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Cherry-Picking

EFTA: The European Free Trade Association
EEA: The European Economic Area
The Swiss-EU Trading Relationship

A country - even a close neighbour - doesn't need to belong to the EU to trade with it.

It can cherry-pick the bits it wants through Free Trade Agreements

EFTA[1]

EFTA, founded in 1960, is now 60 years old. It comprises four non-EU European states, Switzerland, Norway, Iceland and Liechtenstein, with a combined population of 12.2 million. Its combined GDP of $ 544 billion (at 2003 current prices and exchange rates) is bigger than that of Australia, or South Korea, or the Netherlands, and slightly smaller than that of Mexico. Approximately 70 per cent of its exports and imports of goods are with EU-25. Switzerland, Norway and Iceland have their own currencies; Liechtenstein uses the Swiss Franc.

Switzerland and Norway have higher per capita GDPs than all EU-25 member states except Luxembourg. Norway's per capita GDP (at 2003 current prices and exchange rates) is 64% higher, and Switzerland's 46% higher, than that of the UK. Norway's per capita GDP is 82% higher than that of the Eurozone.[2]

The current updated EFTA free trade agreement (known as the Vaduz Convention) came into force in 2002 and provides for the free movement amongst the four member states of goods (except for agricultural and fishing products), services, capital and people. The main areas covered are:-

- Mutual recognition of conformity assessments (technical regulations, safety, consumer protection, health, environment)
- Intellectual property rights
- Investment and services
- Movement of people, social security and mutual recognition of diplomas
- Land and air transport
- Public procurement
- Agriculture and fishing (which remain, on the whole, protected areas)

None of the four member states has transferred any legislative competence to EFTA or EEA institutions, so that decisions in EFTA (or on the EFTA side in the EEA) are taken by unanimity. Thus (in contrast to the supra-national nature of EU institutions), sovereignty remains unequivocally with each of the four EFTA member states.

EFTA is governed by the EFTA Council, which is responsible for all non-EEA intra-EFTA relations and for relations with third countries. Each member state has one vote. Sub-committees deal with matters such as third-country relations, customs and origin and technical barriers to trade.

EFTA's secretariat is headquartered in Geneva, with an office in Brussels and staff on secondment in Paris and Luxembourg. There are sixty-four employees in total, split 21 in Geneva, 43 in Brussels, Paris and Luxembourg. EFTA's annual budget is £9.6 million.

EFTA's Third-Country Relations outside EU-25[1]

EFTA is a free trade association whose members undertake to trade freely with each other. It is not (as is the EU) a customs union, so each of its members retains full control of its trade relations with other countries (including with fellow-EFTA members). Unlike individual EU members, which do not negotiate or vote in World Trade Organisation (WTO) councils, having transferred such competence to the Commission, each EFTA member sits and votes at the WTO in its own right.

EFTA members have free trade agreements (FTAs) with EU-25, Norway, Iceland and Liechtenstein through the EEA, Switzerland through seven sectoral bilateral FTAs with the EU (see over). Beyond the EU, EFTA had FTAs in force in June 2004 with 13 countries, and is in various stages of negotiation with a further 35 countries, making a total, if they all come off, of 48.

EFTA's existing FTA partners include Balkan, North African and Middle Eastern countries, as well as Mexico, Chile and Singapore. The FTAs with the last three countries are comprehensive, covering services, investment and public procurement as well as goods. They include dispute settlement mechanisms and provide for the parties to be bound by WTO and Organisation for Economic Cooperation and Development (OECD) rules on subsidies, countervailing duties, right of establishment, free movement of services and trade-related investment measures. Amongst countries identified as future FTA partners are Canada, South Korea, the USA, Japan, China and Russia.

EEA[1]

The EEA unites the twenty-five EU member states and three EFTA states, Norway, Iceland and Liechtenstein (but NOT Switzerland) in a 28-member Internal Market governed by the same basic rules, which are set out in the EEA Agreement. This is an international treaty which came into force in 1994. Its signatories are on the one hand the EU and its member states, and on the other hand Norway, Iceland and Liechtenstein.

Excluded from the EEA Agreement are the following policy areas, sovereignty over which (in contrast to the position of the EU-25 member states) remains with each of the three EEA-EFTA states:-

- Common Agricultural Policy
- Common Fisheries Policy
- Foreign & Security (Defence) Policies
- Justice & Home Affairs Policies
- Customs Union
- Monetary Union

The EEA Agreement provides for the free movement within the 28-member EEA of goods, services, capital and people (the "four freedoms"). In addition, the Agreement incorporates so-called "horizontal provisions" designed to promote and safeguard the four freedoms: health and safety at work, labour law, equal treatment of men and women, consumer protection, the environment, statistics and company law. These horizontal measures incorporate the EU *acquis communautaire* and are legally-binding.

The EEA Agreement also provides for cooperation between the EU and the three EFTA-EEA states in "flanking areas": R&D, information services, education, tourism, culture etc. Flanking areas are not subject to the *acquis communautaire* and are not legally-binding.

The EFTA-EEA states are unable constitutionally to accept direct decisions by the (EU) Commission and the (EU) European Court of Justice (ECJ), but they participate in the decision-shaping of new EEA-related legislation. The EU, for its part, is concerned to safeguard its decision-making autonomy. These requirements led the parties to set up two major Joint Bodies to manage the EEA Agreement: the EEA Council and the EEA Joint Committee.

The EEA Council is made up of representatives of the EU and EFTA-EEA ministers; it gives guidelines to the EEA Joint Committee, which is made up of representatives of the Commission and of the EFTA-EEA states and meets monthly in Brussels.

In addition, an EFTA body, the EFTA Surveillance Authority, monitors, together with the Commission, the fulfilment of obligations under the EEA Agreement. Another EFTA body, the EFTA Court, has jurisdiction with regard to EFTA states which are parties to the EEA Agreement. Its jurisdiction broadly parallels that of the ECJ over EU member states in respect of Internal Market matters.

EFTA-EEA states make a financial contribution to EEA and EU programmes. For 2004, the total amount will be €363 million, equivalent to a per capita contribution of €74 (approximately four times smaller than the annual UK per capita gross contribution to EU institutions).

The Swiss-EU Trading Relationship[3]

Switzerland is an EFTA member but remains outside the EEA. In 1972 Switzerland and the then EC signed an FTA for industrial goods, and in 1986 a scientific cooperation framework agreement.

In addition, in 2002, seven sector-specific (or sectoral) bilateral Swiss-EU FTAs came into force, as follows:-

Type	*Sector*	*Main Subjects Covered*
Deregulatory	Technical Barriers to Trade	Mutual recognition/declarations of conformity
Deregulatory	Public Procurement Contracts	Water, transport, energy, telecoms
Deregulatory	Freedom of Movement of People	Reciprocal opening of labour markets
Deregulatory	Overland Transport	Gradual reciprocal opening of road/rail markets
Deregulatory	Agriculture	Asymmetrical reciprocal opening of markets
Cooperation	Research	Swiss participation in EU programmes
Partial Integration	Civil Aviation	Equal rights for Swiss airlines EU-wide

The agreements can be cancelled at any time, and none requires the transfer of legislative authority to a supranational body. Thus, Switzerland retains full sovereign control over the areas covered in the sector-specific FTAs. The agreements are linked, so that cancelling one would also cancel the others.

The seven agreements are managed by joint Swiss-EU committees whose decision-making powers are prescribed in the agreements. Decisions are taken by unanimity: each side retains a veto. With the partial exception of the civil aviation agreement, none of the FTAs obliges Switzerland to adopt the relevant part of the *acquis communautaire*. In civil aviation, the *acquis* is accepted by the Swiss in respect of competition law, but not in respect of public subsidies or restrictions on landing rights for ecological reasons.

A further nine agreements ("Bilateral Agreements II"), agreed in July 2004, await ratification. They cover cooperation in matters of justice, police, asylum and migration; taxation and savings; fraud; processed agricultural products; environment; statistics; media; education and pensions.

References

1. This section is based on material on EFTA's websites: www.efta.int and www.secretariat.efta.int
2. See Global Britain Briefing Note No 35, *European Union 2003 Prosperity Rankings*, 17th September 2004 www.globalbritain.org
3. This section is based on material on the website of the Swiss government's Berne-based Integration Office DFA/DEA, www.europea.admin.ch

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