

EU-EFTA RELATIONS: AN HISTORICAL APPRAISAL

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Abstract

EFTA's relations with the European Union (EU) are as old as the Union itself. However, they may receive a new impetus in the coming years as the United Kingdom leaves the European Union and explores new commercial relationship with the rest of the continent. Initially, the EEC and EFTA were perceived as rival organizations, but after decades of collaboration and mutual understanding both have come considerably closer. The EU-EFTA relations are a very good example of group-to-group approach with same values, cultures, histories and political systems. After the Brexit vote, there is a growing assumption that Britain might join the EEA to lessen its financial burden and enjoy the benefits of a single market. Some circles in Britain are of the view to adopt the Swiss model, neither a full member of Union nor an EEA member but have access to Single Market through bilateral agreements. The question is that is there any point that EU reward Britain for leaving the Union.

European Free Trade Association (EFTA) is a regional trade organization. It includes Iceland, Liechtenstein, Norway and Switzerland. EFTA's relations with the European Union (EU) are as old as the Union itself. However, they may receive a new impetus in the coming years as the United Kingdom leaves the European Union and explores new commercial relationship with the rest of the continent.

After the Second World War, there was a determination to start a process of economic integration in order to avoid further havoc on European soil. Britain also supported the idea albeit under different connotations. At the opening session of the Congress of Europe, the then British Prime Minister Winston Churchill proposed, "a structure under which it can dwell in peace, in safety and in freedom, we must build a kind of United States of Europe".¹

¹ Visit at http://www.cvce.eu/obj/address_give_winston_churchill.

Perhaps, Churchill envisaged a Europe unified on the lines of the United States of America leaving no state in a dominant position.²

Thus, when in early 1950's French Foreign Minister Robert Schuman presented the idea of European Coal and Steel Community (ECSC) to place the industries essential to warfare under joint control and put a stop to all major European countries to wage war, Britain opted to stay out. The reason behind this British refusal, among others was that the ECSC did not allow the nationalization of its members' coal and steel industries, a policy pursued by the post-war Atlee government. The Coal, Steel and Shipbuilding industries were the backbone of British economy.³

ECSC was a supranational body. Furthermore, ECSC's long-term political aim was a supranational state of Europe and Britain had no intention to commit to it. At the same time, the political establishment in the UK did not want to antagonize the US. Washington was seeking greater inter-state cooperation within the continent with the Marshall Plan providing the necessary monetary boost.⁴

The ECSC was off to a flying start, but the other more ambitious proposals such as the European Defense Community (EDC) and the European Army failed to take off. Thus, when at Messina in June 1955 the ECSC members went a step ahead, and laid the foundations of a European Economic Community, Britain kept itself aloof under a mistaken impression that this latest move, too, would prove futile like the EDC. It unveiled its own project known as 'Plan G'.⁵ This plan envisioned a free trade area that was to include the six ECSC members as well as the states that comprised the Organization for European Economic Co-operation (OEEC). Firstly, London wanted to respond to the common external tariff of the Common market, which could seriously hurt its economy. Secondly, it desired to keep the agricultural sector out of the suggested venture, a proposition unacceptable to the French whose economic muscle depended heavily on agriculture.⁶

² Ibid.

³ Stephen George, *An Awkward Partner: Britain in the European Community* (Oxford: University Press, 1998), 20.

⁴ Ibid, 8.

⁵ Visit at aei.pitt.edu/6926/1/elisson_james_r_v.pdf.

⁶ Visit at mei.qmul.ac.uk/assets/publications/175664.pdf.

The Six invited the UK to the inter-governmental conference at Val Duchesse (26, June 1956) that set the stage for the establishment of the European Economic Community (EEC) and European Atomic Energy Community (EURATOM). Britain agreed to send its observer to Brussels but refused to consider the Spaak Report as the basis for future negotiations.⁷ The Six ECSC members signed the Treaty of Rome on 25 March 1957.

The British plan was eventually succeeded in the shape of the Stockholm Convention. It was signed on November 20, 1959 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. The European Free Trade Association (EFTA) came into force in 1960.⁸ The creation of EFTA was considered as an economic Iron Curtain in Europe.⁹ The majority of EFTA countries were skeptical about Franco-German reconciliation under the supranational institutions. They were ready to abolish internal tariffs and quotas with a free trade policy with third countries.¹⁰

In comparison to EEC, EFTA was a diverse organization. It had some land locked countries and some maritime. Most of them did not share boundaries, some were high income and some low income, some had abundant raw materials and mineral resources like Scandinavian countries and some were dependent on importing them, some had vast global experience and some had very little. Demographically, too, there were stark differences. There was no intra-trade tradition except within the Nordic countries. Moreover, all EFTA members traded more with the EEC than with each other.¹¹ It is pertinent to mention that in the mid-1960s Britain imposed an import surcharge on all the countries including EFTA states.¹²

⁷ Visit at www.cvce.eu/obj/the_british_plan_for_a_large_free_trade_area_en_45d67fa-9285-48f3-a2e2-6d81236ef869.html.

⁸ Thomas Pederson, *European Union and the EFTA Countries* (London: Pinter Publishers, 1994), 19.

⁹ Ibid, 20-21.

¹⁰ Ibid.

¹¹ Jacques Pelkmans, *European Integration: Methods and Economic Analysis* (Netherlands: Longman, 1997), 309-310.

¹² Ibid.

When Britain founded the EFTA the perception behind, according to Alistair Jones, author of *Britain and the European Union*, was that, when a fog appears in the English Channel, it cuts off Europe from Britain, not vice versa.¹³ Nevertheless, just twenty months after the launch of EFTA Britain applied for the full membership of EEC along with Denmark, Ireland and Norway.¹⁴

At the time of the signing of the ECSC and then EEC and EURATOM, Britain opted for intergovernmental cooperation rather than supranational integration. When in 1961 Britain applied for EEC membership, it negated its policy of intergovernmental cooperation. Treaty of Rome's Article 237 required full liabilities; the applicants must accept the concept of supranationality and derogation of sovereignty in restricted areas to a higher authority.¹⁵ There were deep concerns in British policy-making circles that if the EEC succeeded in closer political cooperation on the pillars of a robust economic structure and surging Franco-German cooperation, Britain could be left stranded.¹⁶

British anxieties strengthened when, on May 31 1960, French President Charles de Gaulle called for political unification among the Six EEC members based on greater state-to-state interaction.¹⁷ Then, in the following year, Britain applied for the EEC membership. Given their dependence on British economy, Ireland and Denmark followed suit.¹⁸

Interestingly, at the time of the signing of the Treaty of Rome, the then British Prime Minister, Harold Macmillan, visited the US President Eisenhower in Bermuda to take the pulse of the Anglo-American 'Special relationship'. The US backed British entry into the Community. Now that British membership was on the cards, Washington anticipated a robust US-EEC partnership.¹⁹ Yet, closer Anglo-American relations were of concern to the EEC member states. During the accession talks, differences over the

¹³ Alister Jones, *Britain and the European Union* (Edinburgh: University Press, 2007).

¹⁴ *The Guardian*, 25 June 2016.

¹⁵ Kristian Steinnes, *Britain's EEC Application in 1961*, available at <https://www.jstor.org/stable/20081652?seq=#>.

¹⁶ *Ibid.*

¹⁷ Desmond Dinan, *Ever Closer Union* (London: Lynne Rienner Publishers Inc., 1999).

¹⁸ *Ibid.*

¹⁹ *Ibid.*

Common Agriculture Policy (CAP), Britain's relationship with its former possessions and its obligations to its EFTA partners came to the surface.²⁰

In addition, in the course of the said negotiations, a new Anglo-American missile accord (Nassau Agreement) was signed in December 1962. According to this accord, Britain's nuclear force would be integrated into NATO, and it would deploy the US made Polaris missiles for the delivery of its atomic warheads.²¹ On paper, it appears as if London had clipped the sovereignty of its nuclear deterrent.

As a result, in January 1963, French President Charles de Gaulle vetoed British application in a press conference, which expressed concerns about Britain's commitment with Europe.²² The French were to reject British request again four years later when Harold Wilson tried to test the waters in Brussels.²³

After de Gaulle's resignation in 1969, on the lost referendum on constitutional reforms in France, the Labor Government reactivated its application at the 1969 Hague summit of the EEC.²⁴ Growing wary of West German strength, France approved British admission. The accession negotiations began on June 30, 1970 and the Treaty was signed on January 22, 1972. Britain along with Denmark and Ireland joined the Communities on January 1, 1973.²⁵

The UK Parliament approved the accession in October 1972 but in the run up to the subsequent 1974 General Election the Labor Party pledged, in its manifesto, a nationwide referendum on whether to stay in the Economic Community. The consequent referendum took place in June 1975 in which almost two-third of the electorate voted in favor of the EEC membership.²⁶ On the other hand, the remaining EFTA states were not interested in any further integration. The European Community concluded bilateral free

²⁰ Ibid, 50.

²¹ Ibid.

²² Stephen George, 34.

²³ Desmond Dinan, *Ever Closer Union*, 24.

²⁴ Ibid.

²⁵ Miroslav N. Jovanovic, *European Economic Integration: Limits and Prospects* (London: Routledge, 1997), 248.

²⁶ Herman de Lange, "Taking Stock of the EC-EFTA Dialogue", in J.James and Helen Wallace (eds.), *EEC-EFTA: More Than Just Good Friends?* (Burgess:College of Europe,1988), 311.

trade agreements with the EFTA states. For each EFTA state, there were two agreements, one with EC and the other with ECSC. Bilateral agreements were a necessity due to the diversity in EFTA countries; all the agreements had the same pattern but included special provisions for each country. Due to these bilateral agreements, the EFTA states came closer to the three recently departed EFTA members namely Britain, Denmark and the Republic of Ireland.²⁷

The Free Trade Agreements (FTAs) between EC and EFTA aimed to dismantle all the custom duties on industrial products by January 1, 1984. The agreements did not encompass primary agricultural products. Moreover, certain processed agrarian goods classified as industrial products e.g. flax, cork and hemp were also excluded from the arrangements. However, after the signing of FTAs some EFTA countries like Switzerland, Sweden, Norway and Austria came in an agreement with the Community to grant reciprocal tariff concessions for some agricultural products e.g. fish, fruit, wine etc.²⁸

Barring some products like the Finnish petroleum and Austrian antibiotics, the FTAs also abolished quantitative restrictions on bilateral trade. Furthermore, the FTAs also fostered collaboration in the fields of environment, worker's health and safety, economic and monetary policy, consumer protection, energy, development aid, industrial policy, science and technology and joint research programs.²⁹

Other than bilateral FTAs, the Community also signed two multilateral conventions with four EFTA states – Finland, Norway, Sweden and Switzerland covering combined road/train transport of goods and mutual recognition of judgments in civil and commercial matters.³⁰ Overall, trade between EC and EFTA increased five-fold in the period between 1973 and 1986.³¹

²⁷ Ibid.

²⁸ Maršlav N. Jovanovic, *European Economic Integration*, 250.

²⁹ Visit at <https://heinonline.org/HOL/LandingPage?handle=hein.kluwer/jwt0020&div=49&id=&page>.

³⁰ See <http://europa.eu/rapid/press-release-MEMO-88.8-en.htm>.

³¹ Jacques Palkmans, *European Integration*, 316.

Another EFTA state that joined the Community was Portugal. Portugal was a weak state as compared to other states in the Area, and at the time of the Carnation Revolution, it was still an underdeveloped country with poor infrastructure and inefficient agriculture as well as the worst health and education indicators in Europe. Although The EFTA states established Portugal fund in 1975, it could not benefit as much, and in 1986, Portugal left EFTA and joined the EC to achieve political stability and nourish democracy. Besides, it aimed to energize its decaying economy through EC's structural funds.³²

At the 10th anniversary of bilateral FTAs, the European Parliament passed a resolution to expand cooperation with EFTA states. Subsequently, 1984 saw the EC-EFTA relations upgraded to a multilateral level. A meeting held in Luxembourg between EC and EFTA ministers accompanied by a representative of the EC Commission adopted a second-generation initiative known as the Luxembourg Declaration.³³ According to this declaration, the two trading blocs agreed to continue and extend cooperation within and beyond the framework of the FTAs. The ministers at the Luxembourg meeting agreed to create a dynamic European Economic Space (EES).³⁴ While the participants did not define the envisaged project, it was clear that the EES went further than a free trade area.

The late 1980s saw tremendous changes in Europe. The collapse of Soviet power in Eastern and Central Europe, reunification of Germany, dissolution of the Warsaw Pact and implosion of the USSR dominated that tumultuous decade. Thus, the geopolitical changes rendered the neutrality of EFTA members irrelevant, and all erstwhile neutral states – Austria, Finland, Sweden, Norway and Switzerland applied for accession to the EC, which became 'European Union' after the Maastricht Treaty.

Switzerland applied in May 1992, but later withdrew its application in December of the same year after the Swiss electorate vetoed the move. Norwegian citizens also rejected their government's attempt to gain membership in December 1992. They were septic about the word 'Union'. They did not have pleasant memories of their 'Union' with Denmark from

³² Ibid, 311.

³³ Ibid.

³⁴ www.europarl.europa.eu-etudes-

1830-1814, and then under Sweden from 1814-1905.³⁵ Austria, Finland and Sweden joined the Union in 1995.

Earlier, in 1989, the Delors Commission proposed a further strengthening of the bond between the two European trade blocs. After the Maastricht Treaty, the EFTA states clearly understood that the liberalization and regulatory regimes introduced by this Treaty could only be accessed by more engagement with the EU. Accordingly, a multilateral European Economic Area (EEA) replaced the bilateral FTAs of 1973.³⁶

EEA came into force on January 1, 1994 between 12 EU and 6 EFTA states. Though the bilateral agreements of 1972-73 eliminated most of the tariffs and quantitative restrictions, the EEA abolished all the remaining obstacles to trade. All the goods that were legally produced and traded in any EEA state would be freely accepted in other member states except hazardous products.³⁷ Swiss voters rejected the EEA through a referendum.

The negotiations for EEA began in 1989, and completed in May 1992. They came into force in 1994. The EEA did not have a transition period. The relevant *acquis* were applied instantly, except in few specified cases. The objective behind the EEA was the unification of all European states. The first step towards this objective was the achievement of four freedoms—free movement of people, goods, services and capital along with competition and state aid rules in 18 European states. The other areas related to the four freedoms are also included in the EEA e.g. social policy, education, research and technological development, consumer protection, employment, entrepreneurship, company law, statistics, information and the audiovisual sector.³⁸

Common Agriculture and Fisheries Policies of EU are not part of the EEA, although EEA contains provisions of trade in these sectors. Custom Union, Common Trade Policy, Common Foreign and Security Policy, Justice and Home Affairs, direct and indirect taxation and Economic and Monetary Union are also not part of the EEA Agreement. The Schengen Area is also not part of the EEA Agreement but all the four EFTA states are part of

³⁵ Ibid.

³⁶ <http://www.europedia.moussis.eu/books/Book-2/7/25/01/?all=1>.

³⁷ Ibid.

³⁸ Miroslav N. Jovaovic, *European Economic Integration*, 249.

Schengen through separate bilateral agreements. The contracting parties have adopted all of the relevant *Acquis* of the Single Market and Schengen Area.³⁹

The EFTA countries are restricted to follow the relevant *Acquis* Communautaire and associated case laws of Union, which are relevant to the Single market. More, they also accept the current and previous interpretations of ECJ.⁴⁰

The EFTA members in the EEA enjoy free trade with the European Union but they have no role in EU decision making. They do not have any representation in the EU institutions. However, they financially support the Single Market.

Financial Contributions

The financial contributions of EFTA states, to reduce the economic and social differences of in the EEA states, are the price of accessing the internal market of the EU without being its full member. Since the EEA came into force in 1994, the EFTA states have provided support for less developed EU states. Hence, the first financial mechanism 1994-1998 allocated around ECU 2bn for Greece, Spain, Portugal, Ireland and Northern Ireland.⁴¹

For the next five years, Financial Instrument 1999-2003 denoted the contributions. In that period, the same five countries received €119.6m. Some new fields of cooperation were added to previous ones e.g. protection of cultural heritage, academic research, pollution etc.⁴²

After the largest enlargement of EU in 2004, the financial contributions were made through two separate mechanisms – EA Grants and Norway Grants. Norway was the leading contributor to both the mechanisms. It provided around 97% of the total support. The grants distributed by these financial mechanisms were non-repayable. The EEA Grants 1 (€672m) and the Norway Grants 1 (€567m) covered the period between 2004 and

³⁹ Visit at <https://www.efta.int/eea/eea-agreement/eea-basic-features>.

⁴⁰ Ibid.

⁴¹ <http://www.eog.gov.pl/o-programie/informacje-ologne/stronov/default.aspx>.

⁴² Ibid.

2009.⁴³ In addition, Norway also gave €68m through Norwegian Bilateral Cooperation Program. The beneficiary states were new entrants along with previous beneficiaries. New fields of cooperation were introduced in these grants viz. healthcare, childcare, civil society, Schengen, institutional capacity building, cross-border activities and human resource development.⁴⁴

For the period between 2009 and 2014, EEA Grants II (€993.50m) and Norway Grants II (€804.6m with an additional €8m) contributed to the Global Fund for Decent Work and Tripartite Dialogue, operated by Innovation Norway.⁴⁵

The areas of cooperation that were new for this period were climate change and renewable energy, green industry innovation, carbon capture and storage, justice and home affairs, human and social development and decent.⁴⁶

The on-going financial mechanism falls under the period between 2014 and 2021. Now the funding period has been expanded to seven years and the amount is now allocated on yearly basis. The EEA Grants III and Norway Grants III apportioned yearly amounts of €221.2m and €179.1m respectively. Thus, in total both the grants will imburse €2.8bn over a seven-year period.⁴⁷

The instrument covers migration challenges, and promotes innovation and growth in beneficiary states. Also, it aims to enhance mobility in the European labor market.

The Financial Mechanism Office (FMO)

It administers the EEA and Norwegian Financial Mechanism. The FMO is affiliated to the EFTA Secretariat in Brussels, and reports to the Financial Mechanism Committee (FMC) and to the Norwegian Ministry of Foreign Affairs (NMFA). The FMO serves as a contact point for the donor states,

⁴³ For details see http://en.wikipedia.org/wiki/EEA_and_norway_grants.

⁴⁴ Ibid.

⁴⁵ <http://www.uwm.edu.pl/en/thermomodernization/norwegian-financial-mechanism-financial-mechanism-of-the-european-economic-area>.

⁴⁶ Ibid.

⁴⁷ Ibid.

beneficiary states and other stakeholders. The FMO cooperates with a coordinating authority (Focal Point) in each of the beneficiary states. The FMO consists of 50 employees.⁴⁸

EEA Institutions

For the smooth functioning of the EEA Agreement or as per the requirement of the constitutions of three EEA EFTA states, the constitutions of these states prohibit them to accept decisions of European Commission or European Court of Justice or any other European Union institution. The two blocks established four institutions.

EEA Council

It is the highest political body. EEA Council contain EEA and EFTA States and their respective ministers of foreign or European affairs. The European Union is represented by the rotating presidency of the Council of the EU, as well as representatives of the European External Action Service and the European Commission.⁴⁹

The Presidency of the EEA Council alternates each term between the EU and the EEA EFTA side. The EEA Council adopts conclusions providing a common assessment of the overall functioning of EEA cooperation. The EEA Council is responsible to give political guidance for the implementation of the Agreement while providing general guidelines for the EEA Joint Committee.⁵⁰

The EEA Council adopts conclusions providing a common assessment of the overall functioning of EEA cooperation. As part of this assessment, the EEA Joint Committee prepares a progress report on its activities for each EEA Council meeting. The EEA Council also takes into consideration resolutions adopted by the EEA Joint Parliamentary Committee and the EEA Consultative Committee.⁵¹

The EEA Joint Committee (EEA JC)

It is a forum in which views are exchanged and decisions are taken by consensus to incorporate EU legislation into the EEA Agreement. The EEA

⁴⁸ www.eeagrants.org.

⁴⁹ <http://www.efta.int/eea/eea-agreement/eea-basis-features>.

⁵⁰ Ibid.

⁵¹ Miroslav N.Jovaovic, *European Economic Integration*, 252.

JC comprised the ambassadors of the EEA EFTA States and representatives of the European Commission represented by the European External Action Service (EEAS). Four subcommittees assist the Joint Committee. Numerous expert and working groups report to these subcommittees. The EEA Joint Committee incorporate Joint Decisions into the EEA Agreement. The EEA Joint Committee therefore plays a key role in the EEA decision-making procedure.⁵²

The EEA Joint Parliamentary Committee (EEA JPC)

It is an advisory body that comprises members of the national parliaments of the EEA EFTA States and Members of the European Parliament (MEPs). It is not directly involved in the EEA decision-making process, but through reports and resolutions it aims to monitor and scrutinize EEA-relevant EU policies and decisions adopted in the EEA Joint Committee. The recent meeting of the EEA JPC (48th) was held in Reykjavík on 23 May 2017.⁵³

Members of the EEA JPC scrutinize all Community legislation applying to the EEA, and have the right to put oral and written questions to the representatives of the EEA Council and EEA Joint Committee. At each meeting, the EEA JPC has discussions with representatives of the EEA Council of Ministers, the EEA Joint Committee, and the EFTA Surveillance Authority. The EEA JPC expresses its views in the form of reports or resolutions. The Committee adopts resolutions on a wide variety of issues relevant to the EEA Agreement and the functioning of the Single Market.⁵⁴

The EEA Consultative Committee

It is an advisory body made up of members of the EFTA Consultative Committee and the European Economic and Social Committee. The Committee works to strengthen contacts between the social partners on both sides and to cooperate in an organized and regular manner to enhance awareness of and provide input on the economic and social aspects of the EEA.⁵⁵

The EEA Agreement's Article 96 stipulated the establishment of the EEA Consultative Committee. This body consists of an equal number of nine

⁵² Ibid.

⁵³ Ibid.

⁵⁴ See http://www.efta.int/joint_institutions/eea-joint-institutions.

⁵⁵ Ibid.

representatives of the EFTA Consultative Committee and of the European Economic and Social Committee (EESC). The EEA Consultative Committee meets once a year and adopts resolutions on areas of priority.⁵⁶

EFTA Institutions

Like any other regional organization EFTA also has its own institutions, though a very small institutional framework.

EFTA Council

It is the highest governing body. It meets at ambassadorial and ministerial levels. Each member state has one vote but decisions are reached through consensus. The Council focused on EFTA's relations with non-members and with other international organizations as well as manages relations between the EFTA states.⁵⁷

EFTA Secretariat

It has two headquarters based in Geneva and Brussels. The Secretariat is headed by the Secretary General with two deputy Secretaries General. The Geneva headquarters manages the free trade agreements with non-EU countries while Brussels office assists the member states on new legislations pertaining to EEA agreements.⁵⁸

EFTA Statistical Office

It is located in Luxembourg and function as a liaison office between the EFTA National Statistical Institutes and the Eurostat. The objectives of this office are to enhance technical and general cooperation between EU and EFTA through smooth inclusion of EFTA states in EU's statistical system.⁵⁹

The EFTA Court

It has jurisdiction with regard to EFTA States which are parties to the EEA Agreement. The Court is mainly competent to deal with infringement actions brought by the EFTA Surveillance Authority against an EFTA State with regard to the implementation, application or interpretation of EEA laws or rules. Thus the jurisdiction of the EFTA Court largely corresponds to the jurisdiction of the Court of Justice of the European Union over EU

⁵⁶ Ibid.

⁵⁷ <https://en.wikipedia.org/wiki/European-Free-Trade-Association>.

⁵⁸ Ibid.

⁵⁹ Ibid.

States. Thus, EFTA Court is competent for the settlement of disputes between two or more EEA EFTA States.⁶⁰

The EFTA Court consists of three Judges, one nominated by each of the EFTA States party to the EEA Agreement. The Judges are appointed by common accord of the Governments for a period of six years. The Judges elect their President for a term of three years.⁶¹

EU-Switzerland relations

Switzerland is very close to the EU geographically, economically and culturally. It is the third largest economic partner in terms of trade in goods and services. Switzerland is an EFTA member but not a part of the EEA. The EU and Switzerland have concluded 20 core and over 100 additional bilateral agreements. Around 20 joint committees manage these agreements. The bilateral approach respects the Swiss sense of sovereignty as the relevant EU laws, which are although very few in comparison to EEA, are only applicable after the decision of joint bilateral commission and with the consent of Swiss citizens.

In 1972, EU and Switzerland signed the first bilateral free trade agreement that came into force in 1973, and in 1989, both signed an insurance agreement that enabled Swiss and EU insurers to work in each other's territory.⁶²

In May 1992, Switzerland applied for EU accession along with other EFTA states but the Swiss voters rejected this move in a nationwide referendum held in December the same year. The Swiss voters also rejected the EEA. Thus, Switzerland is the only EFTA state that is not part of EEA Agreement. In 1994, Switzerland and the EU started negotiations for a bilateral relationship. In 1999, both the parties signed seven bilateral sectoral agreements. These encompass free movement of persons, technical trade barriers, public procurement, agriculture, transport, civil aviation and research. Swiss nationals approved these bilateral agreements in 2000 by 67.2% votes.⁶³

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² http://www.europedia.moussis.eu/books/Book_2/7/25/01?all=1.

⁶³ Ibid.

In 2004, some other bilateral sectoral agreements were signed which included processed agricultural products, statistics, taxation on savings, combating fraud, Swiss participation in EU media programmes, environment and Swiss financial contributions to economic and social cohesion in the newly integrated EU states.⁶⁴

In a referendum held in 2005, the Swiss electorate agreed by 55% vote to join the Schengen area, which came into effect from December 2008. In 2010, another bilateral agreement was signed on Swiss participation in EU education, professional training and youth programmes.⁶⁵

The 2014 popular vote regarding immigration quota irked the EU. The European Commission has stressed that since the Swiss had signed a free movement agreement they could not bring in restrictive measures against the EU citizens while enjoying the benefits of other bilateral agreements. Switzerland enjoys maximum access to the EU single market through bilateral agreements. If it breaks, denounced or not renewed a single clause of these agreements the whole deal falls apart. Due to this anti-immigrant referendum, there was coldness in relations but after the signing of a treaty, which extends the accord of the free movement of people to Croatia in 2016, the EU also gave Switzerland full readmission to Horizon 2020 on January 1, 2017.⁶⁶

Since the Bilateral I and II agreements, Switzerland has participated in two of the seven Erasmus student mobility programmes – the lifelong learning and youth in action. However, since the 2014 vote, the EU has curtailed full Swiss participation in Erasmus+, and it is not clear what the state of affairs is in Erasmus+ 2014-2020 vis-à-vis Switzerland.⁶⁷

Conclusion

Initially, the EEC and EFTA were perceived as rival organizations, but after decades of collaboration and mutual understanding both have come considerably closer. They remain each other's largest trading partners. The EU-EFTA relations are a very good example of group-to-group approach

⁶⁴ Ibid.

⁶⁵ [http://europa.eu/rapid/press-release MEMO-16-3185-en.html](http://europa.eu/rapid/press-release_MEMO-16-3185-en.html).

⁶⁶ http://eeas.europa.eu/switzerland/index_en.htm.

⁶⁷ Ibid.

with same values, cultures, histories and political systems. Furthermore, both are interconnected economically and geographically with each other. EFTA is a very small organization but with a highly specialized economic structure. Its per capita income is higher than the EU. EFTA states are not part of the European Union, but they have full access to the EU's internal market. The fact that EFTA states heavily contribute to the EU budget have no share in decision-making is a point of concern in some circles. At the same time, it remains a fact that the EEA and EFTA states, unlike their EU counterparts, control their own farms and fishing grounds. According to rough estimates, the EU produces around 2000 new directives, regulations and decisions per year. Only 30% are directly related to economic matters. The EEA EFTA states are also not bound to accept ECJ rulings. Thus, in comparison to EU members they are in a relative ease.

After the Brexit vote, there is a growing assumption that Britain might join the EEA to lessen its financial burden and enjoy the benefits of a single market. A British withdrawal from the EU will automatically divorce London from the EEA until and unless it joins EFTA again. According to Article 128 of the EEA Agreement, any new entrant either to EU or to EFTA may want to become a party to this agreement. It will have to make its case to the EEA Council, which takes decisions with respect to enlargement. The Council decisions are taken by the consensus.⁶⁸

Some circles in Britain are of the view to adopt the Swiss model, neither a full member of Union nor an EEA member but have access to Single Market through bilateral agreements. While the Brexit promised to restrict the right of EU citizens to live and work in Britain and Swiss model respect the free movement of people.⁶⁹ The question is that is there any point that EU reward Britain for leaving the Union.

⁶⁸ *The New York Times*, December 19, 2017.

⁶⁹ *Ibid.*