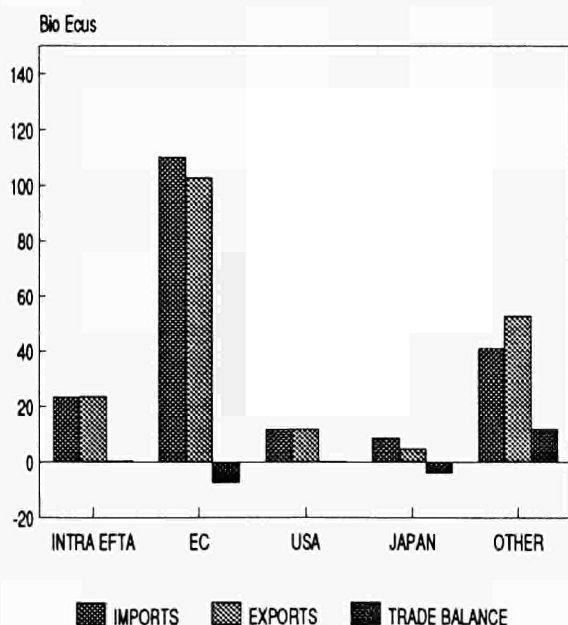


EFTA TRADE WITH THE EC

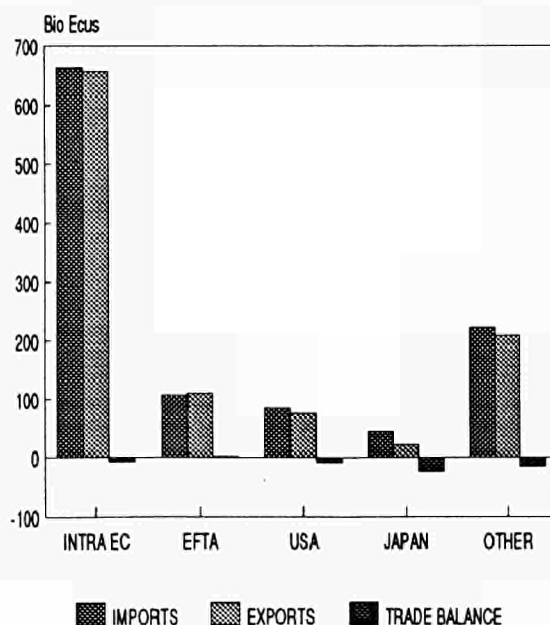
The EC is the most important trading partner of the EFTA countries: in terms of value it supplied 61% of the EFTA's imports in 1990, and it absorbed over 58% of its exports in the same year. The EFTA is also the main trading partner for the EC. The trade deficit experienced by the EFTA countries with the EC (2.8 billion ecus in 1990) has been relatively stable during the period considered (1985-90). Trade between the two groups is heavily concentrated on manufactured products: 85% of total trade in the case of EFTA imports and 74% of EFTA's exports. These proportions have been increasing during the period analysed. Trade is concentrated in relatively few product divisions (SITC nomenclature, 2 digits), indicating a high degree of intra-industry trade: the 10 most important product divisions covered more than 50% of both imports and exports in 1990.

EFTA's major trading partners, 1990



Source: EUROSTAT

EC's major trading partners, 1990



Source: EUROSTAT

1. EC-EFTA historical relationship

- The European Free Trade Association was created in 1960 two years after the foundation of the EEC. United Kingdom and Denmark, both in 1973, and Portugal, in 1986, moved from EFTA to the EC.

- During the 70s and the 80s bilateral agreements establishing free trade areas between the EC and the EFTA countries were signed. Trade in manufactured products was liberalised from tariffs. Considerable intra-industry trade creation between the two groups has been developed.

- In the wake of the achievement of the Internal Market EFTA countries reconsidered their situation and reacted in two ways: at the bilateral level several EFTA countries have presented formal applications to join the EC (Austria, Sweden and Finland); at the multilateral level a dialogue aiming the creation of a European Economic Space, where goods, services, people and capital move freely between the two groups, has been completed.

2. EFTA countries as a paradigm of small and open economies

- EFTA countries have a strong trading tradition: the degree of openness of the EFTA countries' economies is very high. Taking into account the imports as a percentage of the GDP for 1990, this ratio is 34,5% for the EFTA countries (inclu-

ding intra-EFTA trade), while in the EC it is 23,9% (including intra-EC trade), 9,2% for the USA and 8,0% for Japan.

- Given the relatively small size of the countries, the percentage of the total EFTA trade (exports plus imports) on the total world trade in 1990 amounts to 6,6%, compared with 40,5% for the EC. The proportions for the USA and Japan were 12,8% and 7,5%, respectively.

3. Geographical breakdown of EFTA trade is dominated by flows with the EC

In terms of value, the EC supplied 61% of the EFTA's imports in 1990, compared to 6,6% and 4,8% coming from the USA and Japan respectively. Austria and Switzerland are the two EFTA countries with the biggest proportion of imports from the EC (69% and 72% respectively) while Finland and Norway have the smallest proportion (43% and 47%). 37 % of all the imports coming from the EC went to Switzerland.

By comparison, EFTA countries supplied around 23% of the value of EC imports (only extra-EC trade), compared to 18% of imports from the USA and 11% from Japan. Denmark (with 50%) and Germany (30%) are the two EC countries with the highest proportion of imports from the EFTA. Ireland is the country with the smallest proportion of imports from the EFTA (13% of its total imports). However, among the EC countries

ORIGIN OF EFTA IMPORTS BY MAJOR PARTNERS, 1990

(In percentage shares)

EXPORTERS	IMPORTERS						
	EFTA	AUS	SWI	FIN	NOR	SWE	ICE
EC	61.0	68.6	71.7	43.3	46.6	55.2	49.9
USA	6.6	3.6	6.1	6.4	8.1	8.7	14.4
JAP	4.8	4.5	4.4	2.0	4.4	5.1	5.6
OTHER	14.6	16.2	10.6	28.3	19.4	12.8	13.8
INTRA-EFTA	13.0	7.1	7.2	20.0	21.5	18.2	16.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: EFTA Secretariat, Geneva

MARKETS OF EFTA EXPORTS BY MAJOR PARTNERS, 1990
(In percentage shares)

IMPORTERS	EXPORTERS						
	EFTA	AUS	SWI	FIN	NOR	SWE	ICE
EC	58.0	65.2	58.1	45.6	64.9	54.2	67.8
USA	6.8	3.2	8.0	5.8	6.5	8.6	9.9
JAP	2.6	1.6	4.8	1.4	1.7	2.1	6.0
OTHER	19.2	19.9	22.5	27.3	11.2	16.1	7.7
INTRA-EFTA	13.4	10.1	6.6	19.9	15.7	19.0	8.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: EFTA Secretariat, Geneva

Germany is the most important importer, absorbing nearly one third of the total EC imports from EFTA, followed by United Kingdom.

Although EFTA import shares have been relatively stable throughout the 80s, imports coming from the EC have increased their share during this period, from 56% to 61%, by taking small shares away from many of the EFTA's other partners.

The EC is by far the most important EFTA export market, absorbing over 58% of the value of its exports in 1990. By comparison the USA and Japan absorbed only 6.8% and 2.6% respectively. Austria, Norway and Iceland are the three EFTA countries with the highest proportion of exports to the EC (around 65%). Finland has been the EFTA country which exports relatively less to the EC (46%), due to the importance of its exports to the former USSR. Switzerland and Sweden are the most important exporting countries to the EC in total value terms.

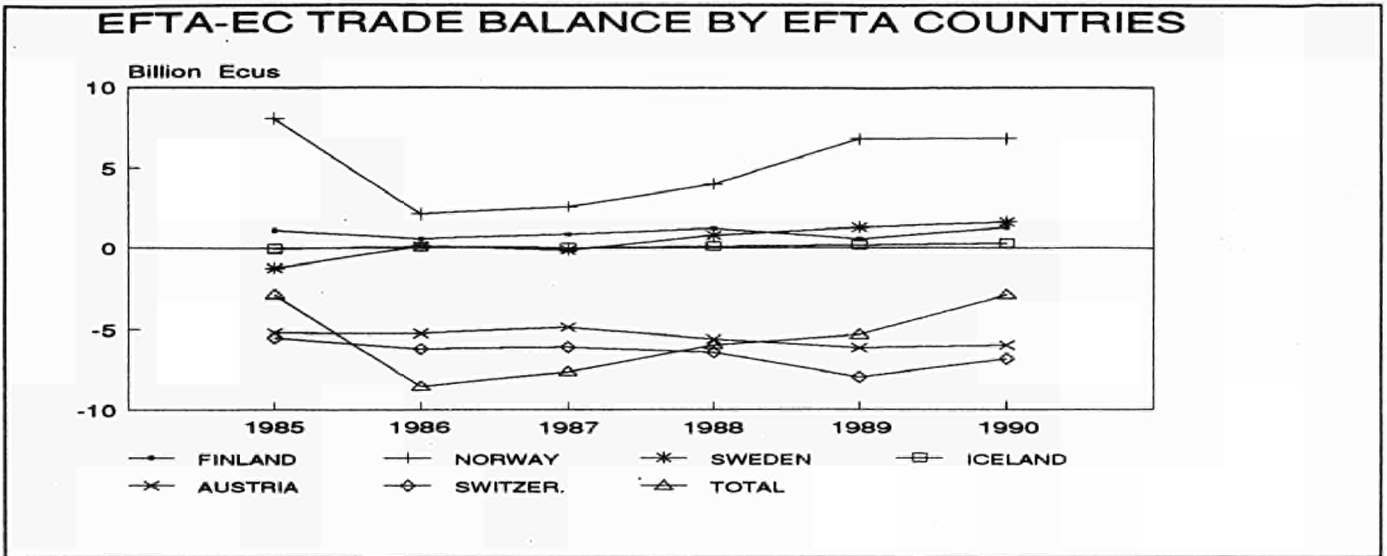
As in the case of the imports, the EFTA geographical structure of export shares to the EC has been relatively stable during the 80s.

- Intra-EFTA trade accounted for about 13% of total EFTA trade in 1990. There exists an important degree of regionalisation between the Nordic countries and the Alpine countries, with a high level of intra-trade concentration within the two groups.

- EFTA market absorbs 26.5% of the value of the extra-EC exports. It is more important than that of the USA, which absorbs around 18%, and much more important than the Japanese market, which is about 5%. Denmark and Portugal are the two EC countries with the biggest proportion of their exports to the EFTA countries (51% and 40%). Spain is the EC country which devotes the smallest proportion of its exports to the EFTA countries (12%). Germany exports 46 % of the total EC exports to EFTA, followed by Italy (12 %).

- Intra-EC trade is the most important component of EC trade; it accounted for about 60% of total EC trade in 1990.

4.EFTA-EC trade deficit correlated with persistently different performances of individual countries

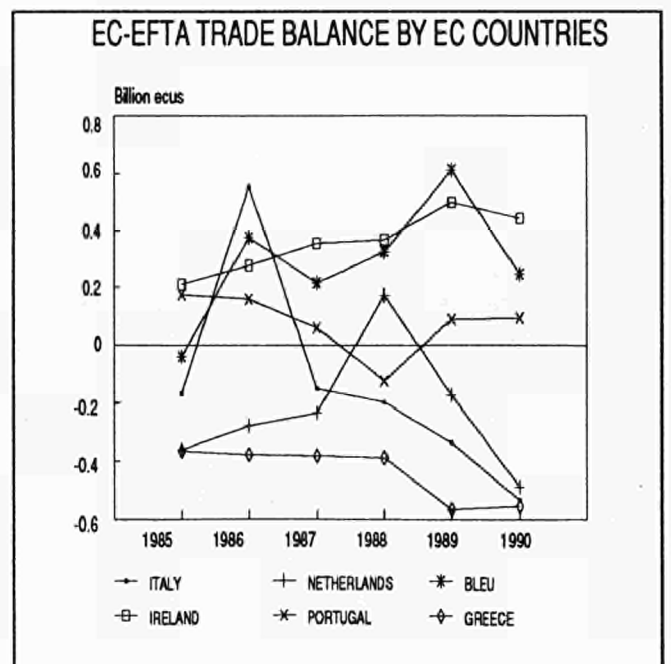
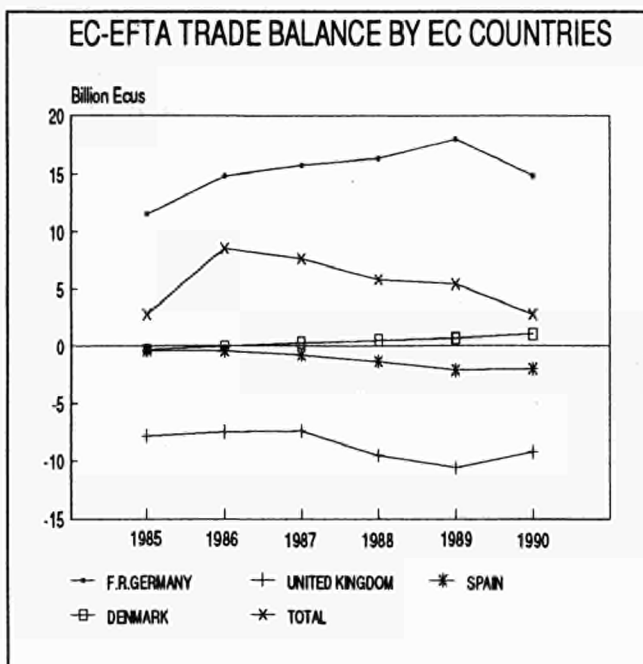


- The trade deficit experienced by the EFTA countries with the EC is relatively small when compared to the total trade between the two groups (in 1990 the cover ratio was 97.5%).

- There are three kinds of EFTA countries: Norway has a surplus with the EC (around 7 billion ecus in 1990); Finland, Sweden and Iceland have a near equilibrium; finally, Austria and Switzerland run a deficit (over 6 billion ecus in 1990 each).

- The trade balances were rather stable during the period considered except for Norway, which is explained by the oil price development.

- Among the EC countries three groups can be distinguished as well: Germany has the largest surplus with the EFTA (around 15 billion ecus in 1990), United Kingdom and Spain run a deficit (over 9 and 2 billion ecus in 1990 respectively), and the rest have a relatively balanced trade relationship with the EFTA.



5.EFTA-EC trade is heavily concentrated on manufactured products

EFTA IMPORTS FROM EC BY SITC SECTION (In percentage share)

	1985	1986	1987	1988	1989	1990
PRIMARY GOODS (0-4)	16.8	12.8	11.6	10.6	10.6	10.9
0+1	4.9	4.9	4.9	4.8	4.7	4.7
2+4	3.4	2.9	2.9	3.2	3.0	2.7
3	8.5	5.0	3.7	2.6	2.9	3.5
MANUFACT. GOODS (5-8)	78.7	82.4	83.7	85.0	85.0	85.0
5+6	29.5	29.4	29.3	30.0	29.9	29.6
7+8	49.2	53.0	54.4	55.0	55.1	55.4
OTHER (9)	4.5	4.8	4.7	4.4	4.4	4.1
TOTAL (0-9)	100.0	100.0	100.0	100.0	100.0	100.0

Source: EUROSTAT

- EFTA imports from the EC are heavily concentrated in manufactured products, its proportion was around 85% in 1990. The share increased about 6% during the period considered, in particular for machines and transport equipment plus miscellaneous manufactures (7+8 SITC).

Primary goods experienced a decrease in their percentage share during that period: while food, beverages and tobacco (0+1) shares were rather stable, mineral fuels' (3) shares declined steeply and crude materials' (2+4) percentages diminished slightly.

EFTA EXPORTS TO EC BY SITC SECTION (In percentage shares)

	1985	1986	1987	1988	1989	1990
PRIMARY GOODS (0-4)	26.3	20.2	19.9	17.9	19.2	19.3
0+1	3.0	3.2	3.3	3.2	3.0	3.1
2+4	8.1	7.7	7.6	7.7	7.9	6.9
3	15.1	9.3	9.1	7.0	8.3	9.3
MANUFACT. GOODS (5-8)	62.6	70.3	71.7	73.5	73.7	74.3
5+6	33.7	36.1	35.4	37.5	37.8	36.9
7+8	28.9	34.3	35.7	36.0	35.9	37.4
OTHER (9)	11.1	9.5	9.0	8.6	7.1	6.4
TOTAL (0-9)	100.0	100.0	100.0	100.0	100.0	100.0

Source: EUROSTAT

Among EFTA exports to the EC manufactured products were the most important category, accounting for 74% of total exports in 1990, and the percentage increased by 12 percentage points since 1985. Machines and transport equipment plus miscellaneous manufactures (7+8) was the group which experienced the largest increase.

The pattern for primary goods was similar to that for imports, with food, beverage and tobacco (0+1) shares rather stable, crude material (2+4) percentages decreasing and mineral fuels (3) shares declining strongly, affected by the oil price developments.

EFTA IMPORTS OF MANUFACTURED PRODUCTS FROM THE EC

	5			6			7			8			TOTAL TRADE		
	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL
1985	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1986	101	99	101	104	101	103	111	128	87	110	103	107	103	107	96
1987	104	89	117	108	100	108	117	132	88	119	105	113	106	106	101
1988	118	90	131	115	100	115	126	129	98	126	89	141	114	102	112
1989	129	89	145	131	106	123	141	135	105	141	94	149	128	107	120
1990	132	89	148	131	104	125	144	137	105	148	95	155	131	107	123

Source: Volimex (EUROSTAT)

VAL: value index
UV : unit value index
VOL: volume index

- Except for machines and transport equipment (7), the strong increase of EFTA import values for manufactured products was due to volume increases. For machines and transport equipment, however, the sharp rise of unit values was the main reason.

The unit values for the EFTA imports of manufactured products from the EC are increasing generally less than the corresponding indices for the total imports from the EC; the volume indices presented a bigger increase, with the exception of machines and transport equipment.

EFTA EXPORTS OF MANUFACTURED PRODUCTS TO THE EC

	5			6			7			8			TOTAL TRADE		
	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL	VAL	UV	VOL
1985	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1986	105	107	98	101	98	103	115	103	111	109	106	103	96	92	104
1987	110	108	102	106	96	110	127	105	121	117	108	108	102	92	111
1988	126	104	121	121	102	119	140	105	133	126	106	119	112	92	122
1989	143	110	130	137	110	124	157	109	143	144	111	130	129	98	131
1990	152	111	136	139	105	132	172	112	154	154	111	138	136	99	138

Source: Volimex (EUROSTAT)

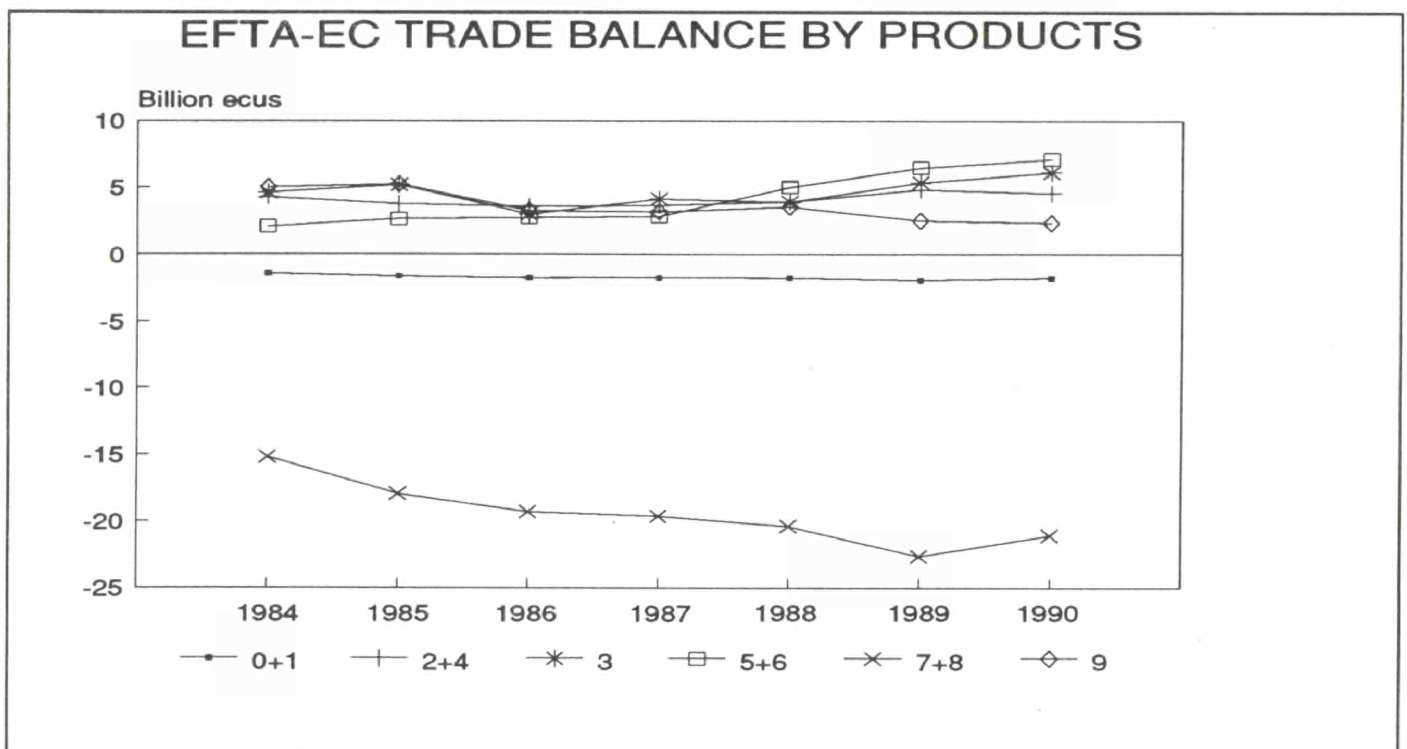
- EFTA export values for manufactured products to the EC increased more strongly on the average than corresponding imports. Most of the value increase is due to volume changes whereas unit values increased modestly and similarly for all the main categories of manufactures.

Both the unit value index and the volume index for the EFTA exports of manufactured products increased in a bigger proportion than the indices for total EFTA exports to the EC, except for basic manufactures (6).

When regarding the values and volumes for the total EFTA-EC trade, two conclusions can be reached: firstly, while the increase in the value index for the EFTA exports in the period considered is mainly due to the volume component, for the EFTA imports both the price and the volume elements contributed.

Secondly, the EFTA has suffered a deterioration of its terms of trade with the EC during the period considered: the unit value index of the EFTA imports from the EC has increased more than the unit value index of the EFTA exports to the EC.

6. Trade structure by product categories is relatively stable



- EFTA countries run a significant and slightly increasing deficit in machines, transport equipment and miscellaneous manufactured products (7+8). They present a small and very stable deficit in food, beverages and tobacco (0+1)

- Another breakdown of manufactures according to end-use categories shows a small EFTA surplus in consumer goods and a persistently increasing deficit in intermediary products.

- For the other product sections the EFTA countries maintain a relatively stable but small surplus with the EC. However, it is not enough to compensate the former deficits.

7. Trade with EC concentrated on relatively few product divisions

EFTA IMPORTS FROM EC BY 10 MOST IMPORTANT PRODUCT DIVISIONS

SITC	PRODUCT	1990 Mio Ecus	% of TOTAL EXPORTS	% of TOTAL ACUM	SPECIALISATION INDICATOR (*)
78	ROAD VEHICLES	11.426,8	10.6	10.6	1.1
89	MISC. MANUFACTURES	7.550,0	7.0	17.6	1.1
74	GENERAL IND. MACH.	7.011,5	6.5	24.1	1.3
77	ELECTRICAL MACHINERY	6.290,2	5.8	29.9	1.1
72	MACHIN. SPECIAL IND.	4.942,6	4.6	34.5	1.2
69	METAL MANUFACTURES	4.273,2	4.0	38.4	1.2
67	IRON AND STEEL	3.812,2	3.5	42.0	1.2
75	OFFICE MACHINES	3.671,9	3.4	45.4	0.8
65	TEXTILE, YARN	3.418,3	3.2	48.5	1.2
33	PETROLEUM AND PROD.	3.093,8	2.9	51.4	0.6

Source: EUROSTAT

EFTA EXPORTS TO THE EC BY 10 MOST IMPORTANT PRODUCT DIVISIONS

SITC	PRODUCT	1990 Mio Ecus	% of TOTAL EXPORTS	% of TOTAL ACUM	SPECIALISATION INDICATOR (*)
64	PAPER, PAPERBOARD	10.862,6	10.1	10.1	3.6
33	PETROLEUM AND PROD.	7.891,3	7.3	17.4	0.6
74	GENERAL IND. MACH.	5.173,9	4.8	22.2	1.8
72	MACHIN. SPECIAL IND.	4.995,9	4.6	26.8	2.0
78	ROAD VEHICLES	4.921,5	4.6	31.3	1.1
77	ELECTRICAL MACHINERY	4.592,9	4.3	35.6	0.8
67	IRON AND STEEL	4.589,3	4.3	39.8	2.2
89	MISC. MANUFACTURES	4.297,3	4.0	43.8	1.0
68	NON FERROUS METALS	4.127,0	3.8	47.6	1.3
24	CORK AND WOOD	3.056,5	2.8	50.5	1.7

Source: EUROSTAT

(*) share of EFTA in EC's imports of the product in question divided by the share of EFTA in EC imports for all products. A specialization indicator of 1 means that the share of EC's imports from EFTA for a particular product is identical to the share of EC's imports from EFTA for all products. The same in the case of EFTA's imports.

The 10 most important product divisions covered more than 50% of both exports and imports in 1990. When taking into account the 20 most important products this proportion increased to about 70% for exports and 60% for imports. The pattern is rather stable through time.

More than one third of the total EFTA imports from the EC are road vehicles and machinery, while the exports are concentrated in paper and paperboard, petroleum and machinery.

7 out of the 10 products considered appear both on the import and the export sides, indicating a high degree of intra-industry trade.

Further information: EC-EFTA: two decades of trade relationship (to be published shortly by Eurostat)

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