

The European Free Trade Area (EFTA) and the European Economic Area (EEA)

The European Free Trade Area (EFTA) and the European Economic Area (EEA) are two international trading and economic organisations, separate from, but working in close conjunction with the European Union.

EFTA is made up of Norway, Liechtenstein, Iceland and Switzerland. It provides a framework for free trade between member states, and for Free Trade Agreements (FTAs) to be made with other nations – notably the EU's 27 member states. The EEA binds three of the EFTA nations (Norway, Liechtenstein and Iceland) in a *single market* with the EU member states.

EFTA and the EEA facilitate *free trade* and cooperation between member states, but without most of the political obligations and financial implications of EU membership.

Structures

The EU and EFTA are 'linked' by the EEA; the EEA unites three of the EFTA nations (Norway, Liechtenstein and Iceland) with the 27 EU member states in an *internal market*, where the economies of all the states are governed by the same basic rules. Being a member of the EEA allows states to participate in the European single market without having to become a member of the EU. However, this means that they play no part in negotiating single market regulations.

History – EFTA

EFTA was established in 1960 as a free trading alternative to the EU. Its founding members were Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the UK. From 1967, the EFTA states established free trade in industrial products.

EFTA membership has fluctuated over the decades. Iceland joined in 1970, and Finland became a full member in 1986. Liechtenstein joined EFTA in 1991 (before this point its interests had been represented by Switzerland). A number of states have also left EFTA to join the EU. For example the UK and Denmark left to join the European Community in 1973, and Portugal followed the same path in 1986. Austria, Finland and Sweden left EFTA to join the EU in 1995.

EFTA signed Free Trade Agreements with the European Economic Community (EEC), now the EU, in 1972. EFTA has also signed Free Trade Agreements with 30 nations and customs unions from across the world, including Turkey (1991), the Southern African Customs Union (2006) and Canada (2008).

History – EEA

The EEA is a single market. Negotiations to establish the EEA began in 1989, and it was established as a single market in 1994. EEA membership has expanded along with the expansion of the EU because the EEA Agreement asserts that any nation applying to join the EU

must also join the EEA. Today, its membership includes the 27 EU member states plus Norway, Liechtenstein and Iceland. The EEA's history is closely linked to the development of the EU's own internal market, the idea for which was set out in the Single European Act of 1986.

Switzerland voted to stay out of the EEA in a referendum in 1992. It chose instead to be linked to the EU through a series of bilateral agreements, which are different to the EEA Agreement.

Functioning of EFTA

EFTA is an *intergovernmental* organisation that acts as a free trading bloc. It is governed by the EFTA Secretariat, which has offices in Geneva (Switzerland) and Brussels (Belgium). Its activities are regulated by the EFTA Surveillance Authority (equivalent to the EU Commission), and the EFTA court (equivalent to the European Court of Justice). As these bodies regulate EFTA's activity in the EEA (of which Switzerland is not a member), Switzerland plays no part in the Surveillance Authority or the court.

Functioning of the EEA

It is governed by a joint committee consisting of the EEA-EFTA states plus the EU Commission, which represents EU states. EEA activity is based in Brussels. An EEA Council meets twice per year and governs the overall relationship between the EEA members. As mentioned above, the EEA's activity is regulated by the EFTA Surveillance Authority and the EFTA Court.

Quotes

'EFTA received little attention either during or since its heyday.' John Gillingham, 2003

'EFTA has contributed significantly to the economic development of its member states and to the promotion of free trade.' Kare Bryn, EFTA Secretary-General, 2010

Technical Terms

Free trade – international trade when there is no restriction on the import or export of goods.

Single market - trading area governed by the same basic rules, enabling the free movement of goods.

Intergovernmental – national governments cooperating together but not bound by any supranational authority

Useful Links

- <http://www.efta.int/>
- http://ec.europa.eu/external_relations/eea/