

EFTA

ANNUAL REPORT

1991



Thirty-first
Annual Report
of the
European Free Trade
Association

Geneva, June 1992

ANNUAL REPORT

1991

Thirty-first
Annual Report
of the
European Free Trade
Association

Geneva, June 1992

Thirty-first Annual Report 1991

Table of contents

EFTA IN 1991	5
The EEA	5
EFTA internal matters	6
Third country relations.....	6
DEVELOPING THE EUROPEAN ECONOMIC AREA	9
The EEA negotiations	9
The EEA Agreement	12
The Luxembourg Process	31
RELATIONS WITH OTHER COUNTRIES AND INTERNATIONAL ORGANIZATIONS	33
Czechoslovakia, Hungary and Poland	33
Bulgaria and Romania	35
Estonia, Latvia and Lithuania	36
Turkey	37
Israel	38
The Gulf Co-operation Council	39
Yugoslavia	39
The EFTA Industrial Development Fund for Portugal	40
Relations with other international organizations	41
FUNCTIONING OF EFTA	43
The Council	43
The standing committees	43
The Consultative Committee	46
The Committee of Members of Parliament	47
The Secretariat	49
EFTA Brussels office	49
EFTA Statistical office in Luxembourg	50
Finance	51

Appendix

MINISTERIAL DECLARATIONS AND COMMUNIQUE

Ministerial meeting between the
European Community, its Member States
and the Countries of the European
Free Trade Association, 13 May 1991 53

Heads of Government and
Ministers of the EFTA States,
24 May 1991 60

Meeting of EFTA Ministers and EC Representatives,
25 June 1991 63

Meeting of EFTA Ministers,
10 and 11 December 1991 64

EUROPEAN FREE TRADE ASSOCIATION 1991 68

EFTA IN 1991

The EEA

1991 will go down in EFTA's history as the year of the Agreement on the European Economic Area (EEA). After two years of intense and complex negotiations, ministers of the 19 EFTA and EC countries reached agreement, during the night of 21 to 22 October, on political issues associated with the EEA. The EEA Agreement, which contains 129 articles and 49 protocols, as well as a number of annexes and declarations, constitutes more than 1,000 pages of text. The Agreement aims at extending the "four freedoms" (free movement of goods, services, capital and persons) of the Community's single market to the EFTA countries from its entry into force on 1 January 1993, as well as a great number of flanking and horizontal policies (in fields such as the environment, education, research and development, social policy etc.).

In order to ensure a homogeneous economic area the EEA is largely based on existing Community legislation - the Community "acquis" - in the areas mentioned above. The Agreement excludes both the agricultural and fisheries policies of the Community. It provides for a number of common institutions, including an EEA Council at ministerial level and an EEA Joint Committee to prepare and take decisions on future EEA legislation. The EEA will constitute the world's largest and most integrated market with a total population of close to 380 million persons.

The satisfactory political conclusion of the Agreement in October was, however, somewhat overshadowed by the opinion issued by the EC Court of Justice on 14 December. The European Court declared that the joint EEA Court originally envisaged by the Agreement was incompatible with the Treaty of Rome. As the opinion of the Court was binding on the European Community, this necessitated further negotiations on the judicial aspects of the Agreement which were not finished before the end of the year under review. The initialling and signing of the Agreement

therefore had to be postponed, but both sides declared that they considered the political agreement reached in October to be fully valid and underlined their intention of having the EEA enter into force on 1 January 1993, as originally foreseen, after the completion of the ratification procedure.

EFTA internal matters

When compared to the EEA negotiations and to EFTA's relations with countries outside of the EC (see below), purely internal developments played a more modest role in 1991, at least at the political level. The single most important - and at the same time most welcome - internal event was the accession of the Principality of Liechtenstein as a full member of the Association. Liechtenstein's accession was approved by the EFTA Council at ministerial level at its regular spring meeting on 22 May in Vienna and entered into force on 1 September.

The Vienna ministerial meeting was followed by a meeting of the Heads of Government of the EFTA countries on 24 May, which was also held in Vienna. This meeting gave important political guidance at a critical stage of the EEA negotiations, as well as on the Association's relations with non-EC member states, so-called third countries.

The regular autumn meeting of the EFTA Council at ministerial level took place in Geneva on 10 and 11 December. In the context of the EEA, the ministers took note of a report by the High-Level Planning Group (HLPG) set up earlier in the year to work out the administrative arrangements among the EFTA countries in preparation for the implementation of the EEA. The ministers agreed to set up a preparatory committee to establish the EFTA Surveillance Authority (ESA) foreseen by the EEA Agreement, as well as an interim EFTA Standing Committee charged with preparing decisions in view of the joint decision-making process defined in the Agreement.

Third country relations

The changes in Central and Eastern Europe also had an immediate effect on the Association's activities in 1991, by

bringing about a considerable expansion of EFTA's relations with the new democracies in that part of Europe. Following the initiative taken by the EFTA countries at their summit meeting in Gothenburg in June 1990 to establish formal relations with Hungary, Poland and Czechoslovakia, free trade negotiations with these three countries were initiated. The negotiations were conducted in parallel with the EC negotiations with these countries. Together with the association agreements of the EC, the EFTA free trade agreements will represent a significant contribution to the continuing process of transforming the three Central and East European countries into market economies. The agreements should also facilitate their integration into a wider European free trade system.

Immediately after the return to independence of Estonia, Latvia and Lithuania in August, the EFTA ministers, at an informal meeting in Helsinki, authorized the Chairman of the EFTA Council at ministerial level to undertake an exploratory mission to the three Baltic states in order to determine the possibility of EFTA assistance. This initiative was followed up in November by a mission of experts from all EFTA countries. These efforts resulted in the signing of joint declarations on co-operation with ministers of the three countries in Geneva on 10 December.

On the same day, the EFTA ministers signed declarations with their counterparts from Bulgaria and Romania. EFTA's network of co-operation therefore now covers practically all of Central and Eastern Europe.

On the other hand, given the political situation in Yugoslavia, the EFTA Council at official level decided on 14 November to suspend all co-operation activities with the Association's oldest, and for a long time only, partner in that part of Europe. However, at their December meeting the EFTA ministers instructed the Council at official level "to actively examine concrete measures to assist those Parties which contribute towards a comprehensive political and peaceful solution."

EFTA's third country relations during the year under review also expanded beyond the immediate confines of Europe: at their meeting in December EFTA ministers signed a free trade agreement with Turkey together with the Minister of Foreign Trade of that country. The agreement enters into force in the spring of 1992. Free trade negotiations with Israel began in the summer, with a view to having an agreement enter into force early in 1992. The

aim of both these agreements is to put trade relations with EFTA countries on the same preferential basis as those between these countries and the EC. Contacts were further initiated with the Gulf Co-operation Council (GCC) in order to explore the possibilities for free trade negotiations with the six member countries of that organization as a group, the aim again being non-discrimination vis-à-vis the EC.

DEVELOPING THE EUROPEAN ECONOMIC AREA

The EEA negotiations

During 1991, EEA negotiations required an even more intense meeting schedule than in the two preceding years. Besides the monthly meetings in Brussels of the main EFTA-EC negotiating body, the High-Level Negotiating Group (HLNG) (composed of senior officials from the EFTA countries and the EC Commission and assisted by its five Negotiating Groups (NGs)), there were two regular EFTA ministerial meetings (23 May in Vienna and 11 December in Geneva) and three informal meetings of ministers of the EFTA countries (on 1 and 2 March in Geneva, on 8 and 9 September in Helsinki, and on 21 and 22 October in Luxembourg). The ministers of the EFTA countries met with their EC counterparts on several occasions: on 13 and 14 May in Brussels, on 18 and 19 June in Luxembourg, on 25 June in Salzburg and on 21 October in Luxembourg.

The ministerial meetings were necessary because the EEA negotiations involved a number of sensitive questions that could only be decided at the political level. These included two main sets of issues. The first dealt with legal and institutional aspects of the Agreement while the second involved problems related to the substance of the Agreement. The latter applied, in particular, to conditions for trade both in agricultural products and fish and other marine products, as well as to the Community's request for a financial mechanism in favour of the less developed countries and regions of the EC.

The legal and institutional questions were largely resolved by the joint ministerial meeting in Brussels in May. Solutions included general and specific safeguard clauses and rebalancing measures and the involvement of experts of the EFTA countries in EC committees as well as an EFTA surveillance mechanism. The Brussels meeting also envisaged the creation of an EEA Court. However, the EC Court of Justice later found this solution to be incompatible with the EEC treaty.

The joint ministerial meeting in Luxembourg in June had to tackle the complicated question of fish. The EFTA countries' request for free trade in fish and other marine products was countered by the Community which demanded a degree of access to fish resources of EFTA countries. The Luxembourg meeting resulted in a delicate compromise between access to markets and access to resources, but when it came to translation into concrete terms, it emerged that EFTA and the EC had interpreted the compromise differently.

As for the financial mechanism, the EFTA countries declared their willingness to consider such a mechanism, but made their final agreement on its amount and modalities dependent on the overall balance of the Agreement. This question therefore also remained open after the meeting in Luxembourg in June.

In spite of the difficult situation following the meeting, both sides decided to meet again a week later in Salzburg in the hope of breaking the deadlock. It had originally been hoped that the EEA Agreement could be initialled at this meeting, which was attended by the EFTA ministers, the President of the EC Council and the Vice-President of the Commission.

As regards trade in agricultural products, it had been decided earlier in the year that in the absence of a common EFTA agricultural policy, the Community's request for the liberalisation of trade in a number of agricultural products mainly originating in the less developed regions of the Community, should be dealt with in bilateral talks between the individual EFTA countries and the EC.

Another question which complicated the EEA negotiations was the problem of road transit through the two alpine EFTA countries, Austria and Switzerland. This issue was the subject of bilateral negotiations between the Community and these two countries. Negotiations had begun before the EEA negotiations and had no formal link with the latter. However, from the beginning of the year under review, the EC linked the outcome of the EEA to a satisfactory conclusion of the transit negotiations. Although the EFTA countries refused to accept such a linkage, the Community kept insisting on it.

The bilateral transit negotiations proceeded well in the autumn and were concluded on the eve of the ministerial meeting in Luxembourg in October, thus removing an important obstacle to the EEA.

The two remaining obstacles were finally overcome at the Luxembourg meeting of 21-22 October: fish and the financial mechanism. EFTA succeeded in obtaining duty-free access to EC markets for a number of fish and fish products as from 1 January 1993, and a gradual reduction of duties for certain other categories of fish was agreed to - by 70 per cent before 1 January 1997. Some categories of fish remain outside the scope of these tariff reductions, but an evolutionary clause keeps the ultimate aim of full free market access valid. The question of access to fish resources was settled in bilateral negotiations.

As to the financial mechanism, the EFTA countries agreed to a budgetary commitment covering five years, consisting on the one hand of 1,500 million ECU in loans with a three per cent interest subsidy and a two year grace period for repayment; and on the other, of 500 million ECU in grants. The beneficiaries will be: Greece, Portugal, Ireland and parts of Spain. Priority will be given to environmental and educational projects. The EFTA countries will finance the loan subsidies but the capital itself will be provided by the European Investment Bank (EIB). The solution of these two major issues paved the way for the political conclusion of the EEA Agreement in the early hours of 22 October.

The political conclusion of the EEA Agreement led to the idea of a possible initialling of the Agreement during the month of November. However, as the EC Court of Justice arranged a hearing the initialling was delayed. The Court delivered its official opinion on 14 December, concluding that "the system of judicial supervision which the agreement proposes to set up is incompatible with the treaty establishing the European Economic Community."

At a meeting shortly before Christmas, chief negotiators from both sides agreed to continue discussions at a later date in order to find an alternative solution in conformity with the Court's opinion.

The EEA negotiations were not carried out in a political vacuum. Continuing changes in Central and Eastern Europe, especially the disintegration of the Soviet Union and the civil war in Yugoslavia, reinforced the all-European role of the EC at the same time as the Community speeded up its move towards Economic and Monetary as well as Political Union - culminating in the Maastricht Summit at the end of the year.

All these developments could not but affect developments in the EFTA countries. The growing political weight of the Community in Europe and the prospect of European union put the question of EC

membership on the agenda in many EFTA countries. On 1 July 1991 Sweden applied for membership. A month later Austria, which had handed in a membership application in 1989, received a positive opinion from the EC Commission on its membership prospects. On 22 October, immediately following the political conclusion of the EEA negotiations, the Swiss Government declared membership in the Community to be a political goal, but without indicating a time frame for that step. Later in the year, the Government of Finland prepared a report on the impact of possible EC membership. Political debate on the membership question also increased in the other EFTA countries, especially in Norway.

The question of future enlargement of the EC received further attention after the Maastricht Summit declaration, which noted that negotiations on accession could start "as soon as the Community has terminated its negotiations on Own Resources and related issues in 1992". The Commission was given a mandate to examine the question of enlargement and to report to the meeting of the European Council in Lisbon at the end of June 1992.

The EEA negotiations of 1991 must be seen against this political background, although it is difficult to determine the exact degree of interaction between the negotiations and the membership debate in the EFTA countries. As negotiations went on, the EEA was increasingly seen as compatible with future EC membership and thus as an agreement of a possibly more transitional character than as an end in itself. Nevertheless, all the EFTA countries continue to consider the EEA as their only possibility of participating in the Community's single market from its outset in 1993. For those EFTA countries considering, or which have already applied for future membership, the EEA with its integration of Community *acquis* will be an excellent preparation. This view was also underlined in the Commission's opinion on Austria's application.

The EEA Agreement

The main part of the EEA Agreement, in its structure and content, is similar to the corresponding provisions of the Treaty of Rome. Following the preamble, the objectives and most important principles for the EEA are stated. Then follow the basic rules for the four freedoms - provisions concerning competition etc., horizontal provisions of importance to the four freedoms and co-operation in areas that fall outside the scope of the four freedoms.

Among other parts of the Agreement are a section on the institutional provisions for the EEA, a text on the financial mechanism for the less-developed EC countries, and the general and final provisions.

The main part of the Agreement is followed by 49 protocols - containing rules on more specific issues - and 22 annexes that integrate all the EC acts identified as the relevant *acquis communautaire*. The annexes mainly consist of the headings of these acts and certain technical adaptations to the text. Such adaptations are necessary, for example, when replacing EC institutions with relevant EEA institutions.

THE FREE MOVEMENT OF GOODS

One aim of the EEA Agreement is to provide for the free movement of goods by establishing a fundamentally improved free trade area.

About 800 articles of EC legislation associated with the free movement of goods have been integrated into the EEA Agreement to ensure that the same substantive rules apply to all suppliers of goods. Non-discriminatory conditions will apply for the production and marketing of EEA products throughout the 19 country area.

Rules of origin

The rules of origin state which criteria should be applied in order to grant a product preferential treatment, that is, to give it duty free status in trade among EEA countries. The EEA Agreement introduces simpler rules of origin through a number of measures: a new layout for the protocol on rules of origin, the principle of full accumulation, relaxation of the territorial principle, a general tolerance rule, simplification of the evidence of origin and alternative percentage rules in certain areas.

Simplification of border formalities

Border controls will remain in the EEA. However, one objective is to simplify cross-border traffic through greater administrative co-operation and new methods for checking vehicles, etc. The EEA Agreement therefore contains provisions on random checks, common border posts, harmonization of the opening hours of customs offices, and simplified customs procedures for certain kinds of goods.

Mutual assistance in customs matters

The agreement on mutual assistance in customs matters will improve the exchange of information between the central customs authorities in the EEA countries. It will supplement already existing bilateral agreements between EFTA countries and EC member states.

Trade facilitation

In the EEA, co-operation to facilitate trade will be extended and strengthened. This involves, for example, the replacement of paper documents by the electronic exchange of trade data. The EFTA countries will be able to participate in Community trade facilitation programmes and projects.

Public procurement

The EEA Agreement will create a single market in public procurement. The Agreement not only recognizes this principle, but includes concrete rules to achieve it in practice.

Those putting bids out to tender must advertise them through the appropriate channels: The Official Journal of the Community and its electronic counterpart. They must publish detailed information about the bid both before and after the contract has been awarded.

All technical specifications must be included in the conditions of the bid when advertising. They should be based on European standards where they exist, or on national standards embodying European standards.

Contracts may only be awarded on the basis of the lowest price bid or "most economically advantageous tender". The EEA Agreement further strengthens these rules by ensuring an effective enforcement. All EEA states will have to make arrangements to review actual or alleged infringements of EEA rules or the national arrangements made to implement them. The reviewing body will have the right to rectify infringements or to prevent further injury to the aggrieved party, as well as the power to suspend contracts and award damages.

Technical barriers to trade

Some 650 EC legal acts have been integrated into the EEA Agreement in order to remove all technical barriers to trade. Principles for barrier-free trade will apply to all EEA countries, so that no discrimination will exist between manufacturers in EFTA and EC countries.

Wine and spirits

The EEA states will authorize the import and marketing of wine products and spirits, in conformity with the relevant EC legislation. In other respects the EFTA states may continue to apply national legislation.

Veterinary and Phytosanitary matters

The provisions concerning veterinary and phytosanitary matters are laid down in Annex I to the EEA Agreement. The Annex is divided into three chapters: veterinary issues, feeding stuffs and phytosanitary issues. As in other fields, the provisions contained in this Annex are based on the *acquis communautaire*.

Energy

The Community *acquis* on energy mainly applies to two areas. The first is a mandatory stockpiling system for crude oil and petroleum products, which will not be part of the EEA. The second area deals with measures to improve transparency and competition in the production and sale of energy. The Community recently adopted two directives regulating the transmission of electricity and the transport of natural gas. In line with these directives, high voltage or high pressure grids must be open to any grid operator if capacity is available and if an agreement can be reached on price. These two directives will be included in the EEA Agreement. The Agreement will also contain legislation on public procurement and harmonization of technical requirements in the field of energy.

Rules of competition

Competition policy in the EC and EFTA countries has differed in many respects. To achieve equal conditions of competition within the EEA, EC legislation in this field will be valid for all 19 EEA countries. Anti-competitive behaviour, such as when two or more

undertakings collude to distort competition and affect the trade between two or more EEA countries, is prohibited. The abuse of a dominant market position is also prohibited. This applies to both public and private companies.

The EEA has a two-pillar institutional system, which means that both the EC and EFTA will have independent institutions responsible for implementing and enforcing competition rules. There will be a constant exchange of information and consultation between the two institutions.

State aid

The EEA Agreement includes a general prohibition of state aid measures that could distort trade between the EEA countries. Grants, soft loans, tax concessions, etc., are therefore restricted. Exceptions may be granted in the light of certain political, economic or social considerations. All existing and planned aid schemes must be reported to the surveillance authority on the relevant side, which will then have the right to abolish or alter them. New aid schemes must be approved by the relevant surveillance authority before they are implemented.

Intellectual property law

The purpose of intellectual property law is to encourage innovation, while protecting both the inventor or artist, and the consumer. The EEA Agreement contains rules to harmonize legislation on intellectual property in all 19 EEA countries, and to give a high level of protection. Pending EC legislation on intellectual property will be incorporated into the EEA Agreement. Legislation being prepared concerns rules on copyright, rental, lending and neighbouring rights, patents, trade marks and databases, to name a few.

Product liability

The main rule for product liability is that a person who imports a product into the EEA shall be held responsible as the producer. An exception is made, however, when it comes to imports from an EFTA to an EC country, or vice versa, or to trade between EFTA countries. Then the importer's liability will only be waived between states which have ratified the Lugano Convention.

Agricultural and fishery products

The main obligation concerning agricultural and fishery products is to continue efforts to liberalize agricultural trade. Six bilateral agreements on trade in such products will enter into force with the Agreement. These aim at contributing to the reduction of social and economic disparities between regions in the EEA, by providing special concessions for so-called "cohesion products".

Concerning trade in fish products, a general rule indicates that customs duties and restrictions will be abolished for certain products when the EEA Agreement enters into force. Duties on other types of fish will gradually be reduced or abolished over a period of several years lasting until 1 January 1997. A third category of fish and fish products will continue to be subject to existing levels of duty.

THE FREE MOVEMENT OF PERSONS

Movement of workers

The EEA Agreement guarantees free circulation for all EEA citizens - 380 million Europeans. It abolishes all discrimination based on nationality regarding employment, remuneration and other working and employment conditions. The free movement of persons gives any worker in the 19-country area the right to accept job offers and to move freely to and stay in any EEA country for this purpose. The only exception regards employment within the public sector. No country is obliged to employ a foreign national when such employment may involve, directly or indirectly, the exercise of public authority or the general interests of the country.

The self-employed

Self-employed people are granted the right of establishment and the right to provide services. This means that they can set up businesses in countries other than their own. The effect is that all EEA nationals will be able to engage in any legal occupation wherever they wish in the EEA. Migrant professionals are granted the same treatment as nationals.

Right of residence

A person who has been employed in a certain country has the right to remain there after the end of his term of employment. Students, pensioners and persons who are not economically active enjoy the right of residence throughout the EEA.

Helping people to move freely

Anyone who is employed in a foreign country will have the right to be accompanied by his or her spouse and dependants. Both the spouse and children are entitled to hold employment in the host country. Children will also have the right to education.

As far as social security is concerned, workers who have been employed in different countries will not lose or receive reduced social rights and benefits. Once acquired, social security rights will be retained no matter where the worker is employed.

A common policy for recognizing diplomas, certificates and other formal qualifications will facilitate the movement of students, workers and the self-employed in the EEA. Public employment agencies will co-operate and set up a system for informing the public of job opportunities and vacancies in the EEA, and this will facilitate access to information necessary when seeking employment abroad. The EEA states will also co-operate to provide information on living and working conditions in their countries.

Two of the EFTA countries, Switzerland and Liechtenstein, will have a five-year transition period to adjust to the principle of free movement of persons. This means that until 1 January 1998, these countries can retain quantitative limits on the number of foreign residents and seasonal workers.

THE FREE MOVEMENT OF CAPITAL AND SERVICES

While trade in goods has been largely liberalized in Western Europe, significant obstacles remain in the services and capital sectors. Services account for more than 60 per cent of gross domestic product in EFTA countries, yet their provision abroad is impeded by the existence of differing regulations among countries. These different systems in some cases prevent foreigners from acquiring or establishing companies and can limit cross-border trade.

The EEA Agreement integrates about 100 binding and 25 non-binding Community acts dealing with capital movements and services. As a result, it will be possible to move capital and services within the EEA without encountering obstacles.

Capital movements

The Agreement will permit capital to move freely as of 1 January 1993 with a few temporary exceptions. It prohibits restrictions on movement within the EEA of capital belonging to legal or natural persons resident in EC member states or in EFTA states. Thus, a firm or person resident in one of the EEA countries will be able to make a direct investment, acquire real estate, purchase shares, bonds or units of an investment fund, take loans and credits and make deposits with a bank in any other country of the EEA.

EFTA countries may maintain some restrictions on capital movements for a few years after 1 January 1993. For instance, Switzerland and Liechtenstein may continue to restrict purchases of real estate until 1 January 1998 and Norway and Sweden may continue to restrict the acquisition of firms until 1 January 1995.

The Treaty of Rome allows safeguard measures to be taken under specified conditions. Similar safeguard provisions exist in the EEA Agreement, allowing a Contracting Party to introduce temporary restrictions on capital movements.

Economic and monetary policy co-operation

The EEA will be the largest integrated market in the world and policy makers will need to exchange information and views on economic and monetary policy issues. The EEA Agreement provides for such co-operation on a non-binding basis.

Financial services

The financial services sector accounts on average for 5-6 per cent of gross domestic product in the EFTA countries. Traditionally, this has been a highly regulated sector, with differing provisions for authorization, surveillance and prudential supervision from country to country. On 1 January 1993, as a result of two decades of progressive co-ordination of national laws, regulations and administrative practices, the EC will apply the principle of single licence and home-country control in banking. Insurance and securi-

ties trading are expected to follow suit. This principle will be extended to the EFTA countries through the EEA Agreement.

Banking

According to the principle of a single licence, any bank duly authorized in an EEA country may establish a branch in another EEA country, or provide services across borders, without having to apply for a new licence for that purpose. Home-country control means that supervision of the activities of a bank will be carried out by the competent authorities in the country where it is incorporated (the home country) rather than in the country where it establishes a branch or provides services (the host country). A single licence with home-country control is possible because the EFTA countries have agreed to apply the same minimum requirements as the EC for certain fundamental provisions.

Securities trading

A number of steps have been taken in the Community to facilitate access to stock markets in Europe. Several of the relevant legal acts have been included in the EEA Agreement. Thus, a number of directives define the conditions which a firm must fulfil in order to be listed on a stock exchange. This involves matters such as the minimum capital of a company, the content of the prospectus it must issue and the nature of information it must supply both before and after being listed. A prospectus approved for admission to a stock exchange in one country may be used when applying for admission to a stock exchange in another EEA country. There is also a directive which prohibits insider trading.

Investment funds are an important vehicle for raising risk capital from small savers who wish to diversify their risks. The relevant directives for these funds (called UCITS, Undertakings for Investments in Transferable Securities) define the rules which allow a firm providing investment funds to operate in the EEA under a single licence.

Insurance

The principle of a single licence and home-country control will apply only after the proposed third-generation directives have been adopted by the EC and integrated into the EEA Agreement. For the time being, an insurance company still requires authorization from

the host country if it wishes to establish a branch within the EEA. Provisions on initial capitalization and solvency margins necessary for sound operation have also been introduced. However, free cross-border provision of services is allowed for large non-life risks and for life insurance in cases where the policyholder acts on his own initiative.

Transport

Inland transport

The principle of mutual and reciprocal access to markets for road haulage is established by the EEA Agreement. It provides for harmonization of a number of rules governing inland transport. Examples include weight and dimension of road vehicles, the frequency of tests for vehicles and the items to be tested compulsorily. Compliance with these rules will no longer be enforced by border inspections, but rather by inspection inside the border and in a manner that does not discriminate between domestic and foreign vehicles.

Combined transport (by road/rail and by road/inland waterway) is encouraged by a system of subsidies and by freeing road haulage to initial and terminal rail-points from quotas. The EEA Agreement grants mutual rights of access to inland waterways to the Contracting Parties.

Civil aviation

The EEA Agreement incorporates the provisions of the EC's "second liberalization package" in air transport, which allows individual operators greater freedom to set fares. Hence, more price competition can be expected. The Agreement also extends the traffic rights of national airlines in the EEA countries. A national carrier will have greater freedom to select destinations in other EEA countries for scheduled services. A national carrier from one EEA country will, to a limited extent, be able to carry passengers between two other EEA countries.

New technology services

Telecommunications

Telecommunication services, once consisting of voice telephony, telex and telegram, now include telefax, video conferences, data transmission by modem, and mobile telephones.

Community policy in this area has been to foster competition in the provision of these services, for example through the Competition Directive and the Open Network Provisions (ONP) Directive, which are both included in the EEA Agreement. The first requires the abolition of exclusive rights for a public utility to supply telecommunications services other than voice telephony, and to separate regulatory and operations functions of telecommunications organizations so that operators do not regulate themselves. The second defines the principles on which the operators of the network, which can continue to be a public monopoly, must allow providers of the service, domestic or foreign, access to it.

Information services

Community activity in the field of information services aims at overcoming the existing fragmentation of small national markets by fostering the emergence of a single EC market. Through the EEA Agreement, the EFTA countries will participate in the Community's information services programmes.

Audio-visual Services

The EEA Agreement includes the EC directive on television broadcasting. This directive contains provisions that ensure the freedom of reception and retransmission of television broadcasts from other member states and which regulate advertising and set guidelines on programming. These provisions will also apply to EFTA countries with specific arrangements allowing them to prevent advertisements for alcoholic beverages in the future.

FLANKING AND HORIZONTAL POLICIES

Fields not directly connected to the four freedoms, but which still have a great impact on them, are usually referred to as "flanking and horizontal policies". The EEA Agreement gives existing and future co-operation within this area a solid, legal basis.

Research and development

The objectives of R & D co-operation, made possible through the EEA Agreement, are to strengthen the scientific and technological base of European industry and to make it more competitive at the international level. The ultimate goal of EEA R & D activities is to

promote an improved standard of living and to meet the interests of the consumer within the EEA. Co-operation will normally take one of the following forms:

- participation by EFTA states in the EC R & D framework programmes, specific programmes and other actions;
- establishment of joint activities;
- the formal and informal exchange or provision of information;
- co-ordination, where this is of mutual interest, of efforts and activities via international organizations (for instance the Eureka framework).

The main form of the EEA R & D co-operation will be participation by EFTA states and undertakings in the EC's R & D framework programme, notably in the third framework programme (1990-1994). The budget of the programme is 5.7 billion ECU, and the programme covers activities such as enabling technologies (including information and communication technologies, as well as industrial and materials technologies), management of natural resources (environment, life, sciences and technologies, energy) and management of intellectual resources (human capital and mobility).

The governments of EFTA countries will pay their full share of the budgets of the specific programmes and EFTA undertakings (companies, universities, research centres) will participate on an equal footing in the projects under those programmes. The model contract applicable between the project partners will be amended so that no discrimination against EFTA undertakings exists.

The representatives of the EFTA countries will be full members of the management committees of the 13 specific programmes, without voting rights. Experts from the EFTA states will be associated with the work of the policy-oriented R & D committees, such as CREST, IRDAC and CODEST.

At company level, the EEA R & D co-operation will especially enable small and medium-sized enterprises to have access to new technologies, to establish R & D networks and to find new markets for their products or know-how.

Statistical co-operation

Statistical co-operation in the EEA aims at developing a common system of European statistics in all fields directly connected to the

four freedoms. Standardized industrial, financial and trade statistics, to name a few, will provide necessary and useful information on European integration to governments, business, scientists and the public. The data will be treated confidentially to make identification of individual firms or persons impossible.

Small and medium-sized enterprises

Through the EEA, a European dimension for small and medium-sized enterprises (SMEs) will be established.

EEA co-operation in this field aims at improving the business environment for SMEs, removing undue administrative, financial and legal constraints on business. It also aims at informing and assisting small and medium-sized enterprises on policies and programmes which might be relevant to them, as well as encouraging co-operation and partnership between small and medium-sized enterprises from different EEA regions.

The main modalities of co-operation are participation by the EFTA states and undertakings in the EC networks and programmes such as BC-NET and Euro-Info Centres, and establishment of common efforts in certain fields.

The EC activities where EFTA participation is most likely are Euro-Info Centres, training of SME managers, innovation and technology transfer, industrial co-operation and sub-contracting.

Negotiations on EFTA participation in the Euro-Info Centres will have started before the entry into force of the Agreement. The EEA Joint Committee will then take decisions on participation by the EFTA states in the EC networks and programmes as well as on the financial contribution.

Environment

The EEA Agreement will deepen and broaden existing co-operation in the environmental field. It rules that a high level of protection shall be the basis for all co-operation and that environmental protection requirements shall be a component of all policies of the EEA. Individual states have the right to maintain and introduce more stringent protective measures if they are compatible with the Agreement.

Work to protect the environment covers a vast area, from regulation of emissions from motor vehicles to the protection of natural

habitats. More than 50 EC directives have been integrated into the Agreement and around 25 are pending. Thereby, most EC environmental legislation has been integrated into the Agreement. EFTA countries will participate in a series of EC Commission working groups and committees, with EFTA countries' strong records and long experience of environmental protection contributing to future legislation.

Education

Education is covered by the EEA Agreement and will give the EFTA countries access to the student exchange, training and educational programmes set up by the European Community. EFTA countries will be able to participate fully in all of these programmes from 1 January 1995.

Social policy

In the EEA, social policy legislation covers health and safety at work, equal treatment for men and women, workers' rights and labour law. EFTA states will have to incorporate 24 directives in these areas into their national legislation altogether.

The directives on health and safety at work concern, for example, protection from the risks related to exposure to asbestos, carcinogens, noise and other things that can be of danger to workers' health. The EEA Agreement also includes minimum health and safety requirements for the workplace, for the use of protective equipment, for the manual handling of loads and for work with display-screen equipment. These minimum requirements do not prevent any country from maintaining or introducing more stringent measures for the protection of the worker.

The EEA acts on equal treatment for men and women require that EFTA countries shall apply the principle of equal pay for equal work. EC directives concerning access to employment, vocational training, promotion and working conditions, as well as those involving matters of social security, etc., should be applicable in the EFTA countries.

The EEA directives on labour law stipulate workers' rights with regard to the insolvency of the employer, transfers of undertakings and collective redundancies.

In addition to the above-mentioned legislation, co-operation in social policy will include principles and objectives set out in resolutions and recommendations regarding disabled people and less privileged social groups. EFTA countries will also participate in Community action for the elderly. An area explicitly left out of the EEA by the Community is that of health, including programmes against AIDS and cancer.

The EEA will cover co-operation between social partners. Dialogue between management and labour is encouraged.

Consumer Policy

EEA acts on banking and insurance, as well as on the free movement of goods (especially acts on foodstuffs) will have a great impact on the daily life of consumers in the EEA. The EEA Agreement therefore includes directives on price-labelling, door-to-door selling, package travel, misleading advertising, payment cards, product safety and product liability. Most of these directives are so-called Minimum Directives, which means that the EEA states may adopt or maintain stricter provisions.

Directives on price-labelling require, for example, that most foodstuffs and other consumer products shall bear an indication of the selling price. In addition prepackaged foodstuffs, washing and cleaning products, and cosmetics, to name only a few, shall bear an indication of the unit price.

The directive on misleading advertising requires that the advertiser should be able to prove the material accuracy of the factual claims he makes in his advertising. According to this directive, misleading advertising means advertising which deceives or is likely to deceive consumers.

Company law

The rules on company law in the EEA will be based on EC legislation concerning:

- disclosure, validity of obligations and nullity of public and private limited companies;
- formation of public limited companies, maintenance and alteration of their capital;
- mergers of public limited companies;

- layout and content of annual reports and accounts, valuation and disclosure of the above documents for public and private limited companies;
- divisions of public limited companies;
- consolidated accounts for parent undertakings of groups containing either a publicly limited company or a private limited company;
- approval of persons responsible for carrying out the statutory audits of accounting documents;
- publication for branches of public and private limited companies;
- single member private limited liability companies, and the Regulation on the European Economic Interest Grouping.

The EFTA states will make this *acquis* a part of their national legislation on the basis of agreed global transition periods. This means that Switzerland and Liechtenstein shall implement in full the provisions of the *acquis* not later than by 1996 and Austria, Finland, Iceland, Norway and Sweden not later than 1 January 1995, provided that the entry into force of the EEA Agreement takes place on 1 January 1993.

INSTITUTIONS IN THE FRAMEWORK OF THE EEA AGREEMENT

In order to ensure the implementation and functioning of the EEA Agreement, certain bodies of an institutional character have been established. Some of these are joint bodies like the EEA Council and the EEA Joint Committee as well as two advisory bodies: a Joint Parliamentary Committee and an EEA Consultative Committee. The EFTA states will also set up two organs to ensure the fulfilment of obligations under the Agreement - the EFTA Surveillance Authority (ESA) and the EFTA Court. In addition there will be a Standing Committee of the EFTA States for, *inter alia*, the co-ordination of EFTA positions, as well as some other organs on the EFTA side such as a parliamentary body.

Decision-making and decision-taking bodies in the EEA

The EEA Council will in particular be responsible for giving political impetus to implementation of the Agreement and for laying down general guidelines for the EEA Joint Committee. It will be composed of members (ministers) of the EC Council, members of the EC Commission and a member of government of each of the EFTA states. It will meet as often as necessary, but at least twice a year.

The EEA Joint Committee will have two main functions: to exchange views and information, and to act as a decision-making and decision-taking body. The Committee will consist of high officials from both the EC and the EFTA states and it will, furthermore, have the ability to establish sub-committees to assist it in its work. It will meet, in principle at least once a month.

Thus, the EEA Joint Committee will, *inter alia*, be the consultation body and the forum for exchange of views in a continuous information and consultation process when the EC Council draws up EEA-relevant legislation.

In order to fulfil the requirement of a homogeneous EEA in the future, it will be necessary for the Contracting Parties to be able to achieve a joint parallel development of the legal orders of the Community and the EEA in areas which are covered by the Agreement. Thus, there must be an adequate institutional framework to regulate this development.

With a view to giving the EFTA states the possibility of influencing the shaping of new EC legislation, the Agreement provides for a procedure as follows: when the EC Commission draws up new legislation in the field covered by the Agreement, it will informally seek advice from experts of the EFTA states in the same way as it seeks advice from experts of the EC member states for the elaboration of its proposals. To avoid any misunderstandings it should be underlined that the Commission only approaches such experts in their personal capacity.

However, when the Commission exercises its executive powers, i.e. for example in amending certain annexes to existing EC legislation, the EFTA states' experts are to be ensured as wide a participation as possible in the committees which thus assist the EC Commission. Special, more far-reaching solutions for the association of EFTA experts have been worked out as regards committees established for different EC programme activities in which the EFTA states will participate financially, and also with regard to certain other committees, already listed in the Agreement, established to assist the Commission. Concerning the last group of committees, the association of experts of the EFTA states will be guided by the needs that are called for in the interest of good functioning of the Agreement. It is also envisaged that the EEA Joint Committee will have the possibility of adding committees to the forementioned list.

● The EEA Joint Committee will also be responsible for the day-to-day operation of the economic area, e.g. it will receive notifications, review articles and fix requirements. It is also the organ in which decisions relevant to the EEA will formally be taken, i.e. formal decisions regarding the implementation and operation of the Agreement, such as amendments to Annexes and Protocols.

All decisions of the EEA Council and the Joint Committee will require consensus between the Community on the one hand, and the EFTA states speaking with one voice, on the other. However, no legislative power will be transferred to the EEA institutions - the final decision on whether to accept a new piece of legislation remains with the national governments or parliaments, depending on the constitutional requirements for the legislation in question.

○ The two remaining joint bodies are, for parliamentary co-operation, the EEA Joint Parliamentary Committee and for co-operation between the economic and social partners, the EEA Consultative Committee. The **EEA Joint Parliamentary Committee** will be an important link between parliamentarians in the EEA and a forum where they can discuss EEA matters. The Committee will, inter alia, be able to express its views in reports or resolutions, and may invite the President of the EEA Council for a hearing to obtain further information on matters relating to the EEA. The **EEA Consultative Committee** will consist of members of the Economic and Social Committee of the Community and members of the EFTA Consultative Committee. The EEA Consultative Committee will work to strengthen contacts between the social partners in the Community and the EFTA states. The Committee may express its views in the form of reports or resolutions, as appropriate.

● These two organs will be able to express their views on all questions concerning the EEA Agreement, although they have no formal role in the decision-making process.

The Standing Committee of the EFTA States

▲ In the context of decision-making, the Standing Committee of the EFTA States should be mentioned. It will consist of one representative from each EFTA state. The EFTA states will, through the Standing Committee, carry out functions of a mainly political character with respect to decision-making, administration and management as well as consultation among EFTA states. This means, among other things, that the EFTA states will be able to co-

ordinate and elaborate joint positions in this committee, for the purpose of taking decisions in the EEA Council and in the EEA Joint Committee.

Surveillance

In order to ensure that the Contracting Parties fulfil their obligations, i.e. implement and apply EEA decisions correctly and that economic operators respect rules on competition, a surveillance mechanism is provided for. It consists of what could be called a two-pillar structure where, on the one hand, the EC Commission will monitor behaviour on the EC side, and on the other, the EFTA Surveillance Authority (ESA) will monitor that of EFTA. ESA, established through a separate agreement, will have competences corresponding to those of the EC Commission in relation to the EC member states. Moreover, ESA will carry out its tasks as a completely independent and separate body, but will co-operate closely with the EC Commission to ensure a common approach to the issues and thus, hopefully, avoid conflicts. ESA will consist of seven members - one from each of the EFTA states. They cannot take instructions from any government, including their own. ESA will be independent of other EEA institutions and will therefore have its own service structure and budget. In addition to the general surveillance responsibility, ESA will have a specific task in ensuring that the provisions on procurement, competition and state aid are met by and in the EFTA states. ESA will take decisions on the basis of majority voting.

Dispute settlement

Under the EEA Agreement the EC side must, through its organs, monitor the fulfilment of obligations under the Agreement. The same requirements apply to the EFTA side. However, in order to guarantee and preserve homogeneity in the EEA, the EEA Joint Committee has been given the special task of settling disputes between the Contracting Parties. It may, inter alia, solve disputes concerning differences in the interpretation of provisions of the EEA Agreement, which are identical in substance to corresponding rules of the EEC Treaty and the Euratom Treaty. If the Committee has not succeeded in settling the dispute within three months, the Contracting Parties to the dispute may agree to request the EC Court of Justice to give a ruling on interpretation. If no such or other agreement is reached and a period of six months has lapsed,

any Contracting Party to the dispute may, in order to remedy possible imbalances, take appropriate measures, for instance of a safeguard character.

With regard to dispute settlement between the Contracting Parties in general, the EEA Joint Committee is competent also to settle such disputes and shall, in doing so, examine all possibilities of maintaining the good functioning of the Agreement. Furthermore, if the Committee is unable to settle, within a set time-limit, a dispute that concerns the scope or duration of a safeguard measure, or the proportionality of a rebalancing measure, any Contracting Party may refer the dispute to binding arbitration.

The EFTA Court

The EFTA Court, established through a separate EFTA Agreement will, together with the EC Court of Justice, ensure judicial control of the proper functioning of the EEA Agreement. The EFTA Court will consist of seven judges who will be appointed by common accord of the governments of the EFTA states for a term of six years. The Court will mainly have the following competences: first, it will handle disputes between ESA and an EFTA state with regard to the implementation, application or interpretation of a rule. Second, the Court will function as a court of appeal with regard to decisions taken by ESA in the field of competition, including state aid. Finally, the Court will be competent for dispute settlement between EFTA states.

The Luxembourg Process

During the EEA negotiations, co-operation under the Luxembourg process yielded results in fields such as education, statistics and small and medium-sized enterprises. The process was initiated at a joint EFTA-EC ministerial meeting in Luxembourg in 1984, as a means of extending EFTA-EC co-operation beyond free trade.

One concrete result of the Luxembourg process in 1991 was the signing of ERASMUS agreements between the seven EFTA countries and the EC, thus granting students from the EFTA countries the right to participate in the European Action Scheme for the Mobility of University Students. The programme aims at increasing the number of students pursuing part of their studies in another participating country. The agreement entered into force in

1991, which means that students from the EFTA countries should be able to participate in the programme as of the academic year 1992/93.

Another concrete result is the co-operation agreement on BC-Net concluded on 7 March 1991. The Business Co-operation Network, established by the EC in 1986, helps small and medium-sized enterprises to find business partners in other countries. The aim of the programme is to foster co-operation in areas such as technology, marketing and research, as well as to help enterprises to find distributors, producers or sub-contractors abroad. The extension of BC-Net to the EFTA countries will give small and medium-sized companies in these countries a better chance of competing in a Europe without borders.

As the EEA Agreement was mostly concluded in 1991, the Luxembourg process has been gradually phased into the EEA process, and other examples of co-operation that originated in the Luxembourg process are mentioned in an EEA context elsewhere.

RELATIONS WITH OTHER COUNTRIES AND INTERNATIONAL ORGANIZATIONS

Czechoslovakia, Hungary and Poland

Co-operation between EFTA and Czechoslovakia, Hungary and Poland, is based on the declarations signed in Gothenburg on the occasion of the ministerial meeting on 13 and 14 June 1990. The Gothenburg Declarations cover trade, economic, industrial and scientific co-operation. Co-operation in areas such as tourism, transport, telecommunications and environmental protection is also covered. The declarations provide for the possibility of free trade negotiations.

Joint committees were established by the declarations to implement co-operation and to start examining the possibility of free trade. By the end of 1991 negotiations were well advanced and free trade agreements will enter into force as regards Czechoslovakia on 1 July 1992 and Poland and Hungary possibly on 1 January 1993.

These agreements, together with the Association Agreements negotiated by the EC (the Europe Agreements), will play a significant role in integrating Central and East European countries into the world economy. Once they enter into force, free trade in industrial products will exist among 22 European countries. In order to ensure that the rules laid down by the respective free trade arrangements are as coherent as possible, regular meetings have taken place among representatives of the EFTA states, the EFTA Secretariat and the EC Commission.

The scope of the free trade negotiations conducted with Hungary, Poland and Czechoslovakia was based on the EFTA-EC free trade agreements of 1972, as well as on the Stockholm Convention. The agreements with Hungary, Poland and Czechoslovakia will cover industrial goods, processed agricultural goods and fish and other marine products. Trade in agricultural products was negotiated bilaterally. The new agreements will, however, differ from

traditional free trade agreements in several respects. They will contain provisions reflecting structural changes in the world economy and take into account recent developments in the Uruguay Round. They will include provisions on competition, state aid, state monopolies, public procurement and intellectual property rights.

It was clear from the start that special conditions prevailing in the three countries, related to difficulties associated with transition from a centrally planned to a market economy, would have to be taken into account in the negotiations. The EFTA countries agreed to adopt an asymmetric approach, meaning that they would abolish customs duties and quantitative restrictions more quickly than Hungary, Poland and Czechoslovakia. Full reciprocity will be achieved after a ten-year transition period. The three countries were also granted unilateral transition periods for certain provisions of the Agreement, again reflecting the asymmetrical approach.

The Agreement also includes a unilateral safeguard clause allowing the three countries to increase customs duties in exceptional cases and for a limited time, in sectors where serious difficulties or social problems arise during the process of restructuring.

Technical barriers currently constitute a serious obstacle to trade and the agreements will include a procedure for the exchange of information on draft technical regulations. They will also include a general evolutionary clause allowing for strengthened and expanded co-operation. A special provision concerns the future development of co-operation in fields such as investment and services.

Technical co-operation

Apart from opening the way for free trade agreements, the Gothenburg Declarations established a framework for co-operation in other fields. Several seminars and workshops took place or were being prepared under this heading in 1991. Most of the projects are closely associated with the functioning of free trade agreements and deal with matters such as the removal of technical barriers to trade, origin rules, customs matters and statistics.

In the field of technical barriers to trade, the EFTA countries decided to support two programmes in parallel with the EC Commission and in co-operation with CEN and other standardization organizations. Thus, EFTA is supporting a PHARE programme for

Hungary and Poland and a PHARE regional programme covering Hungary, Poland, Czechoslovakia, Bulgaria and Romania.

The Gothenburg Declarations also cover co-operation in fields not directly associated with trade. In 1991 projects were considered and prepared in such fields as environmental protection, tourism, small and medium-sized enterprises, consumer protection and research and development.

Both of EFTA's advisory bodies, the Consultative Committee and the Committee of Members of Parliament as well as the Economic Committee, have been involved in similar co-operation projects in their fields. The Consultative Committee, for example, organized a seminar jointly with its EC counterpart in Vienna in May 1991 to offer participants from Eastern Europe an overview of labour relations in Western Europe.

Bulgaria and Romania

In December 1989 Bulgaria expressed interest in establishing relations with EFTA. Romania expressed a similar interest in April 1991.

After closely following the evolution of the political situation in these countries, the EFTA ministers decided at their meeting in Vienna in May 1991 that talks on appropriate forms of co-operation could commence in the autumn. The EFTA countries, taking into account the most recent developments in these countries, welcomed the fact that democratic elections were held in Bulgaria in October and that new governments in both countries had stated their commitment to the rule of law and to economic reform leading to the establishment of a market economy. The EFTA countries also took into consideration that the two countries had already embarked on reforms.

As a result of subsequent contacts, declarations on co-operation were signed on the occasion of the EFTA ministerial meeting in December 1991. The declarations are largely modelled on the Gothenburg Declarations but take into account national differences and the state of reform in the two countries.

The objective stated in the declarations is to promote and widen contacts with the aim of achieving relations based on the principles of a market economy, while building on existing bilateral co-

operation. The EFTA countries will concentrate on technical assistance in such fields as customs and tariffs, removing technical barriers to trade and the exchange of information on foreign trade. Areas such as statistics, research, investment and economic co-operation also fall within the scope of the declarations, which provide for the possibility of developing co-operation further and eventual establishment of a free trade area.

Joint committees were set up by the declarations. They will meet regularly and are charged with implementing the declarations and making recommendations towards extending co-operation further.

Estonia, Latvia and Lithuania

At an informal meeting in Helsinki at the beginning of September 1991, the EFTA ministers discussed recent developments in Europe and welcomed the historic changes taking place in the Baltic states. They expressed a willingness to open a dialogue on future relations with these countries and to examine the possibility of co-operation. The Chairman of EFTA at the time, Pertti Salolainen, visited the Baltic states on 18-21 September to get a first impression of their wishes and needs. Based on his report, the EFTA countries organized a fact-finding mission to the Baltic states by experts and national representatives in November 1991.

A few weeks previously however, at their meeting on 21 October in Luxembourg, the EFTA ministers decided to invite representatives of the Baltic states to the EFTA ministerial meeting in December. It was subsequently decided to propose declarations on co-operation to each of the three states.

The EFTA mission to the Baltic states took place on 18-22 November. The aim of the mission was threefold: to get a clearer picture of trade and the economic situation and the progress of reforms in these countries; to provide them with information about the EFTA countries and to identify their needs in terms of technical assistance; and finally, to discuss draft declarations on co-operation. All three countries expressed a strong interest in co-operating with the EFTA countries. Among the conclusions of the mission was that EFTA could best provide assistance in fields in which it had considerable experience such as trade and customs administration, statistics and technical barriers to trade.

21 The declarations on co-operation with the three Baltic states were signed at a ministerial meeting on 10 December. They outline co-operation in several areas. All parties undertake to examine means of expanding and liberalizing their trade relations. The signatories aim at creating conditions for free trade and at examining areas of potential co-operation related to the structural adjustment of the economies of the Baltic states.

22 EFTA ministers agreed to proposals for co-operation in several areas including advice on trade policy regimes, a seminar to be organized by the Consultative Committee, advice on European standardization, support for the establishment of national statistical systems, the possibility of traineeships and scholarships, and trade and customs administration.

Turkey

Formal contacts with Turkey began after the EFTA ministers decided in December 1989 to investigate the possibility of free trade negotiations with that country. The negotiations aimed at ensuring for EFTA goods the same preferential treatment in the Turkish market as that accorded to EC goods. Negotiations began in the summer of 1990 and lasted until 17 October 1991. The agreement was signed on 10 December in Geneva and enters into force in spring 1992 after having been ratified by the EFTA countries and Turkey.

The objectives of the Agreement are the following:

- to promote, through the expansion of reciprocal trade, the harmonious development of economic relations between the EFTA states and Turkey;
- to provide fair conditions of competition for trade between them;
- to contribute, by the removal of barriers to trade, to the harmonious development and expansion of world trade;

The agreement extends to industrial goods, processed agricultural goods and fish. Negotiations on trade in agricultural products took place at the bilateral level.

The entry into force of the agreement will mark the beginning of a transition period that will last until the end of 1995. During this period Turkey will gradually abolish duties on products coming from the EFTA countries. The EFTA countries will abolish duties on all

Turkish products, with the exception of a few classified as "sensitive", from the date on which the agreement enters into force. From 1 January 1996 full symmetry and mutual free trade will apply. Trade relations between the EFTA countries and Turkey will be on the same preferential basis as trade between Turkey and the EC even during the transition period.

During the negotiations, all parties made an effort to adapt the agreement to current economic conditions and trade patterns and to make it capable of evolving in tune with future developments. The agreement thus contains provisions that go beyond those traditionally embodied in free trade agreements.

Like the agreements negotiated with the Central and East European countries, the EFTA-Turkey agreement contains provisions on competition, state aid, public procurement and intellectual property rights. Turkey and the EFTA countries have also promised to inform each other of any new technical regulations before they are adopted.

The EFTA-Turkey agreement contains an evolutionary clause, allowing both sides to develop relations further within the framework of the agreement, especially in areas such as services and direct foreign investment.

The agreement will be administered by a joint committee set up according to the terms of the agreement. The committee will meet regularly and may discuss any trade related issues of common interest, with the aim of developing EFTA-Turkey co-operation further.

Israel

At their informal meeting in March 1991, EFTA ministers endorsed a recommendation that free trade negotiations should be taken up with Israel after a study by the EFTA Secretariat had demonstrated that EFTA products suffered discriminatory treatment on the Israeli market due to the free trade agreements between Israel and the EC on the one hand, and Israel and the United States on the other.

The first round of negotiations took place in June 1991 in Geneva. By the end of the year five negotiating rounds had taken

place. The agreement is expected to be symmetric and to include industrial goods, processed agricultural products and fish.

Both sides aim at concluding the negotiations as soon as possible so that EFTA exporters will not suffer from the effects of a tariffication programme which the Israeli Government introduced in September 1991.

The Gulf Co-operation Council

Contacts between EFTA and the Gulf Co-operation Council (GCC), which comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, continued in 1991. These led to the visit of the Secretary-General of the GCC to EFTA headquarters in January 1992.

The initiative to take up contacts with the GCC was taken by EFTA ministers at their meeting in December 1989. The EFTA countries follow the development of relations between the Community and the GCC with particular interest, especially with a view to avoiding discrimination against EFTA exports as compared to EC goods on the markets of the GCC countries.

Yugoslavia

EFTA has had formal relations with Yugoslavia since 1967 when a joint EFTA-Yugoslavia working group was established. In 1978 a joint EFTA-Yugoslavia Committee was created to work towards closer co-operation. The Committee met regularly until 1990. In June 1983 the EFTA countries and Yugoslavia adopted a Joint Declaration on Co-operation. This declaration, known as the Bergen Declaration, provided guidelines for co-operation and became the basis for the further development of EFTA-Yugoslav relations.

In April 1990 EFTA ministers agreed to establish a development fund for Yugoslavia. The aim of the fund, to which the EFTA countries would jointly contribute the sum of 100 million US dollars, was to support the development of a market economy in Yugoslavia. Due to the tense political situation in Yugoslavia the fund never became operational.

In fact, on 14 November 1991 the EFTA Council decided to suspend all forms of co-operation with Yugoslavia, including exploratory talks on free trade as well as technical co-operation under the Bergen Declaration and the establishment of the development fund.

At their meeting in December in Geneva EFTA ministers instructed the Council to actively examine concrete measures to assist the parties which contribute to a comprehensive political and peaceful solution. (In January 1992 all EFTA countries recognized Croatia and Slovenia as independent states.)

The EFTA Industrial Development Fund for Portugal

The EFTA Industrial Development Fund for Portugal approved 67 loans from 1 February 1991 to 20 January 1992, for a total of 6,878 million Escudos (approximately 52.3 million US dollars). These loans are estimated to have contributed to the creation of 675 new jobs and to have safeguarded more than 9,000 existing ones.

The primary aim of the fund, as set out in its statutes, is to contribute to the development of Portuguese industry through the financing of specific projects, especially those involving the restructuring or creation of small and medium-sized firms.

Another important part of the fund's activity has been the allocation of grants for management training.

The fund also offers technical assistance and helps in the processes of analysing projects and preparing feasibility studies. By its lending policy the fund actively seeks to support environmental protection and energy saving.

It is the responsibility of the EFTA Council, together with a Portuguese representative to supervise and set guidelines for the application of the statutes. A steering committee, consisting of representatives of each contributory state, Portugal included, is responsible for the administration of the fund and takes the major decisions concerning the loans. The fund's representative in Portugal, the Banco de Fomento e Exterior, acting as the Fund's executive commission, is in charge of day-to-day administration and decides on the allocation of loans below 1.7 million U.S. dollars. This

institution, being close to the Portuguese market, plays a major role in executing feasibility studies and in analysing project proposals.

Relations with other international organizations

Progress reports on EFTA's activities were presented at the May and November meetings of the Committee of Ministers of the Council of Europe, and the Chairman of the EFTA Council at ministerial level addressed the Parliamentary Assembly of the Council of Europe in Helsinki in June 1991. Staff members of the EFTA Secretariat participated as observers in various committee meetings and colloquia organized by the Council of Europe.

The Secretariat was represented at the annual session of the Nordic Council in Copenhagen in February. Two inter-secretariat meetings took place during the year under review - with the secretariat of the Nordic Council of Ministers and that of the Nordic Council respectively - for an exchange of information on the EEA Agreement and Nordic co-operation.

The EFTA countries used the framework of EFTA for consultation on matters of common interest under discussion in other international organizations. Particular attention was given to activities in the context of the Organisation for Economic Co-operation and Development (OECD), the United Nations Economic Committee for Europe (ECE), and the General Agreement on Tariffs and Trade (GATT).

FUNCTIONING OF EFTA

The Council

The Council is the governing body of the Association. It is composed of one representative of each member state.

The Council usually meets once a week at the level of officials (Heads of Permanent Delegations to EFTA) and twice a year at ministerial level. When the Council deals with certain business concerning the EFTA Industrial Development Fund for Portugal, that country is also represented.

The Council met 35 times in the course of 1991. During the first half of the year Austria had the chair; it was then succeeded by Finland on 1 July.

Two formal EFTA ministerial meetings were held in 1991, one in Vienna on 22 May and one in Geneva on 10 and 11 December. In addition, ministers held informal meetings. The first took place in Geneva in March, the second in Helsinki in September. The third informal EFTA ministerial meeting was held in Luxembourg on 21 October.

EFTA and EC ministers met several times during 1991: on 13 and 14 May in Brussels, on 18 and 19 June in Luxembourg, on 25 June in Salzburg and, finally, on 21 October in Luxembourg.

The standing committees

The Council has established a number of permanent committees to assist it in its work. The standing committees do not have the power to make binding decisions, they restrict themselves to forwarding recommendations and proposals. All member states are represented in these committees, usually by officials from the capitals, with the exception of the Consultative Committee and the Committee of Members of Parliament. In addition to their regular

functions, the standing committees have played an important role in the EEA negotiations and some have acted as expert groups in assisting the different negotiating groups.

The Economic Committee

The Economic Committee is the forum for exchange of views and information on economic issues within EFTA, between EFTA and the EC Commission (Directorate General II) and between EFTA and third countries.

Within EFTA, the Economic Committee examines the economic situation and prospects in the member countries and advises the Council on economic, monetary and financial issues. It also commissions studies on economic issues of common EFTA interest. Two major publications were completed in 1991. Exchange rate policies for the EFTA countries in the 1990's were analysed in *Occasional Paper No. 35*, and the proceedings of a symposium organized by the Economic Committee in November 1990 were published in 1991 under the title *EFTA Countries in a Changing Europe*.

In 1991 the Committee met twice with its EC counterpart. An exchange of information took place on the economic situation. Possible co-operation projects vis-a-vis third countries were also discussed. In co-operation with the EC, the Economic Committee completed a ground-breaking study on the consequences of European integration on manufacturing industries in the EFTA countries. (*Occasional Paper No. 38*)

1991 witnessed the beginning of co-operation between the Economic Committee and third countries. A first joint meeting between the Committee and economic experts from Hungary, Poland and Czechoslovakia took place in Geneva in November. Besides exchanging economic information, a presentation of respective exchange rate regimes was a special item on the agenda. Possibilities for future co-operation and specific projects were also addressed, and it was decided that a joint seminar on the consequences of European integration should be held in 1992. The plan is to hold joint meetings with representatives from the East European countries twice a year.

Committee of Trade Experts

The Committee of Trade Experts did not meet in 1991. However, the informal expert groups established by the Committee were active in the EEA process by assisting Negotiating Group I in fields such as export restrictions, government aid, public procurement and price compensation.

Committee of Origin and Customs Experts

The Committee of Origin and Customs Experts met seventeen times in 1991. It continued to deal with matters related to the application of rules of origin, as well as with possibilities for simplifying these rules. The Committee devoted most of its time to the EEA negotiations, working out proposals for simplifying origin rules and for easing and harmonizing border controls and formalities. It was also involved in the preparation of origin rules for the free trade negotiations with Hungary, Poland, Czechoslovakia, Turkey and Israel. An ad hoc group of experts dealt with an EEA arrangement regarding mutual assistance in customs matters.

Committee on Technical Barriers to Trade

The Committee on Technical Barriers to Trade met seven times in 1991. It continued to deal with the development of EFTA policies and activities in all matters related to technical barriers to trade. Most of its efforts were devoted to assisting Negotiating Group I in the EEA negotiations in questions relating to the *acquis communautaire*. The 20-odd expert and ad hoc groups established by the Committee also participated in the EEA process by assisting in the relevant fields. The Committee participated in co-operation with the countries in Central and Eastern Europe. Representatives from these countries participated in one of the regular meetings of the Committee, and in December 1991 a seminar on the information procedure for draft technical regulations was held in Prague.

Group of Legal Experts

The Group of Legal Experts held 10 meetings in 1991. Throughout the year the Group of Legal Experts concentrated on the EEA negotiations and devoted most of its efforts to assisting Negotiating Group V.

The Consultative Committee

The main themes dealt with by the Consultative Committee during the period under review naturally concerned the EEA negotiations, including the Committee's own role in the future EEA and relations with Central and East European countries.

The Committee held seven meetings, one of which was held in the presence of the EFTA ministers. It also held three joint meetings with the Economic and Social Committee of the EC - in Luxembourg in February, in Vienna in May and in the Hague in November. The Committee was briefed on the state of the EEA negotiations at all of these meetings. The Consultative Committee addressed several statements and reports to ministers, some of which were formulated jointly with its EC counterpart.

In May 1991 the EFTA and EC committees expressed their views concerning the role of the social partners in the EEA to the EFTA ministers and the EC Commission. The Consultative Committee also submitted to EFTA ministers a report drawn up by its Economic and Social Sub-Committee, on the effects on the labour market of the free movement of labour in the EEA, and of developments in Eastern Europe. In November this report led to the formulation, together with the Economic and Social Committee of the EC, of joint guidelines on migration policy which, for technical reasons, were finally adopted only in early 1992.

The Economic and Social Sub-Committee's report on the labour market concluded that no significant effects were to be expected on EFTA labour markets as a result of the introduction of freedom of movement within the EEA. Young and qualified persons were particularly likely to benefit from increased mobility. No major shifts in policies were required, but co-ordination and co-operation at the EEA level, including in the social dimension, were called for. Overall positive effects on national economies as well as for individuals could be expected.

With regard to migration from Central and East European countries, the report concluded that the best way to handle the situation would be to stem migration at its source, by massive assistance, financial and otherwise, so as to allow economic reforms to bear fruit.

In meetings between the Consultative Committee and the EC's Economic and Social Committee, views were exchanged on the negotiations with the Central and East European countries. In

November 1991, the Consultative Committee addressed a statement to ministers on future relations with, in particular, the Baltic states and former republics of the USSR. Other topics of interest discussed during the period under review were European Monetary Union, foreign ownership, rules of competition, and standardization issues.

The Committee of Members of Parliament

In terms of parliamentary co-operation, 1991 was a crucial year for the Committee of Members of Parliament of the EFTA Countries (CMP), in which it addressed the EEA negotiations, relations with third countries, and its future role within EFTA and the EEA.

Consequently, the 1991 meeting schedule showed a considerable increase in comparison to earlier years. The following meetings were held:

- six meetings of the Committee (20th meeting on 4 February, 21st meeting on 1 March, 22nd meeting on 22 May, 23rd meeting on 18 June, 24th meeting on 24 October, 25th meeting on 10 December);
- five meetings of the Agenda Committee (4th meeting on 4 February, 5th meeting on 28 February, 6th meeting on 21 May, 7th meeting on 9 September, 8th meeting on 24 October);
- one meeting of the working group on trade in fish and processed food products (21 May);
- three joint meetings with ministers (6th joint meeting on 22 May, meeting with the Chairman of the Council at ministerial meeting on 24 October, 7th joint meeting on 10 December);
- two joint meetings with the European Parliament (6th joint meeting with a delegation of the EP on 19 June, 7th joint meeting with the REX Committee on 9 December).

With regard to the EEA, the CMP was regularly briefed on the state of the negotiations by chief negotiators and by the Secretariat. The dialogue between parliamentarians and EFTA ministers, in the form of joint meetings, proved to be a useful instrument, for voicing both parliamentary support and concerns.

The CMP also actively participated in drawing up the provisions of the EEA Agreement on parliamentary co-operation in the EEA. To this end, an ad hoc working group composed of members of the CMP and members of the European Parliament was set up and met

in Strasbourg in April and May. The results of these deliberations were presented to EFTA ministers at the 6th Joint Meeting with Ministers on 22 May in Vienna. Article 95 of the EEA Agreement on parliamentary co-operation largely reflects the views expressed by the CMP.

Relations with the European Parliament (EP) received increased attention for two reasons. According to Article 238 of the Treaty of Rome, the EP will have to give its assent to the EEA Agreement. The EP shall act by an absolute majority of its component members, which means that 260 votes will be needed. This requires the active involvement of parliamentarians of the EFTA countries in order to raise the level of information and support in the EP for important EFTA concerns and, more specifically, to promote acceptance of the EEA Agreement. Furthermore, the EEA Joint Parliamentary Committee to be established, will facilitate democratic control of the EEA both through national EFTA parliaments and the EP. In this context, the joint meetings with delegations from the EP were indispensable for intensifying contacts with leading members of the EP.

In addition, the Secretariat of the CMP has intensified efforts to monitor relevant plenary and committee work of the EP in order to inform its members on the working methods and substantive attitudes of the EP with regard to both the EEA Agreement and future co-operation in the framework of the EEA Joint Parliamentary Committee.

In February 1991, the CMP organized a parliamentary colloquium on the subject of *Europe in transition - from co-operation to integration* at EFTA's headquarters in Geneva. A total of almost 100 participants attended, including parliamentarians from EFTA, the European Parliament, Hungary, Poland, Czechoslovakia and Yugoslavia, and representatives of a number of international organizations; this event proved an interesting follow-up to the Vienna Seminar of May 1990.

Relations with the parliaments of Czechoslovakia, Hungary and Poland were given renewed impetus at a joint meeting on 10 December, where the principles for more structured and regular parliamentary co-operation with these countries were agreed upon. The CMP urged EFTA ministers to rapidly sign free trade agreements with these countries and insisted on the importance of closer co-operation in the EFTA framework with the Baltic states as well as with Bulgaria and Romania. On the same occasion, the

CMP deplored the continued violence in Yugoslavia and encouraged the EFTA Council to actively seek ways to support the ongoing peace efforts.

Furthermore, the Committee examined its future role in EFTA and in the EEA. A number of draft articles to be included in the relevant agreement between EFTA states in the context of the review of the relevant articles of the Stockholm Convention (together with the Agreements on the EFTA Surveillance Authority and the Standing Committee) were presented to EFTA ministers at their 7th joint meeting with the Committee on 10 December. Once they enter into force, these provisions will enable the CMP to fulfil its advisory functions in the most efficient and expedient manner possible.

The Secretariat

The number of staff employed in the Secretariat remained roughly the same as in the previous year despite the demands of the EEA negotiations and more numerous ties with non-EC countries. At year's end, the staff numbered 141 persons - 83 in the professional category and 58 in the general service category.

EFTA Brussels office

The EFTA office in Brussels witnessed another active year in 1991, mainly as a result of the EEA negotiations. The number of meetings held in the Brussels office increased by almost 120 per cent as compared to 1990 and by more than 300 per cent compared to 1989. Besides meetings of the internal EFTA High-Level Negotiating Group and its numerous sub-groups, the Brussels office hosted an informal preparatory EFTA meeting at ministerial level, which preceded the meeting with EC ministers on 18 June 1991. While all formal negotiation meetings with the EC on the EEA were held on EC premises (not least because of interpretation facilities), most of the informal EFTA-EC meetings took place in the Brussels office.

The main task of the Brussels office was to assist members of the EFTA Secretariat and representatives of the EFTA countries in matters relating to the EEA negotiations. In addition, the Brussels

office maintained extensive informal contacts with EC institutions, served the international press corps in Brussels and provided visitors and lobbyists with information about EFTA and the EEA.

EFTA statistical office in Luxembourg

On 4 February 1991, the EFTA Office of the Statistical Adviser in Luxembourg (OSA), became operational. Its function is to serve national statistical institutes and other producers of official statistics in the EFTA countries in their relations with the Statistical Office of the European Communities (EUROSTAT). EUROSTAT is the chief producer of statistical norms at the European level. The EEA Agreement provides for close co-operation between EFTA and EC in the area of statistics with the aim of establishing a European statistical area, with comparable economic, social and environmental statistics. The Agreement includes most existing EC legislation in the field of statistics. The inclusion of statistics in the Luxembourg process enabled EFTA to establish the office in Luxembourg in 1991, which will greatly facilitate the implementation of the EEA Agreement in statistics.

The OSA provides the EFTA countries with an overview of the proceedings of the many EUROSTAT meetings (ca. 200 in 1991) in which the EFTA countries can already participate as observers. The OSA serves as a secretariat for the regular meetings of EFTA Heads of Statistical Institutes and their joint meetings with the Director General of EUROSTAT and their colleagues from the EC countries, as well as for an EFTA group on monetary, financial and balance of payments statistics involving the central banks of EFTA countries. These fora decided, in the course of 1991, to include EFTA countries as equal partners in the following areas of particular relevance to EC/EFTA co-operation: tourism, transport, migration, environment, balance of payments, services, research, development and innovation.

Work has already started to define an EEA statistical programme from 1993 to 1997 as a subdivision of the EC statistical programme from 1993 to 1997, with a view to extending the major part of the latter to include EFTA countries on an equal footing. Furthermore, EFTA countries have started to send data to EUROSTAT in selected areas, and an attractive publication on all EEA countries was produced.

Finance

EFTA's total expenditure for the financial year 1990-1991 was 30,809,925 Swiss francs. The ordinary budget had to be supplemented by additional budgets on five different occasions, mainly for costs incurred due to the negotiations with the European Community.

For the current financial year, which began on 1 July 1991, the Council set a budget of 48,548,000 Swiss francs, including two supplementary budgets, in order to meet demands posed by expanded co-operation with Central and Eastern Europe, the EEA negotiations, and the setting up of new EEA structures. Altogether, expenditure for the current financial year is expected to increase by some 57 per cent in comparison with the previous year.

The size of contributions by individual EFTA countries to the budget is determined by the relative size of their gross national product at factor costs. Liechtenstein, which became a full member of the Association on 1 September 1991, contributes to the budget of 1991-1992 from that date.

Contributions by individual EFTA countries

in percentages:

	(Budget year 1990-1991)	(July-August 1991)
Switzerland	29.48	28.95
Sweden	24.83	25.09
Austria	17.59	17.37
Finland	13.79	14.56
Norway	12.59	12.28
<u>Iceland</u>	<u>1.72</u>	<u>1.75</u>
	100.00	100.00

Budget year 1991-1992 in percentages

(as from September 1991)£

Switzerland	28.78
Sweden	24.94
Austria	17.27
Finland	14.47
Norway	12.20
Iceland	1.74
<u>Liechtenstein</u>	<u>0.60</u>
	100.00

APPENDIX

Ministerial meeting between the European Community, its Member States and the Countries of the European Free Trade Association, 13 May 1991

1. The Ministers of the Member States and the Commission of the European Communities and the Ministers of the Member States of the European Free Trade Association and Liechtenstein met in Brussels on 13 May 1991.

2. The meeting was chaired, for the Community, by Mr Jacques Poos, Minister of Foreign Affairs of Luxembourg, President-in-Office of the Council of the European Communities, and for the EFTA countries by Mr Wolfgang Schüssel, Minister for Economic Affairs of Austria, Chairman of the EFTA Council. The Commission of the European Communities was represented by Mr Frans Andriessen, Vice-President. The list of participating Ministers is attached. Mr Georg Reisch, Secretary-General of EFTA also participated in the meeting.

2.bis Ministers confirmed their commitment to conclude, before the summer, negotiations on a comprehensive EEA agreement, based on equality which should ensure the greatest possible mutual interest for the parties concerned as well as the global and balanced character of their co-operation.

3. On the basis of the respective oral reports on the current state of the negotiations, they took note with satisfaction of the considerable progress achieved in the negotiations since their last joint meeting in December 1990.

4. They noted that agreement had been achieved on several important elements of the EEA Agreement and concluded that

solutions now seemed possible on the remaining open issues. Recalling that final agreement was dependent on a mutually acceptable solution to all questions covered by the negotiations, both substantive and institutional, as well as an overall balance of benefits, rights and obligations, they encouraged negotiators to pursue their work actively in order to find solutions to the outstanding problems.

5. With reference to the issues mentioned in their Joint Declaration of 19 December 1990 they noted the following developments.

6. They welcomed progress achieved in the definition of solutions required for the operation of a system ensuring equal conditions of competition including state aids throughout the EEA. They noted convergence on the main elements defining the respective roles of, and co-operation between, the EC Commission and the independent EFTA structure (with equivalent powers and similar functions as those exercised by the EC Commission.) They encouraged negotiators to finalize negotiations as rapidly as possible, including on more detailed criteria for the allocation of cases between the two sides and on the role of the judicial mechanism.

7. The participants welcomed the pragmatic solutions agreed upon reconciling a high level of protection in the field of health, safety and the environment with the free circulation of goods. This will ensure that most of the relevant Community acquis will be applied in full by the EFTA countries as from 1.1.93. In some other areas, free circulation within the EEA will be guaranteed from 1.1.93 on the basis of Community acquis although EFTA countries' national legislation may be maintained during a transitional period. In relation to motor vehicles, agreement was reached on free circulation as of 1.1.95 on the basis of the Community acquis. EFTA countries may however maintain national legislation until new Community rules are introduced which will be dealt with according to procedures laid down in the Agreement. For certain products (i.e. fertilizers containing cadmium, CFCs, halons) an open-ended transitional period has been agreed subject to a review in 1995.

Sectors where solutions have to be found before negotiations end are now reduced to those of dangerous substances, chemical substances/preparations and pesticides. Negotiators have been encouraged to pursue their work on these issues.

8. As regards other questions related to goods, the participants noted good progress on public procurement, product liability, testing and certification and EC mark, intellectual property. The agreement will contain a number of elements increasing co-operation in customs matters and improving and simplifying rules of origin. Further improvements will be sought in the framework of the Agreement.

9. Moreover progress was noted on steel, which both sides agree to bring under the coverage of the EEA Agreement in as far as the provisions of the bilateral Free Trade Agreements for ECSC products, which will be maintained, do not apply. Further progress has been achieved in the area of energy where agreement has been reached on the inclusion of part of the EC acquis. More work is necessary on the acquis with provisions relating to difficulties of supply.

10. They also welcomed the agreement in the areas related to the free movement of capital and services. The relevant Community acquis will be introduced by the EFTA countries from 1.1.93 with the exception of some elements for which transitional periods will apply. Moreover in the area of capital movements the EFTA countries concerned will apply their present legislation in a liberal manner during the transitional period. Further work is necessary concerning the EC Broadcasting Directive. Furthermore they welcomed the agreement reached on the outline of economic and monetary policy co-operation.

11. They noted further progress in the transport area, a key factor in the EEA context in relation with the free movement both of goods and services. They concluded that a comprehensive solution in transport has to be found. They urged negotiators shortly to conclude the ongoing bilateral transit negotiations taking into account the specific interests of some EEA peripheral countries.

12. Further work remains to be done in the area of free movement of persons.

13. They noted that agreement had been reached that in a number of horizontal areas where the EC acquis will be taken over by the EFTA countries (company law, social policy and environmental policy) transitional periods of up to two years will in general apply.

They welcomed the agreement reached to strengthen and broaden co-operation outside the four freedoms (flanking policies) in

the framework of the Community's activities in areas such as research and development including information services, environment, education, training and youth, social policy, consumer protection, small and medium-sized enterprises, tourism and audio-visual sector, insofar as these matters are not regulated by other titles of the Agreement. They noted that there was now a substantial convergence of views as regards the elements which should figure in the EEA Agreement to provide a firm legal basis for a comprehensive and dynamic co-operation.

They encouraged negotiators to press ahead with their work on the few remaining questions on which agreement still has to be reached.

14. The participants took note of the progress in the agricultural area. They confirmed their determination to achieve within the EEA a higher degree of liberalization of agricultural trade in the framework of their respective agricultural policies. An evolutionary clause will be included in the EEA Agreement. Moreover, EFTA countries will abolish or reduce import duties from 1.1.93 on a range of products of particular importance to the less developed regions of the Community. Particular attention will also be paid to the objective of abolishing trade barriers resulting from veterinary and phytosanitary regulations. In the latter areas the EFTA countries will take over, to the maximum extent possible, the EC acquis. Moreover, concrete measures will be introduced as from 1.1.93 in the form of reciprocal bilateral agreements between the EC and the EFTA countries under the umbrella of the EEA Agreement. Finally, trading conditions will be facilitated for processed agricultural products. They agreed that negotiations on all these issues should now be actively pursued and finalized as quickly as possible, given the importance of the agricultural sector as an element of balance in the Agreement as well as in the context of the reduction of regional social and economic disparities.

15. Recalling that they attached the same importance to the inclusion of fisheries into the EEA Agreement, they underlined the need for urgent and increased negotiating efforts in order to arrive at a solution combining satisfactorily the interests of both sides before the end of the negotiations.

With regard to fisheries, the ministers specifically refer to paragraph 4 of this Declaration, stating that the final agreement was dependent on a mutually acceptable solution to all questions covered by the negotiations; there must, at the end, be an overall

balance of benefits, rights and obligations for each Contracting Party.

16. Urgent further work was also required with regard to the ways and means of attaining the important objective of reducing regional economic and social disparities. This objective is essential to ensure a satisfactory balance of the EEA Agreement. They took note of the request of the Community and of the readiness of the EFTA countries to consider the creation of a financial mechanism through which appropriate efforts will be made towards the attainment of this objective. Concrete modalities should now be worked out.

17. As regards legal and institutional questions the participants reaffirmed the principles set out in the Joint Declaration of 19 December 1990. They considered that operational institutional solutions should be arrived at in order to achieve maximum legal homogeneity within the European Economic Area without compromising decision-making autonomy of the Contracting Parties, the process of integration of the European Communities and the specific nature of Community law. With this in mind, they treated in particular the following points:

18. They agreed on the need to provide in the agreement for a general safeguard clause which could be triggered into action whenever serious economic, societal, and/or environmental difficulties of a sectoral or regional nature were arising. The Contracting Parties could, in unilateral declarations noted by the Diplomatic Conference, make any specific points they wished on the possible application of the general clause. They also confirmed the points in this connection made in the Joint Declaration of 19 December 1990.

19. They also stressed the importance, in order to ensure maximum legal homogeneity, of developing as regards questions concerning the European Economic Area, an ongoing process of information and consultation in the course of the Community legislative process, and likewise of involving experts from the EFTA countries as widely as possible according to the areas concerned in the preparatory stage of draft measures to be submitted subsequently to the committees by the Commission. In this regard, they noted that when drawing up its proposals the Commission would refer to experts from the EFTA countries on the same basis as those from the member states. Further, they noted that pragmatic solutions for certain specific problems could be discussed

and that the status of the EFTA countries in the committees relating to the flanking policies would take full account of their possible financial participation in the projects concerned.¹

20. Recalling that decisions at European Economic Area level are taken on a consensus basis by the Community on one side and the EFTA countries speaking with one voice on the other, they recognized that should a serious and important difficulty arise in those areas which in the EFTA countries came within the competence of the legislator, this difficulty should be subjected to examination by the Joint Committee, which would try first of all to seek a mutually acceptable solution which would allow maintenance of the Agreement in its entirety without prejudice to the possibility of invoking subsequently, where necessary, the general safeguard clause and proportionate rebalancing measures.

21. The participants stressed the need to have in the European Economic Area an effective system of surveillance composed on the one hand of the Commission and on the other of an EFTA mechanism working in a similar way, and also an independent judicial mechanism.

22. As regards the independent judicial mechanism, the following principles will be taken into account:

- nomination of seven judges from the EFTA countries;
- creation of an independent EEA Court composed of five judges from the EC Court of Justice and three from the seven EFTA judges, functionally integrated with the EC Court of Justice and which would be competent to give rulings:

concerning dispute settlement (including when necessary interpretation of the EEA rules) on request of the Joint Body or the Contracting Parties;

concerning disputes between the EFTA Surveillance Body and an EFTA country;

concerning cases brought by enterprises or states against decisions of the EFTA structure in the field of competition (including state aid).

¹ The Commission will send to the EFTA side a letter explaining the modalities of this paragraph.

- Reinforcement of the legal homogeneity within EEA through opening of intervention possibilities for EFTA countries before the EC Court of Justice and through a procedure inspired by that of the Lugano Convention.

23. They noted that the EFTA member states were prepared to introduce provisions in their internal legislation to the effect that rules of the Agreement establishing an European Economic Area shall prevail in cases of possible conflicts between these rules and other provisions of their internal legal order.

Heads of Government and Ministers of the EFTA states, 24 May 1991

1. We the Heads of Government and Ministers of the EFTA countries met in Vienna on 24 May 1991 under the chairmanship of Mr Franz Vranitzky, Federal Chancellor of the Republic of Austria.

2. We are pleased that the Principality of Liechtenstein will shortly become a full member of our Association following the decision taken two days ago by the EFTA Council at ministerial level to accept that country's membership application.

3. We assessed the role of the EFTA countries in the emerging new European architecture. In this wider context, characterized by the forging of closer relations between the EC and EFTA countries, the continuous integration of the European Community and by political and economic reforms in Central and Eastern Europe, we devoted particular attention to the final stage of our negotiations with the EC on a treaty establishing the European Economic Area (EEA). We furthermore focused on the EFTA countries' relations with third countries, in particular those of Central and Eastern Europe.

4. We underline the fundamental importance for all our countries of the establishment of a comprehensive EEA agreement providing a solid basis for dynamic and reinforced co-operation with the European Community based on equality which should ensure the greatest possible mutual interest for the parties concerned as well as the global and balanced character of their co-operation. It would in no way preclude membership in the EC for any interested EFTA country.

5. We welcome the important results achieved at the joint ministerial meeting between the EFTA and EC countries in Brussels on 13 May. The joint Declaration adopted at that meeting contains, together with the results of the previous joint ministerial meeting of December 1990, solutions to most but not all key issues. We stress the mutual understanding reached at the last joint ministerial

meeting that the final agreement on the EEA Treaty is dependent on a mutually acceptable solution to all questions covered by the negotiations, both substantial and institutional, as well as an overall balance of benefits, rights and obligations.

With regard to the unresolved issue of fish, we recall our position, i.a. that the treaty should provide for free market access for fish and other marine products. A satisfactory solution for the EFTA countries on the unresolved issue of fish is a precondition for an EEA treaty. This issue is inextricably linked to the necessity of achieving an overall balance of benefits for all contracting parties to the agreement. We reaffirm that there can be linkage between access to markets and access to resources.

We are confident that the conclusion of the EEA negotiations within the agreed time frame is now within reach. We firmly maintain the aim of initialling the agreement on the occasion of the meeting of ministers of the EFTA countries and representatives of the European Community to be held at the invitation of the Federal Government of Austria on 24 and 25 June in Salzburg. We welcome the initiative of the presidency of the European Community to convene an additional joint ministerial meeting in the middle of June.

We have taken note with satisfaction that the Committee of Members of Parliament of the EFTA countries and the Consultative Committee support this effort. We stress the necessity of their proper involvement in the future EEA and welcome the fact that they have submitted proposals in this regard. Furthermore, we note the importance attached to the development of a social dimension in the EEA.

We emphasize that the EEA will be an important part of the new European architecture. The envisaged free trade agreements which are being negotiated under the joint Declarations signed in June 1990 in Gothenburg between the EFTA countries and Hungary, Czechoslovakia and Poland will, together with the association agreements negotiated by the EC with the same countries, be another significant element in this architecture. The free trade agreements will complement other efforts of EFTA countries to support the transformation process in Central and Eastern Europe. We welcome the progress made in these negotiations and aim at their conclusion during this year in order to allow the agreements to enter into force in 1992.

Recalling our long-standing and close co-operation with Yugoslavia, we reviewed with concern the present situation in that country. We express our hope that Yugoslavia will be able to solve its internal problems through negotiations and dialogue between all parties.

We noted the concrete suggestions made by Bulgaria and Romania to establish closer links with the EFTA countries and foresee talks this autumn on the appropriate forms of co-operation with these two countries.

We welcome the progress in the free trade negotiations with Turkey and aim at their early conclusion in order to allow the agreement to enter into force in 1992. We have taken note with satisfaction that negotiations will soon start with Israel with a view to concluding a free trade agreement with appropriate arrangements and that explorations on the feasibility of starting such negotiations with the Gulf Co-operation Council (GCC) will continue.

We underline the importance of a successful outcome of the negotiations in the Uruguay Round in order to strengthen the multilateral trading system. We confirm our commitment to substantial results in all fields of the negotiations and aim to conclude them by the end of 1991.

Meeting of EFTA Ministers and EC representatives, 25 June 1991

The Ministers of the Member States of EFTA and the European Communities represented by Mr Jacques Poos, Minister of Foreign Affairs of Luxembourg, President in Office of the Council of the European Communities, and Mr Frans Andriessen, Vice-President of the Commission of the European Communities, met in Salzburg on 25 June 1991. Mr Georg Reisch, Secretary-General of EFTA, also participated in the meeting.

They agreed that the EEA Agreement will open up a new phase of EFTA-EC relations and will constitute an important building block for the new European architecture. The EEA Agreement will create a single market in which 380 million Europeans will benefit from the free movement of persons, goods, services and capital based on non-discrimination and the equal treatment of individuals and economic operators. The EEA Agreement will also provide for broadened and strengthened co-operation in flanking and horizontal policies, in such fields as the environment, education, training and youth, social policy, research and development including information services, consumer protection, small and medium-sized enterprises, tourism and audio-visual matters.

Recalling the results already achieved at the joint EFTA-EC ministerial meetings on 19 December 1990, 14 May 1991 and 18 June 1991, ministers examined the current state of the negotiations and noted that the majority of substantial, legal and institutional questions relative to the EEA, had now been solved. They welcomed the further progress made in the meantime at the level of negotiators and noted that on some outstanding questions the respective positions were converging, while on others further work remained necessary.

They urged negotiators actively to pursue work and reconfirmed their joint commitment to conclude the negotiations before the summer break so as to ensure the signing of the EEA Agreement in the autumn of this year and its entry into force on 1 January 1993.

Meeting of EFTA Ministers, 10 and 11 December 1991

1. Ministers of the EFTA countries met in Geneva on 10 and 11 December 1991 under the chairmanship of Mr Pertti Salolainen, Minister for Foreign Trade of Finland.
2. Ministers recalled the conclusion of the negotiations on the establishment of the European Economic Area (EEA) on 21/22 October in Luxembourg. The EEA marks the beginning of a new and challenging era in the EFTA countries' relations with the European Community. By its comprehensive and dynamic character, the Agreement provides far-reaching opportunities and benefits for all the nineteen EFTA and EC countries and their citizens.
3. The EEA will enable all the EFTA countries to participate in the single market from the outset. The free movement of goods, services, capital and persons as well as strengthened and broadened co-operation in flanking and horizontal policies will not only make a positive contribution to economic and social development, to the protection of the environment and to prosperity, but will also facilitate contacts among Europeans and thus promote European identity.
4. Ministers expect that the present clarification procedure within the Community on certain legal aspects of the EEA Agreement be completed as soon as possible in order to allow for an early signature of the agreement as concluded by ministers in Luxembourg and for its entry into force on 1 January 1993.
5. Ministers are convinced that, following signature, all parties concerned will make every effort to complete the ratification process of the EEA Agreement in time for entry into force simultaneously with the single market of the EC. They underlined the importance of ensuring that the necessary structures are in place for the full implementation of the EEA by that time.
6. Ministers received a report from the High-Level Planning Group on administrative arrangements between the EFTA countries, in preparation for the implementation of the EEA Agreement and

noted the agreements that had been reached. In particular, they agreed to set up a Preparatory Committee for the setting up of the EFTA Surveillance Authority (ESA) as well as an interim EFTA Standing Committee.

7. Ministers welcomed the historic agreement on Economic and Monetary Union and Political Union reached by the European Council in Maastricht. Ministers believed that the results were decisive for the continued development of closer European co-operation and that they would enhance relations between the EC and EFTA states on the basis of the EEA Agreement.

8. Ministers emphasized the political significance of the EEA as an important element in the construction of the new Europe and its positive effect on the integration of the new democracies of Central and Eastern Europe into a wider European framework.

9. Ministers recognized the role which the EFTA countries already play today as a dynamic element in European integration and in the promotion of the free trade concept. In this context, they noted the interest expressed by several third countries in initiating or intensifying co-operation with the EFTA countries and in establishing new links with EFTA.

10. Ministers expressed satisfaction about the signing on 10 December of the free trade agreement between the EFTA countries and Turkey. This agreement will put trade relations on the same preferential basis as those between Turkey and the EC. It is expected to enter into force on 1 April 1992.

11. Ministers noted that substantial progress had been achieved in the negotiations on free trade agreements with Hungary, Poland and Czechoslovakia and urged that these negotiations be concluded soon in order to allow for the agreements to enter into force in the first half of 1992. Ministers believe that these agreements will, together with the Association agreements concluded by the EC with the same countries, represent a significant contribution to the further transformation process of these countries into market economies and will facilitate their integration into a wider European free trade system.

12. Ministers welcomed the restoration of the independence of the Republics of Estonia, Latvia and Lithuania and the signing of Joint Declarations on co-operation between the EFTA countries and these three countries which took place on 10 December.

13. Ministers also welcomed the signing on 10 December of Joint Declarations on co-operation with Bulgaria and Romania.

14. Activities under all these Declarations will complement the assistance efforts made by the individual EFTA countries both bilaterally and within the Group of 24 and will contribute to the development of these countries towards market economies and to their integration into the European and world economy.

15. Ministers recall the EFTA Council's decision to suspend co-operation with Yugoslavia. They consider the ongoing conflict in Yugoslavia as a tragedy for the population of that country. The Geneva Conventions and their additional Protocols must be respected and hostilities have to cease at once. The destruction of the common cultural heritage, in Dubrovnik in particular, has to stop.

Ministers instruct the Council at official level to actively examine concrete measures to assist those Parties which contribute towards a comprehensive political and peaceful solution.

16. Ministers emphasized the need to establish favourable and undistorted trade conditions between the EFTA countries and Israel. They stressed the need for rapid conclusion of the free trade negotiations in order for EFTA countries to achieve the same competitive position as their main trading partners vis-à-vis Israel.

17. Ministers expressed their continued interest in exploring the possibilities for free trade negotiations with the countries of the Gulf Co-operation Council (GCC) and took note with satisfaction that a further contact is planned for January 1992.

18. Ministers met with the Committee of Members of Parliament of the EFTA countries and took note of reports on the Committee's preparation, together with its counterpart of the European Parliament, on their future co-operation within the EEA Joint Parliamentary Committee. They welcomed the intensified co-operation between the EFTA parliamentarians and Members of Parliament from Hungary, Poland and Czechoslovakia.

19. Ministers welcomed the preparations made by the EFTA Consultative Committee and the Economic and Social Committee of the EC for their future co-operation in the framework of the EEA Consultative Committee. They also noted the contribution made by the CSC for co-operation with its counterparts in the countries of Central and Eastern Europe, including the Baltic states.

20. Ministers reaffirmed their commitment to contribute to a successful completion of the Uruguay Round by the end of 1991. They confirm their strong support for the establishment of equitable and unambiguous rules for international trade. The outcome that is now within reach is comprehensive and substantial. The opportunity to lay the foundation for a framework for predictable trade and economic co-operation for the next century must not be missed.

21. Ministers noted with satisfaction that following the initiative of the EFTA countries it has been decided in GATT to start active consideration of issues related to "Trade and Environment."

22. The next ministerial meeting will be held on 20 and 21 May 1992 in Reykjavik.

European Free Trade Association 1991

MEMBER COUNTRIES:

Austria
Finland
Iceland
Liechtenstein
(from 1 September 1991)

Norway
Sweden
Switzerland

CHAIRMANSHIP OF THE EFTA COUNCIL

January - June
July - December

Austria
Finland

HEADS OF PERMANENT DELEGATIONS TO EFTA

Austria:

Finland:
Iceland:
Liechtenstein:
Norway:
Sweden:
Switzerland:

Franz Ceska (until 20 July)
Winfried Lang (from 6 August)
Antti Hynninen
Kjartan Johannsson
Andrea Willi
Erik Selmer
Lars Anell
William Rossier

EFTA STANDING COMMITTEES

Committee of Trade Experts
Committee on Technical Barriers to Trade
Committee of Origin and Customs Experts
Economic Committee
Consultative Committee
Committee of Members of Parliament
Steering Committee for the Portuguese Fund
Budget Committee
Group of Legal Experts

EFTA SECRETARIAT

Secretary-General
Deputy Secretary-General
Secretary-General's Office
Trade Policy Affairs
Legal Affairs
Economic Affairs
Specific Integration Affairs
Press & Information Service
Council Secretariat
Administration
Brussels office

Georg Reisch
Berndt Olof Johansson
Director: Per Mannes
Director: Hanspeter Tschäni
Director: Sven Norberg
Director: Per Wijkman
Director: Jérôme Lugon
Director: Hansjörg Renk
Director: Rodney Hall
Director: Arne Kjellstrand
Head: Christoph Querner

EFTA SECRETARIAT HEADQUARTERS:

9 - 11, rue de Varembe, CH-1211 Geneva 20, Switzerland
Telephone: (4122) 749 11 11 - Telex: 41 41 02 EFTA CH
Telefax (4122) 733 92 91

BRUSSELS OFFICE OF THE EFTA SECRETARIAT:

118 rue d'Arlon, B-1040 Brussels, Belgium
Telephone: (322) 231 17 87 - Telefax (322) 230 34 75



Published by the European Free Trade Association
9-11, rue de Varembé, CH-1211 Geneva 20, Switzerland

ISSN 0258-3844

EFTA

ANNUAL REPORT

1992



Thirty-second
Annual Report
of the
European Free Trade
Association

Geneva, June 1993