



35/80

THE EUROPEAN COMMUNITY AND THE EFTA COUNTRIES

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THE EUROPEAN COMMUNITY AND E F T A

Together the countries of today's European Community and of the European Free Trade Association (EFTA), with their long history of political, economic, social and cultural interdependence, make up some 300 million consumers.

This note reviews relations between the Community and the EFTA countries. It excludes, however, Portugal which in 1977 applied for full membership of the Community, for which negotiations are under way (1).

When, in 1969, the Member States of the then Europe of the Six decided to conduct negotiations with the United Kingdom, Denmark, Ireland and Norway concerning the entry of these countries into the Community, they also decided to begin negotiations with the other member States of EFTA concerning the future relations between the enlarged Community and these states. In 1972/73, these negotiations led to the conclusion of Free Trade Agreements (also with Norway that had rejected entry into the Community in a referendum held on the 26 of September, 1972). These Free Trade Agreements, one for the European Economic Community and one for the European Coal and Steel Community, respectively, set up a free trade area between the Community and the current EFTA states for industrial products as well as for certain agricultural processed products. Agriculture was not, as such, included although some concessions were made on both sides to run parallel with the concluded free trade agreement for industrial products. Iceland alone was treated as a special case and, within the framework of the Free Trade Agreement, received particular concessions in the field of fisheries. Free trade in the industrial field has been achieved with the exception of a few products, for the most part paper, for which certain remaining tariffs and optimum quantities, for the purpose of import duties, will remain in effect until the end of 1983. The Community will shortly be further enlarged. On the first of January, 1981, Greece will become the tenth member state of the Community. Negotiations with Spain and Portugal concerning their entry into the Community are currently being conducted. This year EFTA will be celebrating at Saltsjöbaden near Stockholm (11-13 June) the twentieth anniversary of its coming into existence. Mr. Wilhelm Haferkamp, Vice-President of the Commission responsible for external relations, will be among the personalities present. It therefore seems appropriate briefly to outline the significance of the relations between the EEC and EFTA and to draw our attention to them.

The second enlargement of the Community: towards a market of 350 million consumers

Europe of the Nine and the member states of EFTA together form a free trade area of 300 million inhabitants in which industrial products can be exchanged free of tariff duties and of quantity levels. After the second enlargement of the Community, this free trade area will encompass almost 350 million inhabitants. The nine countries of the Community traded with this free trade area in 1978 to the tune of 60 % of their imports and 62.5 % of their exports. The EFTA states received 70 % of their imports from either the Community or from other EFTA states and 64 % of their exports went to either the Community or the other EFTA states. If we include Spain and Greece, these figures will be increased by around 2 %. And if we consider the level of imports and exports outside this current trade area, (the extra-EEC trade and the extra-EFTA trade), we will find that the EFTA states constitute the largest trading partner for the EEC. In 1979, 18.7 % of the Community's imports came from these states. 24.3 % of the Community's exports went to EFTA.

(1) A separate note on Portugal is available in this series (N° 34/80)

We can compare this with the USA (15.8 % and 12.9 % respectively) and Japan (4.9 % and 2.4 % respectively). This interdependence is even more significant for the EFTA states. In 1978, 64.8% of the imports of the EFTA states from outside the EFTA trading area come from the Community, 57.5 % of the exports of these EFTA states outside their trading area went to the Community. These figures show clearly the significance of a close cooperation in order to guarantee the functioning of the free trade agreements. The current internal economic situation exerts, on account of this interdependence, a special influence on the current economic state of the present partners. Therefore, it is in the common interest to do everything possible in order both to maintain and to develop these relations for a high level of economic growth and liberalisation of trade.

It follows that cooperation over and above the Free Trade Agreements should be further extended to encompass all those areas where a strengthening and deepening of economic relations seem desirable. As a result, the Community has willingly complied with the wish of the EFTA states for closer and deeper cooperation, as outlined by the EFTA Heads of Government at their conference in Vienna on 13 May, 1977. It has strengthened cooperation in various areas for example the fields of transport, technical and scientific research, protection of the environment and the exchange of information and views with regard to economic and monetary policies, development aid, energy and industrial policy.

The entry of Greece into the Community, and probably later of Spain and Portugal, will, from the economic viewpoint, not create any problems for the EFTA states. They will derive benefit from a trading area enlarged by 50 million extra inhabitants. At the political level, however, the Community will have entered a new phase. The Community will no longer be the same with the entry of the three southern European countries. It will display greater internal imbalance. Its own North-South problem will become more intense. It will become more Mediterranean. These new aspects will influence the decision-making procedures of the Community. The EFTA states must play their role to ensure that the political interest of the enlarged Community in the continued cooperation with its advanced industrial neighbours in northern and central Europe, linked to the Community by means of the free trade agreement, is not weakened.

THE CONTENT OF THE FREE TRADE AGREEMENTS (2)

The agreements between the European Community and EFTA countries are aimed at promoting, by the expansion of mutual trade, the harmonious development of conditions of life and employment, the growth of productivity and financial stability. They also wish to ensure equitable conditions of competition between the parties, and to contribute to the liberalization and expansion of world trade. In the case of Switzerland, Norway, Sweden and Iceland, the preamble also mentions the will of the parties to "contribute to the work of building Europe". The agreement with Finland insists, in its preamble on the maintenance of the autonomous power of decision of both parties.

The agreements provide for the establishment of a free trade zone for industrial products between the EEC and each of the EFTA countries, with minor concessions for certain agricultural products. The duty exemptions already

- (2) The agreements with Austria, Switzerland and Sweden were published in the Official Journal of the European Communities L 300 of 1972. The agreement with Iceland in OJ L 301 of 1972, with Norway in OJ L 171 of 1973 and with Finland in OJ L 328 of 1973.

established in EFTA with the United Kingdom and Denmark are maintained, apart from some exceptions; customs duties and taxes of equivalent effect on trade with the six original Member States of the European Community and with Ireland were progressively eliminated according to a timetable which provided for five successive reductions each of 20 % from 1 April 1973 to 1 July 1977.

This scheme was integrally followed for Switzerland and Sweden. An interim agreement signed with Austria on 22 July 1972 allowed customs duties between that country and the Community to be lowered by 30 % from 1 October 1972. But the first step was taken only on 1 July 1973 for Norway and 1 January 1974 for Finland which, however, followed the standard timetable for the remaining matters. Finally, because of the economic situation in Iceland, a special timetable was foreseen, extending to 1 January 1980 for imports of Community industrial products to this country which, however, benefits fully from the provisions of the model agreement for its own industrial exports. Since certain industries might experience some difficulties in adapting themselves to the new market conditions, the agreements provided for various partners annual indicative ceilings and a slower dismantling of tariffs for some sensitive products. For the Community, these products were in the metals sector (steel in particular) and paper. In these cases, there should be complete liberalization of trade on, respectively 1 January 1980 and 1 January 1984.

Special protocols authorize Finland to maintain quantitative restrictions for certain fuels and fertilizers and to conserve certain restrictions for credits connected with trading. A protocol to the Swiss agreement authorized that country to submit to a system of compulsory reserve products considered indispensable in time of war and whose internal production was inadequate.

Rules of competition

The agreements provide neither for a customs union nor for the obligation to harmonize legislations. The partners undertake however, to avoid any distortion of fair competition which might affect their trade. In the context of parallel agreements concluded between the European Coal and Steel Community (ECSC) on the one hand and Austria, Norway, Sweden, Finland and Iceland on the other hand - Switzerland was the only exception - these countries agree, subject to certain reserves applied to the particular situations in Norway and Iceland, to apply Community rules on prices and transport costs.

Safeguard measures

In case of serious difficulties arising from a distortion of fair competition, dumping of excessive differences between fiscal duties on raw materials, and also in case of serious disturbances affecting a region, a sector of the economy or the balance of payments, the parties can, subject to certain conditions, apply safeguard measures which, however, generally called for prior consultations and a joint study of the situation.

Rules of origin

Common rules of origin were established for Community and EFTA countries. As the EFTA countries do not have, as does the Community, a common customs tariff vis-à-vis the rest of the world, it was in fact important to be able to determine whether or not they should benefit from the provisions of the Free Trade Agreement. These rules are regularly adapted in terms of industrial and technical progress and administrative requirements.

Concessions in the agricultural sector

Since the dismantling of tariffs covers equally the industrial element of processed agricultural products, particular systems have been established to compensate for differences that might exist between one country and another in prices of raw materials. Free trade does not extend to other agricultural products, but the parties have stated that they are "ready to encourage the harmonious development of trade while respecting their agricultural policies". In addition, on the eve of signing the agreements, Austria, Switzerland, Norway and Sweden on the one hand, and the Community on the other, have automatically granted certain reciprocal concessions in this sector which, at the time, contributed only less than 8 % to the total of trade between these countries and the Community.

These concessions affect, where the Community is concerned, the system of beef imports for Austria, Switzerland and Sweden, and the imports of fishery products for Norway. The partner countries have granted concessions on wines and certain Community fruit and vegetables, also on fishery products for Sweden.

Iceland, however, presented a specific case, since two-thirds of its exports to the Community were agricultural products - in fact, fishery products. Therefore, this country obtained special concessions in this sector, in the context of the free trade agreement itself, by virtue of a special Protocol N° 6.

Evolutionary clause

In the agreements with Austria, Switzerland, Iceland, Norway and Sweden, these clauses allow each partner to present reasoned requests aimed at developing the relations established by the agreement by extending them to fields not initially covered, in the interests of the economies of the parties concerned for "in the joint interest", as expressed in the agreement with Sweden.

Joint committees

Institutionally, each of the agreements established a joint committee between the two partners. This committee meets at least once a year, and its task is to manage the way in which the agreements are carried out, particularly in matters concerning customs questions, rules of origin, and the application of safeguard clauses. The Committee examines any request that may be made to extend the scope of the agreements and formulates, where necessary, recommendations with a view to entering into negotiations. The agreement with Sweden states that these recommendations may cover the application of concerted harmonization, on condition that autonomy of decision is not affected for either party.

THE APPLICATION OF THE FREE TRADE AGREEMENTS

The agreements between the European Economic Community on the one hand and Austria, Switzerland and Sweden on the other hand entered into force on 1 January 1973 - an interim agreement with Austria having entered into force on the 1 October 1972. The agreement with Iceland entered into force on 1 April 1973, that with Norway in 1 July 1973. Finally, the agreement with Finland entered into force on 1 January 1974.

The agreements between the European Coal and Steel Community on the one hand and Austria, Switzerland, Sweden and Iceland on the other hand entered into force on 1 January 1974, although the first tariff reductions were made on the 1 April 1973. The agreements with Finland and Norway entered into force on 1 January 1975.

Dismantling of tariffs

In the field of customs duties, the liberalization of trade was carried out according to the timetable laid down. Nevertheless, the countries for which the agreement with the EEC and the first stage started later were capable of catching up the other countries by the date established for the second stage, 1 January 1974.

But protocol N° 6 of the EEC-Iceland agreement instituting tariff reductions for certain Icelandic fishery products could be applied only on 1 July 1976. Iceland had in fact extended its fishing zones to 50 miles in 1972 and 200 miles in 1975, and it was only when the difficulties created by this in relations between Iceland and certain Member States of the Community, had been settled that the Community agreed to apply tariff reductions on Icelandic fish products.

For sensitive products, for which a special timetable had been set up for reduction of duties, the partners several times made use of a provision in the agreements allowing the ceiling amounts of the previous year to be extended in case of economic difficulties. The Community, in particular, applied this clause in 1978 for some paper products originating from Austria, Norway and Sweden.

Safeguard clauses

The application of the safeguard clauses by some EFTA countries for a few products has not caused serious problems between the partners.

Arrangements for steel

In the steel sector, following on the crisis measures (the "Davignon Plan") the Community had been forced to take and which included among other things the fixing of minimum prices, it was found necessary to obtain the cooperation of third countries to avoid imports at lower prices destroying the effect of the Community provisions. Thus arrangements were made, in February 1978, between the Community and EFTA countries, except for Iceland which is not a steel producer. They guarantee that Community prices on the EEC market will be respected by EFTA exporters and thus permit the traditional patterns of trade to be maintained, in the interest of all the partners. All parties agreed to the extension of these arrangements in 1979, while for 1980 more flexible arrangements were agreed, with the exception of Switzerland where this necessity did not arise.

Activities of Joint Committees

The Joint Committees between the Communities on the one hand and Austria, Switzerland, Norway, Sweden, Finland and Iceland on the other hand, have met regularly twice a year since the agreements entered into force. In 1980 their latest meetings took place on the following dates: Finland and Switzerland (27 May), Iceland (30 May), Austria and Sweden (3 June) and Norway (9 June). These Committees have worked very satisfactorily.

Community representatives and their EFTA partners have regularly reviewed the general economic situation, the working of the agreements, and the difficulties that arose on either side.

The Customs Committees, the only committees set up so far according to the provisions of the agreements to help the Joint Committees to accomplish their tasks, have met regularly and have presented reports at each of the meetings of the Joint Committee. They have been able, among other things, to contribute to numerous simplifications of the rules of origin and to facilitate administrative cooperation in the application of customs formalities.

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RELATIONS BETWEEN AUSTRIA AND THE COMMUNITY

Trade between Austria and the European Community is governed by the two Free Trade Agreements (EEC and ECSC) dating back to 1972. Trade has expanded considerably since the Agreements came into effect. Austrian exports to the Community rose by 146 % between 1973 and 1978 from US \$ 2,6 billion to US \$ 6,4 billion, representing approximately 60 % of total Austrian exports. Austria's imports from the Community increased over the same period by 62 % from US \$ 4,6 billion to US \$ 10,4 billion. In 1979, the Community's imports from Austria were worth as much as US \$ 8,3 billion, with exports to Austria totalling US \$ 13,4 billion.

Consequently free access to the Community and the state of the market are of great importance for the Austrian economy. Austria is indeed the Community's fourth most important customer. The trading development described above demonstrate the mutual advantage of trade that is as free as possible.

In the Joint Committee established by the Free Trade Agreement, Austria has several times expressed concern about serious trade balance problems with the Community and about its exports in agriculture, particularly in relation to beef, which were subject to autonomous concessions from the Community. The agricultural sector not being covered by the Free Trade Agreement, the Community has nevertheless entered into bilateral discussions which have permitted solutions to be found in certain cases.

The particular geographical situation of Austria evidently justifies a certain coordination in the transit and transport sectors. The following agreements were concluded:

- agreement of 26 July 1957 which entered into force on 1 March 1958 and was completed by a protocol of 10 October 1974, relating to the establishment of direct international rail tariffs for the transport of coal and steel in transit through the Austrian Republic;
- agreement between the EEC and Austria of 30 November 1972 which entered into force on 1 January 1974 and covers Community transit of goods;
- agreement of 11 May 1975 which entered into force on 1 January 1977 regulates the conditions of passage through Austria and warehousing in Austria of goods traded between the Community and Greece and Turkey. This agreement simplifies customs formalities and facilitates trade between North and South Europe.

Austria asked the Community for a financial contribution to the "Innviertel-Pyhrnautobahn", a motorway providing direct communication between the North-West of Europe and the Balkans, Greece and the Middle East. In a communication sent to the Council of Ministers in April 1980, the Commission pronounced itself in principle favouring a financial contribution by the Community to its construction. However it seems difficult to isolate this question from other important transport matters concerning Austria, such as the Austrian road tax and the number of transit transport licences granted. Since 1978 regular discussions on these questions have been held between Austrian and Commission experts.

In the steel sector, exchanges of information between Austrian and Community experts have been going on for some ten years; they have proved particularly useful in the present crisis, as well as the steel arrangement concluded in 1978, and extended during 1979 and 1980 (cf. p. 5).

An agreement made by exchange of letters in April 1978 established exchange of information between Austria and the Commission on environment problems. There are also regular exchanges of information and views on economic and monetary matters; Austria participates in several actions of "European Cooperation in Scientific and Technical Research" (COST), particularly in the sectors of metallurgy, meteorology, transport and telecommunications. These actions have been conducted since October 1970 under the impulse of the Community's Council of Ministers, and they encourage joint action between the Community and numerous European third countries.

Austria, together with the Community countries, participates in the European Patent Convention, signed in 1973, establishing a system of granting patents which are common to the signatory countries. The Community Patent Convention signed by Community countries on 15 December 1975, provides for the unification of the effects of this patent on the territory of Member States and, in addition, is open to association from third countries such as Austria and the other EFTA countries which form a free trade zone with the Community.

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RELATIONS BETWEEN SWITZERLAND AND THE COMMUNITY

Trade between Switzerland and the European Community is governed by the two Free Trade Agreements (EEC and ECSC) of 1972. Trade has expanded considerably since the Agreements came into effect. Swiss exports to the Community rose by 158 % between 1973 and 1978 from US \$ 4,3 billion to US \$ 11,1 billion, representing approximately 52 % of total Swiss exports. Swiss imports from the Community increased over the same period by 100 %, from US \$ 8 billion to US \$ 16 billion. In 1979, the Community's imports from Switzerland were worth as much as US \$ 17,3 billion, with exports to Switzerland totalling US \$ 24,4 billion.

Consequently free access to the Community and the state of the Community market are of great importance to the Swiss economy. Switzerland is similarly a most important market for the Community's exports. Indeed, overall, Switzerland is the second most important trade partner of the Community after the United States. The importance of mutual trade and its development, as described above, demonstrate the advantage of trade that is as free as possible.

The regular meetings of the EC-Switzerland Joint Committee, set up under the two Free Trade Agreements permit both parties to raise particular problems affecting trade in products covered by the Agreements.

Switzerland has also expressed its readiness to cooperate in matters, over and above the Free Trade Agreements, in a number of different sectors.

As in the case of Austria, the geographical position of Switzerland justifies a certain cooperation in the transport and transit sectors. Thus, the following agreements have been concluded:

- agreement of 28 July 1956 which entered into force on 1 June 1957 and was completed by a protocol of 10 October 1974, relating to the establishment of direct international rail tariffs for the transport of coal and steel in transit through the territory of the Helvetic Confederation;
- agreement between EEC and Switzerland of 25 November 1972, which entered into force on 1 January 1974, and concerns Community transit of goods. The simplification of customs procedures thus obtained facilitates trade between North and South Europe. An agreement initialled in October 1976 also extends the system of Community transit to relations between Austria and Switzerland.

Swiss and Commission experts have moreover been meeting regularly, since autumn 1977, to exchange views and information on problems of transport and transport policies on both sides. There are also regular exchanges in information and views on economic and monetary matters and the environment.

Other significant agreements are:

- The agreement signed on 30 June 1967 which entered into force on 1 January 1968 concerning watchmaking products, completed by another agreement signed on 20 July 1972 and entering into force on 1 January 1973. Information has been exchanged annually within the Joint Committee established by the Agreement on the situation for watchmaking products on the markets of the partners and on the world market;
- The agreement on processing traffic in the textile sector signed on 1 August 1969;
- The agreement between Switzerland and the European Commission covering the exchange of information on research in the environmental sector. This agreement was concluded in December 1975 by an exchange of letters;
- The cooperation agreement between Switzerland and Euratom on research in the field of controlled thermonuclear fusion (JET) signed on 14 September 1978 and allowing the research programme of the two partners to be associated with an aim to developing in the long term a new, abundant 'own' source of energy.

In addition, negotiations were opened in 1976 and are in the process of being concluded, aiming at an agreement on establishment in the field of non-life insurance. This agreement will allow the financial conditions required for the establishment of subsidiary companies to be liberalized.

Switzerland participates in several actions of European Cooperation on Scientific Research (COST), in particular in the fields of data processing, telecommunications, meteorology, metallurgy, transport and protection of the environment.

In the field of telecommunications an agreement in the form of an exchange of letters between the Community and Switzerland on the extension to Swiss territory of the Community's EURONET data network was signed on 28 September 1979.

Finally Switzerland acceded to the European Patents Convention and participates in the activities of the European Patent Office. On 3 December 1976 it signed, with the Community and the Member States concerned, the Convention on the protection of the Rhine against chemical pollution, which was inspired by a Council Directive dated 4 May 1976. Finally, the Swiss monetary authorities have shown great interest in cooperating with the opposite members in the Community.

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RELATIONS BETWEEN NORWAY AND THE COMMUNITY

When in September 1972 Norway voted in a national referendum against membership of the European Community, it became urgently necessary to find a solution to the problem of the incorporation in the enlarged Community of Norway's former EFTA partners, the United Kingdom and Denmark. This solution was arrived at in the industrial free trade agreements subsequently concluded between the enlarged Community and each of the EFTA Countries.

Trade relations between Norway and the Community were thenceforth regulated by two Free Trade Agreements concluded in 1973, covering industrial and coal-and-steel products respectively. These Agreements provided for free trade between the two partners and in particular for the removal of all quantity restrictions and the phasing out of all tariff barriers in respect of the products concerned. On 1 July 1977 the Community abolished customs duties on industrial and some agricultural processed goods. For a number of sensitive products a longer transitional phase was established, notably for aluminium and certain other metals (1 January 1980) and paper and pulp products (1 January 1984). Until these dates the Community may also reintroduce full customs duties if fixed ceilings are exceeded, but in practice this has seldom been necessary. For its part Norway maintains until 1 January 1984 duties on a number of Community imports, notably in the textiles sector.

The Free Trade Agreements have functioned well, and trade has expanded rapidly. In the period 1974-1978 Community imports from Norway grew by 126 % from US \$ 2.4 billion to US \$ 5.4 billion, while the Community's exports climbed by 38 %, from US \$ 2.8 billion to US \$ 3.9 billion. In 1978 Norway indeed registered for the first time in its trade with the Nine a remarkable surplus of US \$ 1.5 billion. This surplus is almost entirely attributable to the rapid growth of Community's energy imports from that country. Until 1977 Norway's trade balance with the Community was always in deficit.

Approximately 60 % of Norwegian exports went in 1978 to the Community (compared with 47 % in 1974). The Community's share of Norwegian imports stood in 1978 at 45 % (compared with 42 % in 1974). In this same period Norway's exports to the Nine grew much faster than to the rest of the world (102 % as opposed to 23 %). Norwegian imports from the Nine meanwhile rose by 46 % (as opposed to 30 % for the rest of the world).

These figures bear witness to the success and necessity of the links between Norway and the Nine provided by the Free Trade Agreements. Cooperation over and above free trade has been extended to transport, energy, economic and monetary matters and environmental issues. Exchanges of opinion and information are now regularly under way between the Commission and Norwegian experts on these questions. Norway also participates in a number of scientific and technical research programmes of the Community (notably the COST project).

Finally on 27 February 1980, a tripartite Agreement was reached between the Community, Norway and Sweden on fishing rights in the Skagerrak.

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RELATIONS BETWEEN SWEDEN AND THE COMMUNITY

Trade relations between Sweden and the European Community are governed by the two Free Trade Agreements dating back to 1972, covering respectively industrial goods and coal and steel. Through these agreements virtually full industrial free trade was established. For imports of Swedish paper and pulp products, however, the Community will maintain tariffs until 31 December 1983. Till that date the Community may reintroduce full customs duties if certain ceilings are exceeded, but in practice this has rarely proved necessary.

The EEC-Sweden Free Trade Agreements have functioned well; indeed trade between the two partners has grown substantially. Between 1973 and 1978 the Community's imports from Sweden rose by 70 %, from US \$ 6.4 billion to \$ 10.9 billion, while the Community's exports to Sweden grew in the same period by 91 %, from some \$ 6 billion to \$ 11.4 billion. Approximately one half of Sweden's overall trade is with the European Community. For the Community, Sweden is the third most important trading partner, after the United States and Switzerland.

Over and above the Free Trade Agreements, cooperation between the Nine and Sweden is being extended to other areas, including nuclear energy research, scientific and technical cooperation and the exchange of opinions and information in the fields of transport, industrial policy, economic and monetary policies, the environment and overseas development policy. Sweden participates in particular in the Community's :

- controlled thermonuclear fusion research (JET), following an agreement signed on 10 May 1976 and
- European Cooperation in the field of Scientific and Technical Research (COST), especially in areas of data processing, telecommunications, meteorology, oceanography, transport and metallurgy.

Sweden is also holding talks with the European Community on the possibility of joining the EURONET network for the transmission of scientific and technical data.

Finally in the fisheries sector (fishing rights, fish catch, conservation, commercialisation) a number of agreements have been concluded between, most recently the tripartite Agreement of 27 February 1980 reached between the Community, Sweden and Norway on fishing rights in the Skagerrak.

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RELATIONS BETWEEN FINLAND AND THE COMMUNITY

Trade relations between Finland and the European Community are governed by the two Free Trade Agreements dating back to 1973 (EEC) and 1974 (ECSC). These agreements provide for free trade between Finland and the Community, and in particular for the immediate removal of all quantitative restrictions (3) and the phasing out of all tariff barriers in respect of the products concerned. The Community, for its part, abolished tariffs on most industrial goods on 1 July 1977, and for some textile products, aluminium and certain other non-ferrous metals on 1 January 1980. As for paper imports, the Community will remove its tariffs definitively on 1 January 1984. Until this time the Community may also reintroduce the full customs duties in the event of fixed ceilings being reached. The duties, which have so far been reduced by 50 %, are presently levied at 6 % and will come down further to 4 % as from 1 January 1982 and to 2 % on 1 January 1983. No duties are levied on imports of newsprint into the Community. Finland will abolish tariffs on a range of industrial goods from the Community only on 1 January 1985, after a transitional period of 12 years.

Although the tariffs have not been completely removed, trade has expanded considerably since the Agreements came into effect. Finnish exports to the Community rose by 85 % between 1973 and 1978 from US \$ 1.8 billion to US \$ 3.3 billion, representing approximately 38 % of total Finnish exports. Finland's imports from the Community increased over the same period by 59 %, from US \$ 1.8 billion to US \$ 2.8 billion. In 1979, the Community's imports from Finland were worth as much as US \$ 5.4 billion, with exports to Finland totalling US \$ 3.7 billion.

In 1978, some 70 % of the Community's exports to Finland consisted of machinery, transport vehicles and other industrial goods; chemical products made up 16 %. As far as Finland's exports are concerned, paper is the most important item. In 1978, 2.5 million tonnes of it was exported, worth US \$ 1.1 billion (of which 300 million dollars' worth of newsprint). These figures represent 58 % by quantity and 53 % by value of total Finnish paper exports. Paper accounted for 33 % of all Finland's exports to the Community, followed by wood (\$ 553 million, 17 % of total exports), paper pulp and waste paper (\$ 270 million, 8 %), iron and steel (\$ 173 million, 5 %), and non-ferrous metals (\$ 114 million, 3.5 %). These five product groups therefore make up almost 70 % of Finland's exports to the Community. Fifty-three per cent of all Finland's paper exports in 1978 went to the Community, 72 % of its wood exports, 61 % of the exports of paper pulp, 43 % of iron and steel exports and 50 % of all non-ferrous metal exports.

Consequently free access to the Community and the state of the market for these products in the Community are of great importance for the Finnish economy. Finland is similarly an important market for the Community's exports. The trading developments described above demonstrate the mutual advantage of trade that is as free as possible.

Pragmatic cooperation between the Community and Finland was extended in some areas which are not included in the Free Trade Agreements; for example, Finland is participating in a series of joint scientific and technological research projects within the framework of the COST programme. Information and opinions have been exchanged between the Commission of the European Communities and the appropriate departments of the Finnish Government on matters of economic and currency developments, environmental protection and the situation of the timber and paper industry.

In 1978 the negotiations between the two parties of an agreement on the management of "common" fish stocks resulted in the initialling of a text by both sides.

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(3) Except for Finland in the case of certain fertilisers and fuels

RELATIONS BETWEEN ICELAND AND THE COMMUNITY

Trade relations between Iceland and the Community are governed by the two Free Trade Agreements dating back to 1972 (EEC) and 1973 (ECSC).

On account of the vital importance for Iceland of its fish products, a special protocol (N° 6) to the EEC-Iceland Free Trade Agreement envisaged tariff exemptions and reductions for imports of Icelandic fish products into the Community. Owing to the dispute between Iceland and several member States about fishing rights off the Icelandic coast, this protocol concerning the export of Iceland's fish to the Community did not come into effect until July 1976. Since then the Free Trade Agreements have functioned well. Trade has expanded considerably. Iceland's exports to the Community rose by 81 % (by value) between 1973 and 1978, from US \$ 113 million to US \$ 205 million, representing approximately 32 % of all Icelandic exports. Between 1976, the year the fishing protocol took effect, and 1978 fish exports increased by 125 % from US \$ 39 million to US \$ 88 million. A further increase was recorded in 1979 of about US \$ 20 million. The Community's share of Icelandic imports went up from 16 % in 1976 to 23 % in 1978.

Besides fish (43 % of all Icelandic exports to the Community), the most important of Iceland's exports are aluminium (\$ 39 million = 19 %), animal fats and oils (US \$ 27 million = 13 %), and animal fodder (fish meal) (US \$ 29 million = 14 %). These four products thus make up roughly 90 % of all Icelandic exports to the Community. Twenty-three percent of Iceland's fish exports in 1978 went to the Community, as did 46 % of its aluminium exports, 89 % of its exports of animal oils and fats, and 36 % of all the animal fodder it exported. Free access to the Community market and the state of the market for these products are consequently of great importance for the Icelandic economy.

The amount of goods that Iceland imports from the Community has also increased substantially: from US \$ 159 million in 1973 to US \$ 314 million in 1978, in other words an increase of practically 100 %. Machinery, vehicles and other finished industrial goods account for more than 70 % of the Community's exports to Iceland. Iceland has traditionally run a considerable balance of trade deficit with the Community. In 1978 it came to US \$ 108 million. In 1979, however, Iceland was able to improve its position significantly, with exports to the Community (fob) totalling US \$ 374 million and imports from the Community (cif) coming to only US \$ 343 million.

CONCLUSION

As we have seen the Free Trade Agreements have functioned well and have indeed contributed substantially to the intensification of trade links between the Community and its EFTA partners. This in turn has helped stabilise the various partners' economic situations, representing a gain in the present context of world crisis.

The extension of cooperation between the Nine and the EFTA countries to areas beyond the field of trade is an important complement to the dynamic trade relations which now subsist. This will become still more important when the Community is enlarged in 1981 to include Greece and, most probably in the near future, Portugal and Spain. The Community and the EFTA countries alike have expressed a political will to strengthen pragmatically their interdependence in the 1980s, in their mutual interest.

Table A: Socio-economic indicators compared

	Population (mio 1978)	Density per km ² (1978)	GDP (mrd. \$) (1978)	GDP per head (\$ (1978)	Unemployment % of active population	Exp. + Imp. % of GDP 1978
AUSTRIA	7,5	90	58,1	7.740	1,8 (June 1979)	71
SWITZERLAND	6,3	154	84,6	13.350	0,3 (Aug. 1978)	68
NORWAY	4,0	12	40,0	9.850	2,1 (June 1979)	86
SWEDEN	8,3	18	87,3	10.550	2,1 (June 1979)	57
FINLAND	4,8	14	33,9	7.130	5,2 (June 1979)	58
ICELAND	0,2	2	2,2	9.780	0,1 (July 1978)	80
COMMUNITY	259,7	170	1.979,1	7.630	5,6 (average 1979)	55
Sources : OECD, EFTA and EUROSTAT						

Table B: Gross domestic product (G.D.P.) at market prices:
volume variations compared with previous year (in %)

	1973	1974	1975	1976	1977	1978
AUSTRIA	5,3	4,3	- 1,5	6,2	3,7	1,5
SWITZERLAND	3,0	1,5	- 7,3	- 1,4	2,4	0,2
NORWAY	4,1	3,8	5,5	6,8	3,6	3,5
SWEDEN	3,4	4,2	0,8	1,3	- 2,7	2,8
FINLAND	6,6	3,3	0,6	0,3	0,4	1,4
ICELAND	7,9	4,0	- 0,5	3,5	5,8	4,7
COMMUNITY	5,9	1,7	- 1,4	5,0	2,3	3,1
<u>Source</u> : OECD						

Table C: Indices of industrial production

	1975	1976	1977	1978	1979
AUSTRIA	100	107	110	112	120
SWITZERLAND	100	100	106	106	108
NORWAY	100	106	106	116	125
SWEDEN	100	98	95	95	102
FINLAND	100	102	102	106	114
COMMUNITY	100	108	110	112	118
<u>Source</u> : OECD					

Table D: Evolution of consumer prices (in %)

	1973-1976	Jan. 1980/Jan. 1979
AUSTRIA	22,25	+ 5,0
SWITZERLAND	19,25	+ 5,0
NORWAY	33,50	+ 6,3
SWEDEN	33,25	+ 12,7
FINLAND	57,75	+ 9,0
ICELAND	178,25	+ 54,9
COMMUNITY	40,1	+ 12,7
<u>Source</u> : OECD		

Table E: Geographical structure of trade 1979 (in %)

	Imports			Exports		
	Other EFTA	EEC	Rest of World	Other EFTA	EEC	Rest of World
Austria	8,3	64,8	26,9	12,2	53,5	34,3
Switzerland	7,2	69,1	23,7	9,1	49,6	41,3
Norway	26,0	41,1	32,9	15,1	64,1	20,8
Sweden	16,0	51,4	32,6	20,0	49,0	31,0
Finland	20,1	34,6	45,3	24,2	41,0	34,8
Iceland	22,8	46,5	30,7	13,7	39,1	47,2
<u>Source:</u> EFTA						

Table F: Trade with the Community

	IMPORTS								EXPORTS							
	1973	1974	1975	1976	1977	1978	1979	1979/73	1973	1974	1975	1976	1977	1978	1979	1979/73
Austria: mio \$	4 596	5 538	5 856	7 297	9 292	10 460	13 065	+ 184	2 599	3 164	3 327	3 964	4 852	6 372	8 256	
% variation		+20	+6	+25	+27	+13	+25			+22	+ 5	+19	+22	+31	+30	+ 217
% of world trade	64.5	61.5	62.3	63.4	65.3	65.4	64.8		49.2	44.3	44.3	46.6	49.5	52.4	53.5	
Switzerland: mio \$	7 972	9 580	8 805	9 810	11 935	16 035	20 241	+ 154	4 299	5 184	5 581	6 671	8 125	11 050	13 140	
% variation		+20	-8	+11	+22	+34	+26			+21	+ 8	+19	+22	+37	+19	+ 205
% of world trade	68.8	66.6	66.3	66.5	66.6	67.9	69.1		45.4	44.2	43.3	45.0	46.1	46.8	49.6	
Norway: mio \$	2 808	3 522	4 239	4 924	5 838	5 141	6 463	+ 130	2 218	2 942	3 707	4 441	4 762	5 976	8 614	
% variation		+25	+20	+16	+18	-12	+26			+33	+26	+20	+ 7	+26	+44	+ 288
% of world trade	45.2	41.9	43.7	44.4	45.3	45.0	41.1		47.4	46.9	51.4	56.1	54.6	59.6	64.1	
Sweden: mio \$	5 872	8 415	9 487	9 765	10 203	10 515	14 656	+149	6 133	7 569	7 785	8 587	8 774	10 302	13 490	
% variation		+43	+13	+ 3	+ 4	+ 3	+39			+23	+ 3	+10	+ 2	+17	+31	+ 120
% of world trade	55.3	53.6	52.5	51.0	50.8	51.2	51.4		50.4	47.9	44.7	46.6	46.2	47.3	49.0	
Finland: mio \$	1 720	2 492	2 806	2 575	2 626	2 807	3 908	+127	1 721	2 374	1 954	2 422	2 785	3 270	4 575	
% variation		+45	+13	- 8	+ 2	+ 7	+39			+38	-18	+24	+15	+17	+40	+ 166
% of world trade	40.9	36.6	36.9	34.7	34.5	35.7	34.6		46.3	43.3	35.6	38.1	36.3	38.2	41.0	
Iceland: mio \$	143	232	219	203	287	314	384	+168	112	97	78	127	157	206	309	
% variation		+63	- 6	- 8	+41	+ 8	+20			-13	-20	+63	+24	+31	+46	+ 176
% of world trade	43.7	44.3	44.9	43.5	47.6	47.1	46.5		38.5	29.5	25.2	31.6	30.8	31.6	39.1	

Sources: UNO (1973), OECD(1974-1975) EFTA (1976-1979)

Table G: Evolution of trading balances

(in mio \$)

		1973	1974	1975	1976	1977	1978	1979
Austria	world	-1 836	-1 869	-1 874	-3 015	-4 425	-3 838	-4 856
	EEC	-1 997	-2 374	-2 528	-3 333	-5 440	-4 087	-4 809
Switzerland	world	-2 143	-2 658	- 390	+ 69	- 288	- 238	-2 830
	EEC	-3 673	-4 396	-3 223	-3 138	-3 810	-4 984	-7 101
Norway	world	-1 539	-2 140	-2 498	-3 178	-4 165	-1 403	-2 274
	EEC	- 590	- 580	- 532	- 483	-1 076	+ 835	+1 844
Sweden	world	+1 546	+ 89	- 633	- 701	-1 071	+1 235	-1 006
	EEC	+ 261	- 846	-1 701	-1 178	-1 429	- 212	-1 166
Finland	world	- 491	-1 321	-2 110	-1 055	+ 58	+ 703	- 158
	EEC	+ 1	- 118	- 853	- 153	- 159	+ 463	+ 667
Iceland	world	- 37	- 195	- 181	- 66	- 93	- 35	- 37
	EEC	- 31	- 135	- 142	- 76	- 130	- 108	- 75
Sources: UNO, OECD, EFTA								

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