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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Scandinavia and the European Community: Current Economic Issues

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April 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
April 1972

INTELLIGENCE MEMORANDUM

SCANDINAVIA AND THE EUROPEAN COMMUNITY: CURRENT ECONOMIC ISSUES

Introduction

1. In June 1970 the United Kingdom renewed its bid for membership in the European Community (EC), setting in motion negotiations aimed at considerably enlarging the EC's membership on 1 January 1973 and eventually changing the economic and political face of Europe. Following the lead of their most important trading partner, Denmark and Norway (as well as Ireland) also resumed membership talks with the Six (Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany).

2. Owing to the importance of intra-Nordic[1] trade, Sweden, Finland, and Iceland – supported by Denmark and Norway – have pressed the Community to negotiate preferential free-trade agreements with them. However, Nordic membership in – or close association with – an expanded EC is not a foregone conclusion. There is strong socio-political opposition in Scandinavia to any link with the Community that could, at the last moment, seriously transcend the economic realities of remaining outside the Community. This memorandum notes the present status of the Scandinavian-EC negotiations, indicates the likely form of the Nordic countries' relationships with the Community, and assesses the economic impact on Scandinavia of the possible new ties.

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1. Throughout this memorandum, the terms **Scandinavian** and **Nordic** are used interchangeably to refer collectively to Denmark, Finland, Iceland, Norway, and Sweden.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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Discussion

Background

3. Europe's evolving economic relationships are of vital interest to the Scandinavian states because few countries are so dependent on foreign trade. With only 20 million people – 0.6% of the world's population – Scandinavia accounts for 5.3% of total world exports. Exports equal almost one-quarter of combined Nordic gross national product (GNP), compared with 4% for the United States, 16% for the United Kingdom, 10% for Japan, and 18% for the Six.

4. Constrained by meager natural resources and small domestic markets, Scandinavia has developed into a major processing center. It imports industrial raw materials and semi-manufactures and exports semi-manufactures and, increasingly more important, highly specialized, sophisticated manufactures. Such products sell largely on quality rather than price-competitiveness, owing to high Nordic labor costs. Exports now absorb 62% of Denmark's industrial output, 58% of Norway's, 49% of Finland's, and 47% of Sweden's. Industrial goods account for 70%-77% of total Finnish, Norwegian, and Swedish exports (see Table 1). Although Denmark has industrialized only within the last decade, manufactured products now provide more than half of its annual export earnings. Iceland is the exception with fish still accounting for approximately four-fifths of its exports.

5. Scandinavia's rapid industrial growth since 1960 has been sustained by a strong West European demand for Nordic industrial raw materials and manufactures. The Community and the European Free Trade Association countries(2) (see the map) together took almost 70% of total Nordic exports from 1960 to 1970. However, the shares of both the United Kingdom and the EC declined. The United Kingdom, traditionally Scandinavia's single largest market, saw its share of total Scandinavian exports fall from 20% in 1960 to 16% in 1970 in spite of EFTA preferences (see Table 2). The proportion of food and forest products in Scandinavia's exports was especially large in the case of exports to Britain. Such exports have grown relatively slowly as the Nordic countries have industrialized.

2. The Stockholm Convention establishing EFTA was signed by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom in November 1959. An agreement of association between EFTA and Finland was signed in March 1961 giving Finland the benefits of membership; Iceland joined in March 19[illegible] EFTA is a free trade area and differs from a customs union -- for example, the Community -- in that it does not have a common external tariff.

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Table 1

Scandinavia: Composition and Direction of Major Exports
1970

Percen

	As a Share of Total Exports	European Community: Total	European Community: West Germany	European Free Trade Association: Total	European Free Trade Association: United Kingdom	European Free Trade Association: Sweden	European Free Trade Association: Norway	United States	Other
DENMARK (Trading Partners: Market Share)									
Agricultural products	37	23	12	51	35	10	2	12	14
Of which:									
Livestock and animal products	25	18	9	52	45	4	1	15	15
Fish and fish products	4	47	30	40	11	17	2	6	7
Inedible crude materials and fuels	9	3	2	47	8	29	6	5	45
Manufactures	54	20	11	51	10	20	11	6	23
Of which:									
Machinery and transport equipment	27	20	10	42	11	15	7	5	33
Chemicals	7	22	10	43	7	16	9	7	28

	As a Share of Total Exports	European Community: Total	European Community: West Germany	European Free Trade Association: Total	European Free Trade Association: United Kingdom	European Free Trade Association: Sweden	USSR	Other
FINLAND								
Agricultural products	4	13	4	52	5	24	17	18
Inedible crude materials and fuels	26	38	12	40	28	4	9	13
Of which:								
Wood, lumber, and cork	10	37	11	48	35	4	--	15
Pulp and waste paper	13	40	9	31	26	Negl.	7	22
Manufactures	70	19	11	44	13	19	15	22
Of which:								
Paper, paperboard, and manufactures thereof	27	28	16	30	18	3	12	30
Wood and cork manufactures (excluding furniture)	5	13	8	65	45	13	1	21
Machinery and transport equipment	17	6	3	41	3	24	33	20

	As a Share of Total Exports	European Community: Total	European Community: West Germany	European Free Trade Association: Total	European Free Trade Association: United Kingdom	European Free Trade Association: Denmark	United States	USSR	Other
ICELAND									
Agricultural products	80	13	7	34	10	9	36	8	9
Of which:									
Fish, fresh, chilled, or frozen	66	13	8	27	7	7	43	9	8
Meat meal (including tankage) and fish meal, unfit for human consumption	8	6	3	70	21	20	--	--	24
Inedible crude materials and fuels	3	29	19	56	10	8	6	--	9
Manufactures	17	35	28	56	32	3	4	5	--
Of which:									
Aluminum	13	40	32	60	39	--	--	--	--

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Table 1

Scandinavia: Composition and Direction of Major Exports
1970
(Continued)

Percent

	As a Share of Total Exports	Trading Partners: Market Share						
		NORWAY						
		European Community		European Free Trade Association				
		Total	West Germany	Total	United Kingdom	Sweden	Denmark	Other
Agricultural products	13	20	7	45	21	14	5	35
Of which:								
Fish and fish preparations	8	18	4	37	16	11	3	45
Inedible crude materials and fuels	12	39	23	49	26	14	6	12
Manufactures	75	30	19	47	16	17	8	23
Of which:								
Machinery and transport equipment	23	29	18	36	9	16	6	35
Chemicals	8	11	6	71	18	28	18	18
Paper, paperboard, and manufactures thereof	8	32	20	34	21	2	7	34
Iron and steel	7	35	19	57	24	17	10	8
Non-ferrous metals	19	47	32	39	22	12	2	14
		SWEDEN						
		European Community		European Free Trade Association				
		Total	West Germany	Total	United Kingdom	Norway	Denmark	Other
Agricultural products	2	29	12	50	17	12	11	21
Inedible crude materials and fuels	21	50	21	38	20	8	6	12
Of which:								
Wood, lumber, and cork	6	40	14	50	22	14	11	10
Pulp and waste paper	9	52	19	33	23	3	2	15
Metalliferous ores and metal scrap	4	74	40	18	13	3	Negl.	8
Manufactures	77	22	9	46	10	12	11	32
Of which:								
Machinery and transport equipment	40	17	6	42	8	13	8	41
Paper, paperboard, and manufactures thereof	9	39	18	38	20	2	10	23
Iron and steel	9	31	16	41	13	6	8	28
Chemicals	4	16	9	58	12	13	15	26

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Table 2

Scandinavia: Geographic Distribution of Exports a/

Percent

	Year	European Free Trade Association b/ Total	Scandinavia	United Kingdom	Other EFTA	European Community Total	West Germany	United States	Other Countries	Total
Denmark	1960	44	16	26	2	28	19	9	19	100
	1970	50	27	19	4	23	13	8	19	100
Finland	1960	34	9	24	1	28	12	5	33	100
	1970	43	23	17	3	23	11	5	29	100
Iceland	1960	38	19	16	3	14	7	14	34	100
	1970	38	18	12	8	17	11	30	15	100
Norway	1960	46	21	23	2	26	14	7	21	100
	1970	47	26	18	3	30	18	6	17	100
Sweden	1960	39	20	16	3	32	15	6	23	100
	1970	44	27	13	4	28	12	6	22	100
Total	*1960*	*40*	*16*	*20*	*4*	*29*	*16*	*8*	*23*	*100*
	1970	*44*	*24*	*16*	*4*	*25*	*12*	*11*	*20*	*100*

a. Data for 1970 are provisional.
b. Data for 1960 for EFTA include Finland and Iceland.

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Moreover, rising production of livestock products in the United Kingdom held down demand for imports of such products. At the same time, the share of the EC countries in total Nordic exports declined from 29% in 1960 to 25% in 1970 as Scandinavian exporters faced increased difficulty in selling to EC markets protected by the Common External Tariff (CXT).

6. Intra-Nordic trade has been the most dynamic element in each Scandinavian country's total trade, particularly in manufactures. Stimulated by the formation of EFTA, this trade grew nearly three-fold between 1960 and 1970 (almost twice as fast as these countries' total exports) and increased from 16% to 24% of the total. A lively pan-Scandinavian trade in components has developed, adding impetus to Nordic specialization.

7. The expansion of intra-Nordic trade reflects more than the establishment of EFTA. Since World War II, the Scandinavian countries have cooperated closely in a number of economic fields – principally banking, aviation, shipping, industrial research, labor policy, and hydroelectric development. By pooling their resources, they have been able to promote their industrial development.

Economic Motivation for Association with the EC

8. Although the Nordic countries have adjusted fairly well to the trade discrimination caused by formation of the EC, they are concerned about the added discrimination that EC expansion would bring. Britain's EC accession would subject a further 16% of Nordic exports to the CXT and thus could accelerate the downward trend in the British market's share of Nordic exports. It would bring an end to EFTA and thereby greatly hamper Scandinavian trade with such still small, but rapidly developing, markets as Switzerland and Austria. Even more serious to any Nordic country not acceding to or becoming associated with the EC would be the accession of other Nordic countries. Sweden, for example, could be seriously hurt if Denmark and Norway were to join the Community and intra-Nordic preferences were thereby eliminated.

9. The principal cost to the Nordic countries of remaining outside the EC, however, probably is not best measured by the economic damage that might be experienced. Nordic exports of many foods and most raw materials probably would not be much affected by increased foreign competition. Neither is foreign demand for many of the highly specialized Nordic manufactures likely to be much affected if some former EFTA partners are charged higher prices. More important is the likelihood that EC membership or association would provide a substantial impetus to Scandinavia's economic development, which would be forgone by remaining

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outside. The strategy of industrialization through a high degree of specialization requires a broadening foreign market for small countries like those of Scandinavia. Only EC access or association can provide such a market.

10. Accommodation between the Six and all five Nordic countries would preserve Scandinavia's intra-regional economic relationships. Denmark and Norway assured the Community last December that they would not allow Nordic obligations to undermine their future relationships with the EC. Nordic cooperation could, therefore, be jeopardized should the Nordic non-applicants not reach an EC agreement concomitant with Danish and Norwegian membership.

11. Nordic industry is particularly concerned over the future of the common Nordic labor market. Formed in 1954 by Denmark, Finland, Norway, and Sweden, it provides for reciprocation in social services, including social insurance. Movement of blue collar labor, primarily Finnish, into more industrialized Sweden and, to a lesser extent, into Denmark has been the main labor flow, although a substantial exchange of both salaried and wage-earning workers has also taken place between Denmark and Norway as well as between Sweden and Denmark. These intra-Scandinavian flows now account for about half of the non-nationals employed in the four participant countries, thereby enabling local labor shortages to be relieved without the social problems sometimes created by importing labor from countries with substantially different cultures.

Socio-Political Constraints

12. All five Nordic governments have been prompted by economic necessity to seek some form of EC agreement, but in every case they face strong popular opposition. Sweden's individuality and traditional neutrality, Finland's Soviet-enforced neutrality, and Iceland's protectionist tendencies are strong enough to limit their prospective Community participation. Not having achieved full independence before 1905, the Norwegians have been more protective of their sovereignty and more skeptical of international unions than have the more psychologically continental Danes. Yet even the Danes have begun to voice anxiety over preserving their national identity. Of particular concern to all Scandinavian governments is the threat of reduced sovereignty over their social policy, a field in which they consider themselves advanced. Even in the midst of negotiations looking toward closer economic ties with other West European nations, moreover, there is a growing Nordic determination to assert independence in foreign policy matters.

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13. Public resistance in Scandinavia to an EC link is based primarily on ideological considerations and is especially strong among youth, pacifist, and radical leftist groups. They see a loss of national identity in the face of EC bureaucracy and fear an invasion of Scandinavia by foreign financiers and industrialists, to the detriment of "the honest native trader." To this ideological critique is added the increasingly negative attitude among many labor groups, decrying a potential deluge of foreign workers that could displace domestic workers and lower wage levels. Small shopkeepers and businessmen are alarmed by the overpowering influence of the EC's retail giants. Norwegian farmers' and fishermen's unions express a general Nordic center-rightist fear that the EC's supranational bodies will give little consideration to Scandinavia's "special" economic problems.

Denmark and Norway Bid for Full Membership

14. Denmark and Norway concluded entry negotiations with the Community on 14 and 15 January 1972, respectively, and signed the Accession Treaty[3] in Brussels on 22 January. By this fall, the two governments must convince their voters that the economic consequences of remaining outside an enlarged EC will be unpleasant. By early October, both will have submitted the EC question to referenda, and the outcomes promise to be close.

Denmark: Issues and Implications

15. Chronic balance-of-payments problems provide a major incentive for Denmark's membership bid. Danish agricultural exports to the EC's protected markets steadily lost ground during the 1960s. The decline in sales to West Germany, traditionally one of Denmark's two most important agricultural markets, has been especially damaging. Lagging agricultural exports and growing imports of industrial raw materials and semi-manufactures have led to deteriorating trade balances and diminishing foreign-exchange reserves. In 1970 the trade deficit reached a record $1 billion.

16. EC accession promises to help Denmark's agricultural exports. According to Danish governmental estimates, such Danish sales will increase at least 25% in value during the five-year transition period from 1 January 1973 to 1 January 1978. Higher EC Common Agricultural Policy (CAP) livestock prices would lead to increased production of livestock and animal

3. The Accession Treaty and accompanying documents establish the legal foundation for Community enlargement and detail the conditions of British, Irish, Danish, and Norwegian full membership. This treaty will enter into force on 1 January 1973, only following ratification by the four candidates.

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products – now 68% of Danish farm exports – and to a continued shift in land use from food grains, despite higher CAP grain prices, to feed grains. According to a recent Michigan State University study, accession would result in a 26% increase in Danish pork production during this decade, 23% in milk, 25% in beef and veal, and 35% in eggs – totaling an additional $450 million at EC prices.

17. At the same time, consumer prices in Denmark need not be greatly affected by the rise in farm prices. Denmark presently has a two-market price scheme, whereby internal food consumption is taxed to subsidize farm exports. Levies on home consumption vary according to the disparity between the minimum domestic price set by the government and the world market price for each commodity. Such revenue is then distributed to farmers largely as income supports. Under the CAP, the subsidy for exports will come not from taxes on consumption but rather from levies on agricultural imports and the value added tax.

18. Danish industry is enthusiastically looking forward to duty-free access to EC markets, where its exports have been losing ground to EC members. At the same time, the Six probably offers little threat to Denmark's modern, highly specialized industrial sector. There will be virtually no overall increase in industrial costs resulting from adopting the higher CXT, as an expanded Community will include approximately two-thirds of the suppliers to Denmark's industry, primarily of semi-manufactures and components.

19. Danish industry, however, wants the preferential trade relationships with Sweden and Norway established under EFTA to be retained should these countries not become full members. Sweden takes 20% of Denmark's industrial exports, and Norway another 11%. A number of Danish firms have thrived solely by subcontracting for Swedish firms.

20. The agreement that finally was reached with the EC on the troublesome fisheries issue will allow Denmark, as well as all EC members, to maintain a 6-mile fisheries limit until 1983. This ten-year exemption to the Common Fisheries Policy (CFP) – providing for the opening of a member's territorial waters to the fishermen of all other member states -- will have little effect on Danish trawlermen, who fish primarily offshore in any case. Few employment opportunities exist for the 18,000 Faeroese and the 15,000 Greenlanders, however, other than in fishing. Over-fishing in their coastal waters by EC members could seriously deplete this source of income. Accordingly, the Community has given the Faeroe Islands, Greenland, and, unexpectedly, Jutland a 12-mile rather than a 6-mile limit, subject to review after ten years. Additionally, Denmark understands that any extension of concessions given Norway after this time will also apply to Greenland and the Faeroes.

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Norway: Issues and Implications

21. Norway's membership hinges mainly on popular reaction to the EC concessions to Norway's northern fishermen and farmers, an issue having major social and strategic implications. Inshore fishing and inefficient hillside farming are the major means of livelihood in the north. There, the bleak environment, geographic isolation, and lack of economic opportunities offer little resistance to the lure of high wages and greater comfort in the south. To reduce regional income disparities and, thus, to maintain the north's population, Oslo is committed to heavy subsidies of farming and fishing through a complex price-and-income support system. Central government transfers to the agricultural sector amount to approximately 18% of farm income.

22. On 21 December 1971, Norway accepted the EC's agricultural proposal with only minor changes. The Community's offer gives Norway a four-year grace period following accession, after which it is to shift to the lower CAP price subsidies supplemented by substantial income supports. Income payments will vary according to region and type of farmer as determined by Oslo, subject to Community review. At first, these measures will be largely financed domestically, but eventual Community financing will be obtained for some of them. Additionally, Norway will be permitted to continue paying freight subsidies on northern agricultural products. Without such exceptions from CAP, Norwegian farm incomes would decline as much as 40% to 50% by 1978 (according to initial Norwegian governmental estimates) because of both the loss of subsidies and the need to reduce Norwegian agricultural prices that average approximately 15% higher than those established by CAP.

23. With the conclusion of fisheries negotiations between the other three applicants and the Community. Oslo engaged in intensive last-minute politicking with Brussels to gain maximum concessions. At issue were the amount of its coastline to be included in the same special 12-mile zones given Greenland and the Faeroe Islands and the duration of this safeguard after entry. Without special treatment by the Six, Norwegian membership could lead to the rapid exhaustion of carefully conserved fisheries -- now providing one-tenth of all Norway's exports - by foreign, particularly British, trawlermen. Because Norway's fisheries are concentrated between 6 and 12 miles offshore of its 2,040-mile coastline, definition of the protected zone was a pivotal issue. Oslo also wanted the Six to recognize explicitly that its fisheries problem is unique, warranting permanent exemption from the CFP. The EC members not only were reluctant to permit any permanent exception to a Community policy but found the other applicants insisting that they would not accept less favorable terms than those offered Norway.

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24. The compromise finally agreed on by Brussels and Oslo -- just seven days before the signing of the Accession Treaty -- recognizes a 12-mile fisheries limit for the coastline from the Soviet border to Egersund -- almost 70% of Norway's coastline. This represents a moderate concession by the Community, which had earlier insisted that Stavanger -- more than 40 miles north of Egersund -- be the southern limit. Norway, in turn, compromised on the point of permanent exemption from the CFP. The exemption will come up for review by 1983, but Brussels assured Oslo that at no time will it make any decision detrimental to Norway's fishing interests. Norway can also be certain that, since its "vital interests" are involved, no enlarged Community proposal is likely to go into effect over its objections -- in effect, giving Norway's exemption an aura of permanency.

25. Norwegian industry, like Danish industry, is eager for EC entry. The Community already takes about 30% of Norway's industrial exports. Membership would eliminate EC tariff quotas on Norway's basic exports -- newsprint, magnesium, ferroalloys, unwrought aluminum, cod, fats and oils, and zinc. The Community sets these quotas annually, and businessmen have complained that this year-to-year uncertainty has made long-term production planning difficult. Industrial leaders believe that easy access to the broad EC market would permit larger scale operations and help them reduce their relatively high costs.

Positions of the Scandinavian Non-Applicants

26. Sweden, Finland, and Iceland are not now seeking full EC membership -- mainly for socio-political reasons. They do, however, have good economic reasons to seek preferential trade arrangements with the Community. A Community of Ten would take approximately 55% of Sweden's annual industrial exports, 42% of Finland's, and 72% of Iceland's fledgling industrial exports.(4) Accordingly, in July 1971 the EC Council of Ministers agreed to offer the six EFTA non-applicants on request access to the enlarged Community's preferential trading area. On 8 November 1971 the Council instructed the EC Commission to negotiate separate free-trade-area (FTA) agreements for industrial products and to explore limited arrangements for certain agricultural goods. These agreements would be implemented over the same five-year transitional period given the new members, with up to a maximum of an additional seven-year extension of the transition period for certain "sensitive" Community products (see Table 3). Additionally, escape clauses are likely to be added to the

4. According to estimates prepared by the US Department of State in response to National Security Study Memorandum 79, the combined industrial exports of the Nordic non-applicants would decline by approximately $450 million annually by 1978 without an EC arrangement.

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Table 3

European Community Commission:
Provisional List of Sensitive Products as of 1 February 1972

Category	For All EFTA Non-Applicants	Sweden/Finland	Sweden Only
1. Subject to a 3-year standstill, then a 5-year period of strict surveillance and gradual removal of tariffs	Ferro-alloys Aluminum Lead Zinc Tungsten Tantalum Molybdenum Antimony	Artifical or regenerated man-made fibers	High-carbon steels Tubes for ball bearings Stainless steel tubes and pipes
2. Subject to strict EC surveillance and import ceilings for a 4-year period, after which time tariffs will be gradually dismantled			Silicon Ball, roller, and needle-roller bearings
3. Subject to flexible, statistical surveillance and further commission recommendations until the end of 1977		Copper products	Grinding stones Natural and artifical abrasive powders and granules Asphalt and similar products Stone products and other mineral substances Bricks, flagstones, and blocks Road tractors

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agreements that can be invoked by individual EC countries when they consider their domestic production threatened. The agreements may possibly contain an "evolutionary" clause stating that the contracting parties will continue to examine the possibility of developing their ties further. The six separate agreements should be ready for signature by mid-summer.

Sweden

27. Responding to increasing political pressures to protect Sweden's traditional neutrality, the Social Democratic government of Olof Palme announced in March 1971 that Sweden would not apply for full Community membership. Stockholm hoped, instead, to persuade the Six to grant it a limited form of membership – wide participation in Community affairs and decision-making without imposing concomitant political responsibilities, especially an acceptance of EC political goals. The Swedes envisioned an industrial customs union plus some agricultural arrangements. Furthermore, Stockholm was prepared to coordinate its commercial and, to some extent, monetary policies with Brussels and to cooperate in other areas.

28. Economic pressure on Stockholm to reach agreement with the Community is strong. About 28% of Sweden's total exports go to the EC, and another 33% to the four applicant countries. The Community purchases 22% of Sweden's industrial exports, the United Kingdom 10%, Norway 12%, and Denmark 11%. Therefore, exclusion from the Community could threaten Swedish export industries. Failure to negotiate an EC link would also re-establish trade barriers between Sweden and its Nordic neighbors -- should they reach an EC agreement -- and jeopardize the common Nordic labor market with a reversal of postwar Nordic cooperation.

29. The Six have made it clear that they will not accept any formula for limited Swedish membership. The EC is opposed to any dilution of the Community's political objectives and does not wish to set attractive precedents that might dissuade Norway and Denmark from joining as full members. Because the economic importance of Sweden to the Six is minor (less than 3% of total EC trade is with Sweden), the Community probably cannot be persuaded to make special arrangements beyond the FTA offer.

30. Approximately 20% of total Swedish exports might be excluded from the five-year tarriff-dismantling process under an FTA arrangement. The Six's growing list of "sensitive" items already includes such important Swedish exports as special steels and ball bearings. Of primary concern to Stockholm is the EC Commission's negotiating mandate calling for a 12-year transition period for paper -- about one-tenth of Sweden's total exports. Not only would the present EC tarriff on paper be frozen for three years, but a 5% tariff duty would also be introduced before 1978 by the four

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new Community members against the EFTA non-candidates. Both would remain in effect until January 1981, and they would then be reduced gradually to zero by 1 January 1985. In addition, the benefits to Sweden of an FTA agreement could be seriously reduced if the EC were to maintain its hard position on rules of origin, similar to its Yaóunde Convention (used in dealing with its African associates), rather than the more liberal EFTA system.(5)

31. Neither the government nor industry nor labor find the Community offer acceptable. Palme continues to push for a limited custom's union arrangement, while industry and labor leaders, though generally supporting the government, prefer full membership. Thus, while initially settling for a free trade arrangement, Sweden may perhaps opt for full membership by the end of the five-year transition period in 1978.

Finland

32. Helsinki is also far from happy with the present EC Commission's negotiating mandate, primarily its stance on paper. Forest products constitute 58% of Finland's total exports, and approximately 70% of its total paper sales are destined for the enlarged Community. Helsinki argues that Finland does not – as the Six claim – benefit from plentiful access to cheap raw materials and low operating costs. Finland increasingly imports rough or roughly squared wood; its potential for installing cheap new hydroelectric power is virtually exhausted; and wages in Finland are no lower than in central Europe. EC tariffs on Finnish pulp and paper exports would not be completely lifted until 1985, while vulnerable domestic industries – such as shoes, glass, and textiles – would have just five years to adjust to increased competition from the Six. Plywood and fiberboard may also cause an additional problem since the Commission is now calling for an eight-year transition for these products. In all, more than 70% of Finnish exports could be included in the growing list of the Community's "sensitive" products.

33. On the positive side, approximately two-thirds of Finnish industry is export-oriented and eventually will gain substantially from free access

5. Under present EFTA rules of origin, 50% of the value of a good exported duty-free between EFTA associates must be a result of EFTA transformation. If successive stages of the transformation of a raw material into a finished product have been performed in different EFTA countries, the contributions of each country can be added together to attain the 50% minimum. This has been essential to Scandinavia, which is increasingly more dependent on a lively intra-Nordic components trade and subcontracting. Under the Yaóunde Convention, only stages of transformation taken by the exporting country alone may be counted in determining whether a good may be exported free of duty.

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to an enlarged Community representing about 40% of the Finnish market for manufactured exports. The largest benefits promise to accrue to Finland's growth industries – woodworking, chemical, and basic metals -- with appreciable gains going to the machinery, electrochemical, rubber, textile, and plastics industries. According to the Economic Council of Finland, the average annual growth rate of the volume of industrial production between 1970 and 1980 will be approximately 2 percentage points higher – 6% rather than 4% – with an industrial FTA arrangement.

34. Finland's highly sensitive relationship with the Soviet Union could be a serious obstacle to an agreement with the Community. The Soviet Union, which accounts for more than 12% of Finnish trade, is disturbed by the decline in its market share during Finland's association with EFTA and expects an acceleration of this trend should Finland reach an agreement with the Community. A protocol signed in July 1971, reaffirming Finland's close ties with the Soviet Union and extending the 1948 Treaty of Friendship, Cooperation, and Mutual Assistance for ten years, increased Finnish maneuverability in the EC negotiations. In return, Helsinki assured Moscow of continued most-favored-nation treatment, even with a Fenno-EC agreement. Nonetheless, Moscow continues to oppose Community enlargement on political grounds and could yet undermine a Fenno-EC agreement.

Iceland

35. Iceland's leftist-nationalist coalition government, unlike its conservative predecessor, is only half-heartedly seeking even an FTA arrangement with the EC. Fisheries account for four-fifths of Iceland's total exports and 23% of GNP. Iceland will be satisfied with a simple agreement to protect its fish exports to West Germany, the United Kingdom, Denmark, and Sweden, which together purchase almost 50% of Iceland's fish catch.

36. Any agreement with the Community, however, has been made extremely difficult if not impossible by Reykjavik's announced intention to extend unilaterally Iceland's territorial waters from 12 to 50 miles by 1 September 1972. Bonn has warned that this action could completely break down Community negotiations with Iceland; both German and British trawlermen would be hurt by exclusion from Iceland's rich fishing grounds. Reykjavik, however, apparently believes a larger protected fishing area would be more valuable than tariff concessions. Iceland believes that insufficient additional fish can be sold in EC markets to offset an expected large inflow of EC imports. Moreover, Icelandic exports to non-EC countries, particularly the United States, are growing rapidly, thereby reducing Icelandic dependence on the enlarged Community.

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Conclusions

37. Scandinavia has no alternative to accommodation with the EC if it is to avert a potential loss of foreign-exchange earnings and probably a slowdown in economic growth. Trade ties with the Six and the United Kingdom together account for about two-fifths of Scandinavia's total foreign trade. Although intra-Nordic trade is the most dynamic part of the total, it is not a viable substitute for free access to an enlarged Community.

38. Danish and Norwegian industry and Danish farmers stand to gain substantially from full Community membership. With the pivotal agricultural and fisheries issues resolved, the last major obstacle to their EC accession on 1 January 1973 is the ambivalent state of domestic public opinion. Intensive, governmental pro-EC campaigns, however, should go far to convince the man in the street of the economic disadvantages of remaining "outside."

39. An industrial free-trade area with the EC is the most likely course for Sweden and Finland. Sweden probably will accept an initial arrangement that will be less than the de facto membership desired but may opt for membership before the end of this decade. The FTA provisions for forestry products will undoubtedly come into effect over a prolonged transition period, thus largely delaying the full benefits to Finland of an EC agreement. Acceptable EC arrangements, if any, for Iceland remain problematical.

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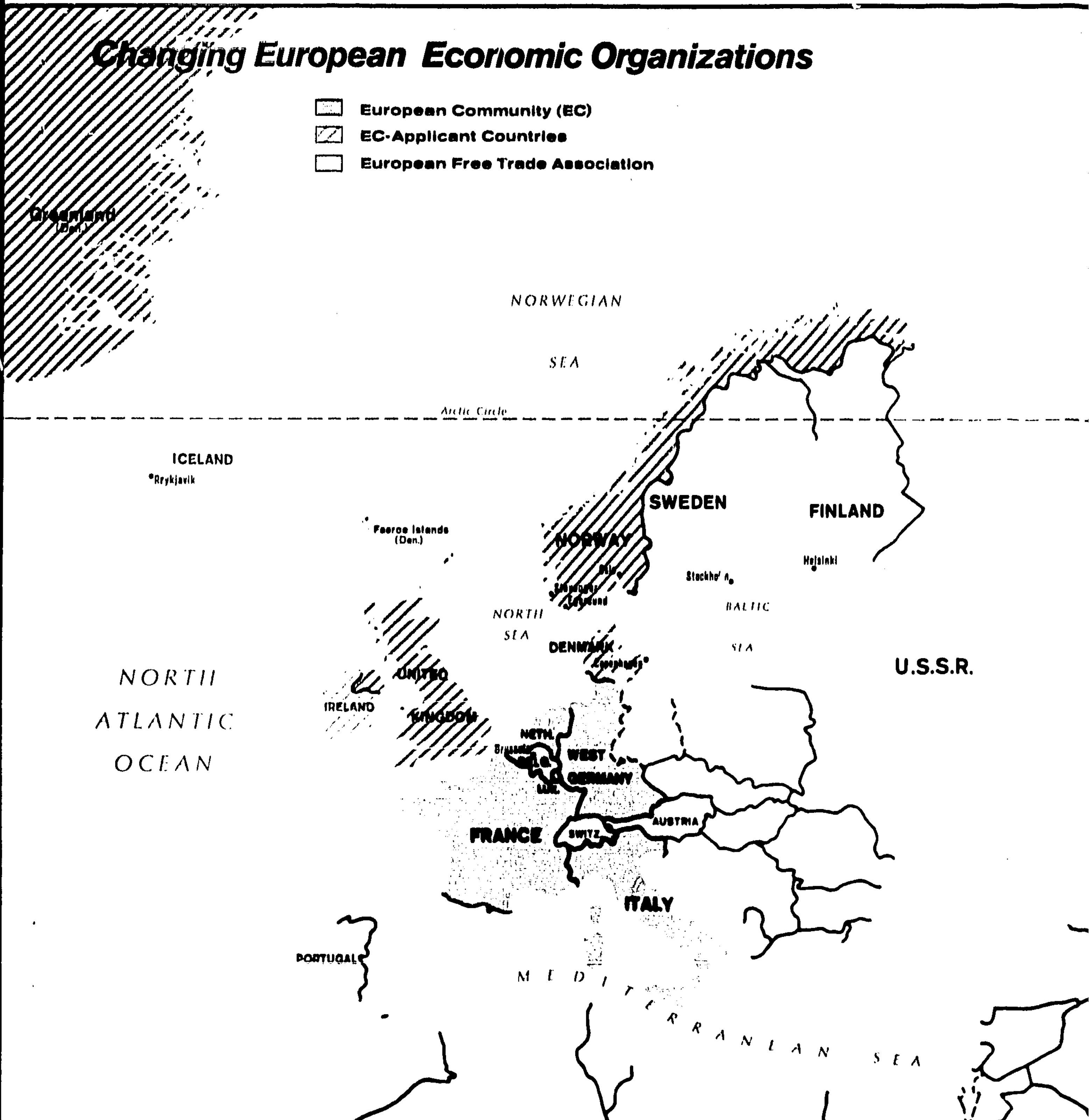
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EC-Applicant Countries
European Free Trade Association
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