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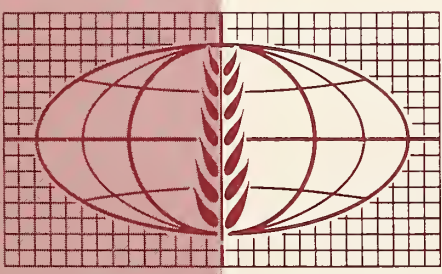
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The European Free Trade Association
Without the United Kingdom, Denmark,
and Norway:
IMPLICATIONS FOR AGRICULTURAL
EXPORTS OF THE REMAINING EFTA
COUNTRIES and the United States

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ABSTRACT

The agricultural trade of Austria, Portugal, Switzerland, Sweden, and Finland--all members of the European Free Trade Association (EFTA)--is examined. The report focuses on (1) their agricultural exports to the United Kingdom, Denmark, and Norway, which will leave EFTA and join the European Community (EC) on January 1, 1973, and (2) the adverse effects that EC enlargement could have on such exports. The report briefly discusses trade arrangements now being negotiated between the EC and the remaining EFTA countries, as well as the susceptibility of U.S. agricultural exports to the increased competition that could result from conclusion of these agreements.

Key Words: European Free Trade Association (EFTA); Austria; Portugal; Switzerland; Sweden; Finland; United Kingdom; Denmark; Norway; European Community (EC); Agricultural trade; Import restrictions.

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CONTENTS

	Page
SUMMARY	iii
INTRODUCTION	1
THE EUROPEAN FREE TRADE ASSOCIATION	2
EFTA's Total Agricultural Trade	3
Agricultural Trade Within EFTA	3
CONSEQUENCES OF EC ENLARGEMENT FOR THE EFTA NEUTRALS	4
Implications for Agricultural Policy of the EC Applicants	5
Market Importance of the EC Applicants	6
Existing Import Conditions in EFTA	7
Commodity Review of the Neutrals' Agricultural Exports	9
Grains	9
Dairy Products	10
Meat and Meat Preparations	10
Fruits and Vegetables	11
Other Commodities	12
Country Review of the Neutrals' Agricultural Exports	12
Austria	13
Portugal	13
Switzerland	14
Sweden	15
Finland	16
NEGOTIATIONS BETWEEN THE EC AND THE EFTA NEUTRALS	16
Implications for U.S. Exports to the EFTA Neutrals	18
Implications for U.S. Exports to the EC	21
TABLES	22
APPENDIX	28
REFERENCES	35

TABLES

Number	Page
1.--EFTA's trade in agricultural products, by country, 1968-70 average.	22
2.--Agricultural trade of the EFTA neutrals with the EC applicants and selected regions, 1968-70 average.	23
3.--Destination of agricultural exports of the EFTA neutrals, by commodity, 1968-70 average	24
4.--Agricultural trade of the EFTA neutrals with the EC applicants, by commodity, 1968-70 average.	25
5.--Imports of U.S. agricultural products by the EFTA neutrals, by commodity, 1968-70 average	26
6.--Imports of selected fruits and vegetables by the EFTA neutrals, total, from the EC, and from the United States, 1968-70 average.	27

SUMMARY

When the United Kingdom, Denmark, and Norway leave the European Free Trade Association (EFTA) and join the European Community (EC), the agricultural exports of five remaining EFTA countries to the EC applicants could be adversely affected. The three applicants are expected to join the EC on January 1, 1973. In 1968-70, the five remaining EFTA countries--Austria, Portugal, Switzerland, Sweden, and Finland--exported an average of \$145 million in agricultural products to the EC applicants, which represented 20 percent of their total agricultural exports.

Negotiations between the remaining EFTA countries, termed neutrals, and the EC are exploring the possibility of special agricultural trade arrangements, although primary emphasis is on establishing an industrial free trade area. While both the EC and the neutrals are interested in receiving concessions on specific farm products, the outcome of the agricultural trade negotiations is quite uncertain. Even though import restrictions in the enlarged EC might be altered in a way beneficial to the neutrals, these five countries will still face increased competition from EC exporters, who enjoy Community preference.

As a result of EC enlargement, the neutrals' farm exports to the United Kingdom, Denmark, and Norway would be affected in primarily two ways: (1) The EC applicants would not continue to give preferential treatment to certain agricultural exports of the neutrals--particularly where those preferences run counter to EC marketing and trade regulations; and (2) EC tariffs and variable levies would replace the national tariffs and trade restrictions of the EC applicants--resulting in higher levels of import protection, particularly in the United Kingdom.

The neutrals' agricultural commodities that would be most affected are grains and grain preparations, meat and meat preparations, dairy products, fruits and vegetables, and, to a lesser extent, wine, sugar, chocolate products, and certain processed food products. In 1968-70, the neutral's exports of these products to the three EC applicants averaged \$110 million, accounting for over 75 percent of their total agricultural exports to the applicants. After EC enlargement, the neutrals' exports of such products could face considerably less favorable treatment in the applicants' markets, especially in the absence of special trade agreements with the EC.

Import changes in the applicants' markets would have the greatest effect on Portugal, Sweden, and Finland. In the Portuguese economy, agricultural exports are particularly important, accounting for about 20 percent of total exports. Portugal's exports of farm products--primarily wine and processed tomatoes--to the EC applicants averaged \$26 million in 1968-70, or about 18 percent of total agricultural exports. Sweden and Finland sell about 35 and

25 percent, respectively, of their total agricultural products to the United Kingdom, Denmark, and Norway. These exports include grains, meat, dairy products, sugar, and fruits and vegetables. Austrian and Swiss agricultural exports to the EC applicants are relatively small and consist primarily of dairy and chocolate products, and for Switzerland, processed food products.

If agricultural concessions are included in the special trade agreements between the EFTA neutrals and the EC countries, U.S. agricultural exports to both the neutrals and the enlarged EC could be adversely affected. The U.S. Government has officially expressed concern about the discriminatory aspects of possible trade arrangements between the EC and the neutrals and has expressed its intention to vigorously defend its trade interests.

The neutrals' imports of U.S. agricultural products averaged close to \$200 million in 1968-70. About 45 percent consisted of grains, meat and meat preparations, and fruits and vegetables. The EC, which has experienced chronic problems in marketing these products, is likely to put a high priority on wanting them included in any agricultural trade concessions from the EFTA neutrals. Such concessions could intensify the competition of U.S. and EC exporters of these products in the neutrals' markets. A large proportion of U.S. agricultural exports to the neutrals consists of tobacco, cotton, hides and skins, and oilseeds and related products, but the EFTA neutrals are unlikely to include these commodities in trade concessions to the EC.

The EC has thus far limited its offer of agricultural concessions to the neutrals to a number of processed food products not covered by the EC's Common Agricultural Policy. EC imports of such products from the United States averaged about \$4.5 million in 1968-70.

The European Free Trade Association Without the United Kingdom,
Denmark, and Norway: IMPLICATIONS FOR AGRICULTURAL EXPORTS
OF THE REMAINING EFTA COUNTRIES and the United States

by

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INTRODUCTION

The United Kingdom, Denmark, and Norway are expected to leave the European Free Trade Association (EFTA) and join the European Community (EC) on January 1, 1973. 1/ Agricultural trade of five remaining EFTA countries--Austria, Portugal, Switzerland, Sweden, and Finland--could be adversely affected, particularly their exports to the EC applicants. 2/

The remaining EFTA countries, termed neutrals, and the EC countries are presently negotiating for special trade arrangements. While very substantial preferences are likely to be agreed upon for trade in industrial products, the outcome of the agricultural component of the negotiations is obscure. This report focuses on the agricultural exports of the EFTA neutrals to the EC applicants, with the objective of highlighting the major difficulties likely to result from new import conditions in the applicants' markets. By doing so, we hope to shed light on some of the pressures at work in the negotiations for special arrangements in agricultural trade.

In addition, the report briefly examines the size and composition of U.S. agricultural exports to the EFTA neutrals and the EC countries. The possibility that agricultural products may be included in trade concessions between the EC and the neutrals means that U.S. agricultural exports to the neutrals and the EC could be adversely affected.

1/ The Republic of Ireland, not a member of EFTA, is also expected to join the EC.

2/ Iceland, which joined EFTA in March 1970, is not included in this report's analysis because agricultural trade between Iceland and the other EFTA members is relatively small.

THE EUROPEAN FREE TRADE ASSOCIATION

The European Free Trade Association came into being on July 1, 1960, following the signing of the Stockholm Convention in January of that year. The initial members were the United Kingdom, Norway, Denmark, Austria, Switzerland, Sweden, and Portugal. Finland became an associate member in July 1961, and Iceland became a member in March 1970.

EFTA grew out of efforts to cope with the situation that arose in Western Europe after the Common Market, created by the Treaty of Rome, went into effect on January 1, 1958. The "outer seven," as the first EFTA countries are sometimes called, were concerned that the EC, with its common external tariffs ensuring Community preference, would adversely affect their trading interests. The outer seven decided to form their own industrial free trade area. Tariffs within the EFTA area were to be reduced gradually and completely eliminated by January 1, 1970. In fact, except in the case of Portugal, virtually all industrial tariffs were eliminated by 1967. Tariffs with outsiders were not affected by the Association.

EFTA differs from the Common Market in that its nature is purely economic, whereas the goals of the EC are not only economic integration, but ultimately, political integration. Within the economic sphere, EFTA has sought only to eliminate trade barriers between EFTA members. It has not pursued the broader goals of an economic and customs union. Thus, EFTA countries have retained their individual agricultural policies--unlike the EC, there is no common agricultural policy.

Elimination of trade restrictions within EFTA has applied almost entirely to industrial products. The protective farm policies of most EFTA countries are primarily responsible for the exclusion of agricultural products from tariff eliminations. Certain EFTA countries have established a policy of maintaining a stipulated level of self-sufficiency in food products while at the same time protecting farmers from imports. In addition, the United Kingdom's desire to avoid purchasing high-cost agricultural or raw materials from other EFTA countries and its tariff arrangements with Commonwealth countries have militated against the establishment of broad agricultural arrangements.

Nevertheless, EFTA has taken certain measures to encourage trade in agricultural products. Certain processed agricultural products have been classified as industrial products for the purpose of tariff reductions. Bilateral agreements that include provision for agricultural trade have been made. The Association requires that tariff concessions granted in such agreements between member countries be extended to all member countries. To provide information for stimulating intra-EFTA trade, an annual review is made of the agricultural policies of the EFTA countries. It includes an analysis of their trends in production, consumption, and trade.

The Association requires that each member protect its agricultural markets from dumped or subsidized agricultural imports from non-EFTA countries. It also establishes guidelines for eliminating members' agricultural

export subsidies when these are injurious to other members. In return for liberalization of trade in manufactured goods, the Stockholm Convention calls for agricultural trade concessions to be made to members whose economies depend to a great extent on agricultural exports. It also states that agricultural policies of members must consider the interests of EFTA's agricultural exporting countries.

EFTA's Total Agricultural Trade

The European Free Trade Association is of major importance in world agricultural trade, primarily because the United Kingdom is the world's second largest importer of agricultural products and Denmark is a significant agricultural exporter. The other member countries, which are relatively small, are, on the whole, highly industrialized. However, they rely on agricultural imports for a considerable share of their food and agricultural raw materials. In 1969, the population of the EFTA countries was slightly more than 100 million--compared with 189 million in the EC countries--and the gross national product per capita was \$2,200--only slightly lower than in the EC.

During 1968-70, EFTA's agricultural imports averaged \$8.7 billion (table 1), representing about one-fifth of total imports. This compared with EC agricultural imports of nearly \$15 billion. The United Kingdom is by far the largest EFTA market for agricultural products, absorbing nearly two-thirds of the organization's agricultural imports in 1968-70. Switzerland, Sweden, and Denmark took between 5 and 10 percent of the agricultural imports and the remaining countries each took less than 5 percent (table 1).

By far the most important source of EFTA's farm imports are the Commonwealth countries, largely because of the United Kingdom's preferential treatment of Commonwealth products. In 1968-70, Commonwealth countries supplied 28 percent of EFTA's farm imports. The EC, the second most important source, accounted for 16 percent. Imports from the United States accounted for 9 percent.

EFTA's exports of farm products are much smaller than such imports. Agricultural exports averaged \$2.7 billion in 1968-70--representing 7 percent of the organization's total exports. Just as the United Kingdom dominates EFTA's agricultural imports, Denmark dominates the agricultural exports, accounting for over 40 percent of the 1968-70 average.

Agricultural Trade Within EFTA

Agricultural trade within EFTA has increased more rapidly than total EFTA agricultural trade. During 1961-70, total agricultural imports increased 27 percent and total agricultural exports increased 71 percent. In the same period, agricultural trade (exports) within EFTA more than

doubled, reaching a total of \$1,077 million in 1970. ^{3/} Member countries provided nearly 15 percent of total EFTA agricultural imports in 1970. Agricultural exports to members, however, represented about one-third of EFTA's total agricultural exports.

Within EFTA, the United Kingdom and Denmark are the major agricultural traders. During 1968-70, the United Kingdom took nearly 60 percent of intra-EFTA agricultural imports, and Denmark supplied over 60 percent of intra-EFTA agricultural exports.

Among member countries, the importance of the EFTA market varies significantly. Nearly half of both Denmark and Sweden's total agricultural exports go to other EFTA countries. In 1968-70⁴, EFTA took about 45 percent of both Norway and Finland's total agricultural exports; about a fourth of Portugal's; and slightly more than 15 percent of those of Austria and Switzerland. The United Kingdom shipped a little more than 10 percent of its total agricultural exports to other EFTA countries.

The most important agricultural commodities in intra-EFTA trade are meat and dairy products (primarily pork and butter). Other significant commodities are grain and grain preparations, animal feeds, hides and skins, and fruits and vegetables.

With respect to EFTA's agricultural trade with the EC, which normally accounts for nearly one-fifth of EFTA's total agricultural trade, EFTA is a net importer. EFTA's agricultural imports from the EC averaged \$1.4 billion in 1968-70, while agricultural exports to the EC averaged \$0.8 billion.

CONSEQUENCES OF EC ENLARGEMENT FOR THE EFTA NEUTRALS

With the loss of the United Kingdom, Denmark, and Norway, the European Free Trade Association will lose its great significance as a trading bloc in farm products. The accession of these three countries into the EC means that over a transitional period, they will progressively apply the Community's common external tariffs and variable levy system and accept the other obligations of the treaties establishing the Community.

The three EFTA members have been negotiating toward EC membership for a long time. The United Kingdom first applied in 1961, but was blocked by the French Government under President DeGaulle. Together with Denmark and Norway, the United Kingdom applied again in 1967, but political and economic considerations delayed significant progress until the Hague Summit meeting in December 1969. On October 29, 1971, the British Parliament

^{3/} Logically, imports should equal exports; in practice, there are discrepancies, primarily because of time lags in recording trade data.

voted for U.K. acceptance of EC membership. Formal negotiations for acceptance of all three countries were concluded with the signing of the accession treaties on January 22, 1972.

While the U.K. Government must still pass the detailed legislation necessary to harmonize British and EC laws, Britain is expected to formally leave EFTA at the end of 1972 and join the EC on January 1, 1973.

The Danish Parliament approved EC entry in December 1971. However, the membership question will be brought before the public in the form of a binding referendum in June 1972. Thus, the final decision is in the hands of the Danish people.

In the case of Norway, there will be an advisory referendum before the Norwegian Parliament votes on ratification of the country's membership.

In December 1971, the EFTA neutrals and the EC began negotiations toward establishing preferential trade arrangements. These EFTA countries (Austria, Finland, Iceland, Portugal, Sweden, and Switzerland) cannot or do not want to become full members of the European Economic Community. Except in the case of Portugal, the decision not to join was primarily motivated by the desire to maintain political neutrality.

The EC has agreed in principle that arrangements should be devised with these countries to avoid the reerection of tariff barriers between the EFTA neutrals and the EC applicants. The Community has declared in favor of creating an industrial free trade area between the enlarged EC and the remaining EFTA countries. However, it has rejected such an approach in the agricultural sector, fearing that Community sovereignty with regard to development of the Common Agricultural Policy (CAP) would be compromised. On the other hand, the Community apparently hopes to use the special trade arrangements currently being negotiated with the neutrals to expand its agricultural exports. (The negotiations concerning these special arrangements are discussed in detail on pp. 16-18.)

Implications for Agricultural Policy of the EC Applicants

As a condition of EC entry, the United Kingdom, Denmark, and Norway must accept all of the policies and regulations embodied in the EC's Common Agricultural Policy. Common policies have now been set up for nearly all major agricultural commodities produced in the Community. While specific aspects of the policies differ a great deal, their basic thrust is quite similar. They provide a comprehensive mechanism of price support, the basic elements of which are variable levies, support (intervention) prices, and export subsidies. The levies are calculated to offset completely any price advantage that imported products may have over domestic products. Thus, they insulate the EC market from world price developments.

A transitional period of 5 years--to the end of 1977--is envisaged before the applicant countries are fully integrated into the EC system. Agricultural

support prices in the United Kingdom, Norway, and Denmark will be brought gradually into line with support prices in the EC (in six stages) as will levies and import duties (five stages for most products). Community preference will be introduced immediately after entry, and the level of Community preference will gradually increase as the "internal" levies between the applicants and other EC countries are progressively reduced. Ultimately, all duties on agricultural products moving within the Community will be eliminated, while the full burden of the EC variable levies or external tariffs will fall on agricultural imports from outside the EC. CAP regulations will supersede domestic agricultural policies and regulations as well as bilateral trading agreements (unless specific exceptions are made).

Adoption of the CAP by the three applicant countries will result in significant changes in the conditions of access for many agricultural products important in intra-EFTA trade (again, unless special arrangements are made). In some cases, the preferential treatment granted under the auspices of EFTA or EFTA's special bilateral agreements will be voided. In others, tariffs and import restrictions of the individual countries will be replaced by the tariffs or levies of the EC.

In some cases, adoption of the CAP will not result in higher levels of protection. While the United Kingdom has traditionally pursued a policy of allowing low-cost farm imports, Denmark and Norway have protected domestic farmers with stringent import restrictions. Even where protection does not increase, however, the EFTA neutrals will still have to face the increased competition of EC producers benefiting from Community preference. Consequently, the remaining EFTA members are concerned about the future of their agricultural trade with the EC applicants.

Market Importance of the EC Applicants

As mentioned earlier, the United Kingdom, Denmark, and Norway are significant markets for the agricultural trade of the remaining EFTA countries. During 1968-70, the neutrals' agricultural exports to the EC applicants averaged \$145 million. This represented nearly 65 percent of the neutrals' agricultural exports within EFTA and about one-fifth of their total agricultural exports. The neutrals' imports from the EC applicants averaged \$215 million, or three-fourths of the neutrals' imports from EFTA (table 2).

The United Kingdom and Denmark account for the bulk of trade between the EC applicants and the neutrals. In 1968-70, sales of agricultural products by the neutrals to the United Kingdom and Denmark averaged, respectively, \$95 million and \$25 million. The two countries supplied an average of \$54 million and \$132 million, respectively, of the agricultural imports of the neutrals.

Existing Import Conditions in EFTA

Agricultural trade between the EFTA neutrals and the EC applicants is partly influenced by EFTA's agricultural provisions "to facilitate an expansion of agricultural trade which will provide reasonable reciprocity to Member States whose economies depend to a great extent on exports of agricultural products." ^{4/} In pursuit of this objective, certain Member States have concluded agricultural agreements that include preferential tariff treatment for members' agricultural trade and provisions for eliminating certain tariff duties. At the end of 1969, EFTA had 10 basic bilateral agreements for agricultural products. Denmark was signatory to eight of the agreements.

There are five bilateral agricultural agreements between the EFTA neutrals and the EC applicants. Four of these were concluded primarily to facilitate Danish agricultural exports. As noted earlier, however, preferential tariff treatment granted to one EFTA member must be extended to all EFTA members. The five bilateral agreements are discussed briefly below:

1. In the Danish-Swedish agreement of 1960 (modified by supplementary agreements in 1963 and 1967), Sweden set quotas with reduced import duties for beef imports from Denmark. Swedish imports of Danish meats, dairy products, poultry and eggs, potatoes, and sugar beets are to be encouraged, partly by a lump-sum payment reimbursing Denmark for the duties and levies imposed by Sweden on imports of Danish agricultural products.

2. In the Danish-Swiss agreement of December 1959 (supplemented by an agreement of 1963), the Swiss Government promised to restrict imports of eggs and butter from any subsidized source. Denmark was allowed to supply 45 percent of Switzerland's total butter imports. The Swiss Government promised to encourage imports of live cattle and beef from Denmark and to eliminate tariffs on imports of Danish live cattle and on imports of certain Danish beef products. Denmark was granted quotas for imports of horses, canned hams, canned pork, and grain from Switzerland. Prepacked Swiss hard cheeses such as Gruyere, Emmenthal, and Sbrinz were to be admitted into Denmark at the same tariff rate as whole cheeses. The Danish and Swiss tariff rates on certain seeds and on flour preparations for infant or dietetic use were reduced or eliminated.

3. The Danish-Austrian agreement of November 1959 (made before the establishment of EFTA) has few specific provisions. Austria merely attempts to meet the agricultural objectives of the EFTA Treaty. The Austrian Government agreed to exempt imports of Danish eggs from custom duties and to refrain from increasing the equalization levy on Danish fine cheese. Imports of Danish chickens for slaughter were to be encouraged and the duties reduced.

^{4/} Provisions of the 1960 EFTA charter, as quoted in the Eleventh Annual Report of EFTA. Geneva, Sept. 1971, p. 27.

4. The Danish-Finnish agreement (March 1961), Supplementary Agreement (November 1966), and Exchange Notes on the Agreement (February 1967) extend concessions for agricultural trade between the two countries. Finland set a quota of 3,000 tons of Danish bacon and 75,000 tons of Danish industrial sugar beets. ^{5/} Finland also established an annual import quota of 6,500 tons of Danish apples and pears. The Finnish custom duties levied on imports of Danish casings, certain seeds, and apple pulp were eliminated or reduced.

5. The Portuguese-Danish agreement (February 1965), as amended by Protocol (August 1967), provided for special tariff treatment for some Portuguese wines and for fresh pineapples and grapes. In exchange, the Portuguese Government agreed to grant import licenses for certain amounts of Danish beef, pork, and butter.

The neutrals have also benefited to a limited extent from bilateral agreements between the EC applicants, by virtue of the provision that preferential tariff treatment must be extended to all EFTA members. The Anglo-Danish agreement provides for U.K. elimination of custom duties on Danish canned meats, butter, blue-veined cheese, and canned cream. Denmark agreed to eliminate duties on U.K. shipments of malt, liver paste, potato crisps, pressed yeast, and preparations of flour, starch, or malt extract for infant food or dietetic purposes. The Danish-Norwegian agreements provide for eliminating duties on Norwegian imports of animal guts and most garden and field seeds.

As this brief discussion suggests, the bilateral agreements have made a modest contribution toward promoting agricultural exports of the neutrals to the EC applicant countries.

An aspect of intra-EFTA trade that has been more instrumental in promoting agricultural trade is the classification of certain agricultural products as industrial goods for the purpose of tariff reduction. Such agricultural goods benefit from the EFTA preference in the same way as industrial goods. Appendix I lists all agricultural products not specifically exempted from the provisions of EFTA and thus subject to preferential tariff treatment. The list includes almonds and chestnuts, processed cocoa and chocolate products, certain prepared cereal products and pastries, and canned tomato paste, olives, and nuts. Appendix I also lists the agricultural products on which preferential treatment has been specifically granted by the EC applicant countries.

The implications of EC enlargement for the preferences granted in the bilateral agreements and those preferences resulting from industrial classification of agricultural products are not yet clear. However, where these arrangements run counter to the regulations of the CAP, it is likely that they will be voided.

^{5/} All tons are metric.

Even where no EFTA preferences exist, the agricultural trade of the neutrals with the applicant countries may be adversely affected. The applicant countries must still exchange their national tariffs and trade restrictions for those of the EC. These changes will be most significant for the U.K. market, where a liberal import policy has traditionally been pursued. The next section briefly outlines the nature of the changes in tariffs and other import restrictions for the major commodity groups.

Commodity Review of the Neutrals' Agricultural Exports

The major agricultural commodities exported by the EFTA neutrals to the United Kingdom, Denmark, and Norway are grains, meat and meat preparations, dairy products, and fruits and vegetables. Hides and skins, chocolate products, certain processed foods, and fats and oils (including oilseeds) are also important. In 1968-70, these products accounted for nearly 80 percent of the agricultural exports of the neutrals to the EC applicants--averaging \$115 million out of a total average of \$145 million (table 3). (Wine, another important export, is discussed later in this report in the country review of Portugal; sugar is discussed in the country reviews of Sweden and Finland.)

After EC enlargement, the change in import conditions in the United Kingdom, Denmark, and Norway will have the most serious effect on the neutrals' exports of grains, meat and meat preparations, dairy products, and fruits and vegetables.

Grains

Grain imports by the EC applicants are currently governed by individual national policies. Until 1970, U.K. grain imports were generally subject to only a small tariff duty. Provisions existed for import levies, but these were infrequently operative because minimum import prices were set at a rather low level. In 1971, the United Kingdom moved to replace its deficiency-payments system of agricultural support with a variable-levy system--a move stimulated in part by the prospect of EC membership. To this end, U.K. minimum import prices for grains are now being raised substantially in a series of stages. The adoption of EC support-price levels for grains will result in further substantial increases in protection. U.K. minimum import prices for wheat under the CAP are expected to be about 80 percent higher than the levels in force in January 1971. Comparable increases in import protection for barley can be expected.

Norwegian grain imports are strictly controlled by the State Grain Corporation. Domestic grain prices are maintained at very high levels--considerably higher, in fact, than EC levels. Consequently, adoption of the CAP is likely to result in lower levels of protection for Norway; but at the same time, the other EC members will benefit from Community preference.

Denmark has restricted grain imports by the use of variable levies, licensing, and mixing regulations. Domestic grain prices are, however, considerably below EC levels. Consequently, although the quantitative restrictions will be eliminated, Denmark's level of protection will remain high under the CAP, and EC exporters will benefit from a substantial preference.

Dairy Products

The United Kingdom is the most important market within EFTA for dairy products, mainly butter. Until recently, U.K. imports of butter were governed by bilateral quotas; among the EFTA neutrals, Austria, Finland, and Sweden were assigned quotas. As a result of the recent world dairy shortage, this quota system was suspended in April 1971. The United Kingdom also has voluntary quota arrangements (recently relaxed) on imports of cheddar cheese. These quotas have not applied to the EFTA neutrals because these countries primarily export other types of cheese. U.K. imports of other cheeses are subject only to duties. In 1971, the United Kingdom introduced minimum import prices on certain processed dairy products (excluding butter and cheese) as part of the general shift away from the deficiency-payments support system.

When the United Kingdom adopts the CAP, the EC's variable levy system will be imposed on imports of all dairy products. Also, all U.K. quota arrangements on dairy products will be dismantled. The EC supports processed dairy products at prices which are generally well above the U.K. level. While the recent worldwide shortage of dairy products has made the EC restrictions almost unnecessary, a return to the more normal conditions of dairy surplus will cause them to again become an effective barrier against imports.

Norwegian imports of dairy products are severely restricted by quotas while Denmark employs licensing restrictions. Adoption of the CAP by these countries should not significantly alter the already quite limited export opportunities of the EFTA neutrals.

Meat and Meat Preparations

Among the EC applicants, the United Kingdom is by far EFTA's most important market for meat and meat preparations. Norway imports relatively small quantities of meat. Danish imports have been, and will almost certainly continue to be, negligible. Intra-EFTA trade in meat and meat preparations has benefited from bilateral agreements between Denmark and other EFTA members. The most important agreement is between Denmark and the United Kingdom, under which the United Kingdom has granted duty-free entry to imports of bacon and canned pork from EFTA members. Under a market-sharing arrangement, Denmark is also granted a share (about 50 percent) of the United Kingdom's bacon requirements. U.K. imports of other beef and pork products have been subject to moderate duties. As with grains, the United Kingdom began shifting to a variable-levy system on imports of meats in 1971.

The United Kingdom's adoption of the EC's import regulations on livestock and meat will result in even greater protection. These regulations prescribe a complex system of duties, variable levies, and, in some cases, supplementary levies. These import changes combined with the Community preference will most likely hamper the neutrals' competitiveness as exporters of meats to the U.K. market.

Norway exercises strict control over meat imports (usually by means of quantitative restrictions). However, Norwegian beef prices still tend to be somewhat lower than EC beef prices, while pork prices are about the same. Consequently, it is likely that adoption of the CAP will result in some increase in the level of protection.

Fruits and Vegetables

Although the United Kingdom, Denmark, and Norway are large net importers of fruits and vegetables, they apply significant import restrictions on these products. In most cases, restrictions apply to protect domestic markets. The EC applicants apply import calendar restrictions--that is, imports are subject to variable duties depending on domestic production during the home season. In the United Kingdom, restrictions have also been imposed as a form of preferential trade treatment to the Commonwealth countries. In Norway, seasonal periods of free import duties exist for some fruits and vegetables, but most imports of these products are subject to license and, in some cases, to minimum import price and quota restrictions. Danish duties are extremely high during peaks of production and, in some cases, imports are prohibited or restricted by quotas (for example, for fruit juices) or licensing.

Nevertheless, EFTA's trade in fruits and vegetables has benefited to a limited extent from the provisions of the Association. Fresh and dried garlic, fresh figs, almonds and chestnuts, certain melons, tomato paste, and canned nuts and olives are traded duty-free within EFTA. In addition, preferential tariff treatment has been granted by the United Kingdom for dried tomatoes and leeks and potato chips; by Norway for dried figs and currants; and by Denmark for fresh grapes, tomato juice, potato chips, and wine.

Conditions for fruit and vegetable imports will be significantly different when the EC applicants adopt the EC protective apparatus for these products. Although most fruit and vegetable imports into the EC are subject only to tariffs, a number of the more significant products are also subject to a minimum import or "reference" price. Imports priced lower than reference prices are subject to a countervailing levy or may even be suspended if they seriously disturb EC markets or threaten to do so. Imports of fruits and vegetables into the EC are also subject to quality standards. Since 1967, however, additional (inferior) grades of EC products can be marketed in intra-EC trade, thereby reducing the market for third countries. Some fruit and vegetable imports into the EC are still subject to licenses. Canned fruits and vegetables and other processed products may also be subject to a levy on their sugar-added content.

Finally, duties on fruit and vegetable imports into the United Kingdom will be substantially above those currently applied. For example, duty rates on fresh or chilled vegetables in the United Kingdom are currently 10 percent or less, while the ad valorem rates in the EC range from 9 to 20 percent. A few fruits and nuts may be imported free into the EC, but for most kinds, duty rates range up to 25 percent, compared with 6 to 10 percent in the United Kingdom. EC duty rates on imports of stone fruit range from 10 to 25 percent; in the United Kingdom, they are a maximum of 10 percent. In Denmark and Norway, the changes in import conditions for fruit and vegetables will be less significant because of their already high tariff rates and other trade restrictions.

Other Commodities

Imports of hides and skins and vegetable oilseed products by the applicant countries will not be greatly affected by the countries accession to the EC. Hides and skins enter duty-free into the EC as well as into the applicant countries. Oilseed and vegetable oil imports into the EC are subject only to tariffs, ranging from low or zero to moderate. In fact, EC enlargement will presumably result in the elimination of U.K. duties on oilseeds and oilseed meal and Danish quantitative restrictions on rapeseed.

EC tariffs on chocolate products are, for the most part, considerably higher than those of the three applicants. In addition, variable charges are imposed on the sugar and milk content of these products. Within EFTA, preferential duty-free treatment has been granted on chocolate products. Hence, the applicants' adoption of the EC levels of protection for chocolate products would raise appreciably the barriers to the neutrals' exports.

For processed food products (not included in the general categories already discussed), the EC tariffs, for the most part, are somewhat higher than those of the applicants. In the EC, processed products containing grains, dairy products, and sugar are generally subject to variable levies based on their grain, sugar, and dairy content. Trade within EFTA has been duty-free for malt extract, certain prepared cereal products, mustard, sauces and condiments, soups and broths, and certain other processed food products. Thus, EC enlargement will probably raise the barriers to the neutrals' exports for many processed food products.

Country Review of the Neutrals' Agricultural Exports

This section briefly examines the importance of agricultural trade in Austria, Portugal, Sweden, Switzerland, and Finland. The composition of these countries' exports to the United Kingdom, Denmark, and Norway is discussed, as well as how EC enlargement will affect such exports. Tables 2 and 4 at the end of this report present commodity and regional breakdowns of the neutrals' agricultural exports and imports.

Austria

For Austria, agricultural trade is a small but significant part of total foreign trade. During 1968-70, Austria's agricultural exports averaged \$121 million, representing only 5 percent of total exports. Agricultural imports averaged \$358 million, or 12 percent of total imports.

The EC countries are Austria's main trading partners in farm products--supplying 29 percent of the imports and taking 65 percent of the exports in 1968-70. Agricultural trade with EFTA countries is relatively small. In 1968-70, EFTA supplied 8 percent of Austria's farm imports and absorbed 17 percent of such exports. The country's agricultural exports to the United Kingdom, Denmark, and Norway averaged \$10 million in 1968-70, representing about half of its total agricultural exports to EFTA.

During 1968-70, Austria sold an average of \$3.4 million in dairy products--mainly butter, skim milk powder, and cheese--to the EC applicants. Exports of chocolate products to these countries were also significant, averaging \$4.4 million.

Among the EC applicants, the United Kingdom is by far the principal market for Austria's agricultural exports. During 1968-70, Austria's exports of farm products to the U.K. market averaged \$9.3 million. They consisted primarily of \$3.2 million in dairy products (\$1.3 million in butter, \$1.1 million in dry milk, and \$0.5 million in cheese) and over \$4 million in chocolate products. Austria's loss of bilateral butter quotas with the United Kingdom, as well as U.K. imposition of variable levies, could adversely affect Austrian dairy exports.

Austria's exports of chocolate products could be hurt by the loss of the EFTA preference in the U.K. market and by the United Kingdom's adoption of higher EC duties and EC levies on the sugar and dairy content of chocolate products. Also, Austria's agricultural exports could meet increased competition from other producers in the expanded EC.

Portugal

In 1968-70, agricultural products represented 20 percent of Portugal's total imports and 17 percent of its total exports. The country's agricultural exports to EFTA countries accounted for about one-fourth of its total agricultural exports. Portugal's imports of EFTA farm products were relatively small--representing only 4 percent of total agricultural imports.

The United Kingdom, Denmark, and Norway are Portugal's main agricultural export markets in EFTA. These countries' expected entry into the Common Market is causing considerable concern in Portugal, particularly to exporters of wine and processed tomatoes. In 1968-70, Portugal's agricultural exports to the EC applicants averaged \$26.2 million, which represented 77 percent of total agricultural exports to EFTA. Wine and fruits and vegetables (mainly processed-tomato products and small amounts of fresh fruit and nuts) are the main exports to the EC applicants. During 1968-70, Portugal exported an average of \$42 million of processed vegetables (mainly

tomatoes); nearly a third went to the EC applicants. In the same period, the EC applicants took an average of \$9.4 million in Portuguese wines, or more than two-thirds of Portugal's wine exports to EFTA and about one-sixth of its total wine exports.

The United Kingdom took nearly 80 percent of Portugal's 1968-70 agricultural exports to EFTA, including \$5.8 million in wine and \$12.1 million in processed tomatoes. It is estimated that Port wine accounts for more than half of Portugal's wine exports to the United Kingdom. Denmark has been Portugal's second largest agricultural market among the EC applicants, taking an average of \$4.2 million of Portuguese agricultural exports during 1968-70.

Portugal's agricultural trade with the EC applicants has benefited to some degree from special market treatment. Portuguese wine has traditionally enjoyed special status in the United Kingdom because of British financial interests in Portugal's Port wine industry and the country's historical relationship with the U.K. market. Portuguese wines receive preferential tariff treatment in Denmark under the Danish-Portuguese bilateral agreement of 1965. In addition, Portugal's exports of certain processed-tomato products enter duty-free into the United Kingdom, Denmark, and Norway under the EFTA preference.

The impact of EC enlargement on Portugal's wine exports to the EC applicants is difficult to assess. U.K. tariffs on wine include a large excise tax. Because of this complication, it is not clear what tariff adjustments the United Kingdom will make upon entry into the EC. However, the CAP also provides for minimum import prices for wine. In addition, Portugal will no doubt face the competition of EC wine producers, particularly Italy.

Portugal's exports of processed-tomato products could be more seriously affected than its wine exports. The United Kingdom, the main importer of Portuguese processed-tomato products, currently applies relatively low import duties (0 or 6 percent) on these products. Currently, the EC's duty on imports of processed tomatoes is 18 percent. In addition, Portugal's exports of processed tomatoes to the EC have been subject to a minimum import price. Extension of the Community preference to the applicant countries will further increase the competitiveness of Italy and the EC associate member, Greece, in these markets.

Switzerland

During 1968-70, Switzerland's agricultural trade averaged \$813 million in imports and \$214 million in exports. Its agricultural trade with EFTA countries, however, was relatively small. Agricultural imports from EFTA averaged \$51 million, while exports to the Association averaged \$34 million. Of this trade, close to two-thirds of the imports and almost half of the exports was with the EC applicants (table 2).

In 1968-70, Switzerland's agricultural exports to the United Kingdom averaged \$9.7 million, or more than half of the country's agricultural

exports to the EC applicants. The exports consisted mainly of meats, cheese, chocolate products, and other food preparations such as soups and sauces. Denmark is also a significant importer of Swiss processed-food products. Swiss agricultural exports to Denmark averaged \$4.5 million during 1968-70 and consisted mainly of food preparations.

The departure of the three EFTA members will mean that their relatively favorable import provisions for meats, cheese, and chocolate and other processed-food products will be replaced by the more restrictive EC import policies. Swiss exports to the United Kingdom, Denmark, and Norway are also likely to find increased competition from other EC suppliers.

Sweden

Sweden is heavily dependent on EFTA as a supplier of and market for agricultural products. Of the country's 1968-70 agricultural imports, which averaged close to \$670 million, about one-fourth were from EFTA countries. Agricultural exports averaged \$186 million, with close to half going to EFTA countries.

The United Kingdom, Denmark, and Norway are Sweden's main agricultural trading partners in EFTA. During 1968-70, Sweden's agricultural trade with these EC applicants averaged \$136 million in imports and \$66 million in exports. Grains and meat and meat preparations were the main agricultural exports. Exports of cereals and cereal preparations averaged \$20.9 million--about three-fourths consisted of unmilled grains, mainly wheat, while a fourth consisted of cereal preparations. About half of such exports go to the United Kingdom. Hence, they will face much higher import charges after EC enlargement.

Sweden's exports of meat and meat preparations--particularly pork (dried, salted, and smoked)--to the EC applicants are also likely to be adversely affected. During 1968-70, such exports averaged about \$12 million. Close to \$8 million consisted of pork exports, almost all of which went to the United Kingdom. Sweden's exports of certain pork products to the United Kingdom have benefited from an extension of tariff reductions under the Danish-U.K. bilateral agreement.

Dairy products--primarily butter--exported by Sweden to the United Kingdom have averaged \$4 million annually in recent years. With the loss of its bilateral quota with the United Kingdom, and in the face of variable levies and EC competition, Sweden may experience difficulty in maintaining this export level after EC enlargement (assuming the recent shortage of dairy products is reversed).

Other significant Swedish agricultural exports that could be adversely affected in the applicants' markets are fruits and vegetables (averaging nearly \$5 million in 1968-70), sugar and honey (\$2.0 million), processed-food products (\$1.5 million), and chocolate (\$1.9 million).

Among the applicants, the United Kingdom has been the main market for Sweden's exports of vegetables (mainly frozen). Frozen vegetables enter duty-free in the U.K. market, while duties in the EC range from 18 to 24 percent. Norway, which takes most of Sweden's fruit exports, has very low duty rates on fresh fruit compared with those currently applied in the EC. Norway's duties on processed fruits--particularly those containing sugar--are also comparatively low, but in the EC, such fruits are levied on their sugar content.

Norway has also been the main purchaser of Sweden's sugar exports. Sugar imports by the EC are subject to a variable levy, generally much higher than the import duties applied by Norway.

Finland

Finland's imports of agricultural products from EFTA countries averaged \$32 million in 1968-70--representing 13 percent of all agricultural imports. Agricultural exports to EFTA countries were much larger--they averaged \$48 million and represented 45 percent of all agricultural exports.

The three EC applicants normally take more than half of Finland's agricultural exports to EFTA. The major agricultural exports to the applicants during 1968-70 and their average values were: Meat and meat preparations (\$2.6 million), dairy products (\$11.4 million), grains and grain preparations (\$2.9 million), sugar (\$2.6 million), and hides and skins (\$5.4 million). Finnish exports of farm products to the United Kingdom averaged \$21.4 million annually, accounting for about 80 percent of Finland's total exports to the EC applicants. Virtually all Finnish exports of meat and dairy products to the applicants went to the United Kingdom.

After the United Kingdom, Denmark, and Norway have adopted the CAP, the major Finnish agricultural exports to these countries--particularly the United Kingdom--will face considerably less favorable conditions of entry. Import conditions for fur skins will not change much, however, because duty-free entry will continue after EC enlargement.

NEGOTIATIONS BETWEEN THE EC AND THE EFTA NEUTRALS

The EC and the EFTA neutrals began formal negotiations for special trade arrangements in December 1971. These negotiations are expected to be concluded in the first half of 1972. The final agreements are expected to go into effect on January 1, 1973, the same date as the accession treaties for the EC applicants.

The major goal of the negotiations is to provide for the free movement of industrial goods between the EFTA neutrals and the enlarged EC. Thus, tariff barriers between the neutrals and the United Kingdom, Denmark, and Norway would not be reerected. This goal is shared by the EC and the neutrals.

At the same time, however, the Community desires to safeguard the autonomy of its decisionmaking institutions and to ensure that the agreements are in accord with the GATT. 6/ In November 1971, before the formal negotiations began, the U.S. Government made a strong appeal to the EC expressing concern over the discriminatory aspects of special trade arrangements between the EC and the EFTA neutrals. The United States reserved its rights under existing agreements, including the GATT, and stressed its intention to vigorously defend U.S. trade interests.

While the EC and the EFTA neutrals seem likely to agree on creation of free trade in certain industrial products, the outcome of the agricultural component of the negotiations is uncertain. For agricultural products, the EC is not likely to make any far-reaching commitments that would further hinder the already cumbersome procedures of the CAP.

However, the EC is negotiating to obtain from EFTA concessions on certain agricultural products (based on EC members' requests). In the first round of negotiations, the EC indicated that it did not intend to reciprocate by granting agricultural concessions to the neutrals, except in the case of Portugal. Instead, the EC viewed agricultural concessions by the neutrals to be reciprocity for the vast benefits of free trade in industrial products. The types of agricultural concessions sought by the EC have not been specified, but sales guarantees that are above world price levels have been mentioned as one possibility.

At the end of the first round of negotiations, all of the EFTA neutrals rejected the EC's proposal with respect to agricultural concessions. The neutrals indicated that they could make such concessions only on the basis of reciprocity in agricultural products.

In the first round of negotiations, the Community reportedly expressed interest in obtaining concessions on, among other products, wheat, barley, corn, dairy products, pork, beef, poultry, eggs, and certain fruits and vegetables and horticultural products. 7/ The neutrals mentioned such products as cheese and other dairy products, livestock, bacon, certain fruits, and wheat. Finland expressed particular concern over safeguarding its traditional exports to the United Kingdom. Portugal indicated that canned tomato concentrate and wine were the items of greatest concern to its export trade. The EC agreed in principle that agricultural concessions would be made to the Portuguese, subject to some reciprocity.

Since these first meetings, the Community has revised its negotiating mandate somewhat, allowing for the possibility of certain agricultural concessions to the EFTA neutrals. The EC apparently plans to limit its offer

6/ The General Agreement on Tariffs and Trade (GATT) incorporates tariff concessions and rules of trade agreed upon by its nearly 80 members. These members include nearly all the important trading countries of the non-Communist world. Article XXIV of the GATT describes the rules governing the formation of customs unions and free trade areas.

7/ Europe, Agence internationale information pour la presse, a daily newsletter from Brussels, Dec. 6, 7, 13, and 20. 1971.

to a number of processed agricultural products not listed in Annex II of the Treaty of Rome. Products listed in this annex are those subject to the provisions of the Common Agricultural Policy. Among the products the EC may include in its concessions are chocolate products, certain cereal preparations such as baby or dietetic foods, bakery products, breakfast cereals, certain alcoholic and nonalcoholic beverages (excluding wine), and a number of miscellaneous food products (such as yeast and soups and broths). The offers will apparently vary by country and will, in some cases, consist only of an offer to remove the fixed duty while leaving intact the variable levy that applies to the grain, sugar, or dairy content of the product.

After the first round of negotiations, the EC set up working parties with each of the EFTA neutrals to further examine the agricultural aspects of the negotiations. They began work in February 1972.

Thus, there is a strong possibility that limited agricultural concessions may be included in trade agreements between the EFTA neutrals and the EC. These concessions appear likely to involve some form of preferential treatment for specified agricultural products. One would expect the EC to ask for concessions on those products which are (or have been) in surplus, such as wheat, dairy products, certain fruits and vegetables, poultry meat, and eggs. In exchange, the EFTA neutrals will probably want concessions on those products now receiving preferential treatment within EFTA and possibly on other farm products for which the three applicant countries were important markets.

Implications for U.S. Exports to the EFTA Neutrals

If the EFTA neutrals grant agricultural trade concessions to the EC countries, U.S. farm exports to the neutrals could be adversely affected. Although the neutrals' share of EFTA's agricultural imports from the United States was only about 25 percent in 1968-70, the value of this share averaged \$193 million. Of the \$193 million, about two-thirds was accounted for by Sweden and Switzerland, whose purchases averaged about \$65 million each. At the other extreme, Austria and Finland's agricultural imports from the United States were relatively small, averaging \$18 million and \$17 million, respectively.

Preferential trade agreements between the neutrals and the EC could reduce the neutrals' imports of U.S. agricultural products. While the degree to which U.S. trade might be affected or damaged would depend on the specifics of the EC-EFTA agreements, some notion of the magnitude can be obtained by examining the structure and vulnerability of U.S. agricultural trade with the neutrals.

The most important U.S. agricultural exports to the neutrals in 1968-70 were: grains (averaging \$35 million), fruits and vegetables (\$46 million), tobacco (\$53 million), and animal feeds (\$16 million). Other significant products were hides and skins, oilseeds and fats and oils, meat and meat preparations, and cotton (table 5).

It is unlikely that the agricultural concessions granted by the neutrals would include oilseeds, tobacco, and cotton, because the EC countries are large net importers of these products and relatively minor producers. Concessions by the neutrals will probably not impinge on the neutrals' imports of U.S. animal feeds (primarily vegetable oil cakes

and meals) or U.S. fats and oils, because the EC's supplies of most of these products come largely from imported raw materials. The neutrals' imports of U.S. hides and skins will probably not be affected, because tariffs or trade barriers on these products do not exist in the EC and in EFTA. The neutrals' imports of the above products from the United States averaged \$93 million in 1968-70, or slightly less than half their total agricultural imports from the United States.

Of the U.S. agricultural exports to the neutrals, grains and grain preparations are likely to be the most affected by a preferential trade agreement between the neutrals and the EC countries. The neutrals' imports of U.S. grains have recently shown a declining trend because of market pressure from other suppliers, including the EC, and because of increased self-sufficiency of the neutrals. Preferential arrangements between the neutrals and the EC could further this decline. Such arrangements would no doubt be attractive to the EC, which has been plagued with grain disposal problems in recent years--problems which will probably continue in the foreseeable future.

Wheat, corn, and rice are the major grains imported by the neutrals from the United States. In 1968-70, such imports averaged \$35 million, only about half the value of the 1965-67 average. During 1968-70, the neutrals' total wheat imports averaged 876,000 tons, or about one-tenth below the 1965-67 average. Because of the extremely high 400,000 tons of wheat imported from the United States in 1970 (largely because of the poor grain crop in Western Europe), average 1968-70 imports of U.S. wheat declined only slightly. However, during 1967-69, the neutrals' imports of U.S. wheat, averaging 123,000 tons, were less than half the 1965-67 average.

The EC countries have been shipping part of their wheat surpluses into the neutrals' markets. The neutrals' wheat imports from EC countries averaged 238,000 tons in 1965-67 and 216,000 tons in 1968-70, representing more than one-fourth of their average wheat imports in these periods.

During 1968-70, the neutrals' imports of coarse grains averaged 1.5 million tons, or one-fifth below the 1965-67 average. Imports of U.S. coarse grains (mainly corn) averaged 200,000 tons in 1968-70, compared with 431,000 tons in 1965-67. As a result, the U.S. share of the neutrals' imports of coarse grains dropped from 23 to 13 percent.

The EC countries are large importers of coarse grains, but in recent years have been supplying the neutrals with about 700,000 tons annually. Of this, about 155,000 tons a year consisted of corn sales, primarily to Switzerland.

The neutrals are significant importers of rice. During 1968-70, average annual rice imports were 110,000 tons, valued at \$21 million. Of this, \$5.0 million worth came from the United States. The EC countries, particularly Italy, are significant competitors in the neutrals' rice market. During 1968-70, the neutrals' imports of rice from the EC averaged \$8.1 million, or more than a third of total rice imports.

In recent years, the neutrals have been importing between \$5 million and \$8 million of U.S. meat and meat preparations. In 1968-70, such imports consisted primarily of poultry meat (averaging \$3.1 million), edible offals (\$1.7 million), and canned meats (\$1.0 million). Imports of U.S. poultry, mainly by Switzerland--which took an average of \$2.6 million in 1968-70--would be particularly vulnerable to a preferential arrangement. Surplus poultry production in the EC in recent years has prompted a strenuous search for new market outlets. During 1968-70, EC sales of poultry meat to Switzerland averaged \$5.4 million, more than a third of total Swiss poultry imports. However, imports of U.S. canned meats, mainly specialty quality products, and edible offals are less likely to be affected.

Fruits and vegetables are among the major agricultural products imported by the neutrals from the United States. In 1968-70, such imports averaged \$46 million, representing close to one-fourth of the neutrals' total agricultural imports from the United States. The EC, another large supplier, accounted for more than a third--or about \$175 million--of the neutrals' fruit and vegetable imports. Although the EC is a large net importer of fruits and vegetables, it is also a large exporter of many of these products. The EC has experienced surplus disposal problems with a number of fruits and vegetables. Thus, it is likely that the EC will request trade concessions on certain fruits and vegetables.

In the neutrals' import markets, nearly all U.S. fruit and vegetable exports compete to some extent with such EC exports (table 6). Fruit accounts for most of the neutrals' imports of U.S. fruits and vegetables. In 1968-70, about one-third of the neutrals' imports of U.S. fruit consisted of fresh or simply preserved fruit, with such imports averaging \$12.3 million. Sweden and Switzerland accounted for most of these imports, taking an average of \$7.6 million and \$2.9 million, respectively.

The major U.S. fruits imported by the neutrals are citrus, apples and pears, berries, and fresh grapes. U.S. citrus, particularly lemons, enjoy a quality preference in the neutrals' markets; however, competition from EC countries, mainly Italy, is quite strong and citrus imports from EC countries far exceed those from the United States.

Although the neutrals import significant quantities of U.S. apples and pears, the EC countries dominate the market, with a 40-percent share in 1968-70. Recurring gluts of apples and pears in the Common Market would indicate a strong interest in expanding sales to the neutrals.

Because the EC already provides a large share of the neutrals' imports of fresh berries and grapes, U.S. exports of these fruits could face increased competition in the neutrals' import markets.

The United States has been a significant supplier of dried fruit and edible nuts to the neutrals. The EC is a significant competitor in these markets, particularly in edible nuts.

The neutrals' imports of U.S. processed fruits averaged \$16.3 million in 1968-70, or 27 percent of total processed-fruit imports. The major U.S.

processed fruits sold in the neutrals' markets are juices, canned peaches, fruit cocktail, and Hawaiian pineapple. For these and other processed-fruit products, the United States faces competition from EC processors using both domestic and imported products.

The U.S. share of the neutrals' import market for vegetables is relatively small--about 6 percent during 1968-70. However, this represented an average value of \$8.2 million. Most of the U.S. vegetable exports face competition from EC sources, which in 1968-70 provided more than half of the neutrals' imports of vegetables.

Implications for U.S. Exports to the EC

U.S. trade interests could also be adversely affected if the Community grants reciprocal trade concessions on agricultural products to the EFTA neutrals. However, the scope of the EC concessions will probably be considerably more limited than that of the EFTA concessions, particularly if the EC continues to restrict its offers to certain processed foods not listed in Annex II of the Treaty of Rome.

EC imports from the United States of processed foods not listed in Annex II averaged only about \$4.5 million in 1968-70. Included in these imports were chocolate products (averaging \$0.1 million), certain cereal preparations (\$0.9 million), certain sugar preparations (\$0.5 million), and alcoholic and nonalcoholic beverages (\$0.4 million). Miscellaneous processed foods (for example, sauces and soups) averaged \$2.6 million. Because the EC's imports of U.S. wines and processed-tomato products are negligible, concessions to Portugal on these products will probably not affect the U.S. exports.

Table 1.--EFTA's trade in agricultural products, by country, 1968-70 average

Country	Imports		Exports	
	Total	From EFTA	Total	To EFTA
	----- Million dollars -----			
Austria.	358.3	29.6	121.3	20.9
Denmark.	459.5	79.1	1,145.5	559.6
Finland.	246.3	31.5	105.5	47.6
Norway	281.4	57.1	153.1	67.3
Portugal	273.9	10.1	143.1	34.5
Sweden	669.2	166.3	186.2	82.4
Switzerland.	812.5	51.4	213.6	34.2
United Kingdom	5,593.0	566.3	639.5	76.4
Total.	8,694.1	991.4	2,707.8	922.9

Source: United Nations. Agricultural Trade Statistics, 1968-70.

Table 2.--Agricultural trade of the EFTA neutrals with the EC applicants and selected regions, 1968-70 average

Item	Austria	Finland	Portugal	Sweden	Switzer- land	Total
----- Million dollars -----						
Imports from:						
United Kingdom	7.5	7.3	4.0	20.6	14.3	53.7
Denmark	7.9	8.4	3.5	95.3	17.1	132.2
Norway	2.0	5.0	0.2	20.2	1.3	28.7
Total EC appli- cants	17.4	20.7	7.7	136.1	32.7	214.6
Neutrals	12.2	10.8	2.4	30.2	18.7	74.3
Total EFTA <u>1/</u>	29.6	31.5	10.1	166.3	51.4	288.9
EC	104.5	32.3	18.9	123.8	340.4	619.9
United States	18.3	16.7	26.9	63.6	67.2	192.7
World	358.3	246.3	273.9	669.2	812.5	2,360.2
Exports to:						
United Kingdom	9.3	21.4	20.7	34.2	9.7	95.3
Denmark	0.5	2.2	4.2	13.8	4.5	25.2
Norway	0.1	3.5	1.3	18.1	1.3	24.3
Total EC appli- cants	9.9	27.1	26.2	66.1	15.5	144.8
Neutrals	11.0	20.5	8.3	16.3	18.7	74.8
Total EFTA	20.9	47.6	34.5	82.4	34.2	219.6
EC	79.9	23.9	28.7	61.4	120.7	314.6
United States	6.2	10.5	13.8	11.5	23.1	65.1
World	121.3	105.5	143.1	186.2	213.6	769.7

1/ Including Finland but excluding Iceland.

Source: United Nations. Agricultural Trade Statistics, 1968-70.

Table 3.--Destination of agricultural exports of the EFTA neutrals, by commodity, 1968-70 average 1/

SITC 2/	Commodity	EC applicants			Total EFTA	Total world
		United Kingdom	Denmark	Norway		
		Million dollars				
		United Kingdom	Denmark	Norway	Total	Total
01	Meat and meat preparations	13.6	0.2	1.9	15.7	20.3
011	Beef and veal, fresh and frozen	3.2	*	0.4	3.6	6.0
013	Pork, fresh and frozen	1.7	*	1.2	2.9	4.4
3/	Dairy products	18.5	0.8	0.3	19.6	25.6
023	Butter	13.1	0.1	0.1	13.3	15.5
024	Cheese	2.2	0.4	0.1	2.7	5.8
04	Grains and grain preparations	13.5	3.4	7.6	24.5	30.3
041+	Wheat and flour	9.3	0.3	4.6	14.2	14.2
046)	Feed grains	0.9	1.4	0.9	3.2	6.7
043-045	Fruits and nuts	2.7	1.0	2.1	5.8	11.9
051	Vegetables	14.3	0.6	0.8	15.7	19.7
055	Sugar and honey	0.3	0.7	3.7	4.7	7.9
06	Chocolate products	6.5	2.5	1.4	10.4	16.1
073	Food preparations, n.e.s.	1.6	1.7	0.8	4.1	9.6
09	Beverages (alcoholic)	5.9	3.5	0.6	10.0	14.7
112	Wine	5.9	3.2	0.6	9.7	13.5
112.1	Hides and skins	9.2	1.6	0.3	11.1	17.2
21	Furskins	6.5	1.3	0.2	8.0	12.1
212	Oilseeds	1.3	0.1	0.2	1.6	1.9
22	Crude animal and vegetable materials	2.9	1.2	0.4	4.5	7.6
29	Fats and oils (excluding fish)	2.3	3.1	0.8	6.2	10.4
4/	Total selected	92.6	20.4	20.9	133.9	193.2
	Total	95.3	25.2	24.3	144.8	219.6

* Less than \$50,000.

1/ The EFTA neutrals are Portugal, Austria, Switzerland, Sweden, and Finland.

2/ Standard Industrial Trade Classifications of the U.S. Dept. of Commerce.

3/ SITC 02 minus 025.

4/ SITC 4 minus 411.1.

Source: United Nations. Agricultural Trade Statistics, 1968-70.

Table 4.--Agricultural trade of the EFTA neutrals with the EC applicants, by commodity, 1968-70 average 1/

SITC 2/	Commodity	Million dollars										Total 3/	
		Austria	Portugal	Sweden	Switzerland	Finland	Imports	Exports	Imports	Exports	Imports	Exports	
01	:Meat and meat preparations . . .	3.5	2.7	26.0	8.4	1.1	0.4	2.6	41.0	15.9			
02	:Dairy products and eggs	1.0	0.2	4.7	4.3	1.7	*	11.4	9.0	20.8			
04	:Grains and grain preparations . .	0.7	0.4	12.3	20.9	1.8	0.8	2.9	16.0	24.6			
05	:Fruits, nuts, and vegetables . . .	0.3	1.4	10.0	4.8	0.9	2.3	0.5	14.6	21.7			
06	:Sugar and honey	0.7	0.2	7.0	1.9	0.1	0.9	2.6	14.5	4.7			
4/	:Coffee, tea, and cocoa	1.1	*	0.3	0.9	1.4	1.0	*	2.7	2.3			
073	:Chocolate products	0.8	0.2	2.8	1.9	3.6	0.5	0.5	5.2	10.4			
08	:Animal feed	1.5	0.3	24.6	0.4	4.6	3.2	0.4	34.2	0.9			
09	:Processed food products n.e.s. . .	0.6	0.4	8.6	1.5	2.6	2.0	*	12.6	4.2			
21	:Hides and skins	2.9	0.1	6.8	4.7	0.9	1.3	5.4	12.0	11.1			
291	:Crude animal materials n.e.s. . .	0.4	0.9	2.3	0.9	0.4	2.3	0.3	5.4	2.6			
5/	:Fats and oils, excl. fish	0.7	0.3	11.1	4.9	0.6	0.7	0.5	13.4	6.1			
	: Total selected	14.2	6.3	116.5	59.3	28.2	15.4	27.1	180.6	125.3			
	: Total agricultural	17.4	7.7	136.1	66.1	32.7	20.7	27.1	214.6	144.8			

* Less than \$50,000.

1/ The EC applicants are the United Kingdom, Denmark, and Norway.

2/ Standard Industrial Trade Classifications of the U.S. Dept. of Commerce.

3/ Minor differences between these totals and those in table 3 are because of rounding.

4/ SITC 071 plus 072 plus 074.

5/ SITC 4 minus 411.1.

6/ Includes \$9.4 million, average 1968-70, of wine exports to the EC applicants--nearly all the wine traded between the neutrals and the EC applicants.

Source: United Nations. Agricultural Trade Statistics, 1968-70.

Table 5.--Imports of U.S. agricultural products by the EFTA neutrals, by commodity, 1968-70 average

SITC 1/	Commodity	Austria	Portugal	Sweden	Switzer- land	Finland	Total
-Million dollars-							
01	:Meat and meat preparations	0.7	*	2.3	3.5	0.2	6.7
04	:Grains and grain preparations	0.9	15.2	5.4	11.7	1.4	34.6
041,046	:Wheat and flour	-	8.0	0.6	5.7	0.4	14.7
2/	:Feed grains	0.6	7.0	2.5	2.8	0.8	13.7
042	:Rice	0.4	0.1	1.2	3.1	0.2	5.0
05	:Fruits and vegetables	3.2	0.1	24.4	12.3	5.6	45.6
08	:Animal feed	5.2	2.4	2.5	5.5	*	15.6
121	:Tobacco, unmanufactured	4.9	3.7	14.0	25.2	5.3	53.1
21	:Hides and skins	1.5	0.1	2.4	0.3	1.1	5.4
22	:Oilseeds, nuts and kernels	*	2.1	0.3	1.8	1.0	5.2
263	:Cotton	0.5	0.9	5.6	2.3	1.0	10.3
29	:Crude animal and vegetable materials	0.4	0.4	1.2	1.4	0.4	3.8
3/	:Fats and oils, excl. fish	0.4	1.6	1.1	0.3	0.1	3.5
	:Total selected	17.7	26.5	59.2	64.3	16.1	183.8
	:Total agricultural	18.3	26.9	63.6	67.2	16.7	192.7

* Less than \$50,000.

1/ Standard Industrial Trade Classifications of the U.S. Dept. of Commerce.

2/ SITC 043 plus 044 plus 045.

3/ SITC 4 minus 411.1.

Source: United Nations. Agricultural Trade Statistics, 1968-70.

Table 6.--Imports of selected fruits and vegetables by the EFTA neutrals, total, from the EC, and from the United States, 1968-70 average 1/

SITC <u>2/</u>	Commodity	Total	EC	U.S.
		Million dollars		
<u>3/</u>	Fruit and nuts	338.2	94.9	37.5
051	Fruits and nuts, fresh or simply preserved	261.2	84.1	12.3
051.1	Oranges	63.3	15.1	0.4
ex.051.2	Lemons	13.9	7.3	2.0
051.4	Apples	32.8	11.3	1.5
051.5	Grapes	21.6	10.1	0.5
051.7	Edible nuts	42.0	7.1	6.0
051.9 (2)	Pears	10.8	5.8	1.0
051.9 (4)	Berries	11.1	6.7	0.7
052	Dried fruit	17.5	0.7	8.9
052.0	Raisins	6.0	-	3.3
053	Fruit, preserved or prepared	59.6	10.0	16.3
053.5	Juices of fruits and vegetables	23.6	4.2	7.2
054,055	Vegetables	146.7	80.5	8.2
054	Vegetables, fresh or simply preserved	102.0	64.7	3.3
05	Total fruits and vegetables	484.9	175.4	45.7

1/ The EFTA neutrals are Austria, Portugal, Switzerland, Sweden, and Finland.

2/ Standard Industrial Trade Classifications of the U.S. Dept. of Commerce.

3/ SITC 051 plus 052 plus 053.

Source: United Nations. Agricultural Trade Statistics, 1968-70.

APPENDIX, PART A

The following agricultural products are not included in Annex D of the Stockholm Convention establishing EFTA (incorporating all amendments up to Mar. 1, 1970). These agricultural products are included in the free trade provisions of the Convention--they have been treated as industrial goods for purposes of tariff elimination between member countries.

<u>BTN Number 1/</u>	<u>Description</u>
Chapter 5	Products of animal origin, not elsewhere specified or included, except for:
ex 05.04	Guts, bladders, and stomachs of animals (other than fish), whole and pieces thereof, except: <ul style="list-style-type: none"> (i) sausage casings of pigs, of a c.i.f. import value exceeding £ 10 per cwt. (50.8 kg) or an equivalent value in other currencies; and (ii) edible guts, bladders, and stomachs, whole and pieces thereof, of sheep, pigs, and bovine animals, other than sausage casings.
ex 05.15	Animal products not elsewhere specified or included except blood powder, blood plasma, and salted fish roes unfit for human consumption; dead animals listed in Chapter 1 and Chapter 3, unfit for human consumption.
Chapters 7-12	
ex 7.01	Fresh garlic.
ex 7.04	Dried or dehydrated garlic.
ex 08.03	Fresh figs.
ex 08.05	Almonds and chestnuts, fresh or dried, shelled or not.
ex 08.09	Honeydew and ogen melons.
09.03	Mate.

1/ These products are listed according to the Brussels Tariff Nomenclature, which is used for international classification of commercial trade. The BTN classifies trade into 99 chapters. Most agricultural products are included in chapters 1-24. Within each chapter, goods are further subdivided (05.04, for example). The use of "ex" indicates that only part of the commodities falling under the BTN number are referred to (ex 05.04, for example).

<u>BTN Number</u>	<u>Description</u>
ex 12.03	Seeds of coniferous species.
ex 12.07	Plants and parts of plants, trees, and so forth, used primarily in perfumery, in pharmacy, and in insecticidal products, or for similar purposes, except for: Basil, borage, mint (other than dried peppermint and penny royal), rosemary, and sage.
Chapter 13	Raw vegetable materials suitable for use in dyeing or tanning; lacs, gums, resins, and other vegetable saps and extracts.
Chapter 14	Vegetable plaiting and carving materials; vegetable products not elsewhere specified or included.
Chapter 15	
15.04	Fish and marine oil.
15.05	Wool grease and fatty substances derived therefrom.
ex 15.06	Neat's-foot oil for technical purposes.
ex 15.07	Oils extracted from olive residues by means of chemicals for technical purposes.
15.08	Animal and vegetable oils, boiled, oxidized, or otherwise modified.
15.09	Degras.
15.10	Fatty acids; acid oils from refining; fatty alcohols.
15.11	Glycerol and glycerol lyes.
ex 15.12	Fish or marine oil, wholly or partly hydrogenated, or hardened by any other process, whether or not refined, but not further prepared.
15.14	Spermaceti.
15.15	Beeswax and other insect waxes.
15.16	Vegetable waxes.
15.17	Residues from the treatment of fatty substances or animals or vegetable waxes.

<u>BTN Number</u>	<u>Description</u>
Chapter 16	
ex 16.03	Whale meat extract.
16.04	Prepared or preserved fish.
16.05	Prepared or preserved crustaceans or mollusks.
Chapter 17	
ex 17.04	Sugar confectionary, not containing cocoa, except for: Fondant, pastes, creams, and similar intermediate products, in bulk, with an added sweetening-matter content of 80 percent or more by weight.
Chapter 18	
18.03	Cocoa paste.
18.04	Cocoa butter.
18.05	Cocoa powder, unsweetened.
18.06	Chocolate and other food preparations containing cocoa.
Chapter 19	
19.01	Malt extract.
19.05	Prepared foods obtained by the swelling and roasting of cereals and cereal products.
19.06	Communion wafers, sealing wafers, rice paper, and the like.
ex 19.07	Ship's biscuits, crumbs, and rusks.
ex 19.08	Biscuits, wafers, rusks, cakes, and Danish pastry. <u>2/</u>
ex 20.02	Tomato pulp or paste in airtight containers with a dry-weight content of not less than 25-percent tomato, wholly of tomato and water, with or without salt or other preserving, seasoning or flavoring ingredients.

2/ See Stockholm Convention, Annex D, for more detailed definition.

<u>BTN Number</u>	<u>Description</u>
ex 20.02	Prepared or preserved olives.
ex 20.06	Prepared or preserved nuts.
Chapter 21	Miscellaneous edible preparation, except for:
ex 21.06	Pressed yeast.
ex 21.07	Ice cream (containing fat) but not including ice cream powder; coffee pastes and sweetfat; fat emulsions and similar preparations of a kind used in the manufacture of bakers' wares, containing 10 percent or more of fat by weight; cooked ravioli, macaroni, spaghetti, and the like; yoghurt with added flavoring or fruit.
Chapter 22	
22.01	Waters, including spa and aerated waters; ice and snow.
22.02	Lemonade, flavored waters, and other nonalcoholic beverages not including fruit and vegetable juices listed under BTN #20.07.
22.03	Beer made from malt.
22.08	Ethyl alcohol or neutral spirits, undenatured, of a strength of 80 degrees or higher; denatured spirits of any strength.
ex 22.09	Whiskey and other spirits distilled from cereals; rum and other spirits distilled from molasses; aquavit, geneva, gin, imitation rum, and vodka; alcoholic beverages based on the foregoing spirits; wine brandy and fig brandy; liqueurs and cordials; compound alcoholic preparations (known as "concentrated extracts") for the manufacture of beverages.
Chapter 23	
23.01	Flours and meals of meat, offals, fish, and the like, unfit for human consumption.
23.05	Wine lees; argol.
ex 23.07	Fish solubles used in animal feeding.
Chapter 24	
24.02	Manufactured tobacco; tobacco extracts and essences.

APPENDIX, PART B

In addition to the products listed in part A of this appendix, other agricultural products receive preferential tariff treatment by certain EFTA countries. In some cases, this treatment was granted in accordance with the provisions of bilateral agreements. Preferential treatment granted by the three EC applicants on agricultural products is listed below.

Denmark

<u>BTN Number</u>	<u>Description</u>
Chapters 6-22	
ex 06.02C	Certain live plants--crateagus, cotoneaster, cornus and lonicera.
ex 08.04	Fresh grapes.
ex 11.07	Malt, roasted, not for breweries.
ex 12.05	Chicery roots, unroasted, dried.
ex 16.02	Pate de foie, untinned.
19.02	Preparations of flour, starch, or malt extract, of a kind used as infant food or for dietetic or culinary purposes, containing less than 50-percent cocoa by weight.
ex-20.02A2	Tomato juice in airtight containers with a dry-weight content of not less than 25-percent tomato, wholly of tomato and water, with or without salt or other preserving, seasoning, or flavoring ingredients.
ex 20.02C	Potato chips.
ex 20.07D	Tomato juice.
22.05	Wine.

Norway

02.04.302	Whale meat.
ex 08.03	Dried figs.
08.04.202	Dried currants.

<u>BTM Number</u>	<u>Description</u>
12.03.120	Seeds: Alsike clover.
.140	Other clover.
.210	Meadow grass.
.220	Orchard grass.
.230	Fescue.
.250	Bent grass.
.291	Ray grass and foxtail grass.
.410	Fodder beet.
.420	Sugar beet.
.432	Carrot.
.441	Red beet root.
.442	Cauliflowers, onion, shallots, garlic, cucumbers, and lettuce.
.491	Parsley.
.499	Other edible root and vegetable seeds.
20.01A1&2	Olives and capers, prepared or preserved by vinegar or acetic acid.

United Kingdom

Chapters 2-22

02.06A4	Pork (including ham and bacon), salted, in brine, dried or smoked, not canned or bottled.
04.04A1	Blue veined cheese.
07.04C	Dried tomatoes and leeks.
09.01A1 <u>3/</u>	Coffee, unmixed, roasted or ground.

3/ Imports from EFTA countries are not duty-free but enter at a lower duty than imports from other countries.

<u>BTN Numbers</u>	<u>Description</u>
11.07	Malt.
ex 11.08F	Starches, other than rice, maize, sago, and the like.
12.01D	Mustard seed.
16.02A2	Paste of meat offal, not canned.
ex 16.02B1	Ground or chopped pork (including ham and bacon), wholly of pork or pork and farinaceous fillers apart from curing or seasoning ingredients.
17.04	Sugar confectionary not containing cocoa.
19.02	Preparations of flour, starch, or malt extract, of a kind used as infant food or for dietetic or culinary purposes, containing less than 50-percent cocoa by weight.
ex 20.02C	Potato crisps, whether or not in airtight containers.
22.10	Vinegar.

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