

INFORMATION

EXTERNAL RELATIONS

RELATIONS BETWEEN THE EUROPEAN COMMUNITY
AND EFTA MEMBER COUNTRIES :
AUSTRIA, SWITZERLAND, NORWAY, SWEDEN, FINLAND AND ICELAND

155/77

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1 July 1977 will be a red-letter day for Europe - and for 300 million consumers. On that day virtually all remaining customs barriers to trade dividing the original Six from the three new members of the EEC (Denmark, Ireland and the United Kingdom) and the seven EFTA countries (Austria, Switzerland - which forms a customs union with Liechtenstein - Iceland, Norway, Sweden, Portugal and the associated Finland) are to be abolished.

This note reviews the EEC's relations with the second group of countries, with the exception of Portugal, which applied for membership of the EEC on 28 March 1977 and is dealt with in a special Information Note no. 133/76.

ORIGIN OF THE FREE TRADE AGREEMENTS

The Treaty of Rome establishing the European Economic Community was signed on 22 March 1957; the Community came into being on 1 January 1958. One year later, in February 1959, government representatives from Austria, the United Kingdom, Denmark, Norway, Portugal, Sweden and Switzerland met in Oslo to prepare the way for a free-trade zone for manufactured products. On 4 January 1960 the Stockholm Convention establishing the European Free Trade Agreement was signed, coming into force on 3 May of the same year. Iceland became a member in 1970, and Finland took associate status in 1961.

The Stockholm Convention provided for the abolition of customs duties and quantitative restrictions on trade - achieved in 1966 - following a timetable somewhat similar to that used by the EEC but limited, notwithstanding numerous special provisions, to industrial products. A further point of difference is that the Stockholm Convention does not call for a common customs tariff to be applied to goods from the rest of the world, nor for the harmonization of internal legislation: and it is these differences which lead us to speak of a free-trade zone and not a customs union or common market.

It is true that the Stockholm Convention includes certain rules on competition and the right of establishment, but these are designed less to achieve unification of the markets than to eliminate trade discrimination. Over the years cooperation between the EFTA countries has developed to a considerable extent, particularly in the elimination of technical barriers to trade (a field in which they work side by side with the EEC in various international standardization bodies) and through their technical and economic aid programmes for Portugal. Consultation on economic matters takes place with increasing frequency, and covers questions such as international economic relations and regional policy.

The EFTA institutions

The institutional structure of EFTA is very different from that of the European Communities: it contains no supranational element and saving exceptional cases all decisions must be agreed unanimously. The Stockholm Convention set up a single body, the Council, consisting of representatives of the member countries at ministerial or permanent representative level. The Council itself set up a Secretariat, with fewer than a hundred officials, and a number of committees and specialist working groups responsible for drawing up recommendations within their own fields. There is also an

Advisory Committee made up of representatives from various social and economic sectors. It is true that informal meetings take place each year between those MPs from EFTA countries who are also members of the Council of Europe Assembly, but there is nothing resembling a Court of Justice; the Council is empowered to make recommendations and if necessary to authorize one member country to take retaliatory action against another.

The establishment and development of EFTA, in parallel to the EEC, still fell short of providing a fully satisfactory answer to the various difficulties of economic organization besetting Western Europe. Moreover, as it became increasingly obvious that the EEC was going to open its doors to new members, those EFTA countries who had no wish to join the Common Market, and whose domestic market was relatively limited, found themselves faced with the necessity of finding new ways to maintain - indeed to extend - the scope and momentum of trade liberalization.

A potential market of 300 million consumers

On 2 December 1969, the Conference of Heads of State or Government of the EEC agreed in principle to begin entry negotiations with Ireland, the United Kingdom, Denmark and Norway, the latter three countries EFTA members. Paragraph 14 of the communiqué issued on that occasion stated that "As soon as negotiations with the applicant countries have been opened, discussions on their position in relation to the EEC will be started with such other EFTA members as may request them".

In the end, Ireland, the United Kingdom and Denmark joined the EEC on 1 January 1973, whilst Norway, in a referendum held on 26 September 1972, decided against entry.

Following numerous unofficial contacts in 1970 and 1971, negotiations proper between the EEC and Austria, Switzerland, Sweden, Finland and Iceland respectively took place at a series of five meetings organized from 3 December 1971 to 20 July 1972. Agreements were signed on 22 July 1972, with the exception of the agreement with Finland, which was initialled on that date and signed on 5 October 1973. The agreement subsequently negotiated with Norway was signed on 14 May 1973.

The Free Trade Agreements are of a dual nature. They consist in each case of one agreement with the EEC, and a second agreement covering only coal and steel sectors within the competence of the ECSC.

The Agreements establish a free-trade system between the signatories which is essentially confined to industrial products. However, three countries - Austria, Switzerland and Sweden - indicated at the time that they would be willing to extend the Agreements to cover fields such as industrial, technological and monetary policy and, particularly in the case of Austria, agriculture.

The European Communities were not able to accept an arrangement of this sort, preferring to keep intact their autonomy of decision and safeguard their common policies, functional efficacy and prospects of development. However, an "evolutive clause" was inserted in the Agreements concluded with all the EFTA countries, except Finland; this offered scope for the development of ad hoc cooperation unconfined by a rigid institutional framework.

CONTENT OF THE FREE TRADE AGREEMENTS

The EEC - EFTA Agreements were designed to "promote through the expansion of reciprocal trade the harmonious development of living and employment conditions, and increased productivity and financial stability". Further, they aim "to provide fair conditions of competition for trade between the Contracting Parties (and) to contribute in this way ... to the harmonious development and expansion of world trade". In the Agreements with Switzerland, Norway, Sweden and Iceland the preamble also makes reference to the parties' desire of "contributing to the work of constructing Europe". The Agreement with Finland stresses in its preamble the importance of preserving the autonomous decision-making powers of both parties.

The Agreements provide for the establishment of a free-trade area for industrial products between the EEC and each EFTA country, and grant minor concessions on certain agricultural products. The EFTA duty-free privileges applying to the United Kingdom and Denmark are, with certain exceptions, retained; and customs duties and charges having equivalent effect on trade with the six original EEC members and Ireland are to be progressively abolished in accordance with a timetable which provides for five reductions, each of 20 %, spaced over a period from 1 April 1973 to 1 July 1977.

This basic schedule was applied in full to Switzerland and Sweden. An interim agreement with Austria signed on 22 July 1972 made it possible to reduce customs duties between Austria and the EEC by 30 % from 1 October 1972. In the case of Norway, on the other hand, the first phase was not implemented until 1 July 1973; for Finland, the starting date was 1 January 1974 but the timetable outlined above has subsequently been followed. In view of Iceland's economic position a special timetable extending to 1 January 1980 governs imports of Community industrial products; but Iceland's own industrial exports are given the full benefit of the basic schedule.

Since the new market conditions were likely to give rise to adjustment problems for certain industries, the Agreements specified annual indicative ceilings, and allowed more gradual tariff cuts for a number of sensitive products; for the Community this means certain paper and metal (particularly steel) products. In these sensitive sectors tariffs will not be fully lowered until 1 January 1980 (metals) and 1 January 1984 (paper).

Special protocols allow Finland to maintain quantitative restrictions on certain fuels and fertilizers, and to keep up some restrictions on credits linked to trade. A protocol to the Agreement with Switzerland provides that "Switzerland may subject to a scheme of compulsory reserves products which are indispensable ... in times of war and the (domestic) production of which is insufficient or non-existent".

Rules of competition

The Agreements do not establish a customs union, nor do they call for the compulsory harmonization of legislation. However, the parties do undertake to avoid any breach of the rules of fair competition likely

to prejudice trade between them. Under the parallel agreements concluded between the European Coal and Steel Community (ECSC) and Austria, Norway, Sweden, Finland and Iceland respectively - Switzerland is the exception - the EFTA countries agree to apply Community rules governing prices and transport costs, with certain reservations linked to the special positions of Norway and Iceland. Accordingly, the recent ECSC decisions fixing minimum prices for certain steel products also apply in the above-mentioned countries.

Safeguard measures

If serious difficulties are caused by unfair competition, dumping, or excessive divergence in revenue duties on raw materials, or if serious disturbances arise which threaten a particular sector of the economy, a region or the balance of payments of one of the countries, the parties may, upon certain conditions, take the necessary safeguard measures; prior consultation and a joint examination of the situation are generally required before these measures can be implemented.

Rules of origin

Common rules of origin have been adopted for Community and EFTA members. Since these countries have no common customs tariff applicable to outsiders as a whole it is necessary to be able to identify the country of origin of incoming products, in order to decide whether or not the provisions of the free trade agreement apply.

Concessions on agriculture

Since the dismantling of tariff barriers also applies to the industrial component of processed agricultural products various measures have been adopted to compensate for differences in cost of agricultural raw materials between countries. The system of free trade does not extend to other agricultural products, although the parties to the Agreements declare their readiness "to foster, so far as their agricultural policies allow, the harmonious development of trade in agricultural products". Furthermore, shortly before the Agreements were signed, Austria, Switzerland, Norway and Sweden agreed with the Community on certain unilateral and reciprocal concessions in the agriculture sector which at this time accounted for rather less than 8 % of all trade between the EFTA members and the Community.

The concessions made by the Community are concerned with imports of beef and veal from Austria, Switzerland and Sweden, and imports of fishery products from Norway. The EFTA countries offered concessions to wine and certain fruits from the Community, and, in the case of Sweden, to fishery products.

Iceland was something of a special case : two thirds of its exports to the Community consisted of agricultural products, or, more precisely, of fishery products. A special protocol, Protocol No 6, was therefore added to the free trade agreement with Iceland; it contains concessions on fishery products.

The "evolutive" clause

In the Agreements with Austria, Switzerland, Ireland, Norway and Sweden, the so-called evolutive clause allows each Contracting Party to submit reasoned requests aimed at developing the relations established by the Agreement by extending them, "in the common interest of both Contracting Parties", to cover aspects not originally dealt with.

Joint committees

On the administrative side each Agreement establishes a Joint Committee consisting of representatives of both parties; these committees meet at least once a year. The Joint Committee is responsible for the administration and proper implementation of the Agreement, including customs questions, rules of origin and the application of safeguard measures. It also examines requests under the "evolutive clause" and, where appropriate, makes recommendations, particularly with a view to opening negotiations. The Agreement with Sweden specifies that these recommendations may "aim at the attainment of a concerted harmonization, provided that the autonomy of decision of the two Contracting Parties is not impaired".

IMPLEMENTATION OF THE AGREEMENTS

The Agreements with Austria, Switzerland and Sweden came into force on 1 January 1973; an interim Agreement with Austria had already taken effect from 1 October 1972. The Agreement with Iceland entered into force on 1 April 1973, that with Norway on 1 July of the same year and the Agreement with Finland, on 1 January 1974.

The ECSC Agreements with Austria, Switzerland, Sweden and Iceland all came into force on 1 January 1974, although the first tariff reductions had been implemented on 1 April of the preceding year. The ECSC Agreements with Finland and Norway entered into force on 1 January 1975.

1. Tariff dismantling

The progressive abolition of customs duties was carried out according to schedule. Those countries whose Agreement with the EEC came into force at a later date, with a delayed first tariff cut, had managed to "catch up" by the date fixed for the second reduction, 1 January 1974.

The protocol of the EEC - Iceland Agreement reducing tariffs for certain Icelandic fishery products could only come into force on 1 July 1976, after Iceland had signed agreements on fishing rights with Belgium, Germany and the United Kingdom. Iceland's extension of its fishing zone to 50 miles in 1972 and 200 miles in 1975 had caused strained relations with some of the EEC Member States, and the Contracting Parties had agreed that Protocol no. 6 would come into force only when these problems had been settled.

In the case of the sensitive products with their special timetable, the partners more than once made use of a provision in the protocols allowing

the ceilings fixed for the previous year to be maintained in the event of short-term economic difficulties.

The Commission exercised this right notably in 1977, for certain paper products from Austria and Sweden.

2. Safeguard measures

The application of these measures has not given rise to any serious difficulties between the parties.

Italy, with its balance of payments problems was however authorized in May 1974, and again in May 1976, to impose import deposits and deposits on the purchase of foreign exchange. These measures applied to all of Italy's trading partners, including the other EEC countries, and were merely temporary. They are no longer in force.

At the end of 1975 Ireland was authorized to slow down tariff cuts for shoes, and import charges were introduced which applied to all trading partners, including Community countries. These measures have been extended until 31 December 1977.

The footwear industry throughout Europe is having a difficult time. Sweden introduced restrictions on footwear imports in November 1975, without prior consultation. These, however, are due to be lifted on 1 July 77 (although restrictions on boots will continue until the end of the year). In February 1977 Finland also introduced an import charge on rubber boots.

Finland too was having problems with its balance of payments, and in March 1975 introduced import deposits similar to those used in Italy on a number of products, for a period of one year. In December 1976 a supplementary import charge was imposed on tights; Austria had previously taken similar action, having introduced in December 1975 a minimum price scheme. This was amended in February 1977, partly as a result of discussions with experts from the Community, which considers Austria's action unjustified.

3. The Joint Committees

The Joint Committees consist of representatives from the Community and from the EFTA country concerned - respectively Austria, Switzerland, Norway, Sweden, Iceland and Finland. The Committees have met regularly twice a year since the Agreements came into force.

The work of the Joint Committees has been most satisfactory.

The Community and EFTA representatives have shown that they are aware of each other's problems, and have carried out regular reviews of the economic situation in general, the implementation of the Agreements and the difficulties arising on either side.

The Customs Committees, which are the only groups so far set up under the Agreement to assist the Joint Committees in carrying out their duties, have held regular meetings and submitted reports at each Joint

Committee meeting. In particular, the Customs Committees have helped simplify the rules of origin and facilitated administrative cooperation over customs formalities on the trade of goods.

4. State of the economy and trade

In relation to the Community average, per capita gross domestic product is appreciably higher in Switzerland, Sweden and Norway, slightly higher in Finland and Iceland and slightly lower in Austria.

The economic growth rate in these countries for the period 1973-76 has in general been higher than in the Community, which was affected earlier and more severely by the economic crisis, as the figures for industrial production show.

Only Iceland, dependent on its fishing and vulnerable to variations in the terms of trade, and Switzerland, which now has a negative growth rate, do not conform to this pattern. Both these countries, along with Sweden, should fare better than the Community in 1977; and growth should be higher in Finland, Austria and Norway - particularly Norway, where North Sea oil and the development of shipping account for half of it.

Socio-economic indicators

	Popula- tion in millions (1975)	Density per Km2 (1974)	Total GDP (in \$ 1000mn 1975)	Per capi- ta GDP (dollars 1975)	Unemployed (as % of working po- pulation)	World trade (as % of GDP 1975)
Austria	7.5	90	37.8	5 018	2.5(Dec.76)	22
Switzerland	6.4	156	54.0	8 529	0.6(Feb.77)	24
Norway	4.0	12	28.3	7 045	1.3(Feb.77)	30
Sweden	8.2	18	69.0	8 419	1.8(Feb.77)	26
Finland	4.7	14	26.3	5 587	5.9(March77)	25
Iceland	0.2	2	1.2	5 505	0.7(Jan.77)	33
<u>Community</u>	258.5	169	1343.4	5 198	5.3(March77)	25

Sources : UN, EFTA and EUROSTAT

Gross domestic product at market prices : Variations in volume (%)

compared to previous year

1976/73

	1973	1974	1975	1976	1977 (previsions)	
Austria	5.8	4.1	-2.0	4.5 (Dec)	4.0 (Dec)	6 (GNP)
Switzerland	3.1	1.5	-7.4	-0.8 (Feb)	-0.1 (Feb)	-6.75
Norway	4.1	5.3	3.5	5.7 (Jan)	8.0 (Sept)	14
Sweden	3.5	4.0	0.8	1.0	1.7	5.5
Finland	6.5	4.3	0.1	0.5 (Dec)	5.0	5.25
Iceland	6.1	3.8	-0.6	0.0	1.5	3.2
<u>Community</u>	5.5	1.7	-2.0	4.7	3	4.4

Sources: UN, OECD and EUROSTAT

Industrial production index

	1973	1974	1975	1976	Variation % Dec. 76 - Dec. 75
Austria	100	105	98	104	+ 8.2
Switzerland	100	101	88	88	- 3.8
Norway	100	104	111	119	+ 7.5
Sweden	100	105	103	102	- 1.2
Finland	100	105	99	102	+ 7.7
<u>Community</u>	100	100	93	100	+ 7.4

(Source OECD)

Consumer price index (in %)

	1973-1976	Year ending	month ending
Austria	22.25	Dec.76 9.3	Dec. 76 0.5
Switzerland	19.25	Feb.77 1.0	March 77 - 0.2
Norway	33.50	Feb.77 8.9	April 77 0.7
Sweden	33.25	Jan.77 9.4	March 77 0.9
Finland	57.75	Jan.77 11.6	March 77 1.6
Iceland	178.25	Feb.77 36.0	Feb. 77 6.1
<u>Community</u>	40.1	Dec.76 12.2	March 77 1.0(estimated)

Sources : OECD, EFTA, EUROSTAT

In Austria, Switzerland, Norway, Sweden and Iceland unemployment is very low, less than half the Community rate; Finland, with its higher rate, is exceptional, but this is recent phenomenon : unemployment has increased by 51 % there over the last year, while remaining stable in Sweden and diminishing in the other countries. However, in Switzerland - and the same applies to Austria, though to a lesser extent - this state of affairs has been achieved only by a reduction of about 10 % in the total volume of employment, and the return of some 200 000 migrant workers to their countries of origin.

With the exception of Finland and Iceland, the latter badly hit by rising raw material costs and a drop in the price of fish, the EFTA countries have also suffered less than the Community from inflation. Austria and Switzerland have been especially successful in holding down the rate; indeed, Switzerland achieved virtual price stability in 1976. The latest figures bear out these remarks. The Norwegian and Swedish currencies are floating with certain Community currencies in the "snake", while the notably strong currencies of Austria and Switzerland - who applied to join the "snake" in 1975 - follow a parallel trend.

As in the Community, agriculture in Austria, Norway and Sweden accounts for approximately 5 % of the gross domestic product. In the case of Finland, however, this figure is over 10 %; and in Iceland, overwhelmingly dependent on its fishing industry, fresh fish makes up 65 % of total exports.

Exports of raw materials from Finland (wood and wood pulp) and Sweden (wood, wood pulp and iron ore) account for some 16 % of those countries' total exports, and Norway's North Sea oil exports have doubled each year since 1973, reaching 13 % of total exports in 1975. For the EFTA countries, with the exception of Iceland, exports of manufactured products and transport machinery and equipment constitute between 63 and 80 % of total exports; transport machinery and equipment play a particularly large part in Swedish exports, and chemicals are important for Switzerland, making up 21 % of total exports.

International trade, both between EEC Member States and with the rest of the world, accounts for about one quarter of the Community's gross domestic product - for a number of Community countries this figure is appreciably higher - and the same is true for Sweden, Finland, Switzerland and Austria. Due to the high level of imports, the rate rose in 1975 to 30 % for Norway and 33 % for Iceland.

The Community is the major trading partner for all these countries, both for imports and for exports.

Geographical pattern of trade (% 1976)

	Import			Export		
	Other EFTA	EEC	Rest of World	Other EFTA	EEC	Rest of World
Austria	9.7	63.4	26.9	14.4	46.6	39.0
Switzerland	7.9	66.5	25.6	11.5	45.0	43.5
Norway	24.3	44.4	31.3	18.8	56.1	25.1
Sweden	16.9	51.0	32.1	21.7	46.6	31.7
Finland	23.2	34.7	42.1	23.1	38.1	38.8
Iceland	18.6	43.5	37.9	20.8	31.6	47.6

Source : EFTA

In connection with the above figures it should be noted that 29 % of Iceland's exports go to the United States, and that for Austria and Finland the Eastern European countries are as important for trade as the other EFTA countries : they account for 9.5 % of Austria's imports and take 15.2 % of its exports; in the case of Finland the proportion is raised to 21.8 % and 23.7 % respectively.

In 1976 Community trade with the EFTA countries (excluding Portugal) accounted for 15 % of total imports and 22.5 % of exports (7.2 % to Switzerland, 6.1 % to Sweden, 4.7 % to Austria, 2.9 % to Norway, 1.5 % to Finland and 0.1 % to Iceland). The United States take 11.5 % of Community exports, and the developing countries 36 %.

Although trade between the Community and the EFTA countries increased considerably between 1973 and 1976, trade between EFTA and the rest of the world has grown even faster; thus, with the exception of Norwegian oil, trade with the Community accounted for a smaller percentage of EFTA's total trade in 1976 than in 1973.

From 1973 to 1976 exports from a number of the EFTA countries to the EEC grew less rapidly than their imports (the only exceptions to this general trend being Norway and Switzerland), thus widening their trade gap with the Community and leading to a larger combined deficit; although this deficit was actually smaller than the previous one certain cases : Switzerland (who even had a surplus in 1976), Austria, Sweden (since 1974) and Iceland (in 1976).

Trade with the Community

	<u>Imports</u>					<u>Exports</u>				
	1973	1974	1975	1976	1976/73	1973	1974	1975	1976	1976/73
Austria : \$ millions	<u>4,596</u>	<u>5,538</u>	<u>5,856</u>	<u>7,297</u>		<u>2,599</u>	<u>3,164</u>	<u>3,327</u>	<u>3,964</u>	
variation %		+ 20	+ 6	+ 25	+ 59		+ 22	+ 5	+ 19	+ 53
as % and world trade	64.5	61.5	62.3	63.4		49.2	44.3	44.3	46.6	
Switzerland : \$ millions	<u>7,972</u>	<u>9,580</u>	<u>8,085</u>	<u>9,810</u>		<u>4,299</u>	<u>5,184</u>	<u>5,581</u>	<u>6,671</u>	
variation %		+ 20	- 8	+ 11	+ 23		+ 21	+ 8	+ 19	+ 55
as % and world trade	68.6	66.6	66.3	66.5		45.4	44.2	43.3	45.0	
Norway : \$ millions	<u>2,808</u>	<u>3,522</u>	<u>4,239</u>	<u>4,924</u>		<u>2,218</u>	<u>2,942</u>	<u>3,707</u>	<u>4,441</u>	
variation %		+ 25	+ 20	+ 16	+ 75		+ 33	+ 26	+ 20	+100
as % and world trade	45.2	41.9	43.7	44.4		47.4	46.9	51.4	56.1	
Sweden : \$ millions	<u>5,872</u>	<u>8,415</u>	<u>9,487</u>	<u>9,765</u>		<u>6,133</u>	<u>7,569</u>	<u>7,785</u>	<u>8,587</u>	
variation %		+ 43	+ 13	+ 3	+ 66		+ 23	+ 3	+ 10	+ 40
as % and world trade	55.3	53.6	52.5	51.0		50.4	47.9	44.7	46.6	
Finland : \$ millions	<u>1,720</u>	<u>2,492</u>	<u>2,806</u>	<u>2,575</u>		<u>1,721</u>	<u>2,374</u>	<u>1,954</u>	<u>2,422</u>	
variation %		+ 45	+ 13	- 8	+ 50		+ 38	- 18	+ 24	+ 41
as % and world trade	40.9	36.6	36.9	34.7		46.3	43.3	35.6	38.1	
Iceland : \$ millions	<u>143</u>	<u>232</u>	<u>219</u>	<u>203</u>		<u>112</u>	<u>97</u>	<u>78</u>	<u>127</u>	
variation %		+ 63	- 6	- 8	+ 42		- 13	- 20	+ 63	+ 13
as % and world trade	43.7	44.3	44.9	43.5		38.5	29.5	25.2	31.6	

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

Development of trade balances (in millions of dollars)

		1973	1974	1975	1976
Austria	- world	- 1,836	- 1,869	- 1,874	- 3,015
	- EEC	- 1,997	- 2,374	- 2,528	- 3,333
Switzerland	- world	- 2,143	- 2,658	- 390	+ 69
	- EEC	- 3,673	- 4,396	- 3,223	- 3,138
Norway	- world	- 1,539	- 2,140	- 2,498	- 3,178
	- EEC	- 590	- 580	- 532	- 483
Sweden	- world	+ 1,546	+ 89	- 633	- 701
	- EEC	+ 261	- 846	- 1,701	- 1,178
Finland	- world	- 491	- 1,321	- 2,110	- 1,055
	- EEC	++ 1	- 118	- 853	- 153
Iceland	- world	- 37	- 195	- 181	- 66
	- EEC	- 31	- 135	- 142	- 76

Sources : UN, OECD, EFTA

By contrast, trade with the Community accounts for only a minor proportion of the Norwegian and Finnish deficits.

Does this mean that the EEC, which itself runs a deficit on world trade, has managed to grab a larger slice of the cake over a period when, in comparison with most of its trading partners, it was relatively badly hit by the economic crisis ?

A more detailed analysis warns us not to jump to hasty conclusions.

In the first place, an EFTA study shows that leaving aside the case of Iceland, progressive liberalization has acted as a strong stimulant to trade, to the benefit of the various trading partners, their industries and their consumers. A striking illustration of this observation is the contrast between the two periods 1959-1972 and 1972-1975.

Average annual increase in trade with
the original Community

		Imports	Exports
Austria	1959-72	10.5	7.6
	1972-75	22.3	23.2
Switzerland	1959-72	10.2	9.8
	1972-75	16.1	22.3
Norway	1959-72	6.7	11.1
	1972-75	32.4	24.7
Sweden	1959-72	7.3	8.4
	1972-75	34.2	25.3
Finland	1959-72	7.2	6.5
	1972-75	31.1	16.2
Iceland	1959-72	10.9	6.7
	1972-75	25.4	0.6

Source : EFTA Bulletin, April 1977

From one period to the next intra-EFTA imports went up by on 73 %, and exports by 71 %; but imports from the original Community of Six increased by 167 %, and exports by 164 %.

It is also worth noting that 1976 saw the beginning of a restoration of the trade balance. The proportion of exports to the Community in relation to total exports increased for each of the countries in question. As imports from the EEC went up by a smaller amount (Sweden) or actually fell (Finland and Iceland) these countries' trade deficit with the Community fell significantly. In the case of Switzerland and Norway this trend was apparent over the whole period 1973-1976, and merely grew more pronounced.

Austria is the only exception to this welcome development. However, it is well known that the state of Austria's trade balance to a large extent compensated by its balance on current account, which also covers services and in particular tourism. Thus although Austria showed a deficit of \$ 1 874 million on its world trade in goods for 1975, according to OECD figures the deficit on its current balance was only \$ 311 million. It is likely that the Community provides Austria with nine tenths of its tourist trade. In the same year Switzerland (now running a surplus) had a trade deficit of 390 million but a credit of about 3 000 million on its current balance, this sum being approximately equal to its trade deficit with the Community.

RELATIONS BETWEEN AUSTRIA AND THE EEC

At meetings of the Joint Committee set up under the Free Trade Agreement, Austria has repeatedly pointed out the difficulties it faces as a result of its agricultural trade deficit, in particular on its beef and veal exports, on which the Community had made certain unilateral concessions. The Community had made certain unilateral concessions. The Community, while anxious to safeguard its autonomy of decision in an area not covered by the Agreement, has nevertheless taken part in bilateral talks which have led to the resolution of a number of problems.

Austria's geographical situation provided clear justification for a certain measure of coordination in the transport sector. The following agreements were concluded :

- . an agreement of 26 July 1957, which entered into force on 1 March 1958 and was supplemented by a protocol of 10 October 1974, relating to the establishment of through international railway tariffs for the carriage of coal and steel in transit through Austria;
- . an agreement between the EEC and Austria of 30 November 1972 which came into force on 1 January 1974, covering the Community transit of goods.

Lastly, an agreement dated 11 May 1975 which entered into force on 1 January 1977 deals with goods traded between the EEC and Greece or Turkey, forwarded through or stored in Austria. These agreements simplify customs formalities and thus favour trade between Northern and Southern Europe.

The Community is at present busy with plans for an additional charge on road transports which would have a significant effect on goods in transit through Austria.

As regards transport infrastructures, mention should be made of the assistance given by the European Investment Bank for the construction of the Brenner motorway which links Germany, Austria and Italy over the Alps. The EIB is also giving help with the scheme to increase the capacity of trans-Austrian pipeline which carries gas from the USSR to Italy.

Cooperation between Austria and the EEC extends to other areas as well. Austria participates in the work of COST (the Conference on European Cooperation in the Field of Scientific and Technical Research) particularly in projects on metallurgy, meteorology, transport and telecommunications. Set up in October 1970 under the aegis of the Council, COST promotes joint action by the Community and a large number of non-member countries. Austria has also shown interest in the exchange of information on research into environmental matters.

Along with the Community's Member States Austria signed the European Patent Convention concluded in Zurich in 1973, which established a common system for the grant of patents to be applied by all signatory states. Furthermore, the Community Patent Convention signed by the Member States on 15 December 1975 to provide for a unitary patent having effect in all Member States allows for the adhesion of non-member countries which, like Austria and the other EFTA countries, form a free-trade zone with the EEC.

RELATIONS BETWEEN SWITZERLAND AND THE EEC

The meetings of the Swiss-EEC Joint Committee set up under the free trade agreement have, among other things, provided a forum where the parties can discuss specific problems arising from trade in certain types of goods.

Switzerland is always willing to cooperate with the Community, and today the partners work together in many ways, to their mutual benefit.

As in the case of Austria, the geographical position of Switzerland suggested a degree of coordination in the transport sector. Accordingly, the following agreements were concluded :

- . an agreement of 28 July 1956, which entered into force on 1 June 1957 and was supplemented by a protocol of 10 October 1974; the agreement relates to the establishment of through international railway tariffs for the carriage of coal and steel in transit through Switzerland;
- . an agreement between the EEC and Switzerland dated 25 November 1972, which came into force on 1 January 1974, and deals with the Community transit of goods. This simplifies customs procedures and thus facilitates trade between the North and South of Europe.

A further agreement initialled in October 1976 extends the Community transit system to cover relations between Austria and Switzerland.

On 9 July 1976 an agreement on the temporary laying-up of vessels was initialled enabling Switzerland to contribute to a European Laying-up Fund designed to tackle the problem of excess capacity in the Rhine basin. There are to be further discussions on this subject following an opinion of the Court of Justice of the European Communities.

Other agreements with Switzerland include :

- . an agreement on products of the clock and watch industry, signed on 30 June 1967, which came into force on 1 January 1968. There is an annual exchange of information on the position of these products on the world market and on the Swiss and EEC markets;
- . an agreement on processing traffic in the textile sector, signed on 1 August 1969; this is to be extended beyond 31 August 1977;
- . an agreement between Switzerland and the EEC making provision for the exchange of information on research into the environment. This agreement was concluded in December 1975 by exchange of letters.

In addition, 1976 saw the start of negotiations which should lead to :

- . an agreement on freedom of establishment in the business of insurance other than life assurance. This agreement is intended to liberalize the financial conditions governing the setting up of subsidiaries;
- . a cooperation agreement on nuclear fusion (Sweden already takes part in the Community programme designed to harness this well-nigh inexhaustible source of energy).

Switzerland is also involved in a number of COST projects, notably in the fields of data processing, telecommunications, meteorology, metallurgy, transport and environmental protection.

Switzerland is a signatory to the European Patent Convention discussed in the preceding section; and to the Convention on the Protection of the Rhine against Chemical Pollution, which it signed, together with the Community and the Member States concerned, on 3 December 1976. This Convention is based on a Council Directive of 4 May 1976.

RELATIONS BETWEEN NORWAY AND THE EEC

Relations between Norway and the EEC are largely determined by Norway's position as a seaboard state, which gives it important maritime interests.

At meetings of the Joint Committee Norway has repeatedly expressed its desire for consultations with the Community on shipping. Norway's merchant fleet, comparable to the British merchant fleet in terms of size, brings in 30 % of the country's foreign revenue and is faced with stiff international competition.

In accordance with the Council Decision of 3 November 1976 extending the Community fishing zone to 200 miles and requiring the Commission to negotiate agreements with non-member states, talks are being held with a view to concluding a long-term outline agreement, based on the principles worked out by the United Nations Conference on the Law of the Sea. Such an agreement would be designed to achieve a satisfactory balance between the two parties' fishing rights in zones where they have a common interest.

There is a precedent for these talks in an earlier agreement concluded between Norway and the EEC, after Norway's announcement in 1974 that it intended to restrict the activities of trawlers in certain zones then outside its limits.

Norway is also involved in a number of COST projects, in particular those relating to the environment, data processing and telecommunications. In common with the Member States of the Community, Norway adheres to the European Patent Convention.

Although Norway withdrew its application for membership of the EEC it remains in the EEC "snake" along with Belgium, Germany, Luxembourg and the Netherlands, whose currencies float together within defined limits against the dollar.

Norway and the other applicant states joined the "snake" in May 1972. The system was first put into operation by the central banks on 24 April 72, following a Resolution adopted by the Council and representatives of the EEC Member States on 22 March of that year.

RELATIONS BETWEEN SWEDEN AND THE EEC

Sweden has argued within the Joint Council for a liberalization of trade extending to products not covered by the Agreement, ranging from ethyl alcohol to fish, beef and veal. Talks have already taken place on beef and veal and the beginnings of a settlement worked out.

Sweden has also expressed an interest in talks on the elimination of technical barriers to trade. However, the EEC, which is already carrying out its own elimination programmes, considers that international negotiations on questions of this sort are best left to GATT.

Sweden is keen to extend cooperation with the Community in all directions, so far the following agreements have been concluded :

- . a cooperation agreement between Sweden and Euratom for research into controlled thermonuclear fusion, which was signed on 10 May 1976; this will allow the partners to link their long-term programmes for the development of this new, "clean" and abundant source of energy;
- . a long-term outline agreement on fishing, negotiations for which ended on 4 March 1977. The agreement is based on the principles set out by the United Nations Conference on the Law of the Sea, and is designed to achieve a satisfactory balance between the respective fishing rights of the parties in zones where they have a common interest.

Sweden takes part in a number of COST activities, including projects on data processing, telecommunications, meteorology, the environment, transport and metallurgy, and has proposed joint action on the technology of foodstuffs. Sweden, like the EEC Member States, has signed the European Patent Convention. Experts from Sweden and the EEC also meet informally to discuss shipping, steel and the environment, in particular air pollution caused by sulphur.

Following agreement by the central banks Sweden, like Norway, joined the "snake" of Community currencies which float together within given limits against the dollar.

RELATIONS BETWEEN FINLAND AND THE EEC

The Joint Committee has provided regular opportunities for meetings between Finland and the EEC. Finland now appears eager to negotiate an agreement on fishing rights with the Community.

Finland took part in the Munich Conference on European Patents, but did not sign the Convention which was drawn up.

Finland is involved in a number of COST projects, in fields which include the environment, meteorology, telecommunications and transport.

RELATIONS BETWEEN ICELAND AND THE EEC

Disagreements between Iceland and various Member States of the EEC over fishing rights off the coast of Iceland meant that the special protocol dealing with Iceland's fish exports to the Community could not come into force until July 1976.

The Council Decisions of 3 November 1976 made it necessary to hold fresh talks on this matter.

Finn Olav Gundelach, EEC commissioner for agriculture and fisheries, explained in Reykjavik on 26 November 1976 that the Community was anxious to cooperate with Iceland on the conservation and management of fish stocks; he proposed an agreement which would allow both Iceland and the EEC to continue fishing in the waters of the other party, subject to a proper conservation policy.

CONCLUSION

The first ever conference of EFTA heads of government took place in Vienna on 13 May 1977, and greatly strengthened the efforts of the EFTA countries to find joint answers to the worldwide problems of economic growth, inflation and balance of payments difficulties. In particular, the EFTA countries expressed their determination to preserve and extend freedom of trade. A number of countries called for a wider exchange of information with the EEC, more frequent consultation and closer cooperation.

The free-trade agreements have so far worked well; but in the view of the Community, the liberalization of trade must be extended and secured. Tariff and quota barriers to trade are coming down, but other obstacles such as technical norms are looming larger. These barriers must be eliminated; better still, ways must be found to prevent them from arising. The Community is eager to discuss these matters with its partners, and, like them, looks forward to developing mutual relations in a frank and realistic manner.

EXTERNAL RELATIONS INFORMATION NOTES

Copies of the following Information Notes are still available and can be obtained on request to :

Directorate General for Information,
Commission of the European Communities
Rue de la Loi 200
B - 1049 Brussels, Belgium

- 91/75 The EEC and the East European countries
- 97/75 Iran and the EEC
- 106/75 The People's Republic of China and the EEC
- 113/75 Canada and the EEC
- 117/76 Mexico and the EEC
- 123/76 Pakistan and the EEC
- 124/76 Greece and the EEC
- 127/76 The EEC and the system of generalised tariff preferences
- 128/76 The EEC and ASEAN
- 130/76 Austria and the EEC
- 131/76 EEC Textile agreements under the multifibres arrangement
- 133/76 Trade relations between the EEC and Portugal
- 134/76 Towards a new partnership - the framework agreement between the EEC and Canada
- 138/76 Yugoslavia and the EEC
- 139/77 List of EEC agreements with outside countries
- 146/77 Japan and the EEC
- 148/77 New Zealand and the EEC : Trade and Economic Notes
- 149/77 The EEC and the USA : Recent trends in trade and investment
- 152/77 India and the EEC
- 155/77 The EEC and the EFTA countries
- 156/77 Australia and the EEC : Trade and economic notes