revival of domestic demand without sacrificing stability.

The Committee also exchanged views on a study of the rules of origin in the free trade agreements and the differences between the most-favoured-nation tariffs applied by the EFTA countries and the EC. The study, which had been published as Occasional Paper No. 13, showed that the tariff differences are now so small that the present costly system of origin rules is no longer warranted. The Committee found that the study could be improved in various ways but accepted the main findings. It declared that more needed to be done to make the relevant bodies in the EC aware of the conclusions, as a means of encouraging further work on the simplification of the rules.

As part of the Economic Committee's contribution to the development of cooperation with the EC there was again a meeting, in Stavanger, between Committee members and economists from the EC Commission. They exchanged information on the economic situation, prospects and policies. Their conclusions were later presented to the EFTA Ministers and to the meeting of the Ministers with the Member of the EC Commission responsible for External Relations and Trade Policy.

An Economic Committee working party of national economic experts on government aid completed in December an in-depth study of the reasons for, and the economic effects of, the various kinds of government aid to industry available in the EFTA countries. Their study was made under the work programme adopted by EFTA in 1984. The working party found that there had been a considerable increase in the use of government aids during the past twenty years, and that in many cases economic efficiency has been reduced and trade flows distorted as a result. Drawing a distinction between kinds of aid that are intended to rescue industries or firms in difficulty and kinds that are introduced to promote structural change, technological development and so on, it found the former more damaging than the latter. Its principal recommendation was that the transparency of the aid measures applied in the EFTA countries should be increased. An improvement of the present system for notifying government aid measures would be one way of achieving this. The working party also expressed the opinion that it had produced sufficient evidence for individual governments to be called on to reduce their aid level when the aid is seen to distort trade. The working party's report was submitted directly to the EFTA Council, for discussion early in 1987.

### **The Committee on Technical Barriers to Trade**

There were five meetings during the year of the Committee on Technical Barriers to Trade which was set up in 1984 to advise the Council on ways of eliminating these increasingly prominent obstacles. It serves as a forum for the development of EFTA policies and actions in all matters relating to technical barriers. Much of its work involves the necessary preparations for cooperation with the EC since the objective is to facilitate the move-

ment of industrial products across national borders throughout the free trade system. The actions taken during the year by the Council and described on pages 12-14 were based on recommendations from the Committee.

Other matters discussed in the Committee included the EC's new approach to technical standardisation and harmonisation. This approach entails distinguishing between the essential safety requirements for products, which are mandatory and laid down in EC harmonisation directives, and the necessary technical specifications that are established by CEN and CENELEC as voluntary requirements in the form of European standards. Experts both in EFTA and in the EC have concluded that the new approach offers good possibilities for cooperation. Steps have been taken to study these possibilities in respect of the proposed EC harmonisation directives on simple pressure vessels, the safety of toys and the safety of machines.

Because so much of its work is technical, the Committee regularly invites outside specialists to its meetings. Representatives of national standards institutions in the EFTA countries twice attended discussions on matters relating to standardisation. Representatives of information technology firms and of the national postal and telecommunications administrations took part in two special meetings devoted exclusively to developments in their field. With this assistance EFTA has been able to take an active part in standardisation work and in the attempt to define testing and certification arrangements that will permit free trade in data processing equipment and terminals throughout Western Europe.

### **The Committee of Trade Experts**

There were six meetings during the year of the Committee of Trade Experts. The larger part of its work involved the examination of trade matters (other than technical barriers to trade) on which cooperation was being developed with the EC under the Luxembourg Declaration: access to public procurement contracts, especially in view of the EC's goal of increasing real competition in the public sector in the Community; legal provisions in the EC and in EFTA countries relating to possible dumped imports; and current restrictions on the export of non-ferrous metal waste and scrap.

On public procurement, the cooperation with the EC concerns the possibilities of giving potential suppliers easier access, on a reciprocal basis, to public purchasing orders in EC and EFTA countries. For its part in this the Committee has begun to study the legal aspects of public procurement in these countries, and the possibility of using a sector-by-sector approach to the liberalising of public procurement. Economic aspects are to be considered later. An initial concentration on the telecommunications sector was proposed by the Committee for several reasons: it is not covered by the GATT code on government procurement nor by any EC directive; it is a rapidly developing sector in need of international com-

petition as a stimulus to technological innovation; EFTA-EC cooperation in research and development as well as on technical barriers to trade is relevant; and as a general rule national telecommunications systems are the responsibility of central governments. The Committee recommended that the EFTA countries should seek a clarification of the EC position, particularly its interest in liberalising public procurement at the regional and local level.

Procedures used in EFTA and the EC for dealing with *prima facie* cases of dumping were at the centre of the Committee's work on anti-dumping measures, which served as a preparation for discussions with the EC at expert level.

Restrictions are sometimes imposed on the export of waste and scrap of non-ferrous metals for such reasons as the need of metal-processing industries to have access to adequate supplies of raw materials. The Committee of Trade Experts did the preparatory work for a discussion with the EC on the possibility of a reciprocal liberalisation of EFTA-EC trade in this field. National replies to a questionnaire from the Committee indicated reluctance in most of the EFTA countries to make changes in current regimes for trade in non-ferrous waste and scrap. The subject remains on the Committee's agenda.

A Secretariat report on recent decisions of the Court of Justice of the EC was discussed by the Committee in June, as part of its aim to keep abreast with relevant developments in the case law of the Court. The decisions presented in the report concerned interpretations of parts of the free trade agreements and to some extent also cases relating to the free movement of goods within the EC.

On purely EFTA matters, the Finnish import equalisation tax, the application of which was extended to the end of 1986 by the Finnish parliament, was again the subject of an exchange of views. Since the tax seemed to cause problems for some exporters in other EFTA countries, and since some delegations questioned whether the tax was compatible with the Stockholm Convention, the Committee agreed to revert to the matter in 1987. The Committee continued to keep under review the price compensation measures applied in five EFTA countries under the provisions of the Stockholm Convention concerning the import of processed agricultural products. The purpose is to ensure that the compensation does not exceed the difference between domestic and world market prices of the agricultural raw materials incorporated in the finished products.

Trade in processed agricultural products and, more specifically, the price compensation arrangements in the Stockholm Convention and in Protocol No. 2 to the free trade agreements were the subject of a special meeting of the Committee in December. One of the conclusions on EC-EFTA relations which the EC Council of Ministers had adopted in September was that possible improvements in the functioning of the Protocol should be considered. In response the EFTA Ministers stated that their countries were ready to exchange views on the matter. Hence the Com-

mittee met to take stock of the situation before any discussion was begun with the EC on the working of the Protocol and the possibility of extending it to other processed agricultural products.

### **The Committee of Origin and Customs Experts**

There were twelve meetings of the Committee of Origin and Customs Experts during the year. Its function is to advise the Council on the origin rules in EFTA and the virtually identical rules in the free trade agreements with the EC. Since in substance the rules are identical, changes have to be made simultaneously if industry is not to be subject to two different sets of rules.

Many of the results of the Committee's work are described in the section on origin rules on pages 9-11. Simplification of the rules is an almost permanent task of the Committee. Simplification of border controls and the work of the experts on the single administrative document (SAD) were also on its agenda.

Preparations for adapting the origin rules to the new customs nomenclature due to come into effect from 1 January 1988 continued on schedule in the Committee's ad hoc group of experts. The aim is to ensure that the introduction of the Customs Cooperation Council's new nomenclature will not significantly alter the coverage and the substance of EFTA's free trade rules or those of the European free trade system.

### **The Consultative Committee**

There were meetings of the Consultative Committee on 8 and 9 April in Geneva, on 4 June in Reykjavik with the participation of Ministers from all EFTA countries, and on 27 and 28 October in Geneva. There was also a meeting in Brussels on 10 and 11 April with a delegation from the EC's Economic and Social Committee. The members of EFTA's Consultative Committee are representative figures from industry, trade unions and other economic interest groups in the six EFTA countries.

Both of the meetings in Geneva included an exchange of views on the general economic situation and prospects but otherwise there was a concentration on aspects of EFTA-EC cooperation and on the preparations for the new GATT Round.

A statement of the Committee's current priorities for EFTA-EC cooperation was adopted at the April meeting and presented to the EFTA Ministers when they took part in the Committee meeting in June. The general emphasis was on the need for practical results from the political intentions expressed two years earlier in the joint EFTA-EC Luxembourg Declaration. Simplification of the origin rules in the free trade agreements was said to be one of the most pressing issues. On technical barriers to trade—a matter on which it was acknowledged that substantial progress had been made—

the Committee recommended the EC's new approach to standardisation which gives the Community the task of defining the essential safety requirements for industrial products but leaves the technical detail to European or national standards bodies. The Committee considered it important that the EFTA countries should be consulted about the definition of essential safety requirements. Turning to public procurement, the Committee advocated a gradual opening of the public sector, beginning with telecommunications facilities, as a means of developing a competitive technological base in Europe. It also urged Ministers to ensure that firms and research institutions in the EFTA countries would be able to take part in the key research programmes of the EC. Finally, with reference to the EC's programme for completing its internal market, the Committee stated that the overall goal must be a harmonised and unified market in Europe as free of obstacles to trade in goods and services, and of obstacles to the cooperation between companies, as the EC's own internal market will be.

In the fuller discussion on cooperation in industrial research and development that was held in April speakers emphasised that, once the EC programmes were opened to EFTA, the extent of participation would depend on the action of the EFTA side. Moreover, it had to be made clear that the cooperation must be based on reciprocity, including a willingness to share the costs and to accept such obligations as the opening up of public sector tenders. The discussion showed agreement that the competitiveness of industries in Europe was weakened by the fragmentation of the market. Cooperation in research and development had to be accompanied by attempts to eliminate trade barriers, to create European standards and to open public markets. Moreover, applied research and innovation had to remain a matter for firms.

As for the proposed new round of GATT negotiations, the Committee recommended that at Reykjavik the EFTA Ministers should come out strongly in favour of launching the new round. There was general support for reinforcing the multilateral trading system through the new round and for establishing international rules and disciplines in new sectors such as services and trade in high-technology products. There was a welcome for the EFTA countries' attempt to get widespread support for an undertaking not to introduce new protective measures in the course of the new round. There was also a large measure of agreement that trade in agricultural goods should be brought within the framework of GATT.

A discussion on trade in agricultural products revealed that many speakers favoured liberalising agricultural trade within the GATT system, provided it was done gradually and took account of the problems involved. It was argued that, like the industrial sector, agriculture had to adapt to changing circumstances and that the state should pay compensation to reduce any undue burden on the farming sector.

EFTA Ministers taking part in the June meeting of the Committee expressed appreciation of its contribution to the development of cooperation with the EC, in particular its statement on current priorities and its views on the participation of EFTA companies and research institutions in

the EC's key research programmes. The discussion showed that the EFTA governments and the organisations represented in the Committee strongly contested the idea that their countries, with their reciprocal free trade agreements, should be treated like any third country. At the same time it was recognised that there was now a more positive attitude towards the EFTA countries in the EC. Both groups were aiming to create the single dynamic European economic area. This entailed action on the EFTA side to parallel the steps being taken by the EC to complete its own internal market. On cooperation in research and development the common view in the Committee was that the EFTA countries should stress their willingness to contribute both financially and intellectually.

At the same meeting there was unanimous support for the new GATT round. In the view of the Committee a full and credible commitment not to introduce new restrictive measures during the negotiations should be required. Only restrictions strictly in conformity with GATT rules—anti-dumping actions, for example—would be permitted. Other measures already applied should be phased out over a given period of time. There was also general support for the integration of newly industrialising countries into the rights and obligations of GATT.

The Committee discussed in October a report from its Economic and Social Sub-Committee on the implications for EFTA of the EC Commission's White Paper on the completion of the internal EC market. The Sub-Committee, which met four times to produce its comprehensive report, stressed the very close link between the programme in the White Paper and the work to be done under the Luxembourg Declaration. It recommended that the EFTA countries should make their views known while proposals on specific matters are still being prepared in the EC. It advocated the use of EFTA as a joint platform in negotiations with the EC although it also recognised that there are questions that can more appropriately be handled bilaterally.

Seven areas of immediate interest for cooperation with the EC were mentioned by the Sub-Committee:

- the introduction of a single administrative document (SAD) which should lead to a real simplification of trade documents;
- rapid further progress in dealing with technical barriers to trade;
- access to public procurement;
- trade in services;
- capital movements;
- the conditions of industrial cooperation; and
- state aids.

These opinions were supported by the Consultative Committee which called on governments to ensure that national experts engaged in the technical details of cooperation with the EC should keep the broad objectives in mind. It also took the view that EFTA needed to be strengthened and the Secretariat given adequate resources to cope with the implementation of the Luxembourg Declaration.

Satisfaction was expressed that the new GATT round had at last been launched. The Committee welcomed the inclusion of trade in textiles, clothing and agricultural products in the content of the negotiations.

### **The Committee of Members of Parliament of the EFTA Countries**

On 28 and 29 April EFTA's Committee of Members of Parliament held a joint meeting in Helsinki with the European Parliament's permanent delegation for relations with the Committee. There were two chairmen, Mr Kjartan Johansson from the EFTA side and Mr Konstantinos Stavrou, Chairman of the European Parliament delegation. As in 1985, Mr Willy De Clercq, the Member of the EC Commission responsible for External Relations, took part in the meeting.

In Helsinki the two sides noted the progress made under the Luxembourg Declaration but found that major initiatives were still necessary if the dynamic European economic space was to be achieved. Both sides recognised the need for a parallelism between the EC's effort to complete its internal market and to establish an EC technological community and the development of cooperation between the EFTA countries and the EC. Specific recommendations made by both sides were:

- the introduction of a single administrative document (SAD) for trade within the European free trade system and a simplification of the origin rules;
- consideration of the possibility of extending the free trade to some agricultural products and fish;
- the full participation of EFTA-based enterprises and research institutions in the EC's research and development activities;
- joint action to halt the deterioration of the environment in Europe;
- free access of all European producers to public procurement; and
- joint EFTA-EC action for the success of the new round of trade negotiations in GATT.

At the end of the meeting the two delegations adopted a common declaration expressing their deep concern at the news of the serious nuclear accident at Chernobyl in the Soviet Union and the lack of information from the Soviet Government.

At the Committee's annual meeting in Stockholm on 17 and 18 June the debate focused mainly on aspects of EFTA-EC relations: the follow-up to the Luxembourg Declaration; relations with the European Parliament; and the strengthening of contacts between the EFTA Secretariat and the EC Commission. It was recognised that the content of the Declaration involved a very considerable and welcome change in EFTA-EC relations. No longer was cooperation limited to matters of trade in industrial goods: there was now also cooperation in a large number of new fields. It had therefore become more essential for the two to work together as far as possible. A first consequence was that the EFTA side needed early information about the internal plans of the EC so as to have the possibility of

conveying EFTA points of view in good time. Moreover, the EFTA countries needed to organise their own consultations within the Association in such a way as to be able to react to the dynamism of developments in the EC. Great importance was attached to the need for reciprocity in the cooperation with the EC. Of the various fields for cooperation there was particular mention of industrial research and development and of the practical conditions for the participation of EFTA firms and research institutes in the principal R & D programmes of the EC.

Several speakers raised the question whether the contacts between the EFTA Secretariat and the EC Commission should not be strengthened in view of the widening of the cooperation with the EC and the complexity of the EC's decision-making process. To that end the Committee invited the EFTA Council to study the possibilities of opening a liaison office in Brussels and agreed to revert to the matter at their next meeting. The liaison office would serve as a complement to the present bilateral contacts between the permanent missions of the EFTA countries in Brussels and the EC Commission. After a first discussion of the matter in the Council a feasibility study was begun by the EFTA Secretariat later in the year.

The possibility of liberalising trade in agricultural and marine products in the EFTA countries was debated in the Committee. It was acknowledged that any liberalisation would have to take account of the need to reduce the costs falling on governments, to provide adequate working and economic conditions for farmers and to give consumers cheap and reliable access to agricultural products. At the close of the debate it was agreed that a working party should be set up to consider the liberalisation of intra-EFTA trade in fishery products and the possibilities of extending free trade to a larger number of processed agricultural products both in EFTA and under the free trade agreements with the EC.

In June Mr Lennart Pettersson (Social Democrat, Sweden) was elected Chairman of the Committee in succession to Mr Kjartan Johansson (Social Democrat, Iceland). Mr Johan Løken (Conservative, Norway) was elected Vice-chairman.

# External Relations

The EFTA countries greatly increased their use of the opportunities provided by their membership of the Association for consultations on a wide range of trade and economic matters.

The development of their cooperation with the European Community was the subject of particularly intense contacts and consultations throughout the year.

Preparations for the launching of the Uruguay Round of GATT negotiations were another subject for sustained exchanges of view and, when deemed appropriate, for common moves to get the new round started.

Attempts to enlarge the trade and economic cooperation with Yugoslavia continued to absorb the Joint EFTA-Yugoslavia Committee and its various working groups. This is the only Committee in which all the EFTA countries as such cooperate with a non-EFTA country.

## **Relations with the European Community**

As is clear from the foregoing, a very large part of EFTA's work during the year concerned the relations of the EFTA countries and EFTA itself with the European Community. This reflects the traditional closeness of the trade links between the two groups, the existence of the free trade agreements and the development of cooperation between them in many other fields.

Both EFTA as a group and the EC are each other's main trading partner. As can be deduced from the statistics in the following chapter, some 67 per cent of all EFTA's imports in 1985—the last full year for which data are available—came from the EC and 61 per cent of all EFTA's exports went to the EC, if intra-EFTA trade is excluded. EC figures show that in the same year EFTA accounted for about 10 per cent of the trade of the twelve EC countries if intra-EC trade is included and for 20 to 22 per cent if intra-EC trade is excluded.

It is characteristic of EFTA's trade in general that imports and exports consist very largely of manufactured goods, the type of goods that are duty-free within EFTA and under the free trade agreements. In 1985 approximately 73 per cent of the EC's trade with EFTA was in manufactures. This is slightly more than the proportion (70 per cent) of manufactures in intra-EC trade. This implies that trade with EFTA accounts for as much as one-quarter of the EC's trade in manufactured goods with countries outside the Community. Moreover the EC had a surplus of \$11 billion on its trade in manufactures with EFTA, which to a considerable extent offset the EC's deficit of \$16 billion on trade with Japan in manufactures.

The evidence of a firm political will on both sides to strengthen and expand their cooperation was manifested in several ways. For the second year in succession the follow-up to the Luxembourg Declaration of 1984 was reviewed at a meeting in June between the EFTA Ministers and the Member of the Commission responsible for External Relations and Trade Policy. One of the joint conclusions reached on that occasion was that new areas for cooperation should be selected at another meeting at ministerial level in the near future.

Then, the EC Council of Foreign Ministers took the unusual step in September of publicly formulating its conclusions from the ninth annual review of EFTA-EC relations. It reaffirmed its determination to consolidate and strengthen cooperation with EFTA at the same time as the Community progresses towards the completion of its own internal market. It also called on the EFTA governments to take concurrent steps to create a dynamic European economic area and to contribute to economic growth and employment in the Community and EFTA countries. On more specific elements of cooperation, it welcomed in principle the future participation of EFTA firms and organisations in current EC research and development programmes. It emphasised the importance of making progress in the removal of technical and administrative barriers to trade. And it agreed to further consideration of possibilities of improving access to public procurement, of a stricter application of the provisions on government aid, and of improving the functioning of the rules on processed agricultural products.

In response, the EFTA Ministers issued a statement at the EFTA Council meeting in December in which they stressed the common ministerial responsibility in EFTA and the EC for giving political impetus to all levels of cooperation. The full text of the statement is reproduced in the Appendix.

*The high-level contact group* set up to direct and coordinate the groups of experts in the various fields for cooperation continued to meet every six months. The senior officials from the EFTA governments and the EC Commission who form the contact group reviewed the progress made by the experts and when necessary set them new tasks. A very wide range of matters are studied by the expert groups. In the following paragraphs a very brief account is given of the work done by officials and experts during the year.

Considerable progress was made in the joint effort to prevent the emergence of new *technical barriers to trade* within the European free trade area. On industrial standardisation, which is a key to the removal of trade barriers, the organisational links, the procedures and the general financial arrangements for EFTA-EC cooperation were in all essential aspects completed before the end of the year.

Among new developments was the increasing effort being made in relation to information technology and telecommunications. The focus was on standardisation. Both EFTA and the EC gave mandates to the common European standards organisations for a set of standards for a connector that would be able to connect a wide range of terminal equipment to a future integrated services digital network (ISDN). Fifteen other mandates were also issued, covering the first set of information technology standards being drawn up as part of the work programme of CEN, CENELEC and CEPT.

Experts have also continued to exchange information on the implementation of the EC's new approach to technical standardisation and harmonisation, on the procedural arrangements for the exchange of information on draft technical regulations, and on the question of the testing and certification of products that are subject to national standards or technical requirements.

Indications of the progress made in relation to the *origin rules* and the use of a single administrative document (SAD) for trade within the European free trade area are given on pages 9-12.

The drive to increase EFTA-EC cooperation in *industrial research and development* continued to be a salient feature of the follow-up to the Luxembourg Declaration. The aim here is to help to strengthen the competitiveness of industry in Western Europe. A first joint meeting of experts expressed support for further cooperation in the framework of COST which since 1971 has involved technical and scientific cooperation between the EC and countries outside the EC, including most EFTA countries. The experts welcomed the successful negotiation of bilateral framework agreements between the EC and all the EFTA countries apart from Iceland, which started negotiations later. Each of these agreements provided for the establishing of a joint committee which will meet regularly and exchange information on research and development policies. The experts noted that it will be possible for EFTA countries to take part in the EC's industrial research and development programmes in such sectors as telecommunications, information technology, manufacturing technology and materials. It was therefore felt to be possible for firms and institutions established in the EFTA countries to take part in programmes and projects included in R & D programmes and projects of the EC.

Later in the year the EFTA experts agreed on the importance of making the EC aware of EFTA's potential in R & D matters. They stressed that the EFTA countries should be free to choose the type and degree of participation in Community programmes which are appropriate for their own programmes and priorities. They called for equality of treatment for firms

and institutions in EFTA countries. And they insisted on the need for a continuous and early flow of advance information on activities concerning research and development programmes and projects.

Experts on *anti-dumping practices* met twice during the year. The free trade agreements permit action to stop the import of dumped products in trade between the EFTA countries and the EC provided the action is consistent with the GATT rules and also in accordance with the conditions and procedures set out in Article 27 of the FTAs. The EFTA view was that close trading partners should not be treated like any other third country: the EFTA-EC relationship is of so special a nature, and the EFTA and EC economies are interlinked to such an extent, that particular treatment is justified. In the discussion particular attention was given to the possibility of creating conditions which would give more flexibility in the implementation of the rules. No agreement was reached but it is open to the EFTA countries to raise the matter again.

Ways and means of giving suppliers greater access to public purchasing contracts in EFTA countries and the EC were considered at two meetings of experts. Both sides agreed that it would be preferable to proceed on a step-by-step basis in specific areas. The EFTA countries proposed that a start should be made in the telecommunications sector; the Commission suggested rather that the possibility of increasing access to *public procurement* orders at the regional and local level should be explored first. The high-level contact group later agreed that the expert group should continue its work in a constructive spirit with a view to achieving progress in parallel with the internal developments in the EC, taking into account that a broader approach might be more likely to lead to tangible results.

Another group of experts examined the possibility of a *liberalisation of EFTA-EC trade in non-ferrous metal waste and scrap*. The EFTA countries explained that the dismantling of export restrictions could jeopardise the supply of important metals to domestic industries at reasonable prices; the EC advocated removing restrictions in EFTA-EC trade. The exchange of views continues.

In December experts began to exchange views on the formation and development of *environmental policies* and on possible ways in which the EFTA countries would cooperate in the EC's European Year of the Environment, which is to begin in March 1987. The aims of the environment year are to increase public awareness of activities undertaken to protect the environment, to integrate environmental policy with economic, industrial, agricultural and social policies, and to emphasise the European dimension of environmental problems and policies.

Possible methods for EFTA-EC cooperation in the development of *computerised procedures for the processing of import/export data* are to be considered by experts as early as possible, the high-level contact group decided in November. For EC trade a project for the coordinated development of these administrative procedures—the CD project—is at present being carried out. It requires, among other things, a greater harmonisation of computer systems and the adoption of common standards.

Information on the *current economic situation, prospects and policies* was exchanged between members of EFTA's Economic Committee and economists from the EC Commission. Their conclusions were presented to the EFTA Council at ministerial level and to the meeting of the EFTA Ministers and the Commission in Reykjavik in June.

A joint expert meeting to discuss the latest stage in the working out of an EC regulation concerning the proposed Community *trade mark* was held in January. The EFTA experts found that the latest text included improvements so far as the interests of the EFTA countries was concerned.

The joint working party of legal experts from EFTA and EC countries continued to work on a draft convention relating to the conditions under which *judgements in civil and commercial matters* delivered in court in one EFTA or EC country could be enforced in another of these countries. The proposed convention would parallel the Brussels Convention of 1968 on jurisdiction and the enforcement of judgements in civil and commercial matters, which applies so far in all EC countries apart from Greece, Portugal and Spain.

At the high-level contact group meeting in May there was a first discussion of the possible implications for EFTA-EC cooperation of the *EC White Paper* of 1985 on the completion of the Community's internal market. It was recognised on both sides that the joint Luxembourg Declaration of the previous year required action on many of the subjects of the White Paper. Both sides agreed that the EFTA countries and the EC Commission would single out the aspects of the EC's programme on which they would find joint action desirable.

Discussion at the October meeting of the contact group led to two main conclusions. Firstly, the number and complexity of the fields listed in the White Paper made it necessary to proceed step by step in expanding cooperation and to select the fields for cooperation in accordance with the progress made in the EC's own work. Secondly, certain new areas for possible cooperation were mentioned: the liberalisation of capital movements and of services; government aids; vocational and professional training; questions relating to intellectual and industrial property rights; the relaxation of border controls of persons; and the exemptions and allowances relating to indirect taxation.

The great importance of parallelism between the completion of the EC's internal market and the realisation of the dynamic European economic space which is the objective of the Luxembourg Declaration was stressed by the EFTA side.

## **Relations with Yugoslavia**

The Joint EFTA-Yugoslavia Committee held its tenth meeting on 6 to 8 October in Trondheim, Norway. Its aim continues to be to put into effect the declaration on cooperation that was adopted at a ministerial meeting of the Committee in 1983 in Bergen.

In the course of an exchange of views on recent economic developments in the EFTA countries and Yugoslavia, the Yugoslav delegation gave an account of new and planned economic measures being introduced in Yugoslavia. To contribute to a better understanding of these measures the Joint Committee requested the Secretariat to carry out a study of the Yugoslav economy with particular reference to the policies being applied to open up the economy, making use of relevant material available. The study is to be submitted to the Joint Committee at its next meeting, in Novi Sad at the end of September 1987.

Actions taken in the previous twelve months to expand Yugoslavia's trade with the EFTA countries were reviewed by the Joint Committee which concluded that new efforts were required. It agreed to review at its next meeting the work of the Yugoslavia-EFTA Business Contact Centre set up early in 1986 in order to bring Yugoslav exporters into contact with importers in the EFTA countries. It agreed that EFTA, which for the first time had been represented at a stand in the 1986 Zagreb International Trade Fair, should continue to participate in the Fair. The Joint Committee will consider organising marketing days on the lines of those held in conjunction with the 1986 Vienna Autumn Fair. Other projects under consideration are: ways and means of carrying out market research studies for specific Yugoslav exports; the arranging of an EFTA-Yugoslavia seminar on technological cooperation; and ways of associating the EFTA countries with the planned Yugoslav business conference on expanding trade, long-term industrial cooperation and joint ventures between enterprises in EFTA countries and Yugoslavia.

The Joint Committee welcomed the final report of the group of legal experts who had been given the task of clarifying Yugoslav legislation on industrial cooperation.

A preliminary report by the experts on the legal aspects of industrial cooperation with Yugoslavia was published in 1983 as a guide for potential commercial partners in the EFTA countries but it soon needed to be brought up to date because of subsequent changes in the legislation. Five meetings in 1985-86 enabled the experts to complete their study—in which they noted in particular a number of noteworthy improvements in the new law on joint ventures—and to make many detailed proposals for amending and up-dating the text. The Joint Committee agreed that the report, when finalised, should be published in order to provide trade and industry with a useful presentation of the current legal framework for industrial cooperation with Yugoslavia.

With the assistance of experts from the tourist trade the legal experts completed in September a report on aspects of Yugoslav legislation on cooperation that are relevant for the development of tourism in Yugoslavia. Their report also dealt specifically with the newly introduced law on time-sharing in the use of tourist facilities. In the belief that individual tour operators would be better able to decide on possible investments if they had a clear understanding of the legal requirements for cooperation in tourism, the experts drafted a brochure on the Yugoslav requirements.

The Joint Committee agreed that a brochure on these lines should be published.

A report on practical problems relating to tourism in Yugoslavia was prepared by a joint working party of representatives of the tourist industry which met in Brioni on 16 and 17 September. The working party made a number of specific proposals for improving the competitiveness of the Yugoslav tourist industry and developing new types of tourism in the country.

Finally, the Joint Committee agreed that the experts on transport from the EFTA countries and Yugoslavia, who had held a second meeting in Paris in April, should exchange views on transit policies in Europe, with particular reference to the increased use of rail transport through Yugoslavia.

### **Relations with other international organisations**

The EFTA countries continued to make frequent and intense use of the EFTA framework for consultations on matters of common interest that were under discussion in other international organisations concerned with the development of world trade. These included the General Agreement on Tariffs and Trade (GATT), and the Organisation for Economic Cooperation and Development (OECD). Consultations and cooperation were especially close on GATT matters, including the preparations for the GATT ministerial meeting in September in Punta del Este, Uruguay, at which the decision was taken to launch a new round of multilateral trade negotiations. The EFTA countries subsequently played an active part in the process of setting up the machinery for the negotiations, which are due to start in 1987.

Progress reports on EFTA's activities were presented to the April meeting of the Committee of Ministers of the Council of Europe by the Norwegian Minister for Foreign Affairs, Sven Stray, and to the November meeting by his successor in that post, Knut Frydenlund.

The links between EFTA and CEN (the European Committee for Standardisation), CENELEC (the European Committee for Electrotechnical Standardisation) and CEPT (the European Conference of Postal and Telecommunications Administrations) were strengthened during the year: see pages 12-14. On 28 January Mr B. Vaucelle, President of CEN, and Mr R. Kirkham, president of CENELEC, had a meeting with EFTA's Secretary-General in connection with the signature of agreements on cooperation between the three organisations.

The Secretary-General of EFTA was present at the annual meeting of the Nordic Council in March in Copenhagen.

The European Trade Union Confederation (ETUC) was represented at each meeting of the Consultative Committee during the year. At the April meeting UNICE—the association of federations of industries of EC and EFTA countries—was represented by its newly appointed Secretary-General, Mr Zygmunt Tyszkiewicz.

# EFTA Trade: January 1985 to July 1986

World trade in 1985 returned to the rather modest growth rates of recent years after an increase in volume of  $9\frac{1}{2}$  per cent in 1984. On an annual average the increase in volume in 1985 was about 3 per cent, reflecting the slowdown of growth in imports in major markets. Trade in manufactures, which accounts for around two-thirds of the value of world merchandise trade and nearly three-quarters of EFTA trade, increased more strongly, by 6 per cent in volume.

The fall of the value of the dollar after February 1985 meant that the average value of industrial exports increased significantly towards the end of the year when expressed in dollars. This trend continued throughout most of 1986. Average export unit values of oil and raw materials, on the other hand, declined in 1985. Overall, measured in dollars, world trade in 1985 increased by a mere 1 per cent.

The major stimulus to world trade was provided by trade between industrialised countries, rising by 3 per cent in value in 1985. EFTA's trade grew even stronger, exports increasing by 3.8 per cent, imports by 5.7 per cent in dollar value terms. Weaker growth in developing countries led to yet another reduction in their share of world trade, down to  $22\frac{1}{2}$  per cent if measured in exports. This share had been about 28 per cent in 1980.

EFTA's share of world trade in 1985 was about 5.6 per cent if measured by exports. Its population is only 0.7 per cent of the world population. This contrast brings out the extent of EFTA's integration in the world trading system. The dynamics of strong trade links have resulted in large increases in income and welfare in the EFTA countries in the past. This explains EFTA's interest in a strong multilateral trading system. EFTA's commitment to free trade in Western Europe is paralleled by its efforts to promote the launching of the new GATT round in 1986.

## **Main developments in EFTA trade in 1985**

The 3.8 per cent rise in the dollar value of exports from the EFTA countries, satisfactory as it may have been for 1985, was only about

one-third of the annual average increase since 1972. Exports to OECD countries also grew by 3.8 per cent in 1985, exports to the 12-nation EC developing somewhat less satisfactorily at 2.5 per cent.\* The large increase of previous years in exports to the United States could not be repeated but there was still an advance of 4.8 per cent. Trade within the area also grew strongly with an increase in exports of 5.7 per cent. Exports to Japan virtually stagnated.

The deteriorated earnings position of OPEC countries was reflected in a 13 per cent reduction in their imports from EFTA, although the decline was less than in 1984. On the other hand, EFTA's exports to Eastern Europe picked up strongly again in 1985 after a very weak performance in the previous year. Overall, because exports grew less than imports the combined trade surplus of around US\$1.3 billion in 1984 swung into deficit in 1985. At US\$0.65 billion it was however rather modest. Imports from the EC (+ 8.2 per cent) and the newly industrialising countries (NICs) (+ 8.7 per cent) grew at above-average rates. Imports from Japan and OPEC increased even more, by 12.1 per cent and nearly 15 per cent respectively. Their share of overall EFTA imports is however fairly modest, Japan accounting for only 4.5 per cent, and OPEC only 2.8 per cent, of imports in 1985.

Sweden, which accounted for about 28 per cent of the exports of the EFTA countries increased its exports by 3.9 per cent and imports by 8.4 per cent in dollar value in 1985. In dollar terms, three countries increased their exports significantly more than the average: Iceland's exports rose by 9.4 per cent and Austria's by 8.8 per cent despite a fall in exports to Eastern Europe. Switzerland, EFTA's second largest exporter after Sweden, raised its exports by 5.7 per cent with only exports to OPEC registering a decline. In 1985 Norway suffered a contraction in exports in dollar value terms of 1.3 per cent. The increase in imports in the six member countries was somewhat more evenly spread than in the case of exports, Sweden registering the largest increase with 8.4 per cent and Switzerland the lowest at 3.2 per cent. Remarkable in 1985 was the fact that the three countries running a trade deficit in 1984, Austria, Iceland and Switzerland, somewhat narrowed their deficits. On the other hand, the three Nordic countries other than Iceland which had had a combined trade surplus in 1984 of more than US\$9 billion, suffered a contraction of the surplus by nearly one-third.

### **Trade within the European free trade system**

Two-thirds of EFTA's trade is with countries in the European free trade system which since the beginning of 1986 consists of eighteen countries. The corresponding share for the EC is only slightly lower. Taken together, the countries of the free trade system account for nearly 40 per cent of world trade and just under two-thirds of the worldwide exports of the industrialised countries.

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\* Although Portugal was still a member of EFTA until the end of 1985, it is included in the statistics for the EC in the text and tables in this chapter.

The EC, with a population of 322 million, is more important as a market than EFTA with 32 million inhabitants. EFTA's trade however plays a more important role than the disparity in size would suggest. Per capita, exports and imports are around two-thirds higher than those of the EC.

Not only is the EC EFTA's major trading partner. EFTA is also the EC's major outside trading partner, ahead even of the United States. The EC absorbed in 1985 nearly 53 per cent of EFTA's exports and supplied over 58 per cent of EFTA's imports. Ten per cent of EC exports were bought by purchasers in EFTA while 9.5 per cent of EC imports came from EFTA.

### **Intra-EFTA trade**

In dollar value, intra-EFTA exports grew by 5.7 per cent in 1985. Measured by exports, intra-area trade accounted in 1985 for 13.6 per cent of overall EFTA trade, slightly up from the previous year. Norway's exports to other member countries actually declined by more than 6 per cent whilst Sweden and Iceland posted significant increases of around 11 per cent. Sweden is not only the largest exporter within the area but, despite a decline in dollar value of 1 per cent, continued to be also the largest importer from other EFTA sources. More than four-fifths of Sweden's intra-area trade was with the other Nordic countries. Another important share of intra-EFTA trade is that between Austria and Switzerland, which accounted for around one-quarter of intra-area trade.

### **EFTA-EC trade**

EFTA's exports to the EC in 1985 grew less than overall exports. The growth of only 2.5 per cent in dollar value for the group as a whole conceals widely divergent national changes in exports to the Community. Finland and Norway reported decreases of 4.3 per cent and 3.1 per cent. Iceland raised the value of its exports by over 13 per cent, Austria by nearly 11 per cent. Sweden, despite a somewhat sluggish growth of 2.5 per cent in exports, remained the largest EFTA exporter to the EC, closely followed by Switzerland. In relative terms Norway is the most dependent on the EC, with about 70 per cent of exports being shipped to the Community. About 15 per cent of total EFTA exports to this market were accounted for by Norway's exports of oil and gas.

In 1985 total EFTA imports from the EC grew at higher rates than its imports from all sources. Finland, Iceland and Sweden recorded growth rates exceeding 10 per cent in the dollar value of their imports from the Community. Expanding in dollar value by over 8 per cent, EFTA's imports from this source now account for almost 60 per cent of all imports. Within EFTA, Switzerland is by far the most important market for the Community, followed by Sweden and Austria. Over 70 per cent of Switzerland's imports originate in the EC, the figure for Austria being around 62 per cent.

EFTA's traditional trade deficit with the EC widened further in 1985, only Austria and Iceland marginally narrowing their deficits. For both these countries the trade deficit with the Community amounts to about nine-tenths of their overall trade deficits. Switzerland runs a substantial surplus in its trade with countries outside the EC, but its deficit with the EC is more than twice its surplus with the rest of the world.

Trade in manufactures (SITC sections 5 to 8) is a major component of trade between the two areas. In 1985 manufactures accounted for more than four-fifths of EFTA imports from the EC. Exports of these goods to the EC account for less, about two-thirds of exports to the EC. The reason is the large exports of oil and gas from Norway which account for more than two-thirds of its exports to the Community. Trade in agricultural products is of minor importance in trade between the two areas.

### **EFTA trade with the United States**

A strong deceleration in the growth of domestic demand in the United States and the depreciation of the US dollar in 1985 prevented exports to the United States from growing as fast as in the immediately preceding years. After an exceptional increase of 34 per cent in dollar terms in 1984, exports in 1985 grew at a rate still slightly larger than the average of 4.8 per cent. Finland's exports dropped by more than one-fifth whilst Austria's exports expanded by nearly one-quarter. The major EFTA exporters to the United States, however, are Sweden and Switzerland with shares of about 40 per cent and 30 per cent of EFTA's exports respectively. These two countries managed also in 1985 to expand their sales at above-average rates. Austria's and Finland's imports from this source showed double-digit increases but those of Norway and Switzerland declined substantially. Overall, the year 1985 ended the decline in the value of US exports to EFTA. The annual growth rate of a mere 1.1 per cent reflects the fall of the dollar and the fact that currency realignments take some time to produce significant volume effects.

### **EFTA trade with Japan**

Trade with Japan in 1985 reversed the trends prevailing in the year before. EFTA's exports virtually stagnated after vigorous growth in the preceding year. Finland and Iceland were able to record substantial increases which, however, were barely sufficient to counteract the setbacks experienced by Austria, Norway and Sweden in the Japanese market. Imports grew by over 12 per cent in dollar value, with Norway in particular expanding purchases substantially.

### **EFTA trade with Eastern Europe**

Eastern Europe's share in EFTA's imports in 1985 was again reduced, all six countries showing lower dollar values for imports than in 1984. EFTA

exports picked up again after their decline in the previous year. Export performances varied widely. The 7.5 per cent increase in the dollar value of sales to Eastern Europe was mainly the result of the buoyancy of exports from Finland (+ 14.1 per cent) which accounts for more than two-fifths of EFTA trade with that area. Whilst Switzerland's exports also grew strongly, with an expansion of one-eighth, Austria, Iceland and Norway reported a decline in dollar value of their sales to Eastern Europe.

### **EFTA trade with the rest of the world**

Both as a share of imports and as a share of exports, trade with the rest of the world showed a slight decline. Within this heterogeneous group of countries, there were of course clearly different developments. Exports to OPEC declined by some 13 per cent in dollar terms, Austria being the only EFTA country to increase the dollar value of its exports. EFTA exports to the NICs\* grew as in 1984 at an above-average rate. This despite declines of around one-eighth and one-third, respectively, in dollar terms in exports from Finland and Norway to these countries. By contrast, EFTA imports from OPEC increased by as much as 14.9 per cent.

### **Trade balances**

As already pointed out, EFTA's trade surplus of 1984, of around US\$1.3 billion, swung into a slight deficit of US\$0.65 billion in the following year, with Austria, Iceland and Switzerland reducing deficits and Finland, Norway and Sweden reducing their surpluses.

A regional breakdown shows that EFTA's deficit in trade with the EC more than doubled to a total of US\$6.2 billion in 1985. The trade deficit of over US\$3 billion with Japan is striking when the relatively modest volume of trade with that country is taken into account. This deficit more than offsets EFTA's surplus in trade with the United States.

There was a significant reduction of EFTA's deficit in trade with Eastern Europe in 1985. All six countries were able to report smaller deficits or even, in the case of Finland and Switzerland, a change to a trade surplus. The most sizeable EFTA trade surplus is in trade with the "rest of the world", both with OPEC and NICs, as well as with other developing countries. One striking feature is Switzerland's large and increasing trade surplus with the NICs which came to almost US\$1 billion in 1985.

### **EFTA trade in the first seven months of 1986**

Measured in US dollars, the first seven months of 1986 brought an increase in EFTA imports and exports compared with the corresponding

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\* Argentina, Brazil, Hong Kong, Israel, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand and Yugoslavia.

period a year earlier. By the end of July 1986 most EFTA currencies had significantly appreciated in nominal terms against the US dollar, only the Icelandic krona showing practically no change against the dollar compared to one year earlier. The Swiss franc had appreciated by 35.5 per cent, the Austrian schilling by 33 per cent, both the Finnish markka and the Swedish krona by around 18 per cent and the Norwegian krone by about 10 per cent. This largely explains the increases for EFTA's trade in the first seven months of 1986 as compared to the first seven months of the previous year and measured in current dollars. Intra-area trade was especially buoyant, with growth rates of around one-third. Exports to Japan also increased at an above-average rate, but imports from that source grew at a surprising 61.1 per cent in dollar terms. This reflects the surge of imports from Japan seen in all of Western Europe, to a great extent the result of the problems of a number of Japanese exporters on the US market because of the strong appreciation of the yen against the US dollar.

EFTA imports from the EC grew more than exports to that area, with Austria, Norway and Switzerland showing above-average increases of imports. In the case of Austria and Switzerland exports to the EC also grew strongly. As was to be expected in view of recent developments in oil prices, Norway is the only EFTA country to have reported an actual decline in the dollar value of its sales to the Community.

Exports to the United States surprisingly still grew stronger than imports, although for all of 1986 the picture might change. Sweden and Switzerland up to the end of July were comparatively successful on the US market, whereas the dollar value of sales from Iceland and Finland declined. Imports from the US increased particularly strongly in Iceland and Norway.

The dollar value of imports from Eastern Europe actually declined while exports increased. With the 'rest of the world' the picture is fairly similar, exports growing in dollar terms stronger than imports.

Table I

## EFTA trade in 1985: in million US dollars

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
<i>Imports cif</i>								
Austria	1,576.4	12,942.7	776.0	683.9	16,173.4	2,212.2	2,444.0	20,829.6
Finland	2,268.9	5,112.5	714.8	699.5	8,951.1	3,111.0	1,171.3	13,233.4
Iceland	178.6	476.8	61.5	39.2	796.9	79.3	27.9	904.1
Norway	3,578.6	7,137.1	1,043.9	893.6	13,011.6	403.6	1,107.8	14,523.0
Sweden	4,482.9	15,974.6	2,402.8	1,404.2	24,597.1	1,482.8	2,467.8	28,547.7
Switzerland	1,985.1	21,729.1	1,808.3	1,216.3	26,992.0	859.6	2,877.0	30,728.6
EFTA	14,070.4	63,372.7	6,807.3	4,936.8	90,522.1	8,148.5	10,095.8	108,766.3
<i>Exports fob</i>								
Austria	1,796.6	9,596.7	798.8	161.6	12,706.6	1,884.9	2,516.2	17,107.7
Finland	2,658.9	4,949.6	847.5	195.3	9,006.9	3,159.2	1,450.8	13,616.9
Iceland	69.8	397.5	219.9	40.3	731.6	63.8	18.5	813.8
Norway	2,249.6	12,966.4	956.1	236.3	16,558.2	162.0	1,946.0	18,666.2
Sweden	5,858.0	14,839.3	3,566.0	411.0	25,757.7	776.0	3,933.4	30,467.1
Switzerland	2,064.0	14,433.7	2,843.0	874.3	21,068.7	861.0	5,517.1	27,446.8
EFTA	14,696.9	57,183.3	9,231.2	1,918.9	85,829.7	6,906.9	15,382.0	108,118.6

## Percentage change from 1984

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
<i>Imports cif</i>								
Austria	6.4	7.5	12.9	7.0	7.6	-2.8	6.8	6.3
Finland	5.4	10.6	14.6	0.8	8.8	-4.4	21.8	6.4
Iceland	14.2	10.7	6.9	2.0	10.1	-15.5	6.9	7.2
Norway	4.5	8.9	-16.1	34.0	6.0	-19.6	-0.6	4.6
Sweden	-1.0	11.0	12.1	14.2	9.0	-0.7	8.4	8.4
Switzerland	5.5	5.7	-8.5	7.1	4.7	-6.4	-6.6	3.2
EFTA	3.3	8.2	1.1	12.1	7.0	-4.6	3.6	5.7
<i>Exports fob</i>								
Austria	8.3	10.8	23.6	-1.3	11.0	-1.1	6.4	8.8
Finland	4.4	-4.3	-22.5	13.8	-2.8	14.1	-1.4	0.8
Iceland	10.8	13.4	4.1	44.4	11.5	-9.8	8.2	9.4
Norway	-6.6	-3.1	-0.9	-10.6	-3.7	-0.4	24.3	-1.3
Sweden	11.0	2.5	6.6	-2.8	5.6	3.6	-6.2	3.9
Switzerland	6.0	5.2	11.5	2.2	6.6	12.5	1.8	5.7
EFTA	5.7	2.5	4.8	0.7	3.8	7.5	2.3	3.8

Table II

## Trade balances of the EFTA countries (In million US dollars)

	1980	1982	1983	1984	1985
Austria	-6,937	-3,788	-3,940	-3,878	-3,722
Finland	-1,492	-242	-337	+1,065	+384
Iceland	-69	-189	-67	-100	-90
Norway	+1,530	+2,138	+4,480	+5,030	+4,143
Sweden	-2,638	-674	+1,340	+2,986	+1,919
Switzerland	-6,677	-2,338	-3,523	-3,822	-3,282
EFTA	-16,283	-5,093	-2,047	+1,281	-648

Table III

## Percentage shares of EFTA's imports in 1985

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
Austria	7.6	62.1	3.7	3.3	77.6	10.6	11.8	100.0
Finland	17.1	38.6	5.4	5.3	67.6	23.6	8.8	100.0
Iceland	19.8	52.7	6.8	4.3	88.1	8.8	3.1	100.0
Norway	24.6	49.1	7.2	6.2	89.6	2.8	7.6	100.0
Sweden	15.7	56.0	8.4	4.9	86.2	5.2	8.6	100.0
Switzerland	6.5	70.7	5.9	4.0	87.8	2.8	9.4	100.0
EFTA	12.9	58.3	6.3	4.5	83.2	7.5	9.3	100.0

## Percentage shares of EFTA's exports in 1985

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
Austria	10.5	56.1	4.7	0.9	74.3	11.0	14.7	100.0
Finland	19.5	36.3	6.2	1.4	66.1	23.2	10.7	100.0
Iceland	8.6	48.8	27.0	5.0	89.9	7.8	2.3	100.0
Norway	12.1	69.5	5.1	1.3	88.7	0.9	10.4	100.0
Sweden	19.2	48.7	11.7	1.3	84.5	2.5	13.0	100.0
Switzerland	7.5	52.6	10.4	3.2	76.8	3.1	20.1	100.0
EFTA	13.6	52.9	8.5	1.8	79.4	6.4	14.2	100.0

Table IV

## Intra-EFTA trade in 1985

(Exports f.o.b. in million US dollars)

Importer	Austria	Finland	Iceland	Norway	Sweden	Switzerland	EFTA
<i>Exporter</i>							
Austria	—	148.4	4.2	172.7	317.2	1,154.1	1,796.6
Finland	95.3	—	19.9	568.5	1,781.3	193.9	2,658.9
Iceland	0.8	16.4	—	17.3	9.3	26.1	69.8
Norway	117.8	294.6	66.2	—	1,640.9	130.0	2,249.6
Sweden	337.0	1,719.3	69.4	3,188.5	—	543.8	5,858.0
Switzerland	1,063.9	218.3	8.4	230.7	542.7	—	2,064.0
EFTA	1,614.9	2,397.0	168.1	4,177.6	4,291.4	2,047.9	14,696.9

## Percentage change from 1984

Importer	Austria	Finland	Iceland	Norway	Sweden	Switzerland	EFTA
<i>Exporter</i>							
Austria	—	13.4	-6.1	23.2	6.4	6.3	8.3
Finland	-2.9	—	11.8	-6.9	7.7	15.9	4.4
Iceland	145.3	13.7	—	81.4	-13.7	-6.9	10.8
Norway	42.1	6.7	24.5	—	-12.1	0.1	-6.6
Sweden	-0.5	1.9	6.9	17.8	—	12.8	11.0
Switzerland	5.4	6.9	6.5	9.6	5.3	—	6.0
EFTA	5.5	3.6	13.4	13.6	-1.2	8.2	5.7

Table V

## Exchange rates — July 1985 and 1986

(National currency units per US dollar)

	31 July 1985	31 July 1986	Appreciation against the US dollar in %
Austria	19.598	14.735	33.0
Finland	5.886	5.002	17.7
Iceland	40.84	40.83	0.0
Norway	8.179	7.414	10.3
Sweden	8.2445	6.9725	18.2
Switzerland	2.280	1.6817	35.6

Table VI

# EFTA trade by main areas, January-July 1986

(In million US dollars)

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
<i>Imports cif</i>								
Austria	1,146.8	9,997.5	504.0	661.9	12,430.2	1,297.8	1,338.2	15,066.2
Finland	1,607.1	3,587.8	412.1	541.0	6,222.4	1,506.4	644.2	8,373.0
Iceland	123.6	302.1	43.9	39.7	525.8	48.3	20.9	595.0
Norway	2,840.5	5,947.4	827.0	931.7	10,782.0	225.1	770.0	11,777.1
Sweden	2,737.8	10,024.6	1,349.9	903.7	15,201.6	635.1	1,459.0	17,295.7
Switzerland	1,568.8	16,898.2	1,283.9	1,072.9	20,995.8	482.4	1,746.8	23,225.0
EFTA	10,024.6	46,757.6	4,420.8	4,150.9	66,157.8	4,195.1	5,979.1	76,332.0
<i>Exports fob</i>								
Austria	1,510.5	7,573.2	522.3	126.7	9,970.1	1,226.0	1,502.9	12,699.0
Finland	1,900.2	3,426.2	482.9	143.1	6,189.3	1,857.2	724.3	8,770.8
Iceland	56.0	330.6	123.8	35.4	547.8	42.4	19.1	609.3
Norway	1,375.9	7,113.2	561.8	143.3	9,287.7	108.2	1,244.8	10,640.7
Sweden	4,171.3	10,322.0	2,434.2	289.4	17,890.9	463.2	2,353.5	20,707.6
Switzerland	1,558.5	11,529.1	1,975.7	684.3	16,380.1	584.7	3,894.1	20,858.9
EFTA	10,572.4	40,294.3	6,100.7	1,422.2	60,265.9	4,281.7	9,738.7	74,286.3

## Percentage change from January-July 1985

	EFTA	EC	USA	Japan	OECD	Eastern Europe	Rest of world	World
<i>Imports cif</i>								
Austria	34.8	40.6	8.0	75.9	39.5	9.9	-7.0	30.7
Finland	30.0	28.3	6.3	46.0	28.1	-12.1	2.2	16.2
Iceland	26.8	15.9	37.6	76.4	19.9	-1.6	35.7	18.3
Norway	43.4	48.5	35.5	100.3	48.1	-9.9	26.5	44.7
Sweden	15.6	16.8	5.1	33.4	16.1	-20.7	5.0	13.2
Switzerland	46.3	43.1	16.6	61.3	42.0	9.2	6.5	37.7
EFTA	31.8	35.3	13.9	61.1	34.0	-5.5	4.5	28.2
<i>Exports fob</i>								
Austria	57.4	42.6	10.8	48.4	41.9	16.8	5.6	33.7
Finland	30.4	22.7	-2.3	18.6	22.2	5.5	-6.5	15.4
Iceland	49.7	55.4	-4.8	119.9	37.2	-3.9	70.5	34.0
Norway	10.3	-8.0	11.5	-6.6	-4.5	22.5	28.3	-1.3
Sweden	40.5	30.4	26.3	30.5	31.5	7.6	11.0	28.2
Switzerland	43.5	46.5	28.0	43.8	43.7	33.7	32.6	41.2
EFTA	36.3	26.6	20.3	32.5	27.6	12.4	18.2	25.3

# Appendix

## Ministerial meeting of the EFTA Council Reykjavik, 4 and 5 June 1986

### Communiqué

The EFTA Council met at ministerial level in Reykjavik on 4 and 5 June under the chairmanship of Mr Albert Gudmundsson, Iceland's Acting Minister of Commerce.

Ministers stressed that the prospects for sustained international recovery had improved. Inflation is abating and growth is picking up. The value of the dollar has declined substantially, interest rates have come down, and many countries have been able to reduce their budget deficits. These developments are welcome, but they should not give rise to complacency. Unemployment is unacceptably high in many countries, there are large imbalances in trade and payments between major industrial nations, and protectionist pressures remain. The debt problems of many developing countries have been eased, but they are far from resolved and in some countries have worsened. There remain various other uncertainties regarding the evolution of the international economy. In this context Ministers welcomed the cooperative initiatives taken to reduce the misalignment of exchange rates and to cope with the international debt problem. But they stressed that remaining imbalances can only be overcome through further efforts to strengthen international cooperation and through more coherent economic and monetary policies. Policies should aim at

bringing about more liberal trade, structural adjustments, moderate increases in real wages and adequate levels of domestic demand.

Ministers were of the view that the ongoing preparatory process in GATT should lead to the launching of new multilateral trade negotiations at the ministerial meeting in Punta del Este in September 1986. The main objectives of these negotiations are to strengthen the multilateral trading system *inter alia* by developing its rules and improving its functioning, to liberalise access to markets and to ensure that GATT plays its proper role and that trade policy aspects are better reflected in the international economic cooperation. The fulfilment of these objectives should make the system responsive to emerging trade problems and create the conditions for relaxation and dismantlement of protectionist measures.

Ministers agreed that their countries together with the other participating countries will apply an effective standstill commitment for the duration of the negotiations in order *inter alia* to avoid that the participants improve their negotiating positions. Such a commitment would entail an obligation not to introduce measures adversely affecting international trade not based on provisions of the GATT system and to show self restraint in the recourse to measures taken in accordance with GATT. This standstill together with a successful outcome of the negotiations on the extension of the Multifibre Arrangement leading to more liberal trade practices would create a favourable negotiating climate. Ministers underlined that elements of interest to both developed and developing countries should be included in the negotiations.

Ministers reviewed the work being done, as agreed in the Luxembourg Declaration, to broaden and deepen the cooperation between the eighteen countries now within the European free trade system. They noted that this cooperation, because of the growing economic interdependence of the EFTA countries and the EC, already extended to a very wide range of matters. They confirmed their intention to further contribute to the common effort towards the realisation of a dynamic European economic space.

Ministers decided to start formal negotiations with the EC on the introduction of a single administrative document (SAD) for trade between the EFTA countries and the EC and that in this context a further simplification of the certification of origin should be reached in parallel with the introduction of the SAD. They noted that the endeavour to facilitate the free movement of industrial products between EFTA and EC countries had led to the adoption of new measures to avoid technical barriers to trade. They noted the progress so far made on the simplification of the origin documentation. They also noted that the reduced differences in the external tariffs of the EFTA countries and the EC as a consequence of the results of the Tokyo Round no longer justify the present complicated origin rules system and that a simplification of these rules has become a question of increased urgency. In this context they once again stressed the economic importance of an early simplification of the origin rules with respect to cumulation for products originating in the whole Western European free trade system, with a view to further promoting trade. Ministers agreed to

identify the common interests of the EFTA countries in fields suitable for closer cooperation with the EC in order to ensure a parallelism between the achievement of an internal Community market and the realisation of a genuine European market for all the countries in the free trade system.

Ministers expressed their firm belief in the need for closer cooperation in research and development as a means of reinforcing the international competitiveness of European industry. They noted that important steps were imminent in the Community to make it possible for EFTA-based entities to take part in EC research programmes, and that bilateral framework agreements had been concluded.

Ministers expressed appreciation of the contribution made by the Consultative Committee and the Committee of Members of Parliament of the EFTA Countries to the broadening of cooperation with the European Community, particularly through their regular meetings with their counterparts in the EC.

Recalling the Bergen Declaration, Ministers expressed the continuing interest of the EFTA countries in developing economic cooperation with Yugoslavia and welcomed the participation of EFTA in the forthcoming Zagreb trade fair.

The next ministerial meeting of the EFTA Council will be held in Geneva on 2 and 3 December 1986.

## Meeting between EFTA Ministers and the EC Commission Reykjavik, 5 June 1986

### Joint conclusions

1. Under the chairmanship of the Icelandic Minister for Foreign Affairs, Mr Matthias A. Mathiesen, Ministers of the EFTA countries and Mr Willy De Clercq, Member of the Commission of the European Community responsible for External Relations and Trade Policy, met on Thursday, 5 June 1986, in Reykjavik. Mr Per Kleppe, Secretary-General of EFTA, also attended the meeting.

Facing the challenge of creating economic growth and employment in Western Europe and against the background of the endeavours to strengthen the multilateral trading system through the launching of a new

round of trade negotiations, they confirmed their determination to pursue and intensify their efforts to further cooperation between the Community and EFTA countries in line with the common objective expressed in the Luxembourg Declaration of 1984 to create a single European economic space.

Ministers and Mr De Clercq strongly felt that the attainment of this objective would demand even closer economic cooperation between the Community and the EFTA countries. They also underlined that strong linkages between the West European economies create the need for joint efforts to sustain the growth process and employment. Substantial progress in the creation of homogeneous and dynamic European economic space was considered crucial in this context.

They welcomed the conclusion of the negotiations for the adaptation of the free trade agreements and arrangements pursuant to the EC enlargement to Spain and Portugal. This enlargement constitutes an important extension of the European free trade system.

They equally considered that the Community programme for the completion of the internal market by 1992 had created a new challenge not only for the Community, but also for the EFTA countries. Ministers and Mr De Clercq underlined the necessity of further co-ordination between measures aiming at the completion of the EC internal market and the deepening and strengthening of EFTA-EC relations.

2. Ministers and Mr De Clercq stressed the importance they attach to intensifying common efforts in research and development for European economic and industrial growth. They noted with satisfaction the concrete developments which have recently taken place in that respect, in particular the conclusion of the bilateral framework agreements between the Community and individual EFTA countries, the negotiations for cooperation within the EC stimulation programme, and the progress made with regard to EUREKA. They expressed the strong conviction that participation by EFTA-based enterprises and research institutions in EC research and development activities particularly in ESPRIT II, RACE and BRITE, will substantially enhance the effectiveness of the scientific and technological development in Western Europe.

3. Ministers and Mr De Clercq expressed satisfaction at the intensification of contacts between the Community and EFTA countries at all levels which had led to substantial progress in several areas and decided:

- to open already this month formal negotiations between EFTA countries and the EC with the aim of concluding an agreement to introduce a single administrative document from 1 January 1988. They agreed that in this context a further simplification of the certification of origin should be reached in parallel with the introduction of the SAD.
- to exchange information on technical legislation and to have consultations on cases where technical barriers might arise from such legislation. Particular attention will be given to early information and exchanges of view concerning essential safety requirements, related standardization programmes and certification aspects.

- to simplify origin documentation by the beginning of next year through the introduction of a long-term EUR.1 certificate and replacement of form EUR.2 by an origin declaration on the commercial invoice.
- 4. They agreed:
  - to continue the examination of possibilities to open up gradually and according to the principle of strict reciprocity the public procurement beyond the coverage of the relevant GATT Code, particularly in high technology areas of mutual interest.
  - that the current origin rules on cumulation are not adapted to the concept of a European economic space and should therefore be subject to early change.
  - the extension of the alternative percentage rules to sectors outside the engineering sector continues to be examined.
- 5. They further agreed that the first stage of EFTA-EC cooperation in the field of environment, in line with the Luxembourg Declaration, could comprise exploratory exchange of views and mutual consultations on environmental policy developments. With respect to exhaust emission standards for motor vehicles, Ministers and Mr De Clercq agreed to strengthen European cooperation in favour of environmental protection while avoiding the emergence of new obstacles to trade. They also decided to work closely together in the organization of the European Year of the Environment in 1987.
- 6. Ministers and Mr De Clercq underlined the urgency of close cooperation in the event of nuclear accidents. They also discussed the implications for the public health of their populations and their trade relations.
- 7. Ministers and Mr De Clercq agreed that the progress achieved had made the Reykjavik meeting a significant event in EFTA-EC cooperation. They decided to meet again in the near future for further review of progress and the identification of new areas of extended cooperation.

# Ministerial meeting of the EFTA Council

## Geneva, 2 and 3 December 1986

### Communiqué

The EFTA Council met at Ministerial level in Geneva on 2 and 3 December under the chairmanship of Mr Kurt Mosbakk, Norway's Minister for Trade and Shipping.

Ministers noted with satisfaction that the EFTA countries have continued to co-operate actively for the liberalization of trade in Western Europe and for the strengthening of the liberal world trading system. They underlined the value of EFTA as an essential and lasting element in the European free trade system.

Ministers noted that the co-operation between EFTA and the European Community, each other's most important trading partner, continued to expand on the basis of the joint Luxembourg Declaration. They expressed satisfaction at the evidence of the political will in the European Community to broaden and deepen this co-operation, as shown most recently in the conclusions reached by the Council of Ministers of the EC on 15 September 1986. In response, and as a sign of their determination to keep up the momentum of co-operation, the Ministers agreed on the attached statement.

Ministers welcomed the successful launching of the Uruguay Round of multilateral trade negotiations in GATT. They stressed the importance of establishing the appropriate organizational structure and of starting the negotiating process in GATT without delay in order to attain the objectives of the Ministerial Declaration. Ministers emphasized the necessity for all participants to refrain from taking any trade restrictive measures, including grey area measures, so as to enhance the confidence needed for successful negotiations. In this context, they expressed concern about persistent protectionist pressures and underlined the importance of the fulfilment of the commitments on standstill and rollback included in the Declaration. The EFTA countries will continue to work actively for the success of the new Round.

The next meeting of the EFTA Council at Ministerial level will take place in May 1987 in Interlaken, Switzerland.

## **Statement by EFTA Ministers in response to the EC Council Geneva, 3 December 1986**

In view of the special relationship between the EFTA countries and the European Communities, EFTA Ministers welcome the positive initiatives contained in the conclusions adopted by the EC Council of Ministers on 15 September 1986 regarding the follow-up to the Luxembourg Declaration of 9 April 1984.

Ministers share the political will and determination of the EC Council to consolidate and strengthen co-operation between the EFTA countries and the enlarged Community to realize the objectives of the Luxembourg Declaration. They recall the aim of creating one homogeneous and dynamic European economic space of eighteen nations, working closely together for the promotion of economic growth and employment. They wish to stress in particular the common responsibility for giving political impetus, whenever needed, to all levels of co-operation in order to preserve the momentum. They welcome the constructive character of the proposals of the EC Council for progress in new fields which bring the process a further step forward.

They express their conviction that an essential step towards achieving the objectives of the Luxembourg Declaration is the removal of remaining barriers to trade and the avoidance of the creation of any new obstacles as a result of internal measures on either side.

Consequently, whilst appreciating the Community's efforts to complete the internal market, Ministers stress the need for parallelism between this and other relevant Community policies on the one hand, and the evolution of EFTA-EC co-operation on the other, in order to secure for all the greatest possible benefits from a homogeneous and dynamic European economic space.

Ministers share the Council's appreciation of the co-operation achieved in the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC) as regards standardization. They also point to the role of the European Conference of Postal and Telecommunications Administrations (CEPT) in this context. They underline that these efforts have to be supplemented by arrangements for the reciprocal recognition of tests and certificates. This is of particular importance in the sector of information technology and telecommunications where the competitiveness of European industries depends on large markets. All industries should benefit fully from the largest free trade area in the world. Ministers therefore reiterate the importance of simplified rules of origin both regarding cumulation and the extended use of the alternative percentage rule. They welcome the progress made towards the introduction of a Single Administrative Document (SAD) and take it that further simplification of origin documentation will be introduced at the same time as the SAD.

With a view to strengthening the competitive ability of European industry, they underline the need to continue efforts to improve co-operation with regard to the functioning of the provisions on anti-dumping and unfair competition. Every effort should be made to examine all the possibilities for opening up, gradually and on a reciprocal basis, public procurement. This is especially important in fields of high technology, where open public markets are essential in order to exploit the results of joint efforts in the areas of research and development and standardization.

The EFTA countries are ready to exchange views on the functioning of Protocol No. 2 of the Free Trade Agreements.

Ministers note with great satisfaction the intensification of common efforts in research and development through the conclusion of framework agreements and through the longstanding Co-operation in Scientific and Technical Research (COST). They welcome the statement by the EC Council on participation by the EFTA countries in Community R & D programmes, which they wish to see develop on the basis of equal advantages and opportunities. They stress the urgency of arriving at decisions on modalities for participation enabling timely involvement of entities in EFTA countries in the new phases of the EC industrial research programmes. In this context Ministers draw attention to the prospects of successful co-operation in the framework of EUREKA as a major new initiative. They express their conviction that reinforced co-operation in the field of research and development would strengthen Europe's scientific and technological potential and thereby reinforce the international competitiveness of European industry.

Ministers stress their interest in exploring the possibilities for concrete co-operation in the field of the environment and in participating actively in the European Year of the Environment 1987.

The EFTA countries are prepared to enter into exploratory talks concerning the possibility of expanding co-operation into new areas such as capital movements, services, State aids, co-operation in the field of education (e.g. vocational and professional training), questions related to intellectual and industrial property rights, the facilitation of border controls for persons, and certain areas of indirect taxation dealing with exemptions and allowances.

They underline strongly the need, as co-operation gathers speed and widens into new fields, to improve procedures for early mutual information and consultation and to establish the mechanisms necessary for rapid implementation of results.

EFTA Ministers strongly support the expansion and widening of the co-operation with the European Community. By joining forces in this manner, paving the way for a wide, free market for goods and services comprising the whole of Western Europe, the EFTA States and the Community and its Member States can together strengthen the competitiveness of their industries and enhance the welfare of their peoples.

# European Free Trade Association 1986

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# **Overcoming Technical Barriers to Trade**

**The arrangements introduced by EFTA**

SECRETARIAT OF THE EUROPEAN FREE TRADE ASSOCIATION  
GENEVA

March 1987

# Overcoming technical barriers to trade

## The arrangements introduced by EFTA

Health and safety are among the reasons why governments and other national authorities lay down compulsory regulations for the composition or performance of a variety of types of product. Frequently the regulations differ from one country to another if only because they reflect national habits or practices and the choice available on the market. In the absence of internationally accepted standards the differences can restrict trade if a particular country requires products to be tested or inspected to ensure that they conform with national requirements.

It was to overcome that problem—the need for national tests or inspections of imported products—that a number of international arrangements were worked out in EFTA in the late 1960s and during the 1970s. Although they originated in EFTA, it was always the intention that other countries should be able to take part. The arrangements are therefore entirely independent. In one of them, the Pharmaceutical Inspection Convention, as many as fourteen European countries are already taking part.

What is common to these arrangements is that the national authorities concerned may accept the findings of tests or inspections carried out in another country. This is commonly referred to as the reciprocal recognition of tests and inspections. For obvious reasons, an important element in any such system is that the authorities in the various countries involved should have confidence in the work and standards of their counterparts in the other countries.

The practical effect of these arrangements is that the manufacturer of a particular product, in one of the countries in which the arrangement is applied, can have the product tested or inspected in his own country to confirm that it meets the requirements of the country he wishes to export to. This can save time and money.

Two of these arrangements take the form of conventions which are signed by sovereign states. One of these, already mentioned, concerns the manufacture of pharmaceutical products, and one the hallmarking of articles of precious metals. In the other cases the arrangement is an agreement between the regulatory authorities in a number of countries.

A brief account of the state of these schemes and conventions at the end of 1986, with some notes on relevant developments during that year, is given in this report. It was prepared by the EFTA Secretariat which serves as the secretariat for each of the schemes and conventions.

## **Pharmaceutical Inspection Convention**

The reciprocal recognition of inspections relating to the manufacture of pharmaceuticals is the key element in the Pharmaceutical Inspection Convention. Its aim is to help to remove obstacles to international trade while maintaining the necessary high standards for the manufacture of pharmaceutical products, in the interest of public health.

All medicines and similar products for human consumption which are subject to control under health legislation are covered by the Convention. It enables the countries participating to exchange such information as is necessary for a health authority to be able to ascertain that pharmaceuticals imported from another Convention country are manufactured in accordance with the standards applied under the Convention. Inspections carried out by national inspectors in the country where the product is manufactured are thus recognised by the country into which it is imported.

The Convention is an agreement between states: ten when it first came into force in 1971, fourteen at the end of 1986. Some are in the EFTA area (Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland), some in the EC (Denmark, the Federal Republic of Germany, Ireland, Portugal and the United Kingdom), and two in Eastern Europe (Hungary and Romania).

Five other European countries—Belgium, Czechoslovakia, France, Italy and Spain—have expressed an interest in acceding to the Convention.

The Committee of Officials, which has the task of ensuring that the Convention works effectively and is applied in a uniform way, met in Sigtuna, Sweden, in June and in Geneva in November.

Guidelines for the procedure to be used in connection with requests for accession to the Convention were adopted by the Committee during the year. The procedure is designed in part to ensure that a country which applies for membership satisfies the conditions laid down in the Convention, and in part to foster the necessary mutual confidence between the national pharmaceutical inspectorates.

Draft guidelines for the manufacture of active pharmaceutical ingredients were discussed by the Committee.

The Committee continued to give particular attention to the mutual training of national inspectors responsible for seeing that the standards of good manufacturing practice established under the Convention are observed in their countries. A key element here is the organising of seminars which make it possible for national inspectors to keep informed about the most up-to-date thinking on manufacturing standards and inspection techniques in the industry. The fifteenth seminar was held in Sweden in June and dealt with plastics and their pharmaceutical applications. It was attended by inspectors from the Convention countries and also from Australia, Belgium, Canada, Italy and Spain.

At the June meeting of the Committee it was agreed that the mutual training through seminars should be complemented on a trial basis by joint visits to pharmaceutical companies by inspectors from several competent authorities. The purpose would be to provide further training for inspectors through the exchange of experience, to provide a continuing opportunity to review the interpretation of the Convention's standards and guidelines, and to maintain mutual confidence between the national authorities of the fourteen countries.

### **Registration of pharmaceutical products**

Another aspect of the reliability of pharmaceutical products is the subject of an arrangement known as the PER scheme: the scheme for the mutual recognition of evaluation reports on pharmaceutical products. This has been in operation since June 1979 and concerns not the manufacture but the registration of the products. The scheme aims at simplifying the process of obtaining, or granting, authority to market a new product in more than one country.

The scheme promotes the reciprocal recognition of evaluation reports. These are reports which evaluate the tests and scientific documentation submitted by the manufacturer when he first applied successfully for the registration of a particular new product. Though the evaluation of the tests and the documentation is an essential condition for registration, the drawing up of evaluation reports in a form that can be transmitted from one national registration authority to another is a concept specially introduced for the purpose of the scheme.

From the start the scheme was in force in five EFTA countries: Austria, Finland, Norway, Sweden and Switzerland. It was extended to a sixth country, its first non-EFTA country, when the registration authority of the Federal Republic of Germany began to participate on 28 February 1986. A representative of the registration authority in the UK, the Department of Health and Social Security, attended the December meeting of the PER Committee as an observer.

The Committee, which met twice during the year, continued to follow relevant developments within the European Community, particularly arrangements concerning mutual recognition of reports on pharmaceutical products for registration purposes. It is hoped that the similarity between

the EC system and the PER scheme will make it possible to further the cooperation between the original PER countries and the EC registration authorities.

## **Hallmarking**

The Hallmarking Convention—the Convention on the Control and Marking of Articles of Precious Metals—introduced the first international hallmark. Specifically, it enables national assay offices to apply common control marks to articles of gold, silver or platinum after they have tested the fineness of the metal or metals used. Articles bearing these hallmarks are accepted without further testing or marking by any of the countries taking part.

The operation of this Convention is supervised by a Standing Committee. At its meeting in May the Committee noted that the number of articles marked with the common control marks in 1985 was nearly one million, about fifty per cent more than in the previous year.

The Committee was informed that Denmark had announced its intention to join the Convention and was preparing the legislation necessary to do so.

Work continued on the coordination of the practices used in the Convention countries for assaying and marking the various types of article of precious metal.

The Convention first came into operation in 1975. It is in force in eight countries: Austria, Finland, Ireland, Norway, Portugal, Sweden, Switzerland and the United Kingdom. One of the conditions for membership is that an applicant country must have arrangements for the assay and marking of articles of precious metals which are sufficient for the country to comply with the requirements of the Convention.

## **Pressure vessels**

The scheme for the reciprocal recognition of tests and inspections carried out on pressure vessels has been in operation since 1 January 1971.

It applies to any static or transportable vessel for use on land which is intended to contain a fluid—liquid, steam or gas—at a pressure greater than atmospheric pressure. It does not apply to pressure vessels for use in nuclear installations.

A precondition of the use of the scheme is that the designs and calculations relating to the pressure vessel must first have been approved by the appropriate authority in the country into which it is to be imported. Then the complete range of tests required, apart from any that are normally performed on installation, can be delegated to a testing body in the exporting country, provided the testing body is recognised by the appropriate authority in the importing country.

When the national authorities participating in the scheme met in Geneva in June they found that no specific difficulties had been encountered in the operation of the scheme and that there was general satisfaction with it.

The five-yearly review of the list of recognised testing bodies was begun at that meeting.

Work currently going on in the EC in connection with a proposed EC directive on simple pressure vessels was discussed at the same meeting. The directive is the first to be based on the Community's new approach to technical harmonisation and standardisation. This approach involves distinguishing between the essential safety requirements for products, which are mandatory and laid down in EC harmonisation directives, and the necessary technical specifications which are drawn up by standards-writing bodies in Europe.

The scheme is in force in the following countries: Austria, Denmark, Finland, Iceland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

## **Ships' equipment**

The scheme for the reciprocal recognition of tests and inspections carried out on ships' equipment has been in force since 1 January 1971. It applies to any kind of equipment for ships, including life-saving appliances and fire-fighting equipment, which is subject to the requirements and approval of a national authority. It is in use in ten European countries.

Representatives of the national authorities taking part in the scheme met in April. On the basis of national reports on the working of the scheme they found that it continued to function well.

The drawing up or up-dating of "common requirements" for various items of ships' equipment continued to be an important feature of the cooperation between the national authorities. These common requirements are not international standards. They simplify the operation of the scheme by expressing the elements that are common to the national requirements of the countries participating. In part, the work involved revising common requirements already accepted in order to take into account amendments to the International Convention for the Safety of Life at Sea that were to enter into force on 1 July 1986.

Under the scheme there are now common requirements for: lifeboat engines, electro-hydraulic steering gear for passenger ships, the design and construction of lifeboat davits and winches, glass-fibre-reinforced plastic lifeboats, inflatable life-rafts, lifeboat covers, non-portable fire extinguishers, compasses, the performance of pilot hoists, self-contained breathing apparatus for firemen on board ships, totally enclosed lifeboats, gangways and accommodation ladders, life-jackets, the type testing of fire alarm cabinets and of electrical component parts for fire alarm and detection systems, hydrostatic release units and double-compartment inflatable work vests.

The ships' equipment scheme is in force in Denmark, Finland, the Federal Republic of Germany, Iceland, the Netherlands, Norway, Portugal, Sweden, the United Kingdom and Yugoslavia.

### **Gas appliances**

The scheme for the reciprocal recognition of tests and inspections carried out on gas appliances covers any appliance that uses town gas, natural gas or liquefied petroleum gas and is subject to approval by a national authority. It has been in force since 1 August 1972. National approval bodies in Austria, Denmark, Finland, Iceland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom are participating in the scheme.

Little use has been made of the scheme so far and few licences have been granted under it. In some instances, however, national test reports have been accepted in full or in part by foreign approval bodies on the basis of the more flexible procedure for the recognition of testing institutions that was introduced in 1979.

At present there are few European or international standards for gas appliances. The approval bodies taking part in the scheme believe that once current work on the preparation of standards is completed there will be more international trade in gas appliances and the use of the scheme will consequently increase.

### **Agricultural machines and tractors**

The scheme for the reciprocal recognition of tests carried out on agricultural machines and tractors has been in operation since 1 September 1972. Tests for operational safety and ergonomics and for safety in road traffic are the subject of the scheme. It applies to any machine, implement or vehicle for use in agriculture, horticulture or forestry, and to their accessories, provided they are subject to approval by national authorities. Electrical equipment is outside the scheme.

At their meeting in October representatives of the national authorities participating in the scheme found that it continued to work satisfactorily. They also resumed their discussion of the possibility of extending the arrangement to cover certain tests, or parts of tests, of earth-moving equipment, including excavators and backhoe loaders.

The scheme is in force in eight European countries: Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

### **Heating equipment using liquid fuel**

The scheme for the reciprocal recognition of tests and inspections of heating equipment using liquid fuel has been in force since 1 January 1978.

It concerns all appliances subject to national approval that use liquid fuel for heating purposes. They include oil burners, domestic boilers, air heaters and dryers, oil stoves with flue connection, portable heaters and portable cooking and lighting appliances.

Use of the scheme remains limited. Type testing of equipment of these kinds is not compulsory in all the seven countries concerned. Some countries use electricity rather than liquid fuel. Some import mostly from countries outside the scheme.

The use of standard test reports is considered a means of encouraging the application of the scheme. When representatives of the approval bodies participating in the scheme met in October they therefore agreed to examine the minimum information needed in standard test reports on domestic boilers, air heaters and oil burners.

The scheme is in operation in Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland.

### **Lifting appliances**

The scheme for the reciprocal recognition of tests and inspections carried out on lifting appliances came into force on 1 January 1978.

It covers all kinds of lifting, handling, loading and unloading machinery, including building cranes, harbour cranes, deck cranes, lifts for passengers or goods, escalators, ski lifts, mine lifts and fork lift trucks. Tests or inspections required after the installation of the equipment are excluded.

Representatives of the authorities participating in the scheme met in Geneva in January. Although little use has so far been made of the scheme, representatives from the four Nordic countries involved noted some progress in the reciprocal recognition of testing institutions in their countries.

The scheme fulfils a useful role in providing detailed information for manufacturers on approval bodies, testing facilities and national requirements in the countries taking part.

The scheme is in operation in Austria, Finland, Iceland, Norway, Sweden and Switzerland.

# List of publications

## Texts of the conventions and reciprocal recognition schemes

*Convention for the Mutual Recognition of Inspections in respect of the Manufacture of Pharmaceutical Products.* (1970). Bilingual English-French, German, Italian.

*Convention on the Control and Marking of Articles of Precious Metals,* (1972). Bilingual English-French.

*Scheme for the Reciprocal Recognition of Tests and Inspections carried out on Pressure Vessels.* (1971). English, French and German.

*Scheme for the Reciprocal Recognition of Tests and Inspections carried out on Ships' Equipment.* (1971). English, French and German.

*Scheme for the Reciprocal Recognition of Tests carried out on Agricultural Machines and Tractors.* (1972). English, French and German.

*Scheme for the Reciprocal Recognition of Tests and Inspections carried out on Gas Appliances.* (1972). English, French and German.

*Scheme for the Reciprocal Recognition of Tests and Inspections carried out on Lifting Appliances.* (1978). English, French and German.

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