

# EFTA BULLETIN



## EFTA FREE TRADE RELATIONS



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# FOREWORD



This edition of the EFTA Bulletin looks at EFTA's free trade relations with partner countries outside the European Union.

When established almost 50 years ago, EFTA was based on the premise of free trade as a means of achieving growth and prosperity among its Member States. EFTA's aim was also to promote closer economic cooperation, in particular with the European Economic Community. EFTA achieved full free trade among its members in industrial products in 1967. Ten years later, the same was achieved with the EEC. During the last decade, EFTA has pursued an active policy of concluding free trade agreements with countries around the world. Now, EFTA is part of one of the world's largest free trade networks, covering 50 countries and territories, and reaching a population of 850 million on four continents. These trade partners represent one-third of world gross domestic product.

For this edition, policy-makers and experts in international trade have been invited to give their views. They include the Director-General of the WTO, Pascal Lamy, the EU Commissioner for External Trade, Peter Mandelson, the Swiss Minister for Economic Affairs, Joseph Deiss and the Prime Minister of Iceland, Geir H. Haarde. In his article, "The EFTA Way — Half a Century of Free Trade", the Secretary-General of EFTA, William Rossier, explains why EFTA is an important player in international trade.

This edition also includes opinions and insights from business leaders and social partners in the EFTA States. We should like to express our appreciation to all the contributors. We hope this publication will give readers a better understanding of EFTA's work to contribute to growth and employment in its Member States and to development in partner countries and world trade in general.

Pétur G. Thorsteinsson

A handwritten signature in blue ink that reads "Pétur G. Thorsteinsson". The signature is fluid and cursive.

Deputy Secretary-General of EFTA



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# THE EFTA WAY — HALF A CENTURY OF FREE TRADE



By William Rossier,  
Secretary-General of EFTA

to achieve a more comprehensive integration of national policies. Thus, behind the economic integration of the EU lies the ambition to achieve common policies on a wider scale.

In comparison to the EU, the founding Members of EFTA had less far-reaching objectives. Refraining from more ambitious political goals, their principal objective was to achieve free trade amongst themselves and to possibly

**“...the EFTA States benefit from one of the largest networks of free trade agreements worldwide, covering fifty countries and territories across the globe.”**

bridge the trade policy divide that had occurred in (western) Europe between Members and non-Members of the EU. Led by their own free trade concept, the EFTA States consciously renounced building a fully-fledged 'economic union' through a comprehensive and legally binding regulatory convergence programme. For that reason, unlike the EU, EFTA manages well without common supranational bodies.

From a GATT/WTO perspective, the EU customs union and EFTA's free trade area constitute regional trade agreements which, under certain conditions, are exempted from the WTO's fundamental most favoured nation obligation. It is interesting to note that, except for the EU and EFTA, the multilateral trading system — which dates back to the late 1940s — did not encompass any major RTAs up until the 1990s. Since then, however, we have experienced a real proliferation of such agreements.

## Free Trade and Globalisation

Economic globalisation — mainly due to major technological innovations — gained rapid momentum with the end of the Cold War. An unprecedented growth of international trade (including in services)

EFTA is the world's oldest free trade area. It was launched in 1960 by the Stockholm Convention, primarily in response to the European Economic Community, which was established in 1957. Despite the fact that EFTA has considerably shrunk over the last decades — 6 of its 10 members have left the Association to join the European Union<sup>1</sup> — the organisation has, for the remaining four members, lost nothing of its importance. This is because EFTA has, alongside the consolidation of the relations of its Member States with their main economic partner (the EU), led a successful 'third country' policy. It enables the current EFTA States to benefit from one of the largest networks of free trade agreements worldwide, covering fifty countries and territories across the globe. What are the reasons for EFTA's remarkable — and probably for many — unexpected vitality?

## Free Trade and European Integration

EFTA was created by States which — for reasons of sovereignty or neutrality — either did not want to, or could not, join the European Economic Community. Even though the EU has so far mainly been pursuing economic objectives, the ultimate goal of the Union is



<sup>1</sup> United Kingdom and Denmark (1973), Portugal (1986), Austria, Finland and Sweden (1995).

and capital flows (investments) was the consequence. Institutionally, these developments were reflected in a great number of initiatives concerning trade and integration agreements. Existing regional and global agreements were deepened or geographically expanded and many new bilateral agreements were concluded. Most recently we have seen a growing number of trans-continental trade agreements.

Outlined below are some of the major liberalisation and integration agreements reflecting the process of globalisation as it accelerated after the end of the Cold War:

- During the first half of the 1990s, for the most part, existing agreements were deepened and/or expanded geographically, for instance: completion of the EU's single market (1992); conclusion of the EEA Agreement (1993); conclusion of the EU's and EFTA's association/free trade agreements with countries in central and eastern Europe (from 1990); conclusion of the GATT Uruguay Round and establishment of the WTO (1995); conclusion of the EU's/EFTA's co-operation agreements with countries of the southern and eastern rim of the Mediterranean aimed at creating a Euro-Med Free Trade Zone (from 1995).
- Since the mid-1990s many new regional agreements have been concluded, notably: Americas: North American Free Trade Agreement NAFTA (1994); MERCOSUR, a common market among South American countries (1995); Free trade area among the parties to the Andean Pact (1993); Andean Community (1996); Central American Free Trade Agreement CAFTA (2003). Africa: Customs union among five countries in southern Africa (SACU, 2002). Asia: ASEAN Free Trade Area (AFTA) among the 10 ASEAN countries (1994); Customs union of the Gulf Cooperation Council countries (GCC, 2003).
- Since 2000, countries increasingly started concluding trans-continental free trade agreements with a broad scope: EFTA negotiates comprehensive free trade agreements with Mexico and Chile (in parallel with the EU) as well as with Singapore and Korea (independently from the EU). The US and Japan

negotiate free trade agreements, particularly with countries in Latin America (Mexico and Chile) and Asia (Singapore, Korea, Thailand and Malaysia). Chile becomes particularly active as a party to FTA negotiations. Australia, New Zealand and South Africa conclude several agreements. India and China enter the scene.

The 'globalisation aspect' finds its clearest expression in trans-continental free trade agreements. This type of agreement has become a viable option with the decrease in transport costs in recent years. Moreover, such agreements find their principal economic rationale in the efforts of governments to exploit, on a worldwide level, comparative advantages as to enterprise locations. This objective also explains why in a globalised economy FTAs should aim for a broad scope, covering not only trade in goods, but also services, investment, intellectual property rights, public procurement etc.

## EFTA's Strengthened Position

As relatively small economies, the EFTA States are highly dependent on free access to foreign markets. Their capability to adapt to changing conditions and to explore new trade policy ground are constantly put to the test. So far, the EFTA countries have repeatedly demonstrated that they are able to take on new challenges and to master them successfully.

EFTA has succeeded in Europe, freeing trade amongst its Members since 1960 and building bridges to the EU's market since the 1970s. In 1992, this process culminated in the conclusion of the Agreement on the European Economic Area (EEA) — which Switzerland decided not to join, choosing instead to deepen its relationship with the EU bilaterally, while Austria, Finland and Sweden left EFTA shortly after the EEA's entry into force to become EU Members.

For some time now, EFTA's free trade policy has looked beyond the confines of Europe. Since the 1990s, the 4 remaining EFTA States have benefited from the post-Cold War changes in key parameters of the world economy to expand their reach. These changes materialised for example in major advances in international trade policy rule-making via the conclusion



of the Uruguay Round — notably in the areas of trade in services and the protection of intellectual property rights. And also, a growing number of non-European countries became interested in preferential trade agreements. EFTA has concluded such agreements with countries in Asia, Latin America and Africa.

With its free trade policy of the last years, EFTA has strengthened its independence from the EU. Many politicians in the EFTA States agree that in a globalised economy EFTA's 'natural' market is the world at large. Moreover, as a factual trend, the subject matters negotiated under advanced free trade agreements — not least the agreements of a trans-continental character — resemble more and more the issues debated in the European Single Market. This convergence between the European and the global 'trade policy map' facilitates negotiations and mitigates dependencies.

## The EFTA Way

The EFTA States banked on free trade from the beginning. This has proven to be the right decision for them. Of course, globalisation and geopolitical developments also have to be credited for the continued success of EFTA's trade policy approach. In addition, the EFTA States have been flexible enough to adapt their trade policy instruments to changing circumstances. EFTA's proven record in this respect is also reflected in the share of trade that is covered by preferential agreements: whereas around half of world trade is conducted under preferential agreements of some type, for EFTA this figure is close to 80%. There is no doubt that, together with the privileged relations the EFTA States enjoy with the European Union, their almost 50-year-old free trade policy has been one of the key factors of their prosperity during the last decades.

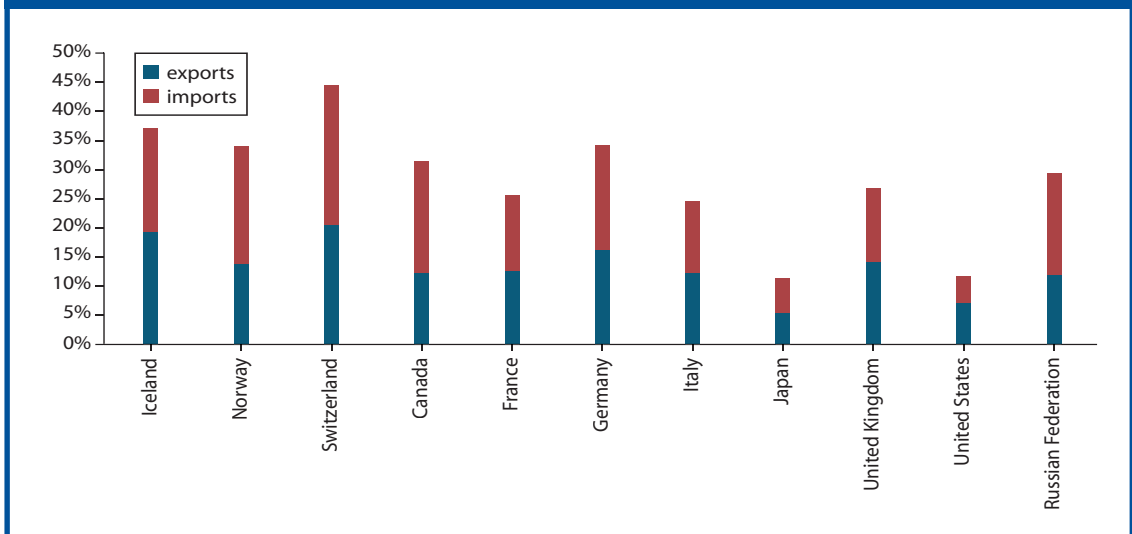
Clearly, the EFTA Way has proven its value for the future trade policy of its Member States. ■



### What the figures say...

Being economies with small domestic markets, Iceland, Liechtenstein, Norway and Switzerland rely heavily on international trade. The chart below shows the share of external trade as a percentage of GDP (openness to trade) for selected countries.

### Openness to trade: 2003





# CHAPTER I

# EFTA'S FREE TRADE

# POLICY

## EFTA in the Global Trading System

The preceding article and the views and perspectives expressed in Chapter III demonstrate how EFTA's free trade policy opens up real trade and commercial opportunities on a range of interests within civil society. This policy must however fit into to the global trading system, and EFTA's free trade agreements must evolve within that system. How is this managed then?

## EFTA as a Free Trade Area

EFTA is a 'free trade area' pursuant to the legal terms of the WTO multilateral trading system. Article XXIV of the General Agreement on Tariffs and Trade (GATT) defines a free trade area as “a group of two or more customs territories in which the duties and other restrictive regulations of commerce (...) are eliminated on substantially all the trade between the constituent territories in products originating in such territories”. A free trade area that meets the relevant conditions is exempted from the WTO's fundamental most favoured nation obligation. Such an exemption also applies, under analogous conditions, to customs unions. A customs union is a group of two or more countries that, in addition to providing for free trade among the participating countries, foresees a common external customs tariff.

A common customs tariff is a prerequisite for a common trade policy towards third countries. But it does not suffice for a fully-fledged common trade policy as it is exercised, for instance, by the European Commission. Such a policy also requires a delegation of competence to a supranational body. As far as EFTA is concerned, the conditions for a common trade policy comparable to that of the EU are not fulfilled. The EFTA countries do, however, have a co-ordinated trade policy in the sense that they negotiate their free trade agreements in common, speaking at the negotiating table with one voice. But in contrast to the EU, such EFTA co-ordination in trade negotiations does not occur as a general policy, but is elaborated in each case. Moreover, each new FTA negotiation is decided on separately by the Member States, who sign the agreement individually once the negotiation is completed.

Free trade areas and customs unions are often called preferential trade agreements. This name refers to the fact that in both types of agreements the participating States are entitled by virtue of the GATT — or the GATS in the case of services — to grant each other trade preferences that they do not have to extend to the other WTO Members. Historically, preferential trade agreements were practically always concluded between countries of the same region. This is the reason why such



## Preferential Trade Agreements

### Basic Free Trade Area

Countries agree to eliminate tariffs and quantitative restrictions between each other while each maintains its own external tariffs on imports from other countries. To prevent trade diversion, a free trade area needs elaborate rules of origin.

Example: original EFTA Convention (Stockholm)

## Advanced Free Trade Area

In addition to goods, the advanced free trade area's scope includes trade in services, investment, government procurement, competition and intellectual property rights. Such a free trade area has similar coverage to that of a common market but does not provide for the harmonisation of laws.

Examples: NAFTA and the updated EFTA Convention (Vaduz)

## Customs Union

Countries agree to eliminate tariffs between each other and set a common external tariff on imports from non-members of the union. While rules of origin are obviated, trade policy co-ordination is required.

Examples: EU, MERCOSUR and SACU

## Common Market

Countries agree to establish free trade in goods and services, and allow for the free mobility of capital and labour across member countries. Unlike in the FTA model, in a common market, the movement of factors of production is completely freed through the harmonisation of laws and certain supranational institutions.

Examples: EU and EEA

## Economic and/or Monetary Union

Encompasses the scope of a common market and elements of commonly exercised economic, social and/or monetary policies, e.g., a common currency.

Example: EU

agreements are often called regional trade agreements. This name is still used by the WTO, despite the fact that a growing number of preferential trade agreements have been concluded between countries of different regions of the world (trans-continental free trade agreements) during the last few years.

As has been mentioned by the Secretary-General of EFTA in his article above, the world has, since the 1990s, experienced a proliferation of preferential trade agreements, particularly free trade agreements. For preferential trade agreements that are concluded for the purpose of regional economic integration the name integration agreement is frequently used. Such agreements may differ in content and structure, allowing for varying degrees of economic integration — measured by the depth of liberalisation and co-operation. Agreements between countries situated in different parts of the world tend to be less profound than those between neighbouring countries, but a clear distinction is impossible. The box above illustrates how EFTA and its free trade agreements fit into this paradigm.

## Evolution of EFTA's FTAs

EFTA's third country policy became dynamic with the end of the Cold War. The evolution of this policy can be divided into three phases:

- A network of free trade agreements, limited to free trade in industrial goods, signed with the transition economies of central and eastern Europe. The EFTA States were firstly guided by a desire to re-establish pan-European ties by contributing to the reconstruction of the former command economies and to supporting their transition towards market-based economies and democracy. Secondly, in response to the Europe Agreements initiated by the European Community, it was important that the EFTA States avoid discrimination against their own exporters by gaining similar market access.
- The EFTA network of FTAs was extended to Europe's southern neighbours, i.e., countries on the southern and eastern rim of the Mediterranean Sea. This was very much a response to the Barcelona Process, initiated by the EU in 1995 to create a Euro-Mediterranean free trade area. The EFTA States, while not formally part of the Barcelona Process, clearly indicated their intentions to independently and significantly contribute to this Process. The creation of a Euro-Med cumulation zone was an important outcome of this phase (see page 33).
- In the third phase, EFTA went global. Starting with Canada in 1998, negotiations with overseas partners have increasingly become a significant part of EFTA's third country activities. As the global market became more and more integrated, geographical

proximity was no longer central to trade flows. In adapting to this reality, the EFTA States have successfully concluded FTAs with Mexico, Singapore, Chile, the Republic of Korea and the SACU States. In addition to being trans-continental, these agreements are broader in scope in that they cover new areas such as services, investment, public procurement and competition. These second generation areas are very important to the EFTA States and reflect the interests and complexities of the modern day international economy.

## Why Second Generation Agreements?

EFTA's second generation agreements aim to meet the specific challenges of globalisation. What are these challenges? In recent years, new technologies have greatly widened the scope of international economic activities. Services, for example, command an ever-growing share of international trade and companies increasingly have to relocate parts of their production to different countries. To ensure that all economic

operators, including small and medium-sized enterprises striving for international competitiveness, can participate in these processes, it is necessary to provide for sufficient legal security. This explains why international rules on investment and trade in services have become important, particularly between advanced economies that can complement each other on the basis of their respective comparative advantages.

Second generation FTAs, however desirable they might be for trade relations between mature economies, involve complex issues that are often difficult to negotiate. It is therefore not surprising that such negotiations are not always fully successful or cannot be completed in a first set of rounds. In EFTA's second generation FTAs, this is reflected in review clauses and built-in agendas calling for subsequent negotiations. The Free Trade Agreement with Singapore features in this edition as an example of a second generation agreement (see page 16). ■

## EFTA free trade network and potential partners

| Europe                                  | Africa                          | Asia/Pacific  | Americas                |
|---|---------------------------------|---|-------------------------|
| <b>Free Trade Network (50)</b>          |                                 |   |                         |
| EFTA 4 <sup>1</sup>                     | Morocco                         | Israel  | Chile                   |
| European Union 25 <sup>2</sup>          | Tunisia,<br>SACU 5 <sup>4</sup> | Korea, Republic of<br>Jordan                          | Mexico                  |
| Bulgaria                                |                                 | Lebanon   |                         |
| Croatia                                 |                                 | Palestinian Authority                                 |                         |
| Faroe Islands<br>(Denmark) <sup>3</sup> |                                 | Singapore   |                         |
| Macedonia                               |                                 |   |                         |
| Romania                                 |                                 |   |                         |
| Turkey                                  |                                 |   |                         |
| <b>Ongoing Negotiations (4)</b>         |                                 |   |                         |
|   | Egypt                           | GCC 6 <sup>5</sup>                                    | Canada<br>Thailand      |
| <b>Ongoing Feasibility Studies (3)</b>  |                                 |   |                         |
|   |                                 | China <sup>6</sup><br>Indonesia<br>Japan <sup>7</sup> |                         |
| <b>Joint Declaration Partners (9)</b>   |                                 |   |                         |
| Albania                                 | Algeria                         | GCC 6   | Colombia                |
| Serbia & Montenegro                     | Egypt                           |   | MERCOSUR 4 <sup>9</sup> |
| Ukraine                                 |                                 |   | Peru                    |

<sup>1</sup> Iceland, Liechtenstein, Norway and Switzerland, Vaduz Convention (2001)

<sup>2</sup> Iceland and Norway have bilateral free trade agreements with the EU in addition to their membership of the EEA. Switzerland's economic relations with the EU are regulated by the FTA of 1972 and 7 bilateral agreements (2002). A second set of bilateral agreements was concluded recently. Due to its customs union with Switzerland, Liechtenstein is covered by the 7 bilateral agreements, in addition to its membership of the EEA

<sup>3</sup> Bilateral agreements

<sup>4</sup> Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland)

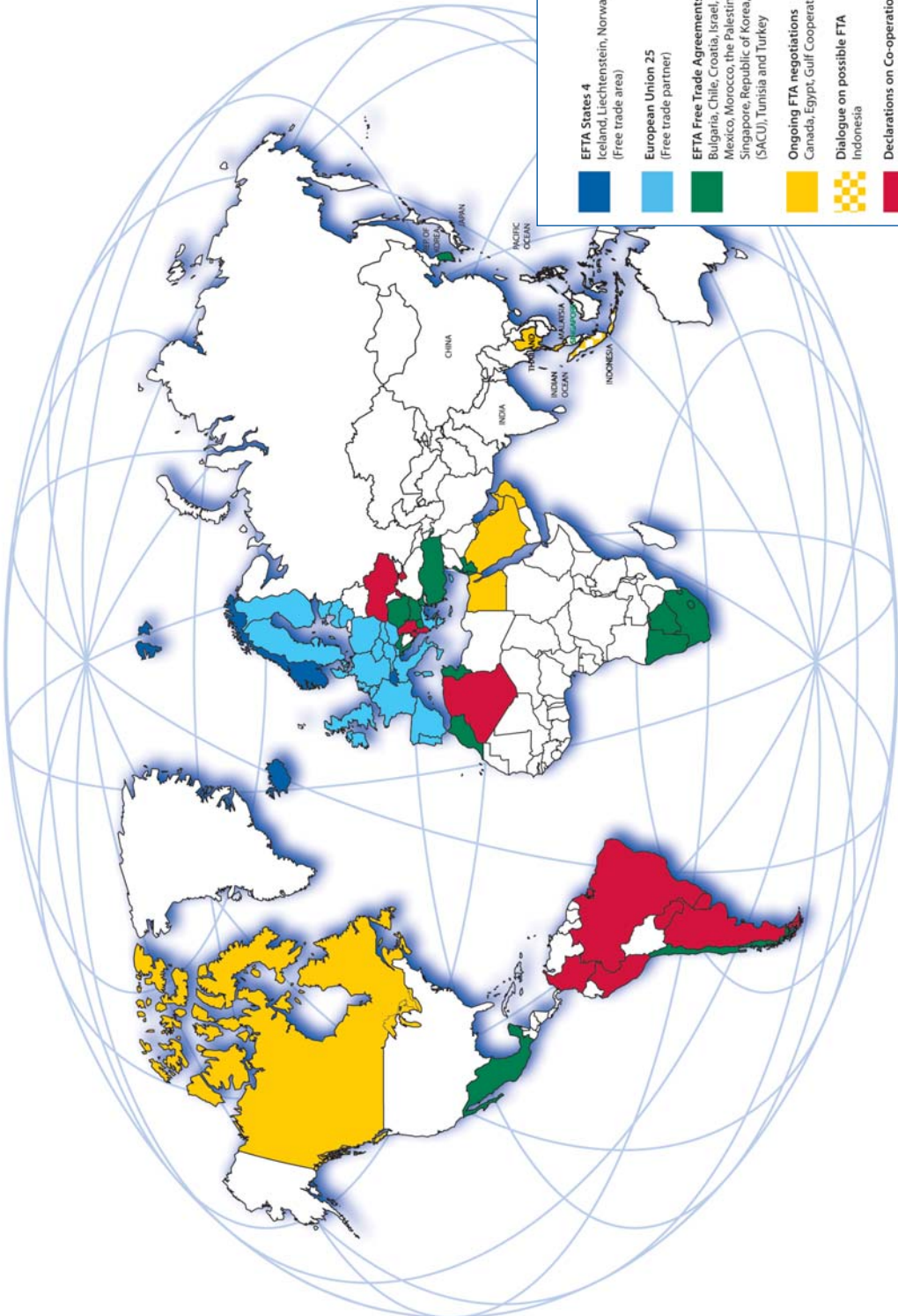
<sup>5</sup> Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)

<sup>6</sup> Iceland and China are conducting a joint feasibility study

<sup>7</sup> Switzerland and Japan are conducting a joint feasibility study

<sup>8</sup> Southern Common Market (Argentina, Brazil, Paraguay and Uruguay)

# FTA NETWORK - ACROSS EUROPE AND BEYOND



|   |  |
|---|--|
|    | <b>EFTA States 4</b><br>Iceland, Liechtenstein, Norway and Switzerland<br>(Free trade area)  |
|    | <b>European Union 25</b><br>(Free trade partner)   |
|   | <b>EFTA Free Trade Agreements 20</b><br>Bulgaria, Chile, Croatia, Israel, Jordan, Lebanon, Macedonia, Mexico, Morocco, the Palestinian Authority, Romania, Singapore, Republic of Korea, Southern African Customs Union (SACU), Tunisia and Turkey |
|  | <b>Ongoing FTA negotiations</b><br>Canada, Egypt, Gulf Cooperation Council (GCC) and Thailand  |
|  | <b>Dialogue on possible FTA</b><br>Indonesia   |
|  | <b>Declarations on Co-operation</b><br>Albania, Algeria, Colombia, Egypt, Gulf Cooperation Council (GCC), Southern Common Market (MERCOSUR), Peru, Serbia & Montenegro and Ukraine   |

# EFTA FREE TRADE AGREEMENTS AND SWISS FOREIGN ECONOMIC POLICY



*By Joseph Deiss,  
Federal Councillor,  
Minister of Economic  
Affairs, Switzerland*

Switzerland's economic welfare is heavily dependent on foreign trade and investment as its home market is relatively small and the country has few natural resources. It is therefore a prime objective of Switzerland's foreign economic policy to ensure that its economic operators enjoy open and predictable market access conditions around the world. Swiss trade policy, as regards market access, rests on three main pillars: membership of the WTO, bilateral agreements with the European Union, and the conclusion of preferential agreements with partners outside the EU.

While foreign trade interests of small and medium-sized economies are, in principle, best served by multilateral liberalisation, entering into preferential agreements with selected trading partners has become an important additional instrument for maintaining and improving the competitiveness of the Swiss economy in world markets. In particular, Swiss operators will be at a competitive disadvantage due to preferential agreements concluded between our trading partners if we ourselves do not conclude agreements with these same partners.

Since the 1990s, the number of regional and trans-regional preferential agreements has increased considerably. It is unlikely that what has become a worldwide trend will diminish in the foreseeable future. In this context, the European Union has extended its network of association agreements, which originally focused on central/eastern European and Mediterranean countries, to economic partners outside the Euro-Mediterranean area (Mexico, Chile and South Africa). Negotiations are being held with MERCOSUR and the GCC. In their trade liberalisation efforts, the USA are also increasingly resorting to free trade agreements. Such agreements have been concluded, among others, with Canada and Mexico (NAFTA), Israel, Morocco, Chile, Australia and Singapore. Other agreements (e.g., with the Republic of Korea and Malaysia) are under negotiation. Japan too has started to negotiate free trade agreements with selected partner countries, mostly in south east Asia (Singapore, Thailand and the Republic of Korea) and across the Pacific Ocean (Mexico and Chile). More recently, India and China also started considering preferential agreements.

Against the background of these trade policy developments, free trade agreements are key to maintaining diversified foreign economic relations for Switzerland. No doubt similar considerations hold for the other EFTA States. In the last 15 years the EFTA States have concluded a considerable number of free trade agreements with countries in Europe, the Mediterranean region and overseas. In the early 1990s, EFTA started to develop, in parallel with the European Union, free trade relations firstly with transition economies in central and eastern Europe. From the mid-1990s, the network of EFTA free trade agreements started extending to the Mediterranean region. The conclusion of free trade agreements with the

Mediterranean countries was a pre-condition for EFTA's participation in the Euro-Mediterranean free trade area emerging under the Barcelona Process. Furthermore, since 2000, EFTA has been extending its network of free trade agreements to partners beyond the Euro-Mediterranean region. So far, overseas free trade agreements have been concluded with Mexico, Singapore, Chile, the Republic of Korea and SACU.

The main objective of EFTA's FTA policy is to improve market access and to maintain the competitiveness of EFTA economies. EFTA's FTAs mitigate actual and potential discriminations ensuing from preferential agreements concluded between main trading partners. And this is not only with respect to trade in goods. Given the structure of the well developed, broadly diversified knowledge-based economies of the EFTA States, it is particularly important that EFTA free trade agreements also aim at liberalising trade in services. They should also facilitate establishment, enhance protection of investments and intellectual property rights, and improve access to public procurement markets. From a Swiss perspective, all these dimensions of international economic relations are of high and growing importance. Therefore, EFTA will remain an important platform for Swiss foreign economic policy as long as EFTA FTAs allow for the establishment of

preferential relations with relevant trading partners in all these policy areas.

By strengthening the conditions for foreign trade and international investment, comprehensive free trade agreements contribute to maintaining and enhancing the international competitiveness of the economies of Switzerland and the other EFTA countries.

**“Our free trade agreements are building blocks for further liberalisation of worldwide economic relations and a more efficient use of world resources.”**

I am convinced that it is in the best interest of all EFTA Member States to build on, and continue, the ambitious EFTA third country policy. At the same time, we have to make sure that the free trade agreements we conclude complement and reinforce our efforts in the WTO. While free trade agreements provide an opportunity to attain, with selected partners, a level of liberalisation beyond the level that prevails at the multilateral level, they cannot replace the multilateral approach. A successful conclusion of the Doha Round of multilateral trade negotiations is of utmost importance for any country that makes open markets its strategy of development and prosperity. Our free trade agreements are building blocks for further liberalisation of worldwide economic relations and a more efficient use of world resources. ■



Emerging markets offer interesting business opportunities. In 2004, exports in Swiss-made timepieces to China, the United Arab Emirates and Russia shot up to 41.7%, 27% and 17.1% respectively. Switzerland is the world's largest watch manufacturer, and watches are her third biggest export.

# IN FOCUS: THE EFTA-SINGAPORE FREE TRADE AGREEMENT



*By Marino Baldi,  
former Swiss Ambassador  
and EFTA's Head  
Negotiator<sup>2</sup>*

EFTA's interest in negotiating with Singapore — a trading nation par excellence — had many reasons. Foremost among them was that companies from all over the world, including from the EFTA States, use Singapore as a hub and to co-ordinate their activities in Asia. At the same time, it is also a highly developed, services-oriented economy with low tariffs on goods and therefore attractive to a broad spectrum of economic operators in the EFTA States.

The FTA with Singapore, signed in 2002, was the first FTA between countries of the western hemisphere and east Asia. It was also a pioneering agreement in terms of substance. As a matter of fact, during the negotiations, EFTA was confronted with particular challenges. Some were linked to Singapore's characteristics as a city state, and others to the fact that, even though it is a highly developed country, Singapore is not a member of the OECD.

- As a city state, Singapore produces a large part of its goods in neighbouring territories. To deal with this, the FTA with Singapore contains, as a novelty, advanced provisions regarding outward processing. In addition, it is EFTA's first FTA to accept invoice declarations as the sole evidence of origin. With these new features, the EFTA-Singapore FTA successfully anticipated general developments of the globalising world economy.
- As a hub for investment into Asia and with its highly developed services sector, Singapore was a natural partner with which to negotiate ambitious rules on services and investment. However, as a non-OECD member country, Singapore had not taken part in the OECD process that spanned several decades and resulted in harmonised policies and laws in the fields of services and investment, based on commonly developed principles such as national treatment. Therefore, additional challenges had to be addressed during the negotiations.

Thanks to constructive attitudes (on both sides), the difficulties could be overcome within a short period of time. The Agreement has been in force since 1 January 2003. It is working well, and co-operation between the parties is excellent. This FTA also illustrates that evolutionary clauses can work: Singapore further liberalised their investment and services legislation and offered, on their own initiative, to bind these changes in the Agreement. On the whole, the EFTA-Singapore negotiations produced a model for EFTA to follow when dealing with other Asian partners. ■



<sup>2</sup> Marino Baldi currently works at the EFTA Secretariat.

# THE SINGAPOREAN VIEW



*Interview with Bee Kim  
NG, Singapore's Head  
Negotiator<sup>3</sup>*

*It is now over three years since this agreement entered into force. What has been achieved?*

We are happy to note that there has been an increase in trade between Singapore and the EFTA countries since the coming into force of the FTA in 2003. For example, total trade in 2005 amounted to 6 billion Singaporean dollars, a 24% increase over total trade in 2002. More significantly, the achievements of the EFTA-Singapore FTA extend beyond trade. Singapore remains the first Asian country to have partnered EFTA in an FTA. Similarly, EFTA was our first FTA partner from the western hemisphere. We have shown that parties can overcome diversity in geography, economic systems and backgrounds, to forge a mutually beneficial FTA.

*Why did Singapore enter into a free trade agreement encompassing services and investment, in addition to goods, with EFTA?*

To Singapore, FTAs must not only be WTO-consistent but WTO-plus. That means, an FTA should cover the basic liberalisation components in the WTO — goods — both agriculture and non-agriculture goods — services, investments and more. We have taken this approach consistently in all our FTA negotiations.

*Do the EFTA and Singapore markets complement each other and what is the potential of this FTA? Are there new important sectors to be included in the future?*

The Singapore government invests a lot of effort to promote the utilisation of our FTAs among our companies. 'FTA outreach' is necessary to help companies realise the economic potential of the agreements. We adopt a consultative approach when it comes to FTA reviews. We seek industry views on how our FTAs, including the EFTA-Singapore Agreement, could be further improved. For example, we have heard some feedback that the rules of origin of 50% value added could be made more flexible to accommodate our local industry.

*What were the difficulties encountered in the negotiations? How were they resolved? What was it like to negotiate one agreement with 4 States [EFTA]?*

Singapore always has a problem-solving attitude at the negotiating table — we seek to ensure that any FTA we negotiate is a win-win agreement for all parties. This is true whether we are negotiating bilaterally or with a group of countries. With the latter, speed and ambition may be compromised as one needs to take care of the needs of more than one negotiating partner. Our experience with EFTA, however, was fine as all 4 members are at the same level of economic development. Yes, there were one or two difficult issues. For example, I remember several late nights discussing the EFTA proposal on human rights. In the end, we found suitable solutions which both sides were happy with. We were glad that EFTA were like us in being constructive and creative in dealing with difficult issues. It reinforced our belief that FTAs are about bringing economies closer despite different ideologies, cultures or belief systems.

<sup>3</sup> Bee Kim NG is the Director of the WTO and International Trade Negotiations Directorate, Trade Division, Singaporean Ministry of Trade and Industry.



*Were personal relationships a factor in the negotiations? Did cultural differences play a role?*

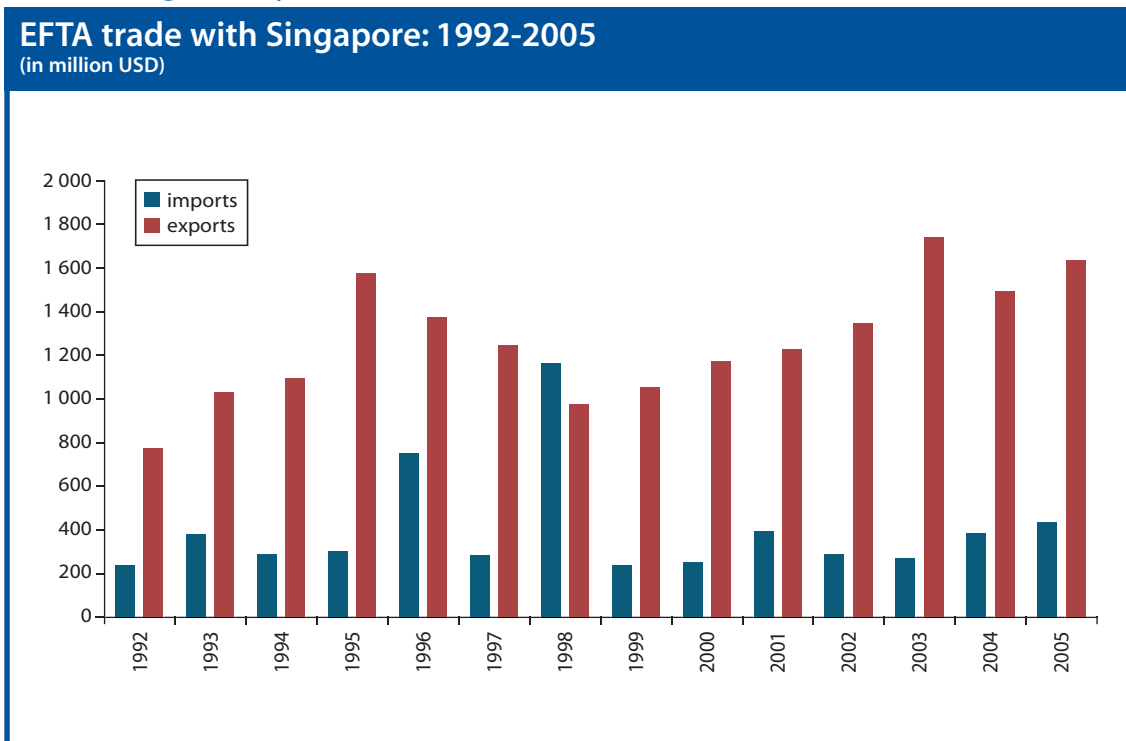
Personal friendships definitely have a positive influence on any negotiations. There is trust, which encourages frank and open communication. Overall, personal friendships facilitate the negotiations. As for cultural differences, yes, they did play a role in our FTA negotiations. But as you know, Singapore is an open and cosmopolitan city. Our people have a global outlook and orientation. As such, we were able to deal with the cultural differences with aplomb and ensured that the negotiations proceeded smoothly.

*This was the first European/Asian free trade agreement ever signed. Since this was uncharted territory in many ways, what impact did that have?*

Like I mentioned before, the EFTA-Singapore FTA has shown the world that an FTA between diverse economies is possible. For Singapore, accomplishing it has boosted our confidence level, and prepared us well as we deal with other trading partners. ■



## What the figures say...



Source: World Trade Atlas

# THE ROLE OF THE EFTA SECRETARIAT

Through the EFTA Convention, all four EFTA States pursue their trade relations together, each EFTA State doing so in its own right, i.e., without surrendering any treaty-making power. Co-ordination among the EFTA States and between EFTA and its partner countries worldwide is therefore of essence. This co-ordination is conducted through the EFTA Secretariat. Under the direction of the Secretary-General, the Deputy Secretary-General at the EFTA Headquarters in Geneva is responsible for the services rendered by the EFTA Secretariat to the Member States in connection with third country relations.

The Trade Relations Division of the EFTA Secretariat co-ordinates the preparation, negotiation and operation of the EFTA free trade agreements and declarations on co-operation. The Division interacts closely with the representatives of the EFTA States and their partner countries at all stages of the process. It:

- Researches, explores and prepares background information (including trade statistics);
- Provides substantive expertise, analyses and advice in customs matters, trade in services, investment, legal and institutional aspects, etc;
- Organises and attends meetings, including intra-EFTA consultations as well as negotiating rounds, joint committees and technical assistance events with EFTA's partner countries;
- Drafts internal EFTA and joint documents (overviews, notes, reports, conclusions, etc.);
- Drafts, finalises and subsequently updates legal texts (agreements, decisions, notifications, etc.);
- Publishes official documents and legal texts;
- Contributes to and is involved in EFTA information activities (press releases, seminars, etc);
- Has contacts and liaises with international organisations (e.g. the WTO);
- Makes logistical and travel arrangements for all activities with EFTA's partner countries, at the EFTA Headquarters and abroad. ■



The Trade Relations Division participating in the EFTA-Thai negotiations in Phuket, Thailand, October 2005.

# CHAPTER II

## COMPONENTS OF EFTA FREE TRADE AGREEMENTS

All EFTA free trade agreements with third countries cover trade in industrial products, including fish, and processed agricultural products. With some minor exceptions, all tariffs on industrial products in the EFTA States are eliminated once an agreement enters into force. In addition, the EFTA FTAs contain trade disciplines and rules on competition, protection of intellectual property rights, and payments and transfers.

Trade in basic agricultural products is covered by bilateral arrangements between the individual EFTA States and the respective partner country. Recent agreements also contain substantial rules on trade in services, investment and public procurement.

In the previous chapter, we looked at EFTA's approach to trade liberalisation as a whole. In this chapter, we look more closely at the main components of that approach, i.e.:

- Services and investment
- Protection of intellectual property
- Fisheries
- Agriculture
- Trade and development
- Cumulation

In the pages that follow, we see that when FTAs deal with legal and technical issues, they resolve real challenges for companies seeking to trade across borders. ■

### A comprehensive EFTA free trade agreement covers:

- Goods: free trade in industrial products (elimination of all duties, transition period, etc.) and fish
- Liberalisation of trade in some agricultural products
- Services
- Intellectual property rights
- Government procurement
- Investment
- Competition
- Dispute settlement and administration
- Technical co-operation (where relevant)



# SERVICES AND INVESTMENT



*By Christian Etter, Head of EFTA Division, Swiss State Secretariat for Economic Affairs (SECO)*

In the last few years, services, investments and other topics beyond trade in goods have become subjects of an increasing number of trade agreements. An early example is the “four freedoms” (free movement of goods, services, persons and capital), which turned the common market of the EC, originally focused on trade in goods and agricultural policy, into a genuine single market in 1992. The four freedoms are also at the core of the EEA Agreement, which entered into force on 1 January 1994. Another pioneering trade agreement with comprehensive coverage is the North American Free Trade Agreement, which entered into force on the same date. The WTO agreements concluded in 1994 became the first set of global disciplines covering not only trade in goods but also trade in services, as well as the protection of intellectual property rights and, to a certain extent, investment<sup>4</sup>.

**“Improving legal security for foreign economic operators and opening new sectors to foreign investment is, like in the case of services, sometimes easier in a bilateral than a multilateral context.”**

and other regulatory areas

Since the end of the 1990s, an ever increasing number of preferential agreements have been concluded on a regional and trans-regional basis around the world. These free trade agreements increasingly do not only cover trade in goods, but also services, investment and other regulatory areas relevant for international

economic activities, such as intellectual property and public procurement. In parallel to these developments, EFTA has concluded a number of free trade agreements with overseas partners (first with Mexico, then with Chile, Singapore and most recently with the Republic of Korea) that are truly comprehensive in nature. They cover, in addition to trade in goods and the protection of intellectual property rights, trade in services and — to a varying degree — investments and government procurement.

The growing interest in including topics such as services and investments in trade agreements is obvious:

- The importance of services in international trade is growing steadily, both in terms of absolute value and share in international transactions. The increasing share of services in international trade mirrors structural change in domestic economies, where services now account for well above 60% of total employment and value added in most countries. In highly developed economies such as those of the EFTA States, the share of services is even higher.
- Many companies producing and exporting industrial products supply at the same time services such as consulting, engineering, software development, maintenance, etc., which are often bundled with, or embedded in, manufacturing products. Software and other services components today often account for more than 50% of the value of contracts for manufacturing (or rather composite) products. This means that obstacles to trade in services also constitute obstacles to trade in goods, and vice versa.
- Modern methods of production typically rely on the possibility to allocate production processes or parts thereof to different locations in various countries around the world. This not only requires liberalised cross-border movement of goods and services, but also stable conditions and legal security for investments abroad.

<sup>4</sup> Regarding services and investment, the OECD Codes on Capital Movements and on Invisible Operations as well as other instruments of the OECD dating as far back as the early 1960s precede these developments in the WTO.

## Why negotiate Services and Investment in a Bilateral Context?

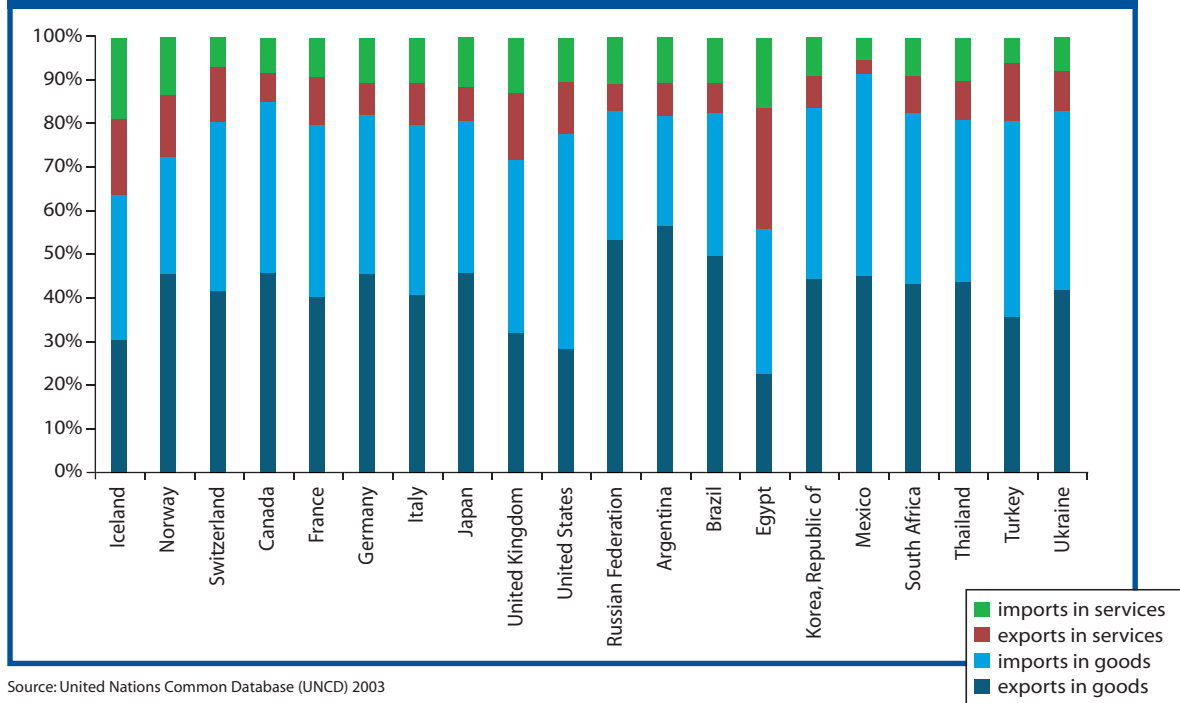
Undeniably, the General Agreement on Trade in Services paved the way for international negotiations on trade in services. It created a multilateral framework of general rules, which allowed WTO Members to undertake specific commitments on an individual basis. This was an enormous achievement in and of itself. However, the GATS system suffers various shortcomings.

Firstly, the GATS negotiations were finished in 1994, i.e., more than 10 years ago. Considering the dynamism experienced in trade in services over this last decade, it is fair to assume that the commitments are not up-to-date anymore. The GATS negotiators in 1994 had anticipated this, and had included the principle of progressive liberalisation calling for further review of the Agreement at regular intervals. The negotiations on trade in services were re-started in 2000, and subsequently included in the Doha Round in 2001. However, five years later, the fate of the round, both in

### What the figures say...

The share of services in the world economy has expanded noticeably in recent years. Nowadays, services account for almost 70% of production in high income OECD countries. At the expense of agriculture and manufacturing, services are also becoming increasingly important in transition and emerging countries. The chart below shows that, for the countries in the sample, cross-border services typically account for around 20% of the total external trade.

### Share of services and goods in total external trade: 2003



Source: United Nations Common Database (UNCD) 2003

terms of timing and outcome — is still uncertain. In this situation, bilateral negotiations on services allow parties to move ahead, and benefit from an 'early harvest' on the offers made in the WTO context.

Secondly, the WTO now comprises 149 members, which means that the outcome of the negotiations can only be the lowest common denominator of what the members of the WTO can offer on a most favoured nation basis to all the other 148 members. In contrast, a bilateral setting allows countries to undertake more tailor-made commitments, as they might not have the same sensitivities towards selected partner countries as towards the entire WTO membership. This may allow countries to substantially enhance their level of commitment on a preferential basis.

The international community has tried to address investment on two occasions in a multilateral forum. Firstly, in negotiations at the OECD on a Multilateral Agreement on Investment (MAI) in the late 1990s and, secondly, in the framework of the WTO between 1996 and 2004 as one of the so-called Singapore issues. However, in both cases, no consensus could be reached at the multilateral level. Improving legal security for foreign economic operators and opening new sectors to foreign investment is, like in the case of services, sometimes easier in a bilateral than a multilateral context.

By covering services and investment in their FTAs, the EFTA States endeavour to guarantee that their service providers and investors are not discriminated against on third country markets vis-à-vis their main competitors (particularly from the US, Japan and the EU) which increasingly benefit from preferential access bilaterally negotiated by their governments. ■



## What the figures say...

### Leaders in commercial services: 2004-2005

(in million USD and % — in nominal value)

| Rank<br>2005 | Country            | Exports          |                  | Imports          |                  | Total            |                  | Share in Total (%) |            |
|--------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|------------|
|              |                    | 2004             | 2005             | 2004             | 2005             | 2004             | 2005             | 2004               | 2005       |
| 1            | EU 25              | 1 036 391        | 1 104 431        | 965 160          | 1 033 623        | 2 001 551        | 2 138 053        | 46.4               | 44.8       |
| 2            | United States      | 321 837          | 353 321          | 263 598          | 288 748          | 585 435          | 642 069          | 13.6               | 13.4       |
| 3            | Japan              | 94 933           | 106 586          | 134 013          | 135 918          | 228 946          | 242 505          | 5.3                | 5.1        |
| 4            | China              | 62 056           | 81 238           | 71 602           | 85 287           | 133 657          | 166 525          | 3.1                | 3.5        |
| 5            | <b>EFTA</b>        | <b>68 962</b>    | <b>77 255</b>    | <b>49 456</b>    | <b>56 403</b>    | <b>118 418</b>   | <b>133 658</b>   | <b>2.7</b>         | <b>2.8</b> |
| 6            | Canada             | 46 370           | 50 650           | 56 571           | 62 315           | 102 941          | 112 964          | 2.4                | 2.4        |
| 7            | Korea, Republic of | 40 047           | 43 485           | 49 642           | 58 021           | 89 688           | 101 506          | 2.1                | 2.1        |
| 8            | Hong Kong, China   | 54 175           | 60 293           | 30 016           | 31 606           | 84 191           | 91 899           | 2.0                | 1.9        |
| 9            | Singapore          | 41 077           | 45 109           | 40 470           | 43 993           | 81 547           | 89 101           | 1.9                | 1.9        |
| 10           | India              | 38 361           | 67 626           | 38 969           | 67 397           | 77 331           | 135 023          | 1.8                | 2.8        |
| 11           | Chinese Taipei     | 25 531           | 25 732           | 29 859           | 31 416           | 55 390           | 57 148           | 1.3                | 1.2        |
| 12           | Russian Federation | 20 164           | 24 289           | 32 661           | 37 563           | 52 826           | 61 852           | 1.2                | 1.3        |
| 13           | Australia          | 25 719           | 27 655           | 26 478           | 28 901           | 52 197           | 56 556           | 1.2                | 1.2        |
| 14           | Thailand           | 18 932           | 20 347           | 22 948           | 28 466           | 41 880           | 48 814           | 1.0                | 1.0        |
| 15           | Malaysia           | 17 218           | 19 228           | 19 142           | 21 743           | 36 360           | 40 971           | 0.8                | 0.9        |
|              | <b>World</b>       | <b>2 179 529</b> | <b>2 414 665</b> | <b>2 132 813</b> | <b>2 361 347</b> | <b>4 312 342</b> | <b>4 776 013</b> | <b>100</b>         | <b>100</b> |

Source: WTO

Notes: 2005 figures for certain countries and territories are preliminary estimates by the WTO Secretariat. Annual values and rankings are in some cases affected by continuity breaks in the time series and by limitations in cross-country comparability

# INTELLECTUAL PROPERTY RIGHTS



*By Ingo Meitinger,  
Deputy Head,  
International Trade  
Relations, Swiss Federal  
Institute of Intellectual  
Property*

**“As a country's industry becomes more advanced and traditional tariff and non-tariff barriers are removed, intellectual property standards must be more harmonised and developed as a prerequisite to better trade between partners.”**

For a long time, trade liberalisation only focused on the reduction of tariffs and non-tariff barriers to trade. These were the most burdensome hurdles in international trade. But with time and the gradual elimination of these hurdles, other questions arose. How can a high technology company benefit from a free trade agreement if its products are being copied in the importing

country? How can consumers benefit from an agreement when a foreign producer abstains from distributing high-end products on the national market, regardless of the fact that tariffs are almost zero? What benefit is there when high quality products can be imported to a country at more affordable prices

because of tariff reductions, but the consumers do not know whether they are actually buying a quality product or a low quality fake? The key to answering these questions is that as a country's industry becomes more advanced and traditional tariff and non-tariff barriers are removed, intellectual property standards must be

more harmonised and developed as a prerequisite to better trade between partners.

Many industries in the EFTA States are based on research and development. It is of particular importance to them, when liberalising trade, that the legal framework for exporting to or investing in a country is well-developed and predictable. This is why the EFTA States include a chapter on the protection of intellectual property in all their free trade agreements with third countries. The provisions of this chapter build on the existing international legal framework in the area of intellectual property and aim at securing a level of protection which is beneficial to all of the EFTA industry sectors concerned. At the same time, the EFTA States offer the citizens of their trading partners the same high level of protection as their own nationals are provided with.

Controversy about the appropriate level of intellectual property protection has grown over the last couple of years. One of the main challenges when making provisions for intellectual property is to find the right balance of protection. This is even more difficult with regard to intellectual property negotiations between countries with different levels of development. It is true that the same level of protection is not always in the interest of every country. However, the approach of the EFTA States in their free trade negotiations takes this into account. While it is in the very nature of free trade negotiations to optimise one's own interests, the EFTA States do not want to force third countries into accepting and introducing provisions on intellectual property that would be overly burdensome or an obstacle for the local industries. The idea behind the chapter on intellectual property rights in free trade agreements is to create a legal environment which is beneficial for both the EFTA States and the third country concerned. It is safe to say that the relevance of IPRs can only continue to grow in the future. ■

# FISHERIES — IMPORTANCE FOR THE SEAFOOD SECTOR



*By Svein Berg,  
Managing Director,  
Norwegian Seafood  
Export Council*

just seems to be getting stronger. And if our aim is to get equal conditions, it is vital that we are able to get results in this area as well. Again, Norway is a small country, and it seems that EFTA is the obvious body through which results can be achieved.

One good particular case in point is the Republic of Korea, with which EFTA recently negotiated and signed an FTA. The importation of salmon had been burdened with an import tariff of 10 and 20% for frozen and fresh products respectively. This was a hindrance to the development of fresh salmon and, in particular, for sashimi and sushi consumption.

The Norwegian seafood industry is of essential importance to our country. We export seafood at a value of close to 4 billion euros per year, to more than 150 countries around the world. Of our total output, we export more than 96%. It is not surprising therefore, that free trade is of essential importance for the future positive and sustainable development of this sector. The aim will always be to get access to markets that are at least as good as our competitors'.

Free trade is of great importance to thousands of companies and industries in our various markets. Seafood from Norway is imported, processed, packaged, distributed, prepared and sold by thousands of people who also depend on the free availability of these products. Therefore free trade is not only in the interest of our industry, but also of the different markets themselves.

As a small country whose exports are spread across the globe, the free trade results achieved in the multilateral area (WTO) are obviously of great importance, and will always be given priority. However, developments show us that this route alone is not sufficient. The strong development of regional free trade areas, as well as the development of bilateral free trade agreements,



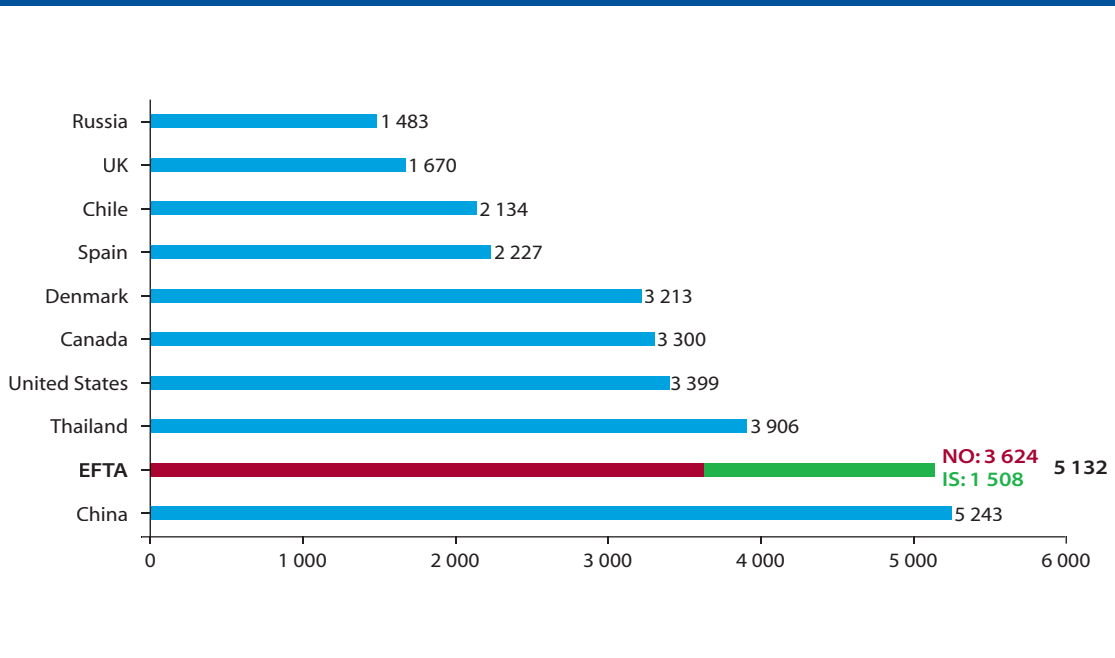
Asia presents sizeable opportunities for seafood exports. In the area, there is an increasing demand for new foreign highly valued species, such as salmon and Atlantic cod.

© ISOPIX



## What the figures say...

### Leading fish exporters: 2003 (in million USD)



Source: FAO

**“Free trade is also of great importance to thousands of companies and industries in our various markets.”**

When Chile concluded an FTA with the Republic of Korea in February 2003, we were placed in a difficult position. Because of this Agreement, Chile, our main competitor in the salmon market, was given better access to the Korean market. For us, this tilted the playing field in favour of the Chileans by giving them a competitive advantage.

The EFTA-Korea FTA is what solved our problem. Upon entry into force of the Agreement, tariffs on frozen salmon will be reduced to the same rate as that of Chile, whereas tariffs on fresh salmon will be eliminated altogether. Considering that the Koreans eat as much seafood as the French, the FTA will open up

for a strong development of this market, not only to the benefit of our industry, but to thousands of Koreans benefiting from free access to a high quality product.

As these words are written, Japan and Chile have just announced the start of negotiations on an FTA expected to be concluded by the end of 2006. If nothing else, this illustrates the nature of the challenges to be met in the future and underlines the importance of the role EFTA must play in that process. ■



# AGRICULTURE

The EFTA countries do not have a common agricultural policy. Basic agricultural products are dealt with in separate bilateral agreements between each EFTA State and the partner country in question — allowing each EFTA State the flexibility to grant more favourable treatment on individual products. As a result, for example, Norway and Iceland grant free market access for sugar and wine, Iceland allows free imports of fruits, whereas Switzerland gives more favourable treatment for some meat products. There is thus no 'one size fits all' approach in this field.

Agriculture is one of the most contentious issues in international trade. The rules and tariffs relating to agricultural products are intensively negotiated. Agricultural products are traded extensively in the global market place. Indeed, many countries rely heavily on exporting agricultural products and seek to liberalise trade. On the one hand, liberalised trade in agricultural products would lead to cheaper goods for consumers and industry. On the other hand, fully liberalised trade could endanger national interests such as ensuring rural dwelling, food security, cultural heritage and preserving environmental standards, e.g., the agricultural landscape, agro-biological diversity, land conservation and plant, animal and public health. These additional functions of agriculture are often referred to as non-trade concerns (NTCs). Products of particular national importance are often labelled as “sensitive”.

In negotiations on agricultural products, EFTA (and the EU) distinguishes between basic agricultural products (e.g. grain, milk and cocoa) and processed agricultural products (e.g. bread, soup and chocolate). In principle, EFTA trades freely in processed products. However, certain measures that compensate for the higher raw material costs that the EFTA food processing industry faces for most of their inputs remain.

EFTA's agriculture policy can be summed up in three points:

- EFTA seeks to promote free trade in all processed agricultural products and only maintains duties on sensitive raw materials incorporated in these products;
- Sensitive products of significant importance generally remain subject to duties;
- Each FTA should be tailor-made to accommodate the specific trade flow between the FTA partner and EFTA in agricultural products. ■



Within a few decades Jarlsberg cheese has become one of Norway's greatest export successes in the world market. EFTA's FTAs with third countries secure better market access for Jarlsberg.

# TRADE AND DEVELOPMENT — THE EFTA-SACU AGREEMENT



*By Lars Erik Nordgaard,  
Chief Negotiator,  
Norwegian Ministry of  
Trade and Industry*

Since the early 1990s, the EFTA States have successfully concluded free trade agreements with a number of developing countries. As of May 2006, nine of EFTA's 15 FTAs are with developing countries<sup>5</sup>. In addition, the recently concluded Agreement, with the Member States of the Southern African Customs Union, i.e., Botswana, Lesotho, Namibia, South Africa and Swaziland, involves a least developed country (Lesotho).

Negotiations began in 2003 and lasted for more than two years. A number of complex legal and institutional issues arose due to the fact that the negotiations involved two

**“The parties shared the ambition that the FTA should promote fair and equitable trade relations between developed and developing countries.”**

groups of countries with divergent needs and aspirations. The talks took place against the backdrop of the WTO Doha Development Agenda negotiations<sup>6</sup>, where many of the same issues relating to trade and development were under consideration. This did sometimes pose additional challenges for the negotiators.

The parties shared the ambition that an EFTA-SACU FTA should promote fair and equitable trade relations between developed and developing countries. From

the outset in 2003, the negotiations covered a broad range of issues, such as traditional market access issues for goods (industrial and agricultural duties, technical standards, rules of origin and customs procedures and trade remedies), and services, investment, intellectual property, competition and government procurement. However, after a few initial rounds of talks, it became evident that this approach was too ambitious. It was therefore agreed that the best possible outcome at that point would be an FTA mainly covering trade in goods.

SACU expressed hopes that the negotiation process would assist SACU in deepening its own integration by strengthening its structures and negotiating capacity. The FTA should also establish a framework for co-operation involving capacity-building between the parties. Moreover, SACU emphasised that the FTA should provide for asymmetrical treatment in favour of SACU and special and differential treatment for the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). At the same time, SACU emphasised that the FTA should also improve trade and market access opportunities in a way that supported overall development goals in the region. SACU was adamant that improved and predictable market access for agricultural goods was a sine qua non for concluding an FTA. Finally, non-tariff barriers needed to be addressed in order not to frustrate the improved market access opportunities that would arise from the FTA.

For EFTA, the principal objective was to obtain market access for goods on terms and conditions similar to those that SACU granted the EU in the context of the Trade and Development Co-operation Agreement between the EU and South Africa. EFTA also aimed for a comprehensive FTA because it was convinced of the positive effects this would have for overall trade and investment relations between the parties. At the same time, EFTA was committed to address the developmental concerns expressed by SACU, in



<sup>5</sup> A developing country is one listed in the OECD's Development Assistance Committee's List of Recipients of Official Development Assistance. The list has recently been revised.

<sup>6</sup> For more information on the DDA, please visit: <http://www.wto.org/>

particular the BLNS countries, and to support SACU in its efforts to deepen its own integration. EFTA also underlined that an FTA would have to be consistent with the parties' WTO obligations.

From an EFTA perspective, the outcome of the negotiations is clearly positive. The FTA has eliminated the prospect of discrimination of goods from the EFTA States on the SACU market. Goods from EFTA will be granted similar market access conditions as goods from the EU. Moreover, the FTA contains review clauses for goods, and evolutionary provisions regarding services, investment, competition and government procurement. The clauses commit the parties to revisit these issues when the time is ripe. The FTA will indeed establish a legal framework that will stimulate trade flows between the parties and also have positive effects on direct investment. Chances are that the scope and content of the FTA will be expanded and developed in due time.

The FTA does not add new obligations but confirms the multilateral standards provided for in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. It provides for asymmetrical treatment in favour of SACU, for instance, with regard to tariff dismantling and trade remedies. Furthermore, the BLNS countries have retained the right to adopt safeguard measures to address poverty

alleviation, regional development and food security, in conformity with their rights and obligations under the WTO. The Agreement provides SACU with more predictable and improved market access for the goods they export to EFTA markets. The EFTA States will eliminate all duties on industrial goods as of entry into force of the Agreement. Agricultural goods will in several instances be granted more favourable conditions than under the Generalised System of Preferences (GSP) applicable in the EFTA States. For processed agricultural goods, SACU has been granted the same tariff preferences as those granted by the EFTA States to the EU.

In line with existing policies of the EFTA States, the FTA commits EFTA to provide trade-related technical assistance to SACU. The aim of the assistance is to facilitate the implementation of the FTA, to enhance trade and investment opportunities, and to support the SACU States' efforts to achieve sustainable economic and social development.

The negotiations were a unique learning experience for both sides and contributed to enhancing mutual understanding and strengthening relations between the parties. The FTA has established a solid framework for trade and development co-operation that will allow the parties to develop and strengthen their relations in the years to come. ■



Africa's largest economy is ambitious for the future. The South African economy is expected to grow at around 4.5% in 2006, while the government aims to achieve an average growth of 6% a year from 2010 onwards.

## EFTA States' trade with SACU

|                                     | 2002            | 2003         | 2004         | 2005         | 2003/02         | 2004/03 | 2005/04 |
|-------------------------------------|-----------------|--------------|--------------|--------------|-----------------|---------|---------|
|                                     | In thousand USD |              |              |              | Annual % change |         |         |
| <b>IMPORTS</b>                      |                 |              |              |              |                 |         |         |
| Iceland                             | 2 180           | 2 486        | 4 424        | 3 653        | 14.1            | 78.0    | - 17.4  |
| Norway                              | 157 672         | 258 457      | 301 637      | 461 123      | 63.9            | 16.7    | 52.9    |
| Switzerland                         | 405 773         | 646 805      | 814 511      | 867 630      | 59.4            | 25.9    | 6.5     |
| EFTA                                | 565 625         | 907 748      | 1 120 572    | 1 332 406    | 60.5            | 23.4    | 18.9    |
| <i>Share in EFTA's tot. imports</i> | <i>0.47%</i>    | <i>0.65%</i> | <i>0.68%</i> | <i>0.74%</i> |                 |         |         |
| <b>EXPORTS</b>                      |                 |              |              |              |                 |         |         |
| Iceland                             | 8 145           | 2 896        | 2 908        | 4 127        | - 64.5          | 0.4     | 41.9    |
| Norway                              | 48 357          | 62 915       | 66 549       | 66 352       | 30.1            | 5.8     | - 0.3   |
| Switzerland                         | 329 777         | 417 846      | 514 198      | 525 364      | 26.7            | 23.1    | 2.2     |
| EFTA                                | 386 280         | 483 656      | 583 656      | 595 842      | 25.2            | 20.7    | 2.1     |
| <i>Share in EFTA's tot. exports</i> | <i>0.26%</i>    | <i>0.28%</i> | <i>0.29%</i> | <i>0.26%</i> |                 |         |         |
| <b>IMPORTS + EXPORTS</b>            |                 |              |              |              |                 |         |         |
| Iceland                             | 10 325          | 5 382        | 7 333        | 7 780        | - 47.9          | 36.3    | 6.1     |
| Norway                              | 206 029         | 321 372      | 368 186      | 527 475      | 56.0            | 14.6    | 43.3    |
| Switzerland                         | 735 550         | 1 064 651    | 1 328 708    | 1 392 994    | 44.7            | 24.8    | 4.8     |
| EFTA                                | 951 905         | 1 391 405    | 1 704 227    | 1 928 249    | 46.2            | 22.5    | 13.1    |
| <i>Share in EFTA's total trade</i>  | <i>0.35%</i>    | <i>0.45%</i> | <i>0.46%</i> | <i>0.47%</i> |                 |         |         |



### Technical Co-operation

A certain amount of technical co-operation is directed towards countries that have concluded declarations on co-operation or free trade agreements with the EFTA States. The Balkan and Mediterranean countries are the main target group of these activities, but recent agreements such as the EFTA-SACU FTA foresee assistance activities in that region too. Due attention is also given to recent and prospective partners in other regions, among them countries to the east of the boundaries of the enlarged EU.

In 2006, the budget allocated for technical co-operation was approximately 1.7 million Swiss francs. This amount does not include bilateral programmes and projects, as these are not co-ordinated among EFTA Member States.

Technical co-operation is conducted through:

- Participation by EFTA in EU projects and programmes
- Trade policy projects financed exclusively by EFTA

For more information, please visit:

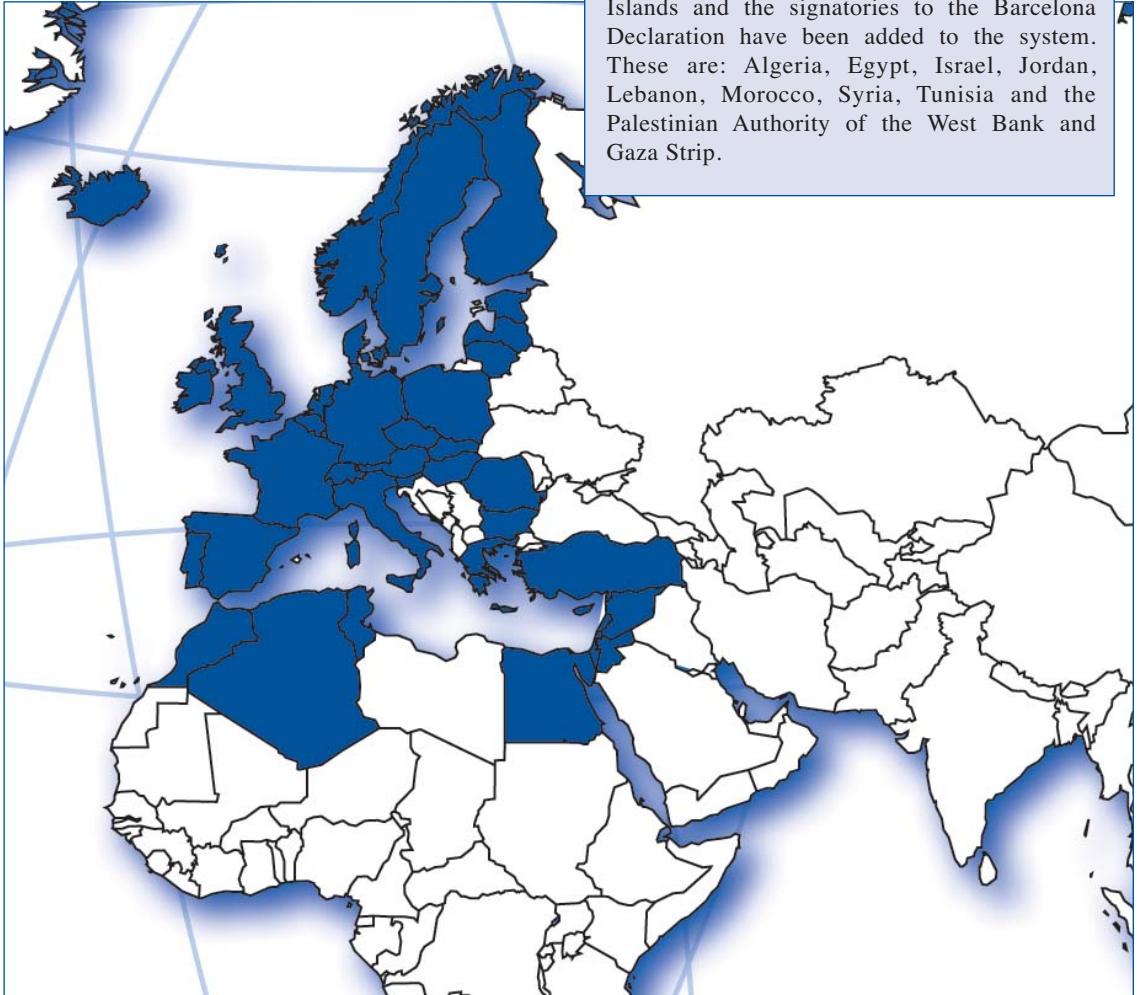
<http://secretariat.efta.int/Web/ExternalRelations/TechnicalCooperation/>

# CUMULATION

So far, the Bulletin has covered services and investment, intellectual property, fisheries, agriculture and development. It now explores cumulation, a less common topic but nevertheless an important feature of EFTA's trade landscape. Cumulation is firstly explained, secondly presented as an important part of the Euro-Med agreements and finally explored using the example of manufacturers in the Swiss textiles sector.

## Pan-Euro-Med Cumulation Area

The system of pan-Euro-Med cumulation of origin is an extension of the previous system of pan-European cumulation. It operates between the EU and EFTA Member States, and Romania, Bulgaria and Turkey. In addition, the Faroe Islands and the signatories to the Barcelona Declaration have been added to the system. These are: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip.



Map of the pan-Euro-Med Cumulation area.

# WHAT IS CUMULATION?



By Arthur Mueller,  
Delegate for FTAs,  
Directorate-General  
of Swiss Customs

Cumulation is a deviation from basic rules of origin which promotes and enhances trade between free trade partners. Basic origin rules specify that only products entirely produced in one country, using

only materials from that country, or products which have been treated in a regulated way in that country, can be regarded as originating products. These products are eligible to benefit from preferential treatment under an FTA. In other words, they can be imported duty-free or at a reduced customs duty.

If, however, a product is manufactured using materials imported from another country within the free trade zone, these materials are regarded as originating products in the country of manufacture as well. The use of these imported originating products is referred to as cumulation. The status of the originating products has to be proven to the customs administration of the importing country with certain documentation, i.e., proof of origin.

There are two main types of cumulation: bilateral and diagonal.



## Bilateral Cumulation

Bilateral cumulation applies to a single FTA, as the two examples below demonstrate.

**Example 1**

**Bilateral Cumulation**

Switzerland (EFTA) Bicycle      Croatia lacquered in Croatia      Switzerland (EFTA) sent back to Switzerland

The diagram illustrates the process of bilateral cumulation. It shows a bicycle being produced in Switzerland (EFTA). The bicycle is then lacquered in Croatia. Finally, the bicycle is sent back to Switzerland (EFTA). The bicycle is shown in two stages: one with a red frame and one with a blue frame. Below the bicycle are three flags: Switzerland, Croatia, and Switzerland.

**Example 2**

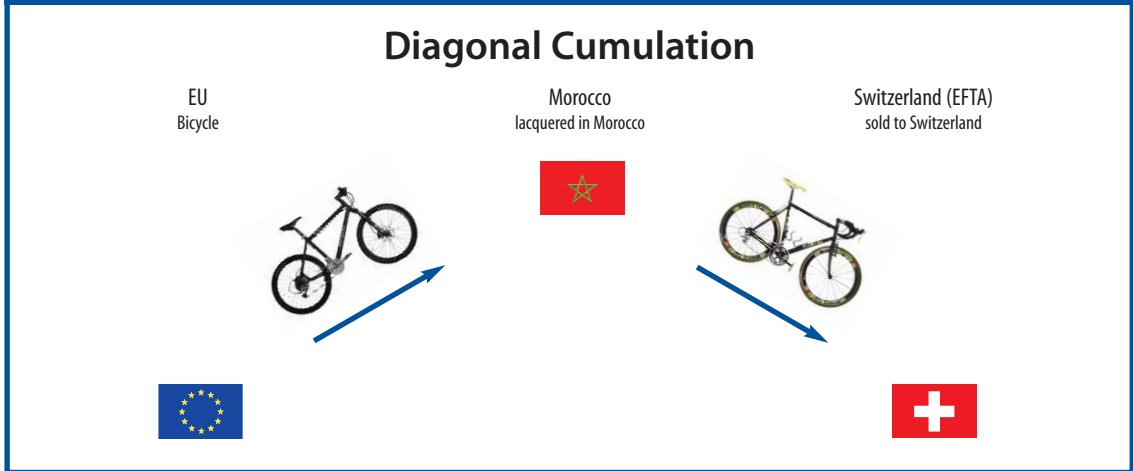
**Korea-Switzerland (EFTA)-Norway (EFTA)**

A Swiss producer uses wheels originating in Korea to produce bicycles. The finished bicycles are exported to the EFTA partner Norway. As long as the wheels are imported from Korea with proof of origin, the Swiss exporter can use them in his/her production as if they had been produced in Switzerland. Therefore, it is easier for the Swiss exporter to fulfil the origin rule, which in this case says that 70% of the price of the bicycle must be of EFTA or Korean origin. Here, it is only the FTA between the EFTA States and Korea that is concerned.

## Diagonal Cumulation

If several countries, having free trade agreements amongst themselves, adjust these agreements and use identical rules of origin, they can agree on the possibility of diagonal cumulation. This allows products originating in all of the participating partner countries to be considered as originating materials, as the two examples below demonstrate. The possibility of using diagonal cumulation is one of the advantages of the pan-European cumulation zone and the pan-Euro-Med cumulation zone (see next article).

### Example 1



### Example 2



### Poland (EU)-Tunisia-Iceland (EFTA)

Non-originating cotton fibres are imported into Poland where they are spun and woven into fabrics. The fabrics are then exported to Tunisia where they are cut and made into men's shirts. The shirts are exported to Iceland where, due to the possibility of diagonal cumulation, no customs duties have to be paid. Here, the FTAs concerned are the EU-Tunisia Association Agreement, the EFTA-Tunisia FTA and the EEA Agreement.



# EURO-MED FREE TRADE AREA: THE BENEFITS OF CUMULATION

In November 1995, European Union and Mediterranean Foreign Ministers signed the historic Barcelona Declaration, which marked the start of a new partnership between the EU and 12 Mediterranean partners<sup>7</sup>. The Declaration's three main objectives are:

- To establish a common Euro-Mediterranean area of peace and stability based on fundamental principles including respect for human rights and democracy (political and security partnership).
- To create an area of shared prosperity through the progressive establishment of a free trade area between the EU and its partners and among the Mediterranean partners themselves.
- To develop human resources, promote understanding between cultures and bring together the people in the Euro-Mediterranean region, and develop free and flourishing civil societies (social, cultural and human partnership).

As a concrete step to implementing its objective to create an area of shared prosperity, the Declaration pledged to form a Euro-Mediterranean free trade area by the year 2010.

The pan-Euro-Mediterranean cumulation system, another very important mechanism, was added to the Barcelona Process in 2003. Preceded by the pan-European cumulation system — between the EU, the EFTA States and 10 central and eastern European countries applied since 1997 — this enlarged system aims to effectively create a free trade zone in industrial goods between 42 countries<sup>8</sup>. The system and its common rules of origin allow for unlimited use of components originating within the zone, without any

negative impact on the origin status of the final product. This will bind European and Mediterranean FTAs together and offer significant advantages for economic operators and customs administrations.

The EFTA States are participating actively in the establishment of the future Euro-Mediterranean free trade area. The scope, content and structure of FTAs concluded by the EFTA States in this region include the advantages of pan-Euro-Med cumulation of origin. The importance and potential of this process to our economic operators should not be understated.



<sup>7</sup> Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria, Turkey, Cyprus and Malta (the two latter became EU members on 1 May 2004).

<sup>8</sup> 25 EU Member States, 4 EFTA States, 10 Mediterranean partner countries, Bulgaria, Faroe Islands and Romania.

# EURO-MED: IMPORTANT FOR THE SWISS TEXTILES AND CLOTHING INDUSTRY



*By Karin Jung,  
Department Head  
Economy & Statistics,  
Swiss Textile Federation*

## **New Cumulation of Origin: Euro-Med Zone**

After years of difficult negotiations and an intensive persuasion campaign, the efforts of the Swiss textiles and clothing industry have at last been rewarded: on 1 January 2006, the EU-EFTA-Morocco cumulation arrangements entered into force. Arrangements with the remaining countries bordering on the Mediterranean are expected to follow in the near future.

The Swiss textiles and clothing industry in particular is dependent on the expansion of the pan-European cumulation zone to include the Mediterranean countries. The existence of a cumulation option is therefore a life-or-death matter for a number of firms. Allow me to explain.

## **Diagonal Cumulation from the Perspective of the Swiss Textiles and Clothing Industry**

In the past, the lack of a cumulation option covering the Mediterranean countries burdened especially the Swiss embroidery industry, to name but one example

in this context, with a huge competitive disadvantage vis-à-vis its European competitors. Over the past years, the production of ready-to-wear undergarments has increasingly shifted from inside the EU to low wage countries such as Morocco and Tunisia. And if semi-finished products from Switzerland were used to manufacture the ready-made underwear in those countries, the finished product could not be supplied to customers in the EU at the preferential rate of duty.

Euro-Med cumulation solves this problem: it permits the sourcing and subsequent processing of semi-finished products in various countries without the end-product losing its entitlement to preferential rates when it is imported into the EU. In concrete terms, this means that embroideries with Swiss preferential origin can be supplied duty-free to Morocco or Tunisia, for example, where they are then made into lingerie. The ready-to-wear lingerie can thereafter be supplied to customers within the EU, again free of duty. The same applies to export products from Switzerland for which the semi-finished products were supplied from the EU, from other EFTA countries, from Turkey, Bulgaria, Romania, and now from the Mediterranean region too.

## **No Cumulation means a Loss of Customers and Tighter Margins**

Especially in the textiles field, where duties remain a cost factor and margins are by necessity slim, cumulation of origin is of major importance if the preferential rate of duty is to be obtained. In the past, the fact that no cumulation was possible often caused the loss of attractive orders and customers. ■

# CHAPTER III

## STAKEHOLDERS' VIEWS

What has been the impact of EFTA's free trade agreements? How do our stakeholders view them? And what do they want from EFTA's third country policy in the future? To help us answer these questions and more, this chapter provides a forum for the views and perspectives of leading political, business and social figures in the EFTA Member States.

Iceland's Prime Minister kicks off by illustrating the positive effects of EFTA's FTAs on the Icelandic economy. Gregor Kundig, on behalf of Swiss industry, provides some pointers as to where to head next,

highlighting in particular larger markets that present important opportunities for Swiss business. Norwegian labour, through the voice of LO's Ingunn Yssen, recognises the benefits that EFTA's trade agreements bring to workers, but advises that the social effects of trade liberalisation must be taken into account. The Icelandic Chamber of Commerce addresses the relationship between EFTA's free trade agreements and trade creation. And Joseph Beck, representing the member companies of Liechtenstein's Chamber of Commerce and Industry, calls for EFTA to continue opening up trade — in parallel to ongoing efforts in the WTO. ■



The EFTA Consultative Committee is a forum for social partner organisations (trade unions and employers' organisations) in the four EFTA countries.

# EFTA'S THIRD COUNTRY RELATIONS: PROMOTING FREE TRADE



*By Geir H. Haarde,  
Prime Minister  
of Iceland*



Promotion of free trade has been at the core of Iceland's foreign trade policy for several decades. Closely intertwined with our foreign trade policy has been our economic policy, a key objective of which is to create an attractive and stable business environment to rival conditions anywhere in the world. Clearly, in today's global economy, businesses can easily move their operations in search of conditions that suit them best.

Iceland has benefited greatly from its free trade policy. Few countries have covered more distance in terms of economic development in such a short time. We have effectively moved from the status of a one-crop, highly regulated economy to a diversified liberalised economy in the space of just over 30 years. Icelandic companies have gone from being almost unknown in the international marketplace, save for the fisheries sector, to being noteworthy players in a range of sectors in some of the most important markets in the world.

Our participation in EFTA has played a key role in this process. The EFTA countries are important trading partners in the world trade arena. It often surprises people to find out that, combined, the EFTA countries account for approximately 2% of world trade (see table on page 37). This important but often overlooked fact

is in part due to the excellent international trading conditions which the EFTA States have achieved for their businesses.

EFTA started its third country policy by negotiating free trade agreements with former eastern bloc countries. EFTA kept "in step with Europe" and continued to provide its companies with a level playing field compared to other European companies. When the European Community turned its attention to the Mediterranean region, EFTA followed suit and has been active in negotiating FTAs with countries participating in the Barcelona Process. This has had the added benefit of allowing for EFTA's participation in the Euro-Med cumulation system, which allows for the cumulation of ingredients from the whole area at the time of establishing the origin of manufactured goods.

EFTA will continue to closely watch the evolution of the European Union's trade policy towards its neighbours, both within the framework of the European Neighbourhood Policy and through bilateral measures. Clearly, EFTA cannot afford to lag behind as regards improvement of trading relations with Russia and Ukraine. Some of the ENP countries might be relatively small players today, but we should not underestimate the positive effects that enhanced free trade with Europe can have for the economic development and political stability of these countries.

In recent years EFTA States' self-confidence has grown and they have therefore not necessarily confined themselves to keeping in step with the European Union. EFTA's third country policy will continue to aim at assuring operators in EFTA States that their trade regime is as good as the one enjoyed by EU competitors. EFTA States should also continue to negotiate with important partner countries irrespective of what the EU does. EFTA's FTA with Singapore has proved its value by increasing EFTA-Singapore trade.

But even more importantly, it has served as a catalyst for EFTA's activity in Asia, as has been demonstrated by the recently signed agreement with the Republic of Korea, the ongoing free trade negotiations with Thailand and the joint feasibility study of an FTA between EFTA and Indonesia underway. EFTA should of course follow this up and aim for FTAs with the largest economies in Asia, i.e., China, India and Japan.

**“Free trade allows countries to make the most of their comparative advantages by concentrating on what they do best and trading that against what other countries do best.”**

EFTA has served Iceland well during our 36 plus years of membership. Around 80% of our foreign trade is carried out through agreements that EFTA has negotiated, that is, the EFTA agreement itself, the EEA Agreement and the 14 FTAs between EFTA and third countries that are in force. Free trade allows countries to make the most of their comparative advantages by concentrating on what they do best and trading that against what other countries do best.

EFTA's free trade network is built on the multilateral trading system and supplements it in opening trade up even further. A strong rules-based trading system is more important now than ever before, particularly in the light of tendencies in some countries to regress to their national protectionism of the past — to the

detriment of their own economies and to the global economy as a whole.

It is for the political authorities to shape the conditions for free trade and for businesses to make use of those conditions. Certainly the latter's role is more glamorous but they are both equally important. It is a privilege to be part of the EFTA family, which has achieved so much in providing for better living conditions in our countries by promoting free trade. ■



Like its nature, Iceland's economy is dynamic. In a report published in May 2006 by the Confederation of Danish Industries that compares 29 OECD countries' business environments, Iceland comes out on top as the country most 'ready for globalisation'. © ISOPIX



## What the figures say...

### Leaders in world merchandise trade: 2005

(in billion USD and % — in nominal value terms)

| Rank | Country            | Exports      | Imports      | Total         | Share (%)  |
|------|--------------------|--------------|--------------|---------------|------------|
| 1    | EU 25 (extra-EU)   | 1 325        | 1 457        | 2 782         | 15.0       |
| 2    | United States      | 904          | 1 671        | 2 575         | 13.9       |
| 3    | China              | 762          | 660          | 1 422         | 7.7        |
| 4    | Japan              | 595          | 516          | 1 111         | 6.0        |
| 5    | Canada             | 360          | 314          | 674           | 3.6        |
| 6    | Hong Kong, China*  | 292          | 301          | 593           | 3.2        |
| 7    | Korea, Republic of | 284          | 261          | 545           | 2.9        |
| 8    | Mexico             | 214          | 221          | 435           | 2.3        |
| 9    | Singapore**        | 230          | 200          | 430           | 2.3        |
| 10   | <b>EFTA</b>        | <b>231</b>   | <b>180</b>   | <b>411</b>    | <b>2.2</b> |
| 11   | Chinese Taipei     | 189          | 182          | 371           | 2.0        |
| 12   | Russian Federation | 185          | 91           | 276           | 1.5        |
| 13   | Malaysia           | 141          | 115          | 256           | 1.4        |
| 14   | Thailand           | 110          | 118          | 228           | 1.2        |
| 15   | Australia          | 106          | 119          | 225           | 1.2        |
|      | <b>World</b>       | <b>9 123</b> | <b>9 458</b> | <b>18 581</b> | <b>100</b> |

Source: WTO and GTI World Trade Atlas

\* Hong Kong re-exports: 272 billion USD

\*\* Singapore re-exports: 105 billion USD

Notes: 2005 figures for certain countries and territories are preliminary estimates by the WTO Secretariat. Annual values and rankings are in some cases affected by continuity breaks in the time series and by limitations in cross-country comparability

# ECONOMIESUISSE



*By Gregor Kundig,  
Member of the Executive  
Board, Head International  
Affairs, economiesuisse*

Swiss business is a global business. Our companies and multinational corporations have close relations with major markets in the Americas, Asia and elsewhere. Swiss business supports open markets and free trade in both directions. Our companies — from financial services, pharmaceutical, chemical and engineering industries to watch making and textile industries — have adapted to the competitive forces of global trade and accepted the process of structural adjustment. In all these sectors, success is only possible with high value added services and excellent products.

These are the reasons why Swiss business, represented by economiesuisse, has always been a fervent supporter of open and reliable rules in foreign economic relations. Although the multilateral approach represented by the WTO comes closest to the ideals of Swiss business, the bilateral or regional free trade approach has always been considered complementary and offers additional assurances in international trade. It is obvious that EFTA's third country policy is of prime importance. The current network of 15 free trade agreements is highly esteemed. And new developments with partners such as SACU, the Republic of Korea, Algeria, the GCC and Ukraine will expand the network of existing agreements even further. Looking ahead, strengthening trade relations especially with big markets in Asia — and with those emerging in Latin America — is of particular interest to Swiss business.

Companies accept the fact that, in certain cases, EFTA agreements with third countries are concluded later than those by the EU. In the case of developing countries, companies can also live with non-reciprocity during the initial phase. Today's agreements usually include an agenda for opening the services markets. This is very much welcomed by the internationally oriented services sectors in Switzerland. Tariff reductions and the elimination of non-tariff barriers to trade (NTBs) in relation to industrial goods have also been welcomed. Opponents of FTAs sometimes minimise the impact of tariff reductions, especially in the case of advanced economies. Seen from a company's point of view, this argument is not a very valid one. Even a reduction of a few percentage points means a lot in terms of competitive gains and revenue earnings for a company. If, for instance, a competitor in an EU Member State can offer the same or similar machinery at somewhat better conditions than a Swiss company — due to a free trade agreement — then this may have a decisive impact on the deal.

Swiss companies are among the largest direct investors abroad and fully support the new generation of FTAs covering investment protection (see table page 39). In addition, the inclusion of stronger intellectual property protection and public procurement in EFTA's FTAs is important to Swiss business. In both areas, Swiss business can only gain from new and better rules.

Is Swiss business completely satisfied with all the activities regarding new FTAs? The answer is: almost. Business's appetite nowadays is for large and important markets such as those described in the new economic strategy of the Federal Council. There are good reasons to believe that major efforts are being undertaken to go this route. But this takes time, sometimes more than business really understands. For Swiss business, the case of the now stalled free trade talks with the USA — outside of the EFTA framework — was a very negative experience. Our complaint is closely linked to agricultural protectionism, a contentious issue in both regional and multilateral

trade negotiations. In EFTA negotiations, it is quite common that Switzerland has to make sacrifices in the industrial and services sectors because it does not have enough flexibility in agriculture.

**“Is Swiss business completely satisfied with all the activities regarding new FTAs? The answer is: almost.”**

Taken together, the balance of EFTA activities in the field of FTAs is a success story and merits the full support of business. The future could even be

brighter if EFTA succeeds in engaging in negotiations with some of the world's largest markets outside the OECD. Emerging markets are characterised by high growth rates, a fact which is of considerable importance in the promotion of business activities throughout the world. ■



## Leaders in FDI outflow: 2004

(in million USD and % — in nominal value terms)

| Rank     | Country            | FDI Outflow    | Share (%)  |
|----------|--------------------|----------------|------------|
| 1        | EU 25              | 279 830        | 38.3       |
| 2        | USA                | 229 294        | 31.4       |
| 3        | Canada             | 47 453         | 6.5        |
| 4        | Hong Kong, China   | 39 753         | 5.4        |
| 5        | Japan              | 30 951         | 4.2        |
| <b>6</b> | <b>EFTA</b>        | <b>29 667</b>  | <b>4.1</b> |
| 7        | Australia          | 16 288         | 2.2        |
| 8        | Singapore          | 10 667         | 1.5        |
| 9        | Brazil             | 9 471          | 1.3        |
| 10       | Russia             | 9 601          | 1.3        |
| 11       | Chinese Taipei     | 7 145          | 1.0        |
| 12       | Korea, Republic of | 4 792          | 0.7        |
| 13       | Mexico             | 2 240          | 0.3        |
| 14       | China              | 1 805          | 0.2        |
| 15       | Chile              | 943            | 0.1        |
|          | <b>World</b>       | <b>730 257</b> | <b>100</b> |

Source: UNCTAD

# SOCIAL CLAUSES IN TRADE AGREEMENTS – EFTA MUST FOLLOW UP ON EU INITIATIVES



*By Ingunn Yssen,  
International Secretary  
in the Norwegian  
Confederation of Trade  
Unions*

The international trade union movement has over the past years worked actively to gain acceptance for the inclusion of social clauses in international trade agreements. We believe that social clauses will contribute to promoting trade union rights and, in the broader sense, human rights in international trade. It is therefore important that authorities, when entering into free trade agreements, include social clauses that are based on the core conventions of the International Labour Organization, or that they encourage cooperation between the social partners to develop workers' rights and human rights in parallel with extended trade. This is not new or revolutionary, but a logical follow-up to policies that countries have already signed up to through their cooperation in the ILO. Most countries in the world are members of the ILO, which works towards establishing commonly agreed recommendations between the authorities and the social partners on the promotion of social justice and internationally recognised labour and human rights.

All EFTA countries are members of the ILO. Nevertheless, EFTA does not discuss the development of social clauses in its free trade agreements. EFTA has ever since its establishment in 1960 had an advisory committee (the EFTA Consultative Committee) made up of social partner representatives from member countries. This committee follows EFTA's work, and makes statements on all issues to be decided on. Over the last 2-3 years, the trade union side of the Committee has raised the importance of social clauses in free trade agreements. EFTA's ministers have been asked whether it is possible for EFTA to deal with the matter. They have answered politely that EFTA normally negotiates its trade agreements with countries that the EU will already have negotiated agreements with, and that it is parallelism with the EU that one wants first.

**“All EFTA countries are members of the ILO. Nevertheless, EFTA does not discuss the development of social clauses in its free trade agreements.”**

Closer examination shows that the EU has made a big step in the right direction in this field over the past few years. In the EU's bilateral trade agreement with Chile signed in 2002, Articles 10 and 11 state that the EU and Chile should establish a common consultative committee to promote dialogue and co-operation between the various economic and social organisations in the two parties, and that the EU and Chile will present proposals for regular meetings with representatives of the economic and social partners, including NGOs and civil society organisations. This is very positive, and a big step in the right direction. I do not know the details of these negotiations, but



I think the initiative came from the EU's Economic and Social Committee. This is the sister committee of EFTA's Consultative Committee in the EU. It has over the past years had great influence on the EU's institutions when it comes to putting comprehensive social involvement high on the agenda both in terms of trade and enlargement policy. In addition to the example of the EU-Chile Free Trade Agreement, I believe the Economic and Social Committee has played an important part in the EU's economic and social cohesion policy in connection with the 2004 enlargement. The Committee has also played a strong role in the work to include economic and social justice in the EU's negotiations with Romania and Bulgaria.

EFTA naturally looks towards the EU when setting its policy agenda and the argument of maintaining parallelism with the EU is often mentioned when EFTA discusses its relations with third countries and free trade agreements. The EU's Economic and Social Committee has already set a course and the EU has included clauses on democracy and justice in the development of its free trade agreements. Here, EFTA could make a big step and demand parallelism.

We would like to conclude by saying that the Norwegian Confederation of Trade Unions movement in principle welcomes the wide network of EFTA free trade agreements and recognises the positive impact these have and will continue to have on the EFTA labour markets. We therefore fully support a continuation of EFTA's third country policy, but would like to see a much stronger social dimension linked to this work. Social clauses and co-operation between social partners in EFTA and the relevant third countries have to be included and strengthened considerably. To achieve this, we ask EFTA ministers to look not only to the work of the ILO but more specifically to the work of the EU. A stronger social dimension now seems to be included in the development of the EU's free trade agreements. A much closer contact with EU social partners and EU civil society organisations has also been initiated on important issues linked to international trade. We would like to ask the EFTA ministers to engage with the EFTA social partners, in the context of the Consultative Committee, on

questions linked to free trade agreements. This would give us the opportunity to have in-depth discussions with the relevant authorities on the need for a stronger social dimension in EFTA's third country policy. ■

# ICELANDIC CHAMBER OF COMMERCE

*By the Icelandic Chamber of Commerce*

## The Benefits for Icelandic Businesses are Clear and Concrete

Local businesses do not exist anymore. They are a thing of the past. Some people may disagree and point out that surely there are businesses that are not affected by international trade. "People do not go abroad to get a haircut, do they?" The truth is that all businesses are affected by the terms of international trade in goods and services. Even if people do not cross borders to go to the hairdresser, the odds are that even your coiffeur uses imported products and is faced with competition from international chains of salons. In recent years, free trade agreements have been the engine for liberalising trade around the globe. There has been an explosion in the number of FTAs in the last 10 years and — no matter whether economists like or loath them — they have increased opportunities for trade. EFTA is at the forefront in the establishment of FTAs in the world. The great number of free trade negotiations recently concluded or being conducted by EFTA is in fact quite remarkable. The effects are felt by the Icelandic business community and the experience is that the FTAs have created new trade, and not distorted existing trade.

## What have FTAs done for Icelandic Businesses?

The free trade agreements concluded by EFTA have basically done two things for Icelandic businesses. Firstly, they have played an important role in ensuring that our businesses enjoy the same terms of trade as their European competitors in rising markets in eastern Europe, the Balkans, North Africa, Central and South America and Asia. This is a crucial function of EFTA FTAs, not least as Icelandic businesses may be tempted to move their operations to the EU if they believe that such a move would have a positive impact on their

opportunities to market their products in third countries. Secondly, FTAs have created new opportunities for Icelandic businesses, not least in those countries where EFTA has managed to sign FTAs at the same time or before the European Union, such as in Singapore and Mexico. So, on the one hand FTAs strengthen or secure the position of our companies in markets where they are already active and on the other hand they create opportunities in new, emerging markets. In both cases the benefits are real and tangible.

**“Free trade agreements are about the future — not the past. They are about creating and increasing value for businesses in the years to come.”**

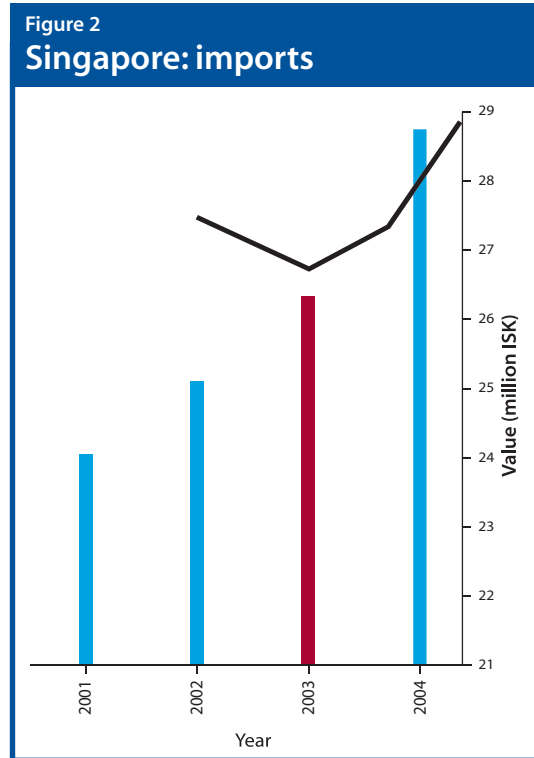
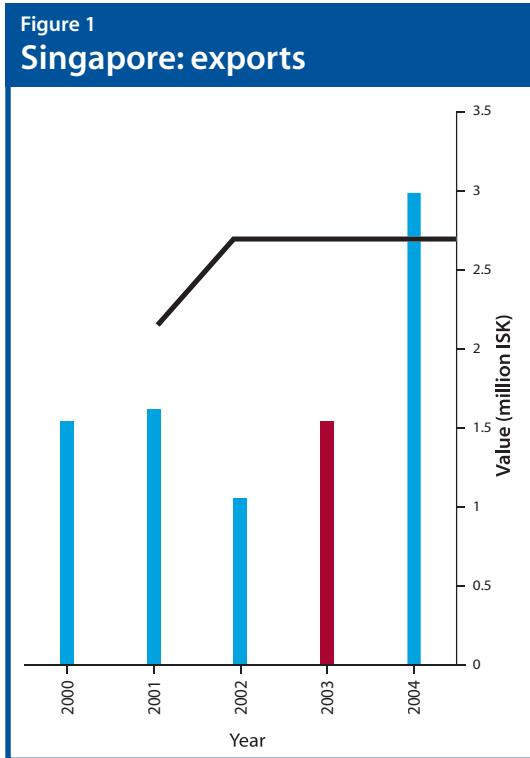
## Have the EFTA FTAs increased Trade for Icelandic Businesses?

Free trade agreements are about the future — not the past. They are about creating and increasing value for businesses in the years to come. Therefore, one should never judge the value of FTAs by simply referring to past trade figures or by looking towards their development over a shorter period of time. Still, economic data indicate that trade with countries with which EFTA has FTAs has increased more than the average growth of international trade. In other words, Iceland has benefited directly from the FTAs conducted by EFTA, as illustrated by Figures 1 and 2.

## Are there Concrete Examples of Trade Creation Effects?

Businesses make use of FTAs without many people being aware of it — or even without the businesses themselves realising why the terms of trade have suddenly become more beneficial! Hence, it is perhaps more likely that attention is drawn to FTAs when there

## What the figures say...



Figures 1 and 2 illustrate the development of trade between Iceland and Singapore. The EFTA-Singapore FTA entered into force in 2003. The curves indicate the general trend in Iceland's imports from and exports around the world over the same period.

Source: Icelandic Chamber of Commerce

is a danger that things might not be going according to plan. It is therefore fitting to take an example from a near miss — when there was the danger that an Icelandic company would not benefit from an FTA. The EFTA Agreement with Mexico was signed on 27 November 2000 and should have entered into force on 1 July 2001 for those EFTA States that had submitted their ratification papers, provided that Mexico had ratified the agreement as well. Otherwise, the Agreement should have entered into force 3 months after the ratification papers were put forward for the country in question. Due to some time constraints in the ratification process, it appeared that the Agreement would only enter into force late in 2002 for Iceland. When it became apparent that the entry into force of

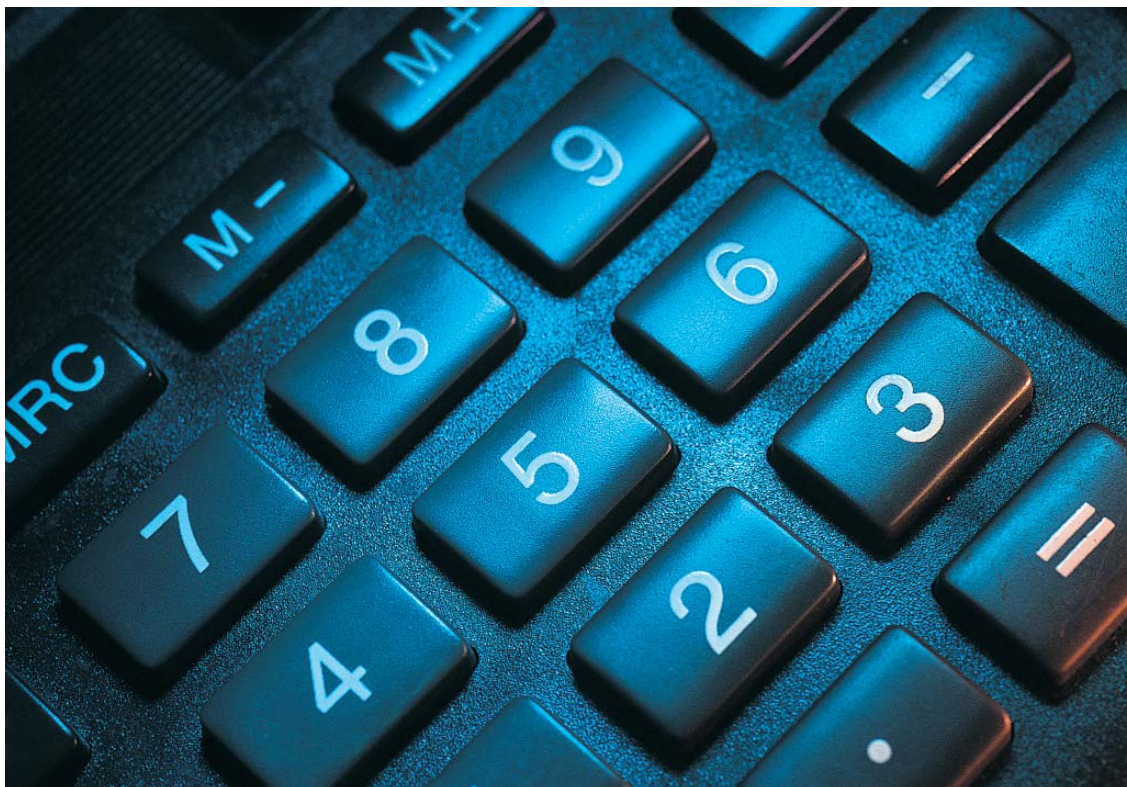
the agreement might be postponed, an Icelandic seafood company reported that it had made a sale worth 70 million euros in anticipation of the existence of the Agreement. In the end, it was possible to avert the delay and the sale materialised. Without the Agreement, the Icelandic company in question would have lost an opportunity that had a real impact on its revenue that year. There are other similar cases relating to imports and, perhaps more importantly, to the role of FTAs in solving problems in international trade, and to how FTAs have created a platform for long-term business relationships and mutual investments.

## Where should we go with FTAs?

Icelandic businesses have gone through substantial changes in recent years, especially relating to international trade. They are now stronger and have interests in more countries than ever before. One of the major changes that have taken place is that we now have much wider interests than was the case earlier. That is to say, there has been substantial diversification in Icelandic businesses where, for example, high technology, pharmaceuticals, financial services and aluminum play a much bigger part than before — even if seafood remains important. Another major change is the fact that we are now active in new and broader markets — in South America, Asia and Africa as well as in Europe and America. For Icelandic businesses, it is therefore

important to have comprehensive second generation FTAs not least in the rising markets in Asia. FTAs remove trade barriers and increase security and predictability in international trade. They are therefore an excellent aid when businesses move into new markets. It is consequently of great interest that the Chamber of Commerce in Iceland follows EFTA free trade negotiations, not least with Thailand, and looks forward to other possible negotiations, for example with China, India and Japan. Once Russia and Ukraine successfully conclude negotiations on their entry into the WTO, they will also become interesting partners. ■

**“FTAs remove trade barriers and increase security and predictability in international trade.”**



The Icelandic economy has diversified away from fish to such areas as banking and telecommunications. In 2005, the contribution of financial services to the GDP rose to 8%, surpassing that of fisheries for the first time.

# LIECHTENSTEIN CHAMBER OF COMMERCE AND INDUSTRY



*By Josef Beck,  
General Manager of the  
Liechtenstein Chamber of  
Commerce and Industry  
(LCCI) and Liechtenstein  
member of the EFTA  
Consultative Committee*

Liechtenstein is a diversified export nation with a high share of manufacturing and industrial production. Given its small and liberal domestic base, the industry is used to competing in the global market. Gaining access to and succeeding in foreign markets is a necessity for many of our companies if they are to reach their effective potential and operate at maximum efficiency.

The Liechtenstein Chamber of Commerce and Industry is a business association that represents the leading industrial companies, the country's three largest banks, and several services companies. In 2004, LCCI's industrial member companies exported to 150 different countries. Main destination markets were: the European Economic Area (45.5%), Asia/Pacific (23.9%), the Americas (17%) and Switzerland (11.7%). The US was our single most important trading partner. Many of our member companies do business in highly specialised niche markets; some of the industrial companies are among the world's leaders in their fields.

## Liechtenstein Business fully supports EFTA's Third Country Policy

In view of the high dependency on foreign trade, Liechtenstein's companies, needless to say, are highly interested in liberalised markets. All raw materials and many intermediate products are procured abroad and further processed in Liechtenstein before being sold to customers in foreign countries.

From our Chamber's perspective, the main benefits of the current EFTA network of free trade agreements to our industry result from:

- Enhanced legal security, locking in improved openness levels and pre-empting protectionism;
- Predictable market access rights for our highly export-oriented manufacturing industry. The services' part of the agreements should not be underestimated either, as today's cross-border trade in business services is among the fastest growing areas of international trade;
- Reduced barriers to trade. In the field of industrial goods, the free trade agreements ensure duty-free access for, most importantly, Liechtenstein's exports, but also for its importation of intermediary products (some partner countries, however, agreed to dismantle their tariffs on certain merchandise imports only at the end of a sometimes lengthy transition period). The agreements also provide a basis for discussing and in certain cases overcoming trade barriers of other kinds, such as non-tariff barriers, approvals, customs formalities, etc;





Liechtenstein has been in a customs union with Switzerland since 1924.

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- Better protection for our foreign direct investments. In this respect, it must be emphasised that, at the end of 2004, LCCI manufacturing companies had 187 subsidiaries abroad providing jobs for over 28 000 men and women.

For LCCI companies, therefore, the 15 EFTA free trade agreements in force have proved very valuable — especially with important trading partners such as the Republic of Korea and Singapore. Ongoing negotiations with Canada, Egypt, the Gulf Cooperation Council and Thailand, provided they result in agreements that cater to both partners' commercial interests, will bring further benefits for our members. It must be

**“Finally, it is important that companies are fully aware of the opportunities offered by the free trade agreements, so that they can take full advantage of them.”**

borne in mind that in a number of agreements, the full liberalisation benefits cannot yet be measured as they will materialise only after expiry of the period for dismantling tariffs. Finally, it is important that companies are fully aware of the opportunities offered by the free trade agreements, so that they can take full advantage of them. Although business associations

like ours definitely have a task in this respect, this information is widely spread in Liechtenstein by the public authorities through the local press.

With this in mind, the LCCI members are grateful to the Liechtenstein authorities for their twin-track approach of actively supporting the multilateral trade liberalisation agenda (Doha Round), on the one hand, and of further expanding EFTA's network of free trade agreements on the other. Overall, we view EFTA activities in the field of FTAs as a success. Clearly, the picture could be even further improved in the future if free trade agreements could be concluded with our key market, the United States, and leading Asia/Pacific markets such as Australia, China, Hong Kong, India, Japan and Chinese Taipei, and Russia and the United Arab Emirates. ■

## What the figures (don't) say...

### Measuring International Trade

International trade statistics provide valuable economic information that services a variety of needs in the public and private sectors. However, given the complexity inherent in the international trading system, the task of providing accurate and timely statistical data has proved challenging.

The pitfalls of providing accurate statistics, in trade or elsewhere, are not a recent phenomenon. The author Mark Twain pointed out that there are 3 types of commonly recognised untruths: “Lies, damn lies and statistics.”

In international trade, discrepancies in bilateral trade statistics occur quite frequently. In theory, the export data of one country should be the mirror image of its trading partners' import data. This is, however, seldom the case. The reasons for these discrepancies are manifold and include coverage, valuation, partner attribution, classification, time of reporting, and unreported trade.

Therefore, it has always been a major concern for the international community to harmonise concepts, methods and classifications for international trade statistics in order to get coherent and comparable data for all countries.

### How is international trade measured?

For statistical purposes, trade flows are divided into two main categories: goods and services. Whereas trade in goods is recorded in the balance of payment (BoP) and foreign trade statistics (ETS), only the BoP produces data on international trade in services. However, the boundary between goods and services is sometimes blurred: items classified as goods may include some element of services and vice versa.

BoP and ETS serve different purposes. When users need information on international transactions of not only goods, but also services, investments and financial assets, then the suitable information source is BoP. On the other hand, ETS can provide users with very detailed information on the in and outflows of goods.

There is also a third source of data on imports and exports: the system of national accounts. SNA aggregates should be used whenever data on exports and imports have to be analysed together with other macro-economic variables, like GDP, GNI, consumption, employment, etc.

For information on the EFTA States' bilateral trade statistics with partner countries, please visit: <http://www.efta.int/>



# CHAPTER IV

## REGIONAL TRADE AGREEMENTS AND MULTILATERAL TRADE LIBERALISATION: TWIN TRACKS TOWARDS THE SAME GOAL?

When EFTA was created in 1960, the organisation's objective was to establish a free trade area and eliminate tariffs and quantitative restrictions for industrial products. This was in contrast to the more ambitious project of creating a common market and “ever closer” union envisaged by the European Economic Communities (EEC) through the Treaty of Rome in 1957. These two parallel, but distinct, methods of integration are the first important examples of regional and economic integration. They were also the first major exceptions to the most favoured nation principle of the GATT.

MFN treatment is the key principle of the multilateral trading system. It states that member countries of the WTO cannot discriminate against other members. In practice, this means that if one member country opens up a market or grants another member special treatment, such as a lower customs duty rate for one of its products, then it must do the same for all other members. But there are exceptions to this rule. Most notably, countries that have established free trade areas or customs unions can give preferential treatment to goods or services traded within that group without affording others the same privilege.

With the proliferation of regional trade agreements in recent years, the debate on the relationship between regional integration agreements and the multilateral trading system has gained momentum. According to the WTO, there are approximately 300 regional trade agreements in force. The number and world share of these agreements has dramatically increased in the past 10 years and they have now become a major feature of the global trading system. One has the impression nowadays that whenever two

or more trade ministers meet, they decide to negotiate a free trade agreement.

Does this mean that countries negotiating FTAs, including the EFTA States, are abandoning the multilateral framework? Certainly not as far as the EFTA States are concerned. All four EFTA Member States hold the view that regional trade agreements are a supplement to the WTO — not an alternative. However, we have to acknowledge that there is, in practically all parts of the world, a growing interest in free trade agreements. Given the fact that practically all WTO Members are members of at least one regional trade agreement, the question of compatibility between both tracks deserves to be raised.

The relevance for EFTA is clear. As such, the final chapter of this edition of the Bulletin will further explore this issue through contributions from some of the most experienced and influential decision-makers in the field. WTO Director-General, Pascal Lamy, EU Commissioner for External Trade, Peter Mandelson, and OECD Deputy Director for Trade, Ken Heydon, weigh in from their respective points of view. ■



# THE WTO AS AN INSURANCE POLICY AGAINST BAD REGIONAL TRADE AGREEMENTS



*By Pascal Lamy,  
Director-General of the  
World Trade Organization*

The proliferation of regional trade agreements has become a growing feature of today's global trading environment. The spheres and respective roles of bilateral/regional versus multilateral trade is now a constant subject of debate. There is a tendency today to present them as mutually exclusive, but the reality is that most Members of the World Trade Organization have pursued trade liberalisation through a three-track approach: multilateral, bilateral/regional as well as unilateral. Currently, around 300 RTAs are said to exist and some 50% of world trade is conducted under preferential arrangements of some type.

Countries' incentives for entering into RTAs are manifold, ranging from process, to political, as well as economic considerations. Indeed, since RTAs involve fewer parties than multilateral negotiations, RTAs can be concluded within a shorter period of time. In particular, the slow progress in multilateral trade opening is often used by countries to justify

considering alternative means to liberalise trade. Furthermore, coverage of RTAs can be broader and deeper than what can be achieved in WTO negotiations. Because of similarities in interests and common values, RTA parties can go into new areas such as investment, competition, labour standards or the environment. This is where the WTO has difficulty stepping in. Moreover, short-term political or geo-strategic considerations may lead countries to enter into RTAs with a limited number of partners, discriminating against all other WTO Members.

Regional trade agreements are also useful for negotiators to learn how to negotiate and become comfortable with the difficult terminology of trade, thus contributing to building and reinforcing a country's trade institutions. Many regional trade agreements have been the bedrock for peace and greater political stability. The European Union, a project originally built around the elimination of barriers to trade among European countries, is often quoted as an example. Similarly, there can be no doubt that the trade agreements with the EU helped many of the former Soviet bloc countries to make the transition towards integration in the EU.

But RTAs also have important downsides. The first one is discrimination. RTAs are discriminatory to those not party to the them, thus eroding one of the WTO's cornerstones — the principle of non-discrimination. In fact, RTAs often create an incentive for even further discrimination. This occurs when countries outside the RTA try, in turn, to conclude agreements with members that are already parties to

such RTAs. It is interesting to note that this 'race to the RTA' in reality translates into a dilution of the preferences for the original parties to the RTA.

Secondly, trade diversion effects of RTA preferences can lead to welfare losses for members outside the RTAs. Thirdly, bilateral trade agreements complicate the trading environment. Exporters are now facing a 'spaghetti bowl' of different rules which reduce transparency and increase the costs of doing business for economic operators. Moreover, we have seen that the increasing number of regional trade initiatives have diverted negotiating energy and resources from the multilateral forum, making it more difficult to reinforce the WTO system. Finally, RTAs can work against multilateralism, in as much as they create a 'mass' of preferences, the erosion of which can be resisted.

From the above, it is clear that while RTAs have the capacity to complement the multilateral trading system, they can also be a source of trade diversion and difficulty. Mindful of these shortcomings, the old GATT fathers and, more recently the WTO, have imposed disciplines on members relating to the way they design their bilateral or regional trade accords. These disciplines seek to ensure that RTAs do indeed complement the WTO system. In other words, the primacy of WTO rules over RTAs is an 'insurance policy' against the spaghetti bowl of abusive RTAs.

At the heart of this conception lies the belief that the bilateral/regional trade route and the multilateral trade route can be pursued together in a fruitful manner. If RTAs are often 'easier' to negotiate than WTO multilateral rules, some important trade issues will

not be handled effectively in bilateral/regional trade agreements. Take for instance negotiations to eliminate or reduce trade distorting agricultural subsidies, or fisheries subsidies. Take also rules on trade facilitation, which are more efficiently negotiated multilaterally because improved bilateral border rules may only minimally reduce the costs imposed on traders faced with multiple and sometimes contradictory customs rules. The same can be said of anti-dumping rules.

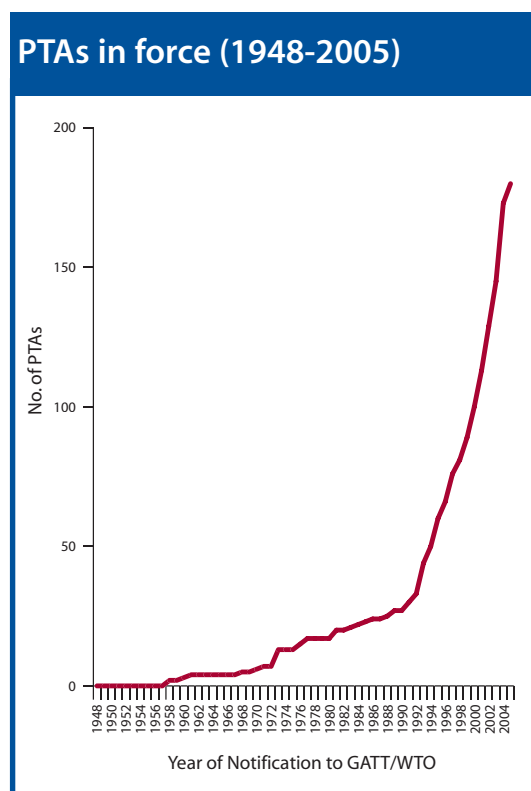
Moreover, bilateral dispute settlement arrangements cannot replace the multilateral WTO dispute settlement system, the benefits of which derive from the general application and implications of the Dispute Settlement Body rulings. Finally, faced with globalisation and its harsh consequences for weaker players, the WTO remains the most important multilateral forum to harness

the opportunities of globalisation for the benefit of all its Members. The weight and influence of smaller and weaker countries is much stronger around the WTO table than in a bilateral 'face à face' with larger economies such as the USA, EU or nowadays China.

Regional trade agreements will remain important, but it is necessary that their monitoring and surveillance be improved. The surveillance function of the WTO in this regard needs to be strengthened. This is part of the ongoing WTO negotiations under the Doha Development Agenda. WTO negotiators are now reasonably close to an agreement that will bring far greater transparency to RTAs. Information and data are to be made available under the new agreement, including to the public at large. That will allow far better understanding, and will better facilitate WTO surveillance. It will be a significant step forward in our ability to assess the pros and cons of RTAs, and will help us to strengthen the entire multilateral trading system.

A strong and modern multilateral trading system coupled with regional trade agreements which amplify rather than undermine its benefits is what we have at hand now. I trust all 150 WTO Members will not waste this unique opportunity! ■

## What the figures say...



Source: WTO

**“... it is clear that while RTAs have the capacity to complement the multilateral trading system, they can also be a source of trade diversion and difficulty.”**

# THE EUROPEAN UNION'S POLICY ON REGIONAL FREE TRADE AGREEMENTS



*By Peter Mandelson,  
EU Commissioner for  
External Trade*

## Regionalism vs. Multilateralism

This is a good moment to examine the growth in the number of bilateral regional trade agreements as trading partners of the WTO are poised at a decisive moment in the Doha Round.

The rate with which new RTAs are formed is increasing and the world share of preferential trade is steadily growing. The sheer number of RTAs is eroding international trade under the most favoured nation treatment.

To be fair, the European Union has itself developed as the product of an ambitious process of deep and wide-ranging regional integration and is today also the world's largest user of RTAs, with 22 concluded, covering 24 countries or territories (see page 54). Our initiatives involve a great number of partners and respond to a combination of geo-political, development and market opening objectives:

- Our arrangements with neighbouring countries could be seen as predominantly geo-political;

- Development objectives are at the heart of the EU's efforts to conclude Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries;
- Our agreement with Mexico had a mainly commercial rationale in addition to other goals.

Multilateralism and regionalism should be made mutually supportive. The EU's past actions are a living example of that. We have enlarged, integrated and deepened our relations with partners around the globe, while, simultaneously, taking active part in the WTO and multilateralism at large. This will continue and the EU has confirmed on many occasions that its commitment to the development of global rules is the heart of its external economic policy.

Having said this, regional integration should be welcomed, not feared, provided that it is 'open' integration which does not raise barriers towards third countries, and that it serves as a stepping stone to global openness. The process of integration in the EU has led to increased growth rates which have benefited third countries.

The lesson of the EU is that integration needs to be real, deep and wide. It must also be non-discriminatory and conform to WTO rules. If everybody is to gain from RTAs in the long-term, it is important to avoid a situation where the agreements form a complex selection of à la carte RTAs which only trade connoisseurs can understand and which collectively reduce the potential for transparent and fair trade.

RTAs may help to prepare for further multilateral liberalisation and provide the basis for more far-reaching trade liberalisation, and the elimination of

non-tariff barriers to trade, than has been possible in the WTO so far. However, RTAs, if they are not properly designed and carefully timed, may also divert attention from, and create vested interests against, multilateral liberalisation.

**“Multilateralism and regionalism should be made mutually supportive.”**

These are the conflicting tensions between regionalism and multilateralism and such considerations have guided the EU to prioritise the Doha Development

Agenda. Nevertheless, during the last years, and in parallel with the DDA, the EU has been negotiating a number of new RTAs based on earlier commitments.

## Rules for RTAs

It is important to safeguard the integrity of the WTO in the light of the recent surge in RTAs. Making sure that RTAs are in full compliance with existing WTO rules is a first step.

The present WTO disciplines and the review of RTAs have been challenged by the plethora of RTA initiatives worldwide. RTAs involving developing countries are subject to existing WTO provisions although for agreements in trade in goods between developing countries, the Enabling Clause is also relevant.

We need to clarify and, where necessary, tighten the WTO rules for RTAs as well as to improve the transparency requirements for all RTAs, by establishing a form of review mechanism of individual RTAs.

Members have committed themselves to negotiate these issues in the ongoing Doha Round in the WTO. Collectively, the WTO membership now has an obligation to live up to this commitment and ensure that progress is being made. For the EU, this area remains one of our priorities in the DDA.

## Regional Integration and Development

The mandate for negotiations on RTA rules in the DDA explicitly acknowledges the importance of the development dimension of regional agreements.

Regional integration can play an important role in supporting economic development through the creation of additional trade and investment opportunities, economies of scale and accompanying measures that support structural and regulatory reforms. The benefits

of RTAs are maximised when all parties to regional agreements pursue a high level of reciprocal market opening and regulatory harmonisation or convergence. Experience has shown that the benefits of RTAs are maximised when partners pursue an open approach to trade policy with third countries within the multilateral framework. This is as true for agreements among developing countries as it is for agreements between developing and developed countries or among developed countries alone.

I believe that it is important to recognise that the ability of many developing countries to adjust to greater competition on their domestic markets, or take full advantage of additional market access opportunities, can be constrained by their own individual level of development. There is strong divergence between the rapidly emerging economies without tariff preferences and the G-90 countries with them; between those who want aggressive liberalisation — in agriculture, at least — and those who need a greater comfort zone to adjust gradually to global trade, increased competition and reduced preferences. Recognising these differences is not an attempt to ‘divide and rule’... differentiation between developing countries is a moral imperative that will help development, not impede it. So let us do away with the politically correct fallacy that developing countries are all alike and have the same interests.

In the context of RTAs, particular difficulties facing developing countries need to be taken into account in order to support their greater integration into the multilateral trading system. Aspects to consider in this respect include the length of the transition period, the level of final trade coverage and the degree of asymmetry in terms of timetables for tariff reduction and elimination.

A further issue to be borne in mind when undertaking new FTA initiatives is the unavoidable erosion of preferences that results from them, and their possible negative impact on development. A clearer picture of preference erosion would require an analysis of the exports of the least developed countries currently benefiting from preferences and those of the potential FTA partner. In the case of FTAs with emerging markets, the erosion of preferences would probably be limited to a very specific number of products, given the differences in export composition. These analyses would however be static and would not capture the evolution in diversification that we are aiming at in ACP countries. We should therefore make a political assessment of the priority that we still want to attach to the development aspect of trade policy.

## Future Policy

Some countries have chosen to pursue RTA negotiations in parallel with the Doha Round. Especially in Asia, there is much ongoing activity to consolidate and strengthen the links between ASEAN countries, China, the Republic of Korea, Japan and India. In addition, the United States is increasing its economic influence in the region through RTAs.

There are evident risks to the EU's economic interests if other industrialised countries continue to conclude RTAs with countries from the dynamic Asian region.

We are looking hard at those risks but have decided to give top priority to the multilateral route.

**“... depending on progress in the DDA, the policy of holding back on launching new RTAs may be reconsidered.”**

I have always said that depending on the progress in the DDA and on the worldwide development of RTA initiatives, in general and among the EU's main trading partners in particular, the policy of holding back on launching new RTAs may be reconsidered. The launch of additional regional or other bilateral negotiations is not precluded. But of course, this is something that, first and foremost, I would envisage after the conclusion of a successful DDA.

The EU will review, on a case-by-case basis, all new proposals for RTAs against the potential realisation of EU economic, political or other interests, including support for the development of the multilateral trading system. I am convinced that new initiatives should be designed to genuinely improve trade and development prospects of the parties involved, while seeking 'WTO+' outcomes in the negotiations. ■

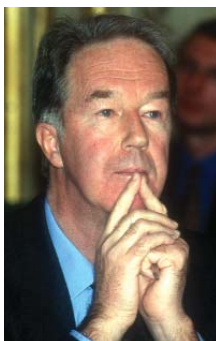
## EFTA and EU free trade networks

|  | Number of countries and territories (June 2006) | Population: 2004 (millions) | GDP: 2004 (billions, constant 2000 USD) |
|--|---|-----------------------------|---|
| <b>EFTA-EU FTAs</b>                              | <b>29</b>                                       | <b>467 583</b>              | <b>9 209.4</b>                          |
| 1 EU   | 25  | 455 297                     | 8 768.0                                 |
| 2 Iceland  | 1   | 290                         | 9.4                                     |
| 3 Liechtenstein                                  | 1   | 34                          | n.a.                                    |
| 4 Norway   | 1   | 4 580                       | 179.6                                   |
| 5 Switzerland                                    | 1   | 7 382                       | 252.4                                   |
| <b>Partners with which EFTA and EU have FTAs</b> | <b>15</b>                                       | <b>334 068</b>              | <b>1 390.9</b>                          |
| 1 Bulgaria                                       | 1   | 7 780                       | 15.2                                    |
| 2 Croatia  | 1   | 4 507                       | 21.9                                    |
| 3 Faroe Islands (Denmark) <sup>1</sup>           | 1   | 48                          | 1.6                                     |
| 4 Former Yugoslav Republic of Macedonia (FYROM)  | 1   | 2 062                       | 3.7                                     |
| 5 Romania  | 1   | 21 857                      | 46.2                                    |
| 6 Israel   | 1   | 6 797                       | 120.1                                   |
| 7 Jordan   | 1   | 5 308                       | 10.0                                    |
| 8 Lebanon <sup>2</sup>                           | 1   | 4 553                       | 19.8                                    |
| 9 Morocco  | 1   | 30 586                      | 39.8                                    |
| 10 Palestinian Authority                         | 1   | 3 508                       | 3.0                                     |
| 11 Tunisia                                       | 1   | 10 001                      | 23.2                                    |
| 12 Turkey  | 1   | 71 727                      | 229.3                                   |
| 13 Chile   | 1   | 15 956                      | 86.9                                    |
| 14 Mexico  | 1   | 103 795                     | 619.5                                   |
| 15 South Africa <sup>3</sup>                     | 1   | 45 583                      | 150.7                                   |
| <b>EFTA only free trade partners</b>             | <b>6</b>  | <b>59 163</b>               | <b>728.7</b>                            |
| 1 Botswana <sup>3</sup>                          | 1   | 1 726                       | 6.4                                     |
| 2 Korea, Republic of <sup>4</sup>                | 1   | 48 142                      | 613.5                                   |
| 3 Lesotho <sup>3</sup>                           | 1   | 1 808                       | 1.0                                     |
| 4 Namibia <sup>3</sup>                           | 1   | 2 033                       | 3.9                                     |
| 5 Singapore                                      | 1   | 4 335                       | 102.5                                   |
| 6 Swaziland <sup>3</sup>                         | 1   | 1 119                       | 1.5                                     |
| <b>EU only free trade partners</b>               | <b>4</b>  | <b>101 203</b>              | <b>178.5</b>                            |
| 1 Algeria  | 1   | 32 372                      | 64.1                                    |
| 2 Egypt  | 1   | 68 737                      | 114.3                                   |
| 3 Andorra  | 1   | 66                          | n.a.                                    |
| 4 San Marino                                     | 1   | 28                          | n.a.                                    |
| <b>Total</b>                                     |   |                             |   |
| EFTA   | <b>50</b>                                       | <b>860 814</b>              | <b>11 329.0</b>                         |
| EU   | <b>48</b>                                       | <b>902 854</b>              | <b>10 778.8</b>                         |
| <b>Ongoing FTA negotiations</b>                  |   |                             |   |
| <b>EFTA</b>                                      | <b>9</b>  | <b>197 026</b>              | <b>1 410.4</b>                          |
| 1 Canada   | 1   | 31 902                      | 788.4                                   |
| 2 Egypt  | 1   | 68 737                      | 114.3                                   |
| 3 Gulf Cooperation Council (GCC) <sup>5</sup>    | 6   | 34 000                      | 358.0                                   |
| 4 Thailand                                       | 1   | 62 387                      | 149.7                                   |
| <b>EU</b>  | <b>20</b>                                       | <b>315 085</b>              | <b>1 365.461</b>                        |
| 1 Albania  | 1   | 3 187                       | 4.7                                     |
| 2 Gulf Cooperation Council (GCC) <sup>5</sup>    | 6   | 34 000                      | 358.0                                   |
| 3 MERCOSUR <sup>6</sup>                          | 4   | 227 000                     | 909.0                                   |
| 4 Bosnia & Herzegovina                           | 1   | 3 836                       | 5.3                                     |
| 5 Serbia & Montenegro                            | 2   | 8 152                       | 10.4                                    |
| 6 Central America <sup>7</sup>                   | 6   | 38 91                       | 78.1                                    |

Source: 2004 GDP and population figures: World Bank, World Development Indicators



# REGIONALISM AND THE MULTILATERAL TRADING SYSTEM: GOING BEYOND THE WTO



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As regional trade agreements grow in number, it is timely to explore the nature of the complementarity between the multilateral trading system and RTAs. It is particularly appropriate to focus on the rule-making dimension of regional trade agreements as a complement to the more established — though by no means complete — work on the assessment of the welfare effects of preferential regional trade agreements, i.e., the traditional Vinerian study of trade creation and trade diversion.

## Going beyond the WTO?

RTAs frequently go beyond the WTO. The diversity of the examples is as rich as the underlying diversity of the issues themselves.

In the area of services, many RTAs, unlike the General Agreement on Trade in Services, adopt a top down or

negative list approach, whereby all sectors and non-conforming measures are to be liberalised unless otherwise specified. Negative listing can generate a standstill by locking in the regulatory status quo while also promoting increased transparency and a commitment to an overarching set of obligations. In the area of labour mobility, several RTAs contain provisions that go beyond the (mode 4) provisions of the GATS by providing for full national treatment and market access for service suppliers or special market access or facilitated access for certain groups.

RTAs with rules on investment usually go beyond anything found in the WTO in that they contain provisions on the right of establishment, an obligation that does not exist in any WTO agreement. And many RTAs reach beyond the question of establishment and the free flow of capital by building on treatment and protection principles of bilateral investment treaties.

Given the embryonic nature of competition-related disciplines in the WTO, most RTAs almost by definition go beyond WTO provisions — either by containing general obligations to take action against anti-competitive business conduct or by calling for coordination of specific competition standards and rules.

RTA provisions dealing with trade facilitation increasingly acknowledge that technological developments may render established procedures inefficient. Hence calls at the regional level for the introduction of modern techniques and new

<sup>9</sup>The views in this paper are those of the author and are not necessarily shared by the members of the OECD.



technology, such as advanced risk management and systematic cargo profiling techniques.

In dealing with government procurement, some RTAs have gone beyond the WTO Agreement on Government Procurement (GPA) by enlarging the scope of commitments or by allowing for the provision of additional information. Some have widened the scope by covering more entities; others have reduced the thresholds of procurement contracts covered.

Most RTAs dealing with intellectual property rights have more far-reaching provisions than those found in the WTO Agreement on Trade-Related Aspects of Intellectual Property. They have shorter transition periods than those under the TRIPS Agreement and adhere to international accords (such as the Patent Co-operation Treaty) which embody features — such as procedural requirements — not contained in the TRIPS Agreement.

In the area of contingency protection, a number of RTAs have gone beyond WTO disciplines by, for example, eliminating in internal trade all subsidies affecting trade flows or by adopting disciplines on subsidies that are stronger than those contained in the WTO.

RTAs containing provisions, or side agreements, on the environment go beyond the WTO by requiring periodic reports on the state of the environment, by providing that in cases of conflict, parties' obligations under certain multilateral environment agreements shall prevail over those under the RTA, and by admonishing parties against relaxing environmental laws for the purpose of encouraging trade or investment. Some agreements go beyond discouraging relaxation of standards and include language on the enforcement of domestic environmental laws.

RTAs also go beyond the WTO in dealing with asymmetries between members by: employing non-economic criteria in determining eligibility for asymmetric obligations, providing for asymmetric liberalisation commitments, offering differential rules of origin among members in order for goods to qualify for originating status, and in providing for financial support to aid the adjustment process, e.g., resulting from lower tariff revenue.

## Convergence?

RTAs can have a harmonising role by drawing on or replicating underlying WTO approaches. While RTAs can have more far-reaching provisions than those found in the WTO, they are nevertheless most commonly rooted in underlying WTO approaches and principles, for example: by using GATS language verbatim, by being modeled upon the GPA, by affirming provisions of the TRIPS and TRIMS Agreements and by containing environmental exception clauses similar to those found in Article XX of the GATT.

To the extent that they draw on international agreements, regional initiatives also serve to foster moves towards wider harmonisation. This is illustrated, in the field of trade facilitation, by the frequent references in RTAs to the Kyoto Convention on the simplification and harmonisation of customs procedures.

Regional initiatives in certain areas may also, in themselves, help forge common approaches. While there is, for example, a marked proliferation of investment agreements, at the bilateral and regional level, with associated concerns about treaty congestion, there is an apparent convergence of investment provisions towards what might be described as an implicit international standard. This happens, first, through bilateral investment treaties, which as side BITs are often associated with RTAs and often based upon model BITs, and, second, through RTAs that closely resemble or build upon the North American Free Trade Agreement investment provisions. Indeed, just as most BITs are based on model BITs, the NAFTA investment provisions have in many cases become a sort of model RTA investment chapter.

## Divergence?

The proliferation of regional trade agreements is nevertheless also a source of divergence. Convergence at the regional level will not always translate into a harmonised approach internationally. With intellectual

**“To the extent that they draw on international agreements, regional initiatives also serve to foster moves towards wider harmonisation.”**



**“The patchwork of regional initiatives may also give rise to systemic frictions... or systemic overload.”**

property rights, for example, while increasing the degree of harmonisation of approaches to IPR protection within a regional grouping, IPR-related provisions may diverge in their content between RTAs.

Among regional agreements in the Americas, there are presently two distinct approaches to the relationship between competition policy and anti-dumping action. In one case, there is provision for the reciprocal elimination of anti-dumping actions in the context of competition policy, in the other, a party's right to apply anti-dumping measures is maintained.

A serious practical consequence of divergent approaches among RTAs is an increase in transaction costs for business. This is particularly evident in the area of rules of origin. It is not uncommon for a single country to have to apply several different sets of rules, depending on the RTAs to which it belongs. This complicates both the production and sourcing decisions of companies established, or considering establishment, in that country.

The patchwork of regional initiatives may also give rise to systemic frictions. For example, the pursuit of strengthened multilateral disciplines on contingency protection may not be aided by the plethora of approaches at the regional level, where:

- some RTAs have eliminated the possibility of using anti-dumping and countervailing duties, while allowing the use of safeguard measures in relations between members;
- others have eliminated the possibility of using anti-dumping and safeguards but have retained the possibility of using countervailing duties;
- still others have kept the possibility of using both anti-dumping and countervailing duties, but have eliminated the use of safeguard measures.

In other areas, regional approaches may lead not so much to systemic frictions — because there is no direct tension with WTO rule-making — but rather to systemic overload. An example arises in the area of investment, where the proliferation of agreements has given rise to a considerable increase in the case load of various dispute settlement mechanisms.

## Drawing Lessons

Two broad policy lessons can be drawn, each of which supports the broad observation that regional trade agreements can complement but cannot substitute for coherent multilateral rules and progressive multilateral liberalisation.

The first lesson is that many consequences of RTA activity bolster the case for a strengthened multilateral framework for trade and investment. This applies particularly to the contribution of regionalism to divergence from the rules of the multilateral system, to the effects which the patchwork of regional agreements can have on non-members of those agreements and to the role of regionalism in raising transaction costs for business. These elements are compounded by the fact that regionalism has often failed to crack the hardest nuts.

The second lesson we can draw from experience with regionalism is that while some consequences of RTA activity contribute to the case for strengthening the multilateral framework, there are features of regional approaches that may nevertheless complement such strengthening or even be drawn upon in designing strengthened multilateral rules.

Nevertheless, while RTA experience might be drawn upon for careful and selective application multilaterally, particularly where RTAs are tackling issues specifically referred to in the Doha Declaration, it is unlikely that analysis of RTA provisions and practices will lead to overarching conclusions about best practice. All RTAs are driven in large measure by very specific geo-political considerations. Their role in the trading system, though important for trade policy, will always be seen by the participating governments in the broader context of the political and strategic objectives that the agreements seek to serve. ■

# ANNEX I

## EFTA's free trade partners in merchandise trade: 2005

(in million USD and %)

| Rank No | Country                    | Total trade mn USD | Share %     | Exports mn USD | Share %     | Rank No     | Imports mn USD | Share %     | Rank No     |
|---------|----------------------------|--------------------|-------------|----------------|-------------|-------------|----------------|-------------|-------------|
|         | <b>World</b>               | <b>411 211</b>     | <b>100</b>  | <b>230 849</b> | <b>100</b>  | <b>n.a.</b> | <b>180 362</b> | <b>100</b>  | <b>n.a.</b> |
|         | <b>Free Trade Partners</b> | <b>317 893</b>     | <b>77.3</b> | <b>172 870</b> | <b>74.9</b> | <b>n.a.</b> | <b>145 023</b> | <b>80.4</b> | <b>n.a.</b> |
|         | <b>EU 25</b>               | <b>300 220</b>     | <b>73.0</b> | <b>162 164</b> | <b>70.2</b> | <b>n.a.</b> | <b>138 056</b> | <b>76.5</b> | <b>n.a.</b> |
| 1       | Germany (EU)               | 84 764             | 20.61       | 37 773         | 16.36       | 1           | 46 991         | 26.05       | 1           |
| 2       | United Kingdom (EU)        | 42 481             | 10.33       | 33 220         | 14.39       | 2           | 9 262          | 5.14        | 5           |
| 3       | France (EU)                | 34 532             | 8.40        | 20 840         | 9.03        | 3           | 13 692         | 7.59        | 3           |
| 4       | Italy (EU)                 | 27 809             | 6.76        | 12 837         | 5.56        | 5           | 14 972         | 8.30        | 2           |
| 5       | Netherlands (EU)           | 22 997             | 5.59        | 14 605         | 6.33        | 4           | 8 392          | 4.65        | 6           |
| 6       | Sweden (EU)                | 17 643             | 4.29        | 8 084          | 3.50        | 6           | 9 559          | 5.30        | 4           |
| 7       | Spain (EU)                 | 12 511             | 3.04        | 8 046          | 3.49        | 7           | 4 465          | 2.48        | 11          |
| 8       | Belgium (EU)               | 10 243             | 2.49        | 4 973          | 2.15        | 8           | 5 270          | 2.92        | 9           |
| 9       | Austria (EU)               | 10 159             | 2.47        | 4 286          | 1.86        | 10          | 5 873          | 3.26        | 7           |
| 10      | Denmark (EU)               | 9 447              | 2.30        | 4 429          | 1.92        | 9           | 5 018          | 2.78        | 10          |
| 11      | Ireland (EU)               | 7 759              | 1.89        | 2 212          | 0.96        | 11          | 5 547          | 3.08        | 8           |
| 12      | Finland (EU)               | 4 485              | 1.09        | 2 007          | 0.87        | 13          | 2 478          | 1.37        | 12          |
| 13      | Poland (EU)                | 3 679              | 0.89        | 2 009          | 0.87        | 12          | 1 670          | 0.93        | 13          |
| 14      | Korea, Republic of         | 3 033              | 0.74        | 1 815          | 0.79        | 15          | 1 218          | 0.68        | 15          |
| 15      | Czech Republic (EU)        | 2 975              | 0.72        | 1 667          | 0.72        | 16          | 1 308          | 0.73        | 14          |
| 16      | Turkey                     | 2 872              | 0.70        | 1 928          | 0.83        | 14          | 945            | 0.52        | 18          |
| 17      | Singapore                  | 2 079              | 0.51        | 1 642          | 0.71        | 17          | 438            | 0.24        | 22          |
| 18      | Portugal (EU)              | 1 948              | 0.47        | 1 379          | 0.60        | 18          | 568            | 0.32        | 20          |
| 19      | Hungary (EU)               | 1 774              | 0.43        | 824            | 0.36        | 21          | 951            | 0.53        | 17          |
| 20      | South Africa               | 1 579              | 0.38        | 590            | 0.26        | 23          | 989            | 0.55        | 16          |
| 21      | Greece (EU)                | 1 269              | 0.31        | 1 092          | 0.47        | 19          | 177            | 0.10        | 34          |
| 22      | Mexico                     | 1 115              | 0.27        | 932            | 0.40        | 20          | 183            | 0.10        | 32          |
| 22      | Norway                     | 1 115              | 0.27        | 560            | 0.24        | 24          | 555            | 0.31        | 21          |
| 24      | Israel                     | 1 061              | 0.26        | 637            | 0.28        | 22          | 424            | 0.24        | 30          |
| 25      | Switzerland                | 963                | 0.23        | 312            | 0.14        | 29          | 651            | 0.36        | 19          |
| 26      | Romania                    | 904                | 0.22        | 533            | 0.23        | 25          | 371            | 0.21        | 25          |
| 27      | Luxembourg (EU)            | 785                | 0.19        | 495            | 0.21        | 26          | 290            | 0.16        | 29          |
| 28      | Slovakia (EU)              | 705                | 0.17        | 322            | 0.14        | 28          | 383            | 0.21        | 24          |
| 29      | Lithuania (EU)             | 592                | 0.14        | 233            | 0.10        | 31          | 359            | 0.20        | 26          |
| 30      | Slovenia (EU)              | 493                | 0.12        | 265            | 0.11        | 30          | 228            | 0.13        | 30          |
| 31      | Estonia (EU)               | 487                | 0.12        | 150            | 0.06        | 39          | 336            | 0.19        | 27          |
| 32      | Iceland                    | 477                | 0.12        | 364            | 0.16        | 27          | 113            | 0.06        | 37          |
| 33      | Latvia (EU)                | 452                | 0.11        | 225            | 0.10        | 33          | 227            | 0.13        | 31          |
| 34      | Morocco                    | 347                | 0.08        | 213            | 0.09        | 34          | 134            | 0.07        | 35          |
| 35      | Lebanon                    | 338                | 0.08        | 159            | 0.07        | 38          | 179            | 0.10        | 33          |
| 36      | Botswana                   | 332                | 0.08        | 2              | 0.00        | 47          | 330            | 0.18        | 28          |
| 37      | Chile                      | 309                | 0.08        | 186            | 0.08        | 36          | 123            | 0.07        | 36          |
| 38      | Croatia                    | 307                | 0.07        | 228            | 0.10        | 32          | 78             | 0.04        | 39          |
| 39      | Bulgaria                   | 293                | 0.07        | 193            | 0.08        | 35          | 100            | 0.06        | 38          |
| 40      | Faroe Islands              | 208                | 0.05        | 162            | 0.07        | 37          | 45             | 0.03        | 41          |
| 41      | Malta (EU)                 | 145                | 0.04        | 119            | 0.05        | 41          | 26             | 0.01        | 42          |
| 42      | Tunisia                    | 128                | 0.03        | 79             | 0.03        | 42          | 49             | 0.03        | 40          |
| 43      | Jordan                     | 121                | 0.03        | 121            | 0.05        | 40          | 1              | 0.00        | 47          |
| 44      | Cyprus (EU)                | 86                 | 0.02        | 72             | 0.03        | 43          | 13             | 0.01        | 44          |
| 45      | Macedonia                  | 43                 | 0.01        | 35             | 0.01        | 44          | 8              | 0.00        | 46          |
| 46      | Liechtenstein              | 22                 | 0.01        | 1              | 0.00        | 49          | 21             | 0.01        | 43          |
| 47      | Namibia                    | 15                 | 0.00        | 3              | 0.00        | 46          | 13             | 0.01        | 45          |
| 48      | Palestinian Authority      | 10                 | 0.00        | 10             | 0.00        | 45          | 0              | 0.00        | 48          |
| 49      | Swaziland                  | 2                  | 0.00        | 1              | 0.00        | 48          | 0              | 0.00        | 49          |
| 50      | Lesotho                    | 0                  | 0.00        | 0              | 0.00        | 50          | 0              | 0.00        | 50          |
|         | <b>Other partners</b>      | <b>93 318</b>      | <b>22.7</b> | <b>57 979</b>  | <b>25.1</b> | <b>n.a.</b> | <b>35 339</b>  | <b>19.6</b> | <b>n.a.</b> |

Source: World Trade Atlas 2005

# ANNEX II

## EFTA's main trading partners in merchandise trade: 2005

| Rank No   | Country   | Total trade mn USD | Share %     | Exports mn USD | Share %     | Rank No     | Imports mn USD | Share %     | Rank No     |
|-----------|---|--------------------|-------------|----------------|-------------|-------------|----------------|-------------|-------------|
|           | <b>World</b>                                    | <b>411 211</b>     | <b>100</b>  | <b>230 849</b> | <b>100</b>  | <b>n.a.</b> | <b>180 362</b> | <b>100</b>  | <b>n.a.</b> |
| <b>1</b>  | <b>Free Trade Partners<sup>1</sup></b>          | <b>317 893</b>     | <b>77.3</b> | <b>172 870</b> | <b>74.9</b> | <b>1</b>    | <b>145 023</b> | <b>80.4</b> | <b>1</b>    |
|           | EU 25   | 300 220            | 73.0        | 162 164        | 70.2        |             | 138 056        | 76.5        |             |
|           | Third Country Partners <sup>21</sup>            | 15 096             | 3.7         | 9 468          | 4.1         |             | 5 628          | 3.1         |             |
|           | Intra-EFTA <sup>4</sup>                         | 2 577              | 0.63        | 1 237          | 0.54        |             | 1 340          | 0.74        |             |
| <b>2</b>  | <b>United States (incl. PR)</b>                 | <b>31 129</b>      | <b>7.6</b>  | <b>21 368</b>  | <b>9.3</b>  | <b>2</b>    | <b>9 761</b>   | <b>5.4</b>  | <b>2</b>    |
|           | United States                                   | 30 485             | 7.4         | 21 184         | 9.2         |             | 9 301          | 5.2         |             |
|           | Puerto Rico                                     | 644                | 0.2         | 184            | 0.1         |             | 460            | 0.3         |             |
| <b>3</b>  | <b>China (incl. HK &amp; Macau)<sup>2</sup></b> | <b>14 323</b>      | <b>3.5</b>  | <b>7 005</b>   | <b>3.0</b>  | <b>3</b>    | <b>7 318</b>   | <b>4.1</b>  | <b>3</b>    |
|           | China, People's Republic of                     | 9 615              | 2.3         | 3 686          | 1.6         |             | 5 929          | 3.3         |             |
|           | Hong Kong, China                                | 4 684              | 1.1         | 3 310          | 1.4         |             | 1 374          | 0.8         |             |
|           | Macau, China                                    | 24                 | 0.01        | 9              | 0.00        |             | 15             | 0.01        |             |
| <b>4</b>  | <b>Japan<sup>3</sup></b>                        | <b>10 107</b>      | <b>2.5</b>  | <b>5 830</b>   | <b>2.5</b>  | <b>4</b>    | <b>4 277</b>   | <b>2.4</b>  | <b>4</b>    |
| <b>5</b>  | <b>Canada<sup>4</sup></b>                       | <b>7 942</b>       | <b>1.9</b>  | <b>5 828</b>   | <b>2.5</b>  | <b>5</b>    | <b>2 114</b>   | <b>1.2</b>  | <b>5</b>    |
| <b>6</b>  | <b>Russia</b>                                   | <b>4 141</b>       | <b>1.01</b> | <b>2 099</b>   | <b>0.91</b> | <b>7</b>    | <b>2 042</b>   | <b>1.13</b> | <b>6</b>    |
| <b>7</b>  | <b>GCC<sup>6</sup></b>                          | <b>3 176</b>       | <b>0.77</b> | <b>2 660</b>   | <b>1.15</b> | <b>6</b>    | <b>515</b>     | <b>0.29</b> | <b>12</b>   |
| <b>8</b>  | <b>MERCOSUR<sup>4</sup></b>                     | <b>2 869</b>       | <b>0.70</b> | <b>1 673</b>   | <b>0.72</b> | <b>8</b>    | <b>1 197</b>   | <b>0.66</b> | <b>7</b>    |
| <b>9</b>  | <b>Chinese Taipei</b>                           | <b>2 169</b>       | <b>0.53</b> | <b>1 210</b>   | <b>0.52</b> | <b>11</b>   | <b>959</b>     | <b>0.53</b> | <b>9</b>    |
| <b>10</b> | <b>India</b>                                    | <b>2 016</b>       | <b>0.49</b> | <b>1 261</b>   | <b>0.55</b> | <b>10</b>   | <b>755</b>     | <b>0.42</b> | <b>11</b>   |
| <b>11</b> | <b>Thailand<sup>7</sup></b>                     | <b>1 589</b>       | <b>0.39</b> | <b>807</b>     | <b>0.35</b> | <b>12</b>   | <b>782</b>     | <b>0.43</b> | <b>10</b>   |
| <b>12</b> | <b>Australia</b>                                | <b>1 553</b>       | <b>0.38</b> | <b>1 339</b>   | <b>0.58</b> | <b>9</b>    | <b>214</b>     | <b>0.12</b> | <b>18</b>   |
| <b>13</b> | <b>Libya</b>                                    | <b>1 230</b>       | <b>0.30</b> | <b>153</b>     | <b>0.07</b> | <b>27</b>   | <b>1 077</b>   | <b>0.60</b> | <b>8</b>    |
| <b>14</b> | <b>Malaysia</b>                                 | <b>909</b>         | <b>0.22</b> | <b>518</b>     | <b>0.22</b> | <b>14</b>   | <b>391</b>     | <b>0.22</b> | <b>14</b>   |
| <b>15</b> | <b>Iran</b>                                     | <b>686</b>         | <b>0.17</b> | <b>633</b>     | <b>0.27</b> | <b>13</b>   | <b>53</b>      | <b>0.03</b> | <b>34</b>   |
| <b>16</b> | <b>Nigeria</b>                                  | <b>643</b>         | <b>0.16</b> | <b>190</b>     | <b>0.08</b> | <b>22</b>   | <b>453</b>     | <b>0.25</b> | <b>13</b>   |
| <b>17</b> | <b>Indonesia<sup>8</sup></b>                    | <b>567</b>         | <b>0.14</b> | <b>310</b>     | <b>0.13</b> | <b>17</b>   | <b>258</b>     | <b>0.14</b> | <b>17</b>   |
| <b>18</b> | <b>Ukraine<sup>9</sup></b>                      | <b>528</b>         | <b>0.13</b> | <b>430</b>     | <b>0.19</b> | <b>15</b>   | <b>98</b>      | <b>0.05</b> | <b>28</b>   |
| <b>19</b> | <b>Egypt<sup>10</sup></b>                       | <b>413</b>         | <b>0.10</b> | <b>367</b>     | <b>0.16</b> | <b>16</b>   | <b>46</b>      | <b>0.03</b> | <b>35</b>   |
| <b>20</b> | <b>Pakistan</b>                                 | <b>398</b>         | <b>0.10</b> | <b>305</b>     | <b>0.13</b> | <b>18</b>   | <b>92</b>      | <b>0.05</b> | <b>30</b>   |
| <b>21</b> | <b>Viet Nam</b>                                 | <b>373</b>         | <b>0.09</b> | <b>108</b>     | <b>0.05</b> | <b>33</b>   | <b>265</b>     | <b>0.15</b> | <b>16</b>   |
| <b>22</b> | <b>Colombia</b>                                 | <b>369</b>         | <b>0.09</b> | <b>204</b>     | <b>0.09</b> | <b>20</b>   | <b>166</b>     | <b>0.09</b> | <b>20</b>   |
| <b>23</b> | <b>Philippines</b>                              | <b>307</b>         | <b>0.07</b> | <b>190</b>     | <b>0.08</b> | <b>23</b>   | <b>117</b>     | <b>0.06</b> | <b>26</b>   |
| <b>24</b> | <b>Algeria<sup>11</sup></b>                     | <b>290</b>         | <b>0.07</b> | <b>124</b>     | <b>0.05</b> | <b>29</b>   | <b>166</b>     | <b>0.09</b> | <b>19</b>   |
| <b>25</b> | <b>Panama</b>                                   | <b>288</b>         | <b>0.07</b> | <b>196</b>     | <b>0.08</b> | <b>21</b>   | <b>92</b>      | <b>0.05</b> | <b>31</b>   |
| <b>26</b> | <b>Bahamas<sup>12</sup></b>                     | <b>288</b>         | <b>0.07</b> | <b>244</b>     | <b>0.11</b> | <b>19</b>   | <b>44</b>      | <b>0.02</b> | <b>37</b>   |
| <b>27</b> | <b>New Zealand</b>                              | <b>287</b>         | <b>0.07</b> | <b>189</b>     | <b>0.08</b> | <b>24</b>   | <b>98</b>      | <b>0.05</b> | <b>29</b>   |
| <b>28</b> | <b>Suriname</b>                                 | <b>274</b>         | <b>0.07</b> | <b>2</b>       | <b>0.00</b> | <b>126</b>  | <b>272</b>     | <b>0.15</b> | <b>15</b>   |
| <b>29</b> | <b>Peru</b>                                     | <b>262</b>         | <b>0.06</b> | <b>110</b>     | <b>0.05</b> | <b>32</b>   | <b>152</b>     | <b>0.08</b> | <b>21</b>   |
| <b>30</b> | <b>Kazakhstan</b>                               | <b>243</b>         | <b>0.06</b> | <b>87</b>      | <b>0.04</b> | <b>36</b>   | <b>156</b>     | <b>0.09</b> | <b>20</b>   |
|           | <b>Other partners</b>                           | <b>3 949</b>       | <b>0.96</b> | <b>2 539</b>   | <b>1.10</b> | <b>n.a.</b> | <b>1 408</b>   | <b>0.78</b> | <b>n.a.</b> |

Source: Trade figures — World Trade Atlas 2005; Population 2004, GDP 2004 and GDP per capita 2004 (based on constant USD 2000)  
— World Bank Development Indicators Database

(in million USD and %)

| Population<br>in mn | Share<br>% | GDP<br>bn USD | Share<br>% | Per capita GDP<br>USD |
|---------------------|------------|---------------|------------|-----------------------|
| 6 345 127           | 100        | 34 908        | 100        | 5 501                 |
| 860 806             | 13.6       | 11 325        | 32.4       | 13 156 <sup>13</sup>  |
| 455 297             | 7.2        | 8 768         | 25.1       | 19 257 <sup>13</sup>  |
| 393 221             | 6.2        | 2 116         | 6.1        | 5 381 <sup>13</sup>   |
| 12 288              | 0.2        | 441           | 1.3        | 35 921                |
| 297 436             | 4.7        | 10 864        | 31.1       | 36 525 <sup>13</sup>  |
| 293 507             | 4.6        | 10 798        | 30.9       | 36 790                |
| 3 929               | 0.1        | 66            | 0.2        | 16 800                |
| 1 303 794           | 20.5       | 1 704         | 4.9        | 1 307 <sup>13</sup>   |
| 1 296 500           | 20.4       | 1 506         | 4.3        | 1 162                 |
| 6 845               | 0.1        | 189           | 0.5        | 27 597                |
| 449                 | 0.0        | 9             | 0.0        | 19 532                |
| 127 764             | 2.0        | 5 007         | 14.3       | 39 195                |
| 31 902              | 0.5        | 788           | 2.3        | 24 712                |
| 142 814             | 2.3        | 329           | 0.9        | 2 302                 |
| 34 000              | 0.5        | 358           | 1.0        | 10 529 <sup>13</sup>  |
| 227 000             | 3.6        | 909           | 2.6        | 4 004 <sup>13</sup>   |
| 22 750              | 0.4        | 282           | 0.8        | 23 400                |
| 1 079 721           | 17.0       | 581           | 1.7        | 538                   |
| 62 387              | 1.0        | 150           | 0.4        | 2 399                 |
| 20 120              | 0.3        | 431           | 1.2        | 22 074                |
| 5 674               | 0.1        | 41            | 0.1        | 7 483                 |
| 25 209              | 0.4        | 106           | 0.3        | 4 221                 |
| 66 927              | 1.1        | 121           | 0.3        | 1 812                 |
| 139 823             | 2.2        | 51            | 0.1        | 361                   |
| 217 587             | 3.4        | 197           | 0.6        | 906                   |
| 48 007              | 0.8        | 44            | 0.1        | 917                   |
| 68 737              | 1.1        | 114           | 0.3        | 1 663                 |
| 152 061             | 2.4        | 86            | 0.2        | 566                   |
| 82 162              | 1.3        | 41            | 0.1        | 500                   |
| 45 300              | 0.7        | 94            | 0.3        | 2 069                 |
| 82 986              | 1.3        | 90            | 0.3        | 1 079                 |
| 32 372              | 0.5        | 64            | 0.2        | 1 981                 |
| 3 027               | 0.0        | 13            | 0.0        | 4 373                 |
| 320                 | 0.0        | 5             | 0.0        | 15 772                |
| 4 061               | 0.1        | 61            | 0.2        | 14 984                |
| 443                 | 0.0        | 1             | 0.0        | 2 388                 |
| 27 546              | 0.4        | 61            | 0.2        | 2 207                 |
| 14 957              | 0.2        | 27            | 0.1        | 1 822                 |
| 1 117 434           | 17.6       | 963           | 2.8        | 862                   |

<sup>1</sup> See "EFTA's free trade partners in merchandise trade: 2005" (page 59)

<sup>2</sup> Ongoing bilateral feasibility study on an FTA between Iceland and the People's Republic of China

<sup>3</sup> Ongoing bilateral feasibility study on an FTA between Switzerland and Japan

<sup>4</sup> Ongoing FTA negotiations between EFTA and Canada

<sup>5</sup> FTA negotiations scheduled between EFTA and the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates)

<sup>6</sup> Argentina, Brazil, Paraguay and Uruguay

<sup>7</sup> Ongoing FTA negotiations between EFTA and Thailand

<sup>8</sup> Feasibility study scheduled

<sup>9</sup> Joint declaration on co-operation

<sup>10</sup> Ongoing FTA negotiations between EFTA and Egypt

<sup>11</sup> FTA negotiations scheduled

<sup>12</sup> GDP and GDP per capita figures: 2003

<sup>13</sup> Calculated from World Bank Development Indicators Database

# ABBREVIATIONS

**ACP:** African, Caribbean and Pacific countries  
**ASEAN:** Association of South East Asian Nations  
**BIT:** Bilateral Investment Treaties  
**BLNS:** Botswana, Lesotho, Namibia and Swaziland  
**BoP:** Balance of Payment  
**CAP:** Common Agricultural Policy  
**EC:** European Community  
**EEA:** European Economic Area  
**EEC:** European Economic Community  
**EFTA:** European Free Trade Association  
**EMU:** European Monetary Union  
**ENP:** European Neighbourhood Policy  
**EPA:** Economic Partnership Agreement  
**ETS:** database for foreign statistics  
**EU:** European Union  
**DDA:** Doha Development Agenda  
**FTA:** Free Trade Agreement  
**GCC:** Gulf Cooperation Council  
**GATT:** General Agreement on Tariffs and Trade  
**GATS:** General Agreement on Trade in Services  
**GDP:** Gross Domestic Product  
**GPA:** Government Procurement Agreement  
**GSP:** Generalised System of Preferences  
**ILO:** International Labour Organization  
**IPR:** Intellectual Property Rights  
**JDC:** Joint Declaration on Co-operation  
**LCCI:** Liechtenstein Chamber of Commerce and Industry  
**MAI:** Multilateral Agreement on Investments  
**MERCOSUR:** Southern Common Market  
**MFN:** Most Favoured Nation  
**NAFTA:** North American Free Trade Agreement  
**NTB:** Non Tariff Barrier to Trade  
**NTC:** Non Trade Concern  
**OECD:** Organisation of Economic Co-operation and Development  
**PTA:** Preferential Trade Agreement  
**RTA:** Regional Trade Agreement  
**SACU:** Southern African Customs Union  
**SNA:** System of National Accounts  
**TRIPS:** Trade-Related Aspects of Intellectual Property Rights  
**TRIMS:** Trade-Related Investment Measures  
**WTO:** World Trade Organization





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The European Free Trade Association (EFTA) is an inter-governmental organisation for the promotion of free trade and economic integration to benefit its four Member States: Iceland, Liechtenstein, Norway and Switzerland. The Association is responsible for the management of:

- The EFTA Convention, which forms the legal basis of the organisation and governs free trade relations between the EFTA States;
- EFTA's worldwide network of free trade and partnership agreements;
- The Agreement on the European Economic Area (EEA), which enables three of the four EFTA Member States (Iceland, Liechtenstein and Norway) to fully participate in the EU's Internal Market.

The EFTA Bulletin aims to serve as a platform for discussion and debate on topics of relevance to European integration and the multilateral trading system. The Bulletin draws on the experience and expertise of academics, professionals and policy-makers.

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