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Switzerland, Norway and the European Union

Europe's two richest countries continue to prosper outside the EU

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Norway and Switzerland are Europe's two richest countries. (Switzerland's GDP per head is almost half as great again as the UK's.) Both are much more "dependent" on trade, particularly with the EU, than the UK (as shown in the table below). Neither has anything like the UK's global economic weight and standing. Yet both prosper outside the EU.

The table overleaf compares their and the UK's trading relationships with the EU. Norway and Switzerland are both members of the European Free Trade Association ("EFTA"). Norway also participates in the EU's internal market under the European Economic Area ("EEA") Agreement. Switzerland's trading relationship with the EU is based on its 1972 Free Trade Agreement ("FTA") with the EU for industrial goods and, more broadly, on the World Trade Organisation Agreements. Norway and Switzerland both benefit greatly from the Pan-European Cumulation System, which permits their manufacturers to export duty-free to the EU products containing unlimited amounts of components and materials from lower cost Central and Eastern European Countries.

Switzerland has recently signed with the EU seven bilateral agreements, whose eventual overall economic benefit is estimated at just 2 per cent of Swiss GDP. The most important relate to civil aviation, free movement of persons, overland transport and technical barriers to trade. They have no sovereignty implications and were approved by 67 per cent of Swiss voters in a referendum. The EU has not yet ratified them, so they are not yet in force.

The Norwegian and the Swiss federal governments continue to favour EU membership. But the Norwegian people rejected EU membership in referendums in 1972 and 1994. In 1992 the Swiss people even rejected the EEA Agreement (an option the Norwegian people were not given). In March 2001 a referendum proposal to begin negotiations to join the EU was rejected by 77 per cent of Swiss voters. Norway and Switzerland, as well as Mexico, offer clear evidence that viable alternatives to EU membership exist. The UK's negotiating leverage with the EU is much stronger than that of any of these countries.

TABLE A

Comparative Economic Statistics

(1999 figures except where otherwise stated)

	NORWAY	SWITZERLAND	UNITED KINGDOM
Population	4.5 million	7.1 million	58.2 million
GDP	US\$ 153 billion	US\$ 259 billion	US\$ 1,442 billion
GDP per capita	US\$ 34,034	US\$ 36,333	US\$ 24,757
GDP growth in 2000 (est.)	3.4%	3.4%	3.0 %
Merchandise exports per capita	US\$ 9,943	US\$ 11,266	US\$ 4,534
Merchandise exports / GDP %	29%	31%	18%
Merchandise exports: to EU / total %	74%	61%	53% (to EU14)

Sources: OECD, Eurostat, IMF, Norwegian government, Swiss government

TABLE B

Comparison of Trading Relationships with the EU

	NORWAY	SWITZERLAND	UNITED KINGDOM
<i>General relationship</i>			
European trading status	Member of EFTA and EEA (Notes 1 and 2).	Member of EFTA (Note 1).	Member of EU customs union.
Principal treaties, agreements and arrangements with EU	EEA Agreement 1992 Pan-European Cumulation System 1997 (Note 4). Schengen Agreement 2001.	FTA for industrial goods 1972 Pan-European Cumulation System 1997 (Note 4). Bilateral agreements 1999 (subject to EU ratification) (Note 3).	Consolidated Treaty on European Union, including Treaty of Nice (subject to ratification).
Objectives	Full participation in EU's internal market. Free movement of persons (no passport control).	Tariff and quota free trade in industrial goods. Elimination of most technical barriers to trade Retention of customs	Total inclusion in single European state. Full membership of EU's internal (or "single") market and customs union. Free movement of

		control for all imports.	persons (with passport control).
		Free movement of persons (with passport control)	
		Reciprocal opening up of road, rail and air transport markets.	
Obligations	To enact all new legislation from Brussels under powers ceded by EEA Agreement.	To implement seven bilateral agreements after EU has ratified them	To enact all new legislation from Brussels under powers ceded by all existing and future treaties Current opt-out from: <ul style="list-style-type: none"> ● Single currency ● Schengen Agreement
Right to withdraw	12 months' notice.	Yes	Not provided for in Treaties.
Subscription fee to EU	None	None	£11.4 billion gross in 1999.
<i>Agriculture, Food and Fisheries</i>			
Subject to Common Agricultural Policy	No	No	Yes
Obligatory common external tariff on non-EU agricultural imports	No	No	Yes. Effective average tariff of 82% in 1998
Free to decide own import policies for foodstuffs	Yes	Yes	No
Subject to Common Fisheries Policy	No. Exclusive fishing zone to 200 miles or median line with next country.	No	Yes. Exclusive fishing zone to 6 miles only under temporary "derogation". EU will take total control of UK's fisheries on 1st January 2002.
<i>Industrial goods</i>			
Tariffs	Zero for industrial goods "originating" in	Zero for industrial goods "originating" in	Zero for all industrial goods.

	area of Pan-European Cumulation System (Note 4).	area of Pan-European Cumulation System (Note 4).	
Quotas	Zero.	Zero	Zero
Free movement	No. Both exports to EU and imports from EU must go through customs.	No. Both exports to EU and imports from EU must go through customs.	Yes. No customs barriers for trade within EU customs union.
Certificate of origin required for duty-free trade	Yes.	Yes.	No.
Compliance with EU technical standards	Obligatory for exports to EU and other EEA countries and for domestic sales. Exports elsewhere must comply with importing countries' technical standards.	Obligatory for exports to EU and EEA countries. Voluntarily adopted for domestic sales of most products. Exports elsewhere must comply with importing countries' technical standards.	Obligatory for exports to other EU and EEA-EFTA countries and for domestic sales. Exports elsewhere must comply with importing countries' technical standards.
Influence in drafting of EU technical standards	Influence only. No votes on Council of Ministers.	No influence or votes.	11.5% of votes on Council of Ministers, but no veto.
<i>Services</i>	Free movement (in theory) of services under EU internal market rules.	Some bilateral agreements (e.g. insurance) between EU and Switzerland.	Free movement (in theory) of services under EU internal market rules.
<i>Trade dispute settlement</i>			
EU	EFTA Surveillance Authority seeks ruling from EFTA Court. Likely duration several years.	Switzerland represents herself at WTO. Likely duration 12 – 15 months.	European Commission seeks ruling from European Court of Justice. Likely duration several years.
Rest of world	Norway represents herself at WTO. Likely duration 12 – 15 months.	Switzerland represents herself at WTO. Likely duration 12 – 15 months.	European Commission represents EU (not UK) at WTO. Likely duration 12 – 15 months.
<i>External trade policy</i>	Full control.	Full control.	Ceded to Brussels for

All tariff revenue retained.	All tariff revenue retained.	all aspects of trade.
EFTA countries work together to negotiate FTAs all over world.	EFTA countries work together to negotiate FTAs all over world.	Required to collect common external tariff on all extra-EU merchandise imports and hand over resulting revenues to EU.

Notes

1. The European Free Trade Association

EFTA was founded in 1960 as a free-trade area for industrial products. Its original signatories were the UK, Austria, Denmark, Norway, Portugal, Sweden and Switzerland. Until 1972 EFTA and the EEC customs union were rival trading groups with substantial tariff barriers between them. But when the UK and Denmark left EFTA to join the EEC in 1972 it was not realistic for them to raise new tariffs against their former EFTA partners, and the EEC therefore offered to enter into free trade agreements for industrial products with each remaining EFTA country.

EFTA now consists solely of Iceland, Liechtenstein, Norway and Switzerland. Of these the first three are party to the EEA Agreement (Note 2 below). But Switzerland is not, having failed to win the referendum approval it needed to ratify the EEA Agreement.

EFTA's secretariat has a budget of under SwFr 20 million and employs around 64 people. Two thirds are based in Brussels and Luxembourg with responsibility for servicing the EEA Agreement. The remaining third are based in Geneva with responsibility for the original EFTA Convention and for third country relationships. Whilst each EFTA member controls its own external trade policy, they act as a group in negotiating FTAs with third countries. They have already signed FTAs with Israel, Mexico, Turkey and many of the Central and Eastern European Countries, and they are currently negotiating one with Canada.

2. The European Economic Area

Under their 1992 EEA Agreement Norway, Iceland and Liechtenstein participate fully in the EU's internal market. With the important exceptions of the Common Agricultural, Fisheries and Commercial Policies they are subject to broadly the same *acquis communautaire* as full EU members would have been under only the Treaty of Rome and the Single European Act. This covers duty-free trade in goods (including rules on competition, state aid and public procurement), and free

movement in services, capital and persons. The EEA Agreement also provides for cooperation in other areas such as consumer protection, environment and social policy. As EFTA-EEA members are not inside the EU customs union, merchandise exports to the EU go through EU customs, and to be duty free they must comply with the applicable rules of origin.

EFTA-EEA members are able to influence the EU decision making process through the EEA Joint Committee. But ultimately they are subject to decisions by the Council of Ministers, on which they have no vote.

The EEA Agreement respected the sovereignty of EFTA-EEA members in several ways. A special EFTA Surveillance Authority and a special EFTA Court were created in order to avoid the Commission and the European Court of Justice having the same supervisory and judicial authorities over EFTA-EEA members as they do over EU members. In the event of serious social or environmental problems any member has the right to temporarily reject Brussels directives, although none ever has. Lastly, any EFTA-EEA member may withdraw from the Agreement on 12 months' notice.

3. Switzerland's Seven Bilateral Agreements with the EU

In June 1999 Switzerland and the EU signed seven bilateral agreements, of which the most important related to civil aviation, free movement of persons, overland transport and technical barriers to trade. Their overall economic benefit to the Swiss economy has been estimated by the Swiss federal government at around SwFr 8 billion (2 per cent of Swiss GDP). The agreements have no sovereignty implications and can be cancelled at any time. They were approved by 67.2 per cent of Swiss voters in a referendum in May 2000. It is expected that they will have been fully ratified by the EU and its member states by the end of 2001.

Agriculture: Tariffs on products such as cheese, cut flowers and certain fruits and vegetables will be lowered or eliminated. Non-tariff barriers will also be reduced.

Civil aviation: Swiss airlines will be free to compete on all routes within the EU (apart from internal routes such as Berlin – Hamburg) and will be free to acquire control of EU airlines.

Free movement of persons: Swiss citizens will be free to work within the EU and *vice versa*. Switzerland can impose limits on EU immigration for 12 years.

Overland transport: Switzerland and the EU will gradually open up their respective road and rail markets, for both persons and goods. Switzerland will increase the maximum permitted HGV axle weight from 28 to 40 tonnes but will charge substantially higher HGV transit fees, which will help finance two new Alptransit tunnels.

Public procurement: The EU and Switzerland will open up their public procurement markets to each other to a greater extent than their WTO commitments required.

Research: Swiss research bodies and companies will have the right to full participation in EU research programmes.

Technical barriers to trade: A Swiss federal law passed in 1995 provided that Swiss technical standards should not differ from EU standards except to allow for specific

Swiss concerns relating to health, safety, the environment etc. Now the EU will recognise Swiss certification for most industrial products rather than require separate certification by an EU body, a procedure which was estimated to cost Swiss exporters 0.5-1.0 per cent of the cost of goods concerned.

4. Further Reading

Relevant background is given in Global Britain Briefing Notes No 5, (*The World Trade Organisation*), No 8, (*The Mexico-EU Free Trade Agreement*), No 10, (*The Mexico-EU Free Trade Agreement points the way*), and No 11, (*Free trade across the European Continent*) which describes the Pan-European Cumulation System. See the Web site: <http://www.globalbritain.org>