

## THE EUROPEAN COMMUNITY AND THE COUNTRIES OF THE EFTA

### CONTENTS

Origins of the Free Trade Agreements . . . . .	3
The content of the Free Trade Agreements . . . . .	4
The application of the Free Trade Agreements . . . . .	6
1. Dismantling of tariffs . . . . .	6
2. Safeguard clauses . . . . .	6
3. Arrangements for steel . . . . .	6
4. Activities of the Joint Committees . . . . .	7
5. Economic situations and trade . . . . .	7
Relations between Austria and the Community . . . . .	12
Relations between Switzerland and the Community . . . . .	13
Relations between Norway and the Community . . . . .	14
Relations between Sweden and the Community . . . . .	14
Relations between Finland and the Community . . . . .	15
Relations between Iceland and the Community . . . . .	15
Conclusion . . . . .	15

---

## NOTICE

Subscribers to 'EUROPE-INFORMATION' are requested to note that this publication is distributed by the services of the Office for Official Publications in Luxembourg.

Any change of address should be notified to:

Mr MARASCHIN  
OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES  
Boîte postale 1003 — 5, rue du Commerce  
L — LUXEMBOURG

However, any requests for new subscriptions or additional information concerning this publication should be addressed to:

COMMISSION OF THE EUROPEAN COMMUNITIES  
Spokesman's Group and Directorate-General for Information  
Publications Distribution Service  
Berlaymont 2/83  
Rue de la Loi, 200  
B — 1049 BRUSSELS  
Tel. 735 00 40 / ext. 5120 or 2346

---

On 1 July 1977, the last customs barriers to trade fell between the European Community and Austria, Switzerland (which has a customs union with Liechtenstein), Norway, Sweden, Iceland, Portugal and Finland, countries associated in EFTA.

Together, countries of the Community and EFTA countries make up about 300 million consumers. This note reviews relations between the Community and EFTA countries; however, it excludes Portugal which asked for accession to the Community on 28 March 1977 and was dealt with in a separate information note (No 7/78).

## ORIGINS OF THE FREE TRADE AGREEMENTS

On 22 March 1957 the Treaty of Rome, establishing the European Economic Community, was signed. It entered into force on 1 January 1958. One year later, in February 1959, representatives of the Austrian, British, Danish, Norwegian, Portuguese, Swedish and Swiss Governments met in Oslo to lay the foundations of a free trade zone for industrial products. The Stockholm Convention, establishing the European Free Trade Association (EFTA) was signed on 2 January 1960 and entered into force on 3 May of the same year. Iceland was to join the Association in 1970. Finland was associated with it from 1961.

The Convention provided for the abolition of customs duties and quantitative restrictions on trade — and this objective was reached in 1966 — following a timetable fairly similar to that of the EEC, but dealing only with industrial products, subject to numerous particular provisions. On the other hand, the Convention did not imply the creation of a common customs tariff *vis-à-vis* the rest of the world, nor the harmonization of legislations; in this sense it was a free trade area and not a customs union or common market.

Doubtless there were certain rules on the Convention dealing with competition and the right of establishment, but these were not so much aimed at unifying markets, but more at banning any trade discrimination. As time progressed, EFTA member countries considerably developed their cooperation, particularly in the field of eliminating technical obstacles to trade — where they collaborated with the Community in various international standards organizations — and through their programmes for technical and economic aid to Portugal. Economic consultations also multiplied, dealing among other things with problems such as those of international economic relations and regional policy. A joint EFTA-Yugoslavia Committee, to promote cooperation between the partners, met in October 1977 and June 1978.

### Institutional structure of EFTA

This is very different from that of the European Communities, in the sense that the supranational element is lacking and that, apart from exceptions, unanimity is required for all decisions. The Stockholm Convention established only one organ, the Council, composed of representatives of member states at ministerial level or permanent representatives. The Council itself established a General Secretariat composed of less than one hundred civil servants, and a certain number of committees and technical working groups, each making recommendations in its particular field. There is also a Consultative Committee composed of representatives from economic and social circles and, since 1977, a Consultative Committee of members of the Parliaments of EFTA countries. There is no Court of Justice, since the Council is empowered to issue recommendations and, where necessary, to authorize retaliatory measures in cases of dispute between Member States. Also in 1977, on 13 May, the first conference of Heads of Governments of EFTA countries was held in Vienna.

The creation, and then the development alongside the European Community, of the European Free Trade Association did not, however, in itself alone provide a completely satisfactory answer to the problems of the economic organization of Western Europe. On the other hand, the prospects for enlarging the Community became clearer, and this meant that for those EFTA countries who did not have accession in mind and who therefore had a relatively limited internal market, it was necessary to foresee solutions permitting them to maintain or even to increase the scope of the movement for liberalizing their trade.

### Towards the creation of a market of 300 million consumers

On 2 December 1969, the Conference of the Heads of States and Governments of the Community approved the principle of opening negotiations aimed at enlarging the Community by the accession of Ireland, the United Kingdom, Norway and Denmark — these last three countries being, at that time, EFTA members. On that occasion, it was stated in paragraph 14 of the communiqué, that 'as soon as negotiations with the candidate countries have been opened, discussions will be started with the other EFTA member countries, if they ask for such discussions, on their position *vis-à-vis* the EEC'.

Finally, Ireland, the United Kingdom and Denmark acceded to the Community with effect from 1 January 1973, whereas in Norway a referendum, organized on 26 September 1972, gave a negative answer.

After exploratory talks in 1970 and 1971, the negotiations proper between the Community on the one hand and Austria, Switzerland, Sweden, Finland and Iceland on the other hand, took place over six meetings organized between 3 December 1971 and 20 July 1972. The agreements were signed on 22 July 1972, except for the agreement with Finland which was merely initialled in July and signed on 5 October 1973. The agreement with Norway was negotiated later and signed on 14 May 1973.

Each of these agreements is, in fact, a double one. There is, on the one hand, an agreement between each of the countries in question and the European Economic Community and, on the other hand, a specific agreement for the coal and steel sectors which come under the ECSC.

The agreements establish a free trade system among the partners, referring essentially to industrial products. But certain countries — Austria, Switzerland and Sweden — had stated at the time that they were prepared to extend the agreements to such fields as industrial policy, technology and currency and, for Austria in particular, to agriculture.

The Communities could not follow them in this, considering that it was imperative to 'safeguard integrally their autonomous power of decision, their common policies, the effectiveness of their functioning and their development prospects'. But an evolutive clause was inserted in the agreements with EFTA countries, except in the case of Finland; it allowed *ad hoc* cooperation to develop but avoided creating binding institutional links.

## THE CONTENT OF THE FREE TRADE AGREEMENTS <sup>1</sup>

The agreements between the European Community and EFTA countries are aimed at 'promoting, by the expansion of mutual trading, 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 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 authorized 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.

---

<sup>1</sup> 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.

## **Rules of competition**

The agreements provided neither for a customs union nor for the obligation to harmonize legislations. The partners undertook, 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 agreed, 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 or 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 could, 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 there was no common customs tariff *vis-à-vis* the rest of the world, it was in fact important to be able to identify the origin of products crossing the frontiers of partners, to be able to determine whether or not they should benefit from the provisions of the free trade agreement. These rules were to be 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 autonomously 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 No 6.

## **Evolutive 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 (or 'in the joint interest', as expressed in the agreement with Sweden).

## **Joint committees**

Institutionally, each of the agreements establishes 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.

### 1. 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 the protocol of the *EEC-Iceland* agreement instituting tariff reductions for certain Icelandic fishery products could be applied only on 1 July 1976, after agreements on fishing rights had been signed between that country and Belgium, Germany and the United Kingdom. Iceland had in fact extended its fishing zones to 50 miles in 1972 and 200 miles in 1975, and the partners had foreseen that Protocol No 6 would enter into force only after settling the difficulties created by this in relations between Iceland and certain Member States of the Community.

On the other hand, as these were *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 protocols 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.

### 2. Safeguard clauses

The application of the safeguard clauses has not caused serious problems between the partners.

Because of imbalances in *Italy's* balance of payments this country, however, authorized first in May 1974 and then in May 1976 the establishment of deposit systems for imports or deposits prior to purchasing its currency. These systems, which applied to all Italy's trading partners, including Community countries, were transitional. They are no longer applicable at the present time.

*Finland*, affected by balance of payments difficulties, established between March 1975 and the end of 1976 a system of import deposits for certain products, similar to those applied in the case of Italy. Finland also established in February 1977 a duty on imported rubber boots and additional duties on imported panty-hose (December 1976 and June 1977), legs for panty-hose (April 1978) and knee-length socks (January 1978).

*Austria* had in December 1975 established a system of minimum prices for imported panty-hose. These measures were modified in February 1977 following on discussions with Community experts and other, and re-introduced in November 1978.

Finally, Sweden also applied restrictions on socks and boots between the end of 1975 and the end of 1977. In addition, discussions between Sweden and the Community at the beginning of 1978 settled difficulties caused by certain Swedish exports, in particular in the field of reconstituted wood, and avoided the application of anti-dumping clauses by the Community.

### 3. 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.

#### 4. 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.

These Committees have worked very satisfactorily.

Community representatives and their EFTA partners have regularly reviewed, in a spirit of mutual understanding, 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.

These were formalities affecting the exchange of goods. EFTA countries introduced proposals for a further simplification of the rules of origin, and the Community has been prepared to discuss these with their partners.

#### 5. Economic situations and trade

The internal gross product per inhabitant for each of the six EFTA countries is superior to the Community average. The results for Sweden, Switzerland and Norway are particularly favourable.

During the period 1973-1976, the economic *growth* of these countries was in general superior to that of the Community, which was earlier and more deeply affected by the economic crisis, as witness the evolution of indices of industrial production.

Iceland — dependent on its fishery activities and on variations in exchange rates — and Switzerland — which has gone through patches of negative growth — are the only ones to deviate from this pattern. In distinction from Sweden and Finland, these two countries have witnessed an improvement in their situation in 1977, whereas Austrian and Norwegian results, lower than those of 1976, remained superior to the Community average which was itself reduced.

Socio-economic indicators compared

	Population (mio 1976)	Density per km <sup>2</sup> (1976)	GNP (mrd.\$) (1976)	GNP per head (\$ 1976)	Unemployment % of active population	Trade % of GNP 1976
Austria	7.5	90	40.6	5 410	1.3 (June 1978)	25
Switzerland	6.3	154	56.3	8 870	0.3 (Aug. 1978)	26
Norway	4.0	12	31.3	7 770	0.8 (July 1978)	30
Sweden	8.2	18	74.2	9 030	2.7 (Aug. 1978)	25
Finland	4.7	14	28.1	5 950	6.7 (Aug. 1978)	24
Iceland	0.2	2	1.5	6 610	0.1 (July 1978)	30
Community	258.8	170	1 396.9	5 398	5.5 (av. Jan.-Aug. 1978)	24

Sources: OECD, EFTA and EUROSTAT.

**Gross internal product at market prices:  
volume variations compared with previous year**

*(in %)*

	1973	1974	1975	1976	1977
Austria	5.8	4.1	- 2.0	5.2	3.5
Switzerland	3.1	1.5	- 7.4	- 2.0	4.0
Norway	4.1	5.3	3.5	5.9	4.1
Sweden	3.5	4.0	0.8	1.5	- 2.6
Finland	6.5	4.3	0.1	0.3	- 0.8
Iceland	6.1	3.8	- 0.6	0.0	4.2
<i>Community</i>	5.5	1.7	- 2.0	4.7	2.3

*Sources:* UNO, OECD and EUROSTAT.

**Indices of industrial production**

	1973	1974	1975	1976	1977
Austria	100	105	98	104	108
Switzerland	100	101	88	88	93
Norway	100	104	111	119	120
Sweden	100	105	103	102	99
Finland	100	105	99	102	102
<i>Community</i>	100	100	93	100	102

*Source:* OECD.

**Evolution of consumer prices**

*(in %)*

	1973-1976	Over a year up to....
Austria	22.25	July 1978 + 3.0
Switzerland	19.25	August 1978 + 1.2
Norway	33.50	August 1978 + 7.6
Sweden	33.25	August 1978 + 8.3
Finland	57.75	August 1978 + 6.9
Iceland	178.25	August 1978 + 52.2
<i>Community</i>	40.1	June 1978 + 7.7

*Sources:* OECD, EFTA, EUROSTAT.

With the exception of Finland, the EFTA countries have had very low rates of *unemployment*, lower than half that of the Community. In Switzerland however, and in Austria to a lesser degree, the results that have been obtained have been at the cost of reducing the overall volume of employment by about 10% and by returning to their countries of some 200 000 migrant workers.

Apart from Iceland which has been severely affected by price rises of raw materials and falls in fish prices, these countries have also been less affected than the Community by *inflation*. Switzerland's performance must be signalled: this country has maintained almost complete stability since 1976. Since that date, the situation has also markedly improved in Austria and Finland.

*Agriculture* contributes about 5% to the gross internal product of Austria, Norway and Sweden, as it does to that of the Community. In Finland, on the other hand, this rate exceeds 10%, whereas Iceland is distinguished by the predominance of its fisheries activities, since fishery products contribute about 74% of the total value of its exports.



Exports of raw materials from Finland (wood and paper pulp), Sweden (wood, paper pulp, iron ore) and Iceland (aluminium) represent about 15% of their exports as a whole, while oil exports from Norway (North Sea fields) were about 19% of that country's exports in 1977. Exports of manufactured products, machines and transport materials represent between 70 and 80% of total exports from most of these countries, this share falling to 57% for Norway and around 10% for Iceland. The share of machinery and transport materials is particularly high for Sweden (44%) and in Norway where ship exports count for about 15% of total exports. Finally, chemical products constitute an important item in Swiss exports (20% of the total).

International trade (intra and extra) represent about one-quarter of the gross internal product of the Community — where certain Member States reach considerably higher levels — and this is valid also for Sweden, Finland, Switzerland and Austria. Because of the high level of imports, this rate reaches 30% in Norway and in Iceland. EFTA countries are particularly exposed to the hazards of international economic fluctuations.

*For the EFTA countries, the Community is the principal trading partner, both for imports and exports.*

#### Geographical structure of trade 1977

(in %)

	IMPORTS			EXPORTS		
	Other EFTA	EEC	Rest of world	Other EFTA	EEC	Rest of world
Austria	9.3	65.3	25.4	13.4	49.5	36.1
Switzerland	7.3	66.6	26.1	10.6	46.1	43.3
Norway	24.8	45.3	29.9	18.2	54.6	27.2
Sweden	16.2	50.8	33.0	22.8	46.2	31.0
Finland	20.9	34.5	44.6	24.0	36.3	39.7
Iceland	20.6	47.6	31.8	14.6	30.8	54.6

Source: EFTA.

It will be noted that 30.2% of Icelandic exports go to the USA and that the Eastern European countries are as important partners for Austria and Finland as the other EFTA countries; they account for 8.8% of Austrian imports and 14.5% of Austrian exports, and 23.5% of Finnish imports and 22.3% of Finnish exports.

For the Community, trade with the EFTA countries (not counting Portugal) represented in 1977 15.7% of total imports and 22.1% of exports (of which 7.4 for Switzerland, 5.4 for Sweden, 5.0 for Austria, 2.9 for Norway, 1.4 for Finland and 0.1 for Iceland). The USA absorbs 12.5% of Community exports, and all developing countries absorb 37.6%.

Although trade between the Community and its EFTA partners has considerably increased, in absolute value, between 1973 and 1977, we note that trade between the EFTA countries and the rest of the world has increased still more, so that the Community share in their trade fell off (Sweden, Finland) or remained almost stable (Austria, Switzerland) between 1973 and 1977, apart from Norwegian oil exports and Icelandic imports.

All the EFTA countries have a negative balance of trade with the Community; apart from Norway, and from Finland up to 1976, this deficit was more than their overall trade. However, between 1973 and 1977, exports from Switzerland and Norway to the Community grew more than their imports from the EEC. Finland was able to join this group in 1977. On the other hand, the more rapid growth of Austrian, Swedish and Icelandic imports contributed to increasing the negative trade balance of these countries with the Community.

## Trade with the Community

		IMPORTS						EXPORTS					
		1973	1974	1975	1976	1977	1977/73	1973	1974	1975	1976	1977	1977/73
Austria:	mio \$	4 596	5 538	5 856	7 297	9 292		2 599	3 164	3 327	3 964	4 852	
	% variation		+ 20	+ 6	+ 25	+ 27	+ 102		+ 22	+ 5	+ 19	+ 22	+ 87
	% of world trade	64.5	61.5	62.3	63.4	65.3		49.2	44.3	44.3	46.6	49.5	
Switzerland:	mio \$	7 972	9 580	8 805	9 810	11 935		4 299	5 184	5 581	6 671	8 125	
	% variation		+ 20	- 8	+ 11	+ 22	+ 50		+ 21	+ 8	+ 19	+ 22	+ 89
	% of world trade	68.8	66.6	66.3	66.5	66.6		45.4	44.2	43.3	45.0	46.1	
Norway:	mio \$	2 808	3 522	4 239	4 924	5 838		2 218	2 942	3 707	4 441	4 762	
	% variation		+ 25	+ 20	+ 16	+ 18	+ 108		+ 33	+ 26	+ 20	+ 7	+ 115
	% of world trade	45.2	41.9	43.7	44.4	45.3		47.4	46.9	51.4	56.1	54.6	
Sweden:	mio \$	5 872	8 415	9 487	9 765	10 203		6 133	7 569	7 785	8 587	8 774	
	% variation		+ 43	+ 13	+ 3	+ 4	+ 74		+ 23	+ 3	+ 10	+ 2	+ 43
	% of world trade	55.3	53.6	52.5	51.0	50.8		50.4	47.9	44.7	46.6	46.2	
Finland:	mio \$	1 720	2 492	2 806	2 575	2 626		1 721	2 374	1 954	2 422	2 785	
	% variation		+ 45	+ 13	- 8	+ 2	+ 53		+ 38	- 18	+ 24	+ 15	+ 62
	% of world trade	40.9	36.6	36.9	34.7	34.5		46.3	43.3	35.6	38.1	36.3	
Iceland:	mio \$	143	232	219	203	287		112	97	78	127	157	
	% variation		+ 63	- 6	- 8	+ 41	+ 101		- 13	- 20	+ 63	+ 24	+ 40
	% of world trade	43.7	44.3	44.9	43.5	47.6		38.5	29.5	25.2	31.6	30.8	

Sources: UNO (1973), OECD (1974-1975) EFTA (1976-1977).

### Evolution of trading balances

*(in mio \$)*

		1973	1974	1975	1976	1977	1978 1 <sup>st</sup> half
Austria	world	- 1 836	- 1 869	- 1 874	- 3 015	- 4 425	- 1 830
	EEC	- 1 997	- 2 374	- 2 528	- 3 333	- 5 440	- 1 936
Switzerland	world	- 2 143	- 2 658	- 390	+ 69	- 288	- 431
	EEC	- 3 673	- 4 396	- 3 223	- 3 138	- 3 810	- 247
Norway	world	- 1 539	- 2 140	- 2 498	- 3 178	- 4 165	- 764
	EEC	- 590	- 580	- 532	- 483	- 1 076	+ 717
Sweden	world	+ 1 546	+ 89	- 633	- 701	- 1 071	+ 819
	EEC	+ 261	- 846	- 1 701	- 1 178	- 1 429	- 3
Finland	world	- 491	- 1 321	- 2 110	- 1 055	+ 58	+ 245
	EEC	+ 1	- 118	- 853	- 153	- 159	+ 183
Iceland	world	- 37	- 195	- 181	- 66	- 93	- 56
	EEC	- 31	- 135	- 142	- 76	- 130	- 63

Sources: UNO, OECD, EFTA.

Are we to conclude from the above that the European Community, which itself has a world trading deficit, has taken the lion's share during these years marked by an economic crisis which has affected it more severely than most of its partners?

A more profound analysis shows that such a judgement would be superficial, to say the least.

On the one hand, as an EFTA study shows – and apart from the case of Iceland, the progressive implementation of free trade has given to the various partners, to their firms and consumers, a vigorous shot in the arm where trading is concerned. The contrast between the periods 1959-1972 and 1972-1975 is striking in this respect.

### Average annual rates of growth in trade with the Community of Six

*(in %)*

		Imports	Exports
Austria	1959-1972	10.5	7.6
	1972-1975	22.3	23.2
Switzerland	1959-1972	10.2	9.8
	1972-1975	16.1	22.3
Norway	1959-1972	6.7	11.1
	1972-1975	32.4	24.7
Sweden	1959-1972	7.3	8.4
	1972-1975	34.2	25.3
Finland	1959-1972	7.2	6.5
	1972-1975	31.1	16.2
Iceland	1959-1972	10.9	6.7
	1972-1975	25.4	0.6

Source: EFTA Bulletin, April 1977.

Whereas, from one period to another, imports between EFTA countries grew by only 73% and exports by 71%, their imports from the Community of Six increased by 167% and their exports by 164%.

On the other hand, the figures available for the first quarter of 1978 indicate a reversal of the trend. Norway and — thanks to a revaluation of the rate for paper — Finland became beneficiaries, whereas the Swedish deficit was reduced to almost zero. In the less favourable case of Switzerland, we should recall that the trading deficits of that country are traditionally more than compensated for by revenue from capital invested abroad and income from tourism (the balance from current Swiss operations in 1977 was over SFR 8.3 milliard in 1977).

On the other hand, there were serious problems in trade with Iceland and Austria. Austria, as a consequence of this, increased its VAT rates on luxury products at the beginning of 1978 (in particular on imported automobiles), raising the rate from 18 to 30%. Austria was able to reduce its imports, increase its exports, and also benefit from a considerable increase in tourism, coming above all from the Community, so that at the end of July, the deficit in its current operations was reduced to 9.1 milliard schillings compared to 21.0 for the corresponding period of 1977.

## RELATIONS BETWEEN AUSTRIA AND THE COMMUNITY

In the Joint Committee established by the free trade agreement, Austria put forward in the spring of 1977 serious trade balance problems in its trade with the Community. Austria previously had several times expressed concern about trade deficits in agriculture, particularly in relation to its exports of beef which were subject to autonomous concessions from the Community. The Community was intent on preserving its autonomy of decision in the agricultural sector which was not covered by the free trade agreement, but it had entered into bilateral discussions which had permitted solutions to be found in certain cases.

The particular geographical situation of Austria evidently justified a certain coordination in the *transport* sector. 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 covered Community transit of goods.

An agreement of 11 May 1975 which entered into force on 1 January 1977 regulated the conditions of passage through Austria and warehousing in Austria of goods traded between the Community and Greece and Turkey.

This agreement simplified customs formalities and facilitated 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. The Commission is expected to state a position on this matter, on the basis of studies which are nearly completed. It is known that the European Investment Bank has given aid for the completion of the Brenner motorway which connects Germany to Italy via Austria.

Since the beginning of 1978, Austrian and Commission experts are meeting regularly to exchange views and information on transport problems and transport policies on both sides.

In this context, among other matters, discussions are proceeding on the road tax established by Austria on 1 July 1978. While this tax applies to all lorry transport, both Austrian and Community, it is particularly resented by Community transporters for whom Austria represents a territory through which they are often obliged to pass. The Community, on several occasions, has vigorously protested against these measures. The discussions now proceeding are dealing, among other matters, with a possible adaptation of the Austrian system to a future Community system for tariffs in transport infrastructures.

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.

An agreement made by exchange of letters in April 1978 established exchange of information between Austria and the Commission on environment problems. 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.

In conclusion, we would point out that Austrian currency has developed in parallel with the 'snake' of European currencies, without actually belonging to this.

## RELATIONS BETWEEN SWITZERLAND AND THE COMMUNITY

The meetings of the Joint Committee between Switzerland and the Community, set up under the free trade agreement, have among other things allowed both parties to raise particular problems affecting trade in certain products.

Switzerland has expressed its readiness to cooperate with the Community as far as necessary. Today, this cooperation involves numerous sectors.

As was the case for Austria, the geographical position of Switzerland evidently justified a certain cooperation in the *transport* sector. 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 the EEC and Switzerland of 25 November 1972, which entered into force on 1 January 1974, and concerned Community transit of goods. The simplification of customs procedures thus obtained facilitated trade between North and South Europe.

An agreement initialled in October 1976 also extended the system of Community transit to relations between Austria and Switzerland.

An agreement on the temporary immobilization of shipping was initialled on 9 July 1976. This agreement was to bring about Swiss participation in a European Fund which would, among other things, permit dealing with the problem of over-capacities which were evident in the Rhine basin. This subject is to be dealt with in fresh talks, following on an opinion from the Court of Justice of the European Communities.

Finally we would point out that Swiss and Commission experts have been meeting regularly, since autumn 1977, to exchange views and information on problems of transport and transport policies on both sides.

Among the other agreements concluded, we should quote:

- The agreement signed on 30 June 1967 which entered into force on 1 January 1968 concerning watchmaking products. It was completed by another agreement signed 20 July 1972 and entering into force on 1 January 1973. Information has been exchanged annually 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 1 August 1969 and extended up to 31 August 1979;
- 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, signed on 14 September 1978 and allowing the research programmes 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, Switzerland has asked to participate in the Community network 'Euronet' for transmitting scientific and technical data, and the Council in October 1978 agreed that negotiations should be opened.

Switzerland acceded to the Convention, already mentioned above, on the European Patent, 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 their opposite numbers in the Community.

## **RELATIONS BETWEEN NORWAY AND THE COMMUNITY**

The relations between Norway and the Community are largely determined by the maritime position of that country and the particular interests arising from it.

For this reason, Norway wished to exchange views with the Community on maritime transport. Its merchant navy, comparable in size to that of the United Kingdom, contributes 16% of Norway's external receipts, and this sector is subject to fierce international competition.

In the fisheries sector, and in application of the Council decisions of 3 November 1976 extending the Community's fishing limits to 200 miles and authorizing the Commission to negotiate agreements with third countries, the negotiations terminated with the conclusion of a model agreement for the long term to ensure the respect of principles defined by the United Nations Conference on law at sea and a satisfactory balance between the catch possibilities of both parties in maritime zones of common interest. The agreement was initialled on 26 July 1978.

Informal exchanges of view between Norwegian and Community experts allowed a joint study of economic prospects and environment problems. Norway participates in several actions of the European Cooperation in the fields of scientific and technical research (COST) in particular in the fields of environment, data processing, telecommunications and oceanography. Norway, with the Community countries, is a signatory of the Convention on the European Patent.

The withdrawal of its request for accession to the Communities did not prevent Norway from staying in the Community monetary 'snake', for currencies which float together, along with Belgium, Luxembourg, Denmark, Germany and the Netherlands. This joint flotation is within reduced limits, in relation to the United States dollar. Norway joined this mechanism from May 1972 onwards; the mechanism was applied on 24 April 1972 by the Central Banks, following on a resolution by the Council and the representatives of Member States of the Community dating from the previous 22 March.

## **RELATIONS BETWEEN SWEDEN AND THE COMMUNITY**

In the Joint Committee, Sweden has pleaded for the liberalization of trade in products not covered by the agreement, ranging from ethyl alcohol to fish and beef. In the latter case, bilateral discussions have yielded the beginnings of a solution.

Sweden has also shown interest in discussions on eliminating technical barriers to trading. The Community, which has its own programmes on this matter, considered, however, that GATT was the more appropriate forum for negotiating on this problem.

Sweden generally speaking desires to develop its cooperation with the Community and has concluded these agreements with it:

- an agreement on cooperation between Sweden and Euratom on research in the field of controlled thermonuclear fusion, signed on 10 May 1976, and of the same type as that later concluded with Switzerland;
- a model long-term agreement on fisheries, signed on 21 March 1977. Based on the principles defined by the United Nations Conference on law at sea; the agreement aims at ensuring a satisfactory balance between the catch possibilities of the two parties in maritime zones of mutual interest.

Sweden participates in a certain number of the actions of the European Cooperation in the field of Scientific and Technical Research (COST), in particular in the fields of data processing, telecommunications, meteorology, oceanography, transport and metallurgy; it has proposed to its partners common actions in the field of food technology. Sweden has also acceded, with the countries of the Community, to the Convention on the European Patent, and it participates in the activities of the European Patent Office. Its experts and those of the Community meet on an informal basis to exchange views on economic prospects, problems of maritime transport, steel, and the environment. Finally Sweden has asked, as has Switzerland, to join the 'Euronet' network for the transmission of scientific and technical data, and the Council in October 1978 agreed that negotiations should be opened.

### **RELATIONS BETWEEN FINLAND AND THE COMMUNITY**

Contacts between Finland and the Community were pursued regularly in the Joint Committee. An agreement between Finland and the Community on fishery rights is being prepared. Also, informal exchanges of views should permit the two partners to make a joint study of economic prospects.

Finland participated in the Conference on the granting of European Patents, but did not sign the Convention established on that occasion.

It participates in several actions of the European Cooperation in the field of scientific and technical research (COST), in particular in the fields of environment, meteorology, oceanography and telecommunications.

### **RELATIONS BETWEEN ICELAND AND THE COMMUNITY**

It will be remembered that disputes between Iceland and several Member States on fishing rights off the coasts of Iceland had, up to July 1976, prevented the entry into force of the special protocol on Icelandic fish exports to the Community.

The fishing limits of both partners were from that time situated at 200 miles from their coasts, and thus the Community desired to conclude with Iceland an agreement on fishing allowing each of the parties to pursue its activities on the sector of the other in conformity with the requirements of a policy for preserving resources, and taking into account the particular economic position of Iceland.

### **CONCLUSION**

Now that the free trade agreements have been in application for five years, it must be noted that they have not up to now given rise to any serious problems in relations between the partners. The intensification of trading relations has contributed to a certain stabilization of economic situations, and this represents a gain in the present context of world crisis. An extension of exchanges of information with the Community, the multiplication of consultations and a deeper cooperation have been asked for by several participating countries.

Although it is true that the free trade agreements have worked well so far, the Community considers that this success must be completed and guaranteed. Although customs and quantitative barriers to trade disappeared, other barriers, resulting in particular from quality standards, are assuming more importance. The Community wishes to be able to examine these questions with its partners. At the instigation of its partners, the Community is ready to study the pursuit of mutual relations with an open mind, and in a practical and pragmatic manner.

## 'EXTERNAL RELATIONS' EUROPE INFORMATION

The following copies of 'Europe Information' are still available, and may be obtained from:

Spokesman's Group and Directorate-General for Information  
Publications Distribution Service, Room 2/83  
Commission of the European Communities  
Rue de la Loi 200  
B-1049 Brussels (Belgium)

- 1/78 The European Community and Canada
- 2/78 The European Community and ASEAN
- 3/78 Latin America and the European Community
- 5/78 Spain and the European Community
- 6/78 List of main EEC agreements with other countries
- 7/78 Portugal and the European Community
- 8/78 Australia and the European Community
- 9/78 Turkey and the European Community
- 11/78 Regional policy: The start of a new phase
- 12/78 The European Community and the countries of Eastern Europe
- 13/78 The People's Republic of China and the European Community
- 14/78 Greece and the European Community



OFFICE FOR OFFICIAL PUBLICATIONS  
OF THE EUROPEAN COMMUNITIES

Boîte postale 1003 – Luxembourg

Catalogue number: CC-NA-79-R15-EN-C