

# A Short History of the EFTA States' European Integration

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**This text briefly describes how the European integration of the EFTA states proceeded since EFTA was founded in 1960. It shows that European integration initiated political changes in countries and spheres that lie beyond the scope of the EU institutions.**

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## Summary

The history of European integration is a history of different goals and different paths. The largest project, the European Union (EU), has become increasingly assertive in forcing through its rules as the basis for European cooperation. This also applies to its relationship to third countries. Selective approaches to integration by non-member states persist despite challenges and are likely to be complemented by a new agreement between the EU and the United Kingdom (UK). This contribution shows the development of those selective approaches in the EFTA states.

## The EFTA approach

From the very beginning of European integration, there have been different models of cooperation and different paths towards more integration. When the predecessor organisations of the EU, the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM), were established in 1957, this provoked a reaction of seven other Western European states which created the European Free Trade Association (EFTA) in 1960.

The founding members of the EEC and Euratom were the German Federal Republic, France, Italy, Luxembourg, Belgium and the Netherlands. The founders of the EFTA were the UK, Austria, Denmark, Norway, Portugal, Sweden and Switzerland (more on the history of EFTA [here](#)). The EFTA founders were sceptical about the political integration sought by Germany, France, Italy, Luxembourg, Belgium and the Netherlands in creating the EEC and EURATOM. At the same time, the EFTA founders also feared economic disadvantages resulting from the economic cooperation of the EEC founders.

When the EEC accomplished its customs union in 1967, the EFTA countries abolished the tariffs on the movement of industrial goods between themselves. This first multilateral response to the challenge of European integration was aimed at preventing shifts in trade towards the members of the EEC. The EFTA countries continuously lowered their tariffs in order not to provide less favourable conditions for economic actors compared to the EEC. Nevertheless, export volumes dropped significantly for some EFTA members when the customs union of the EEC entered into force. Hence, early integration in what is today known as the EU already had an impact on the surrounding countries.

## The sectoral agreements approach

The success of the EEC and the negative economic effects that this exerted on EFTA states made some of them re-evaluate the economic gains and political costs of joining the EEC, whereas others started to negotiate bilaterally with the EEC. The results of these negotiations were Free Trade Agreements (FTA) covering industrial goods. These bilateral FTAs that the EFTA states had negotiated with the EU entered into force on 1st January 1973 - the same day that the UK, Ireland and Denmark left the EFTA and joined the European Economic Community (EEC).

The remaining EFTA states increasingly pursued their integration aims by means of sectoral agreements with the EEC, an approach that Switzerland has been pursuing ever since (see **EU Treaty Office** and **Swiss Federal Administration**). The FTAs and subsequent agreements between the EFTA states and the EEC were treaties of international law and did not entail any supranational integration. However, due to its superior bargaining power, the EEC managed already at this early stage to impose its conditions for cooperation on the non-members, as shown especially by the fact that the rules set in the EEC were also the rules of reference when it came to sectoral cooperation. Ultimately, all FTAs between the EEC and the remaining EFTA states contained almost identical provisions, although all EFTA states had negotiated individually with the EEC and had had different interests and concerns.

In 1989 Switzerland and the EEC signed the **Agreement on direct insurance other than life assurance**. Under this agreement, Switzerland and the EEC introduced the principle of 'equivalence of legislation', on which important Swiss-EU agreements are still based. The principle says that no party to the treaty formally loses its autonomy to issue legislation in the area of the agreement, but the parties simultaneously accept that the rules of both parties are equivalent.

Today, the incongruence in the validity of EU rules with EU borders is widely used in political science as a definition of differentiated integration. In this understanding, the first sectoral agreements of the then EFTA members with the EEC were already instances of differentiated integration. Although the primacy of EEC rules was informal and the scope of the agreements limited, even at this early stage EEC rules reached beyond EEC borders.

## Domestic responses to European integration

Early on, European integration also led to unilateral domestic policy measures. Many countries adopted EU legislation although they were not (yet) members of the EU and some EU member states implemented EU legislation in areas where they officially have or had an opt-out. Already back in the 1980s, when the EFTA states felt increasing pressure to react to the Single Market program, Sweden, Norway and Switzerland started to adapt their domestic legislation to EU law. Switzerland has pursued this policy ever since, while Iceland, Liechtenstein and Norway incorporated a substantial part of EU law through their EEA membership.

In addition to these legislative responses, domestic decision-making procedures and domestic political institutions in the EFTA states have been affected by so-called Europeanisation processes. National governments and parliaments, political parties and interest groups have adjusted to the existence of a political arena at the European level. In many countries, the European level strengthens the role of governments, because they have more direct and regular contact with European politicians and institutions and thus among other things, informational advantages. Some national parliaments, however, have put in place effective new procedures for monitoring European developments.

## The Agreement on the European Economic Area

When the Single Market program gradually took shape during the 1980s, the individual and sectoral approach of the EFTA states was called into question and they pursued multilateral negotiations aimed at regulating their future market access. These negotiations were difficult because of the EEC's consistent stance that market access was only possible based on EEC rules. Moreover, the EEC demanded institutional mechanisms to guarantee a dynamic updating of an agreement to new developments in Single Market legislation, as well as to monitor and enforce the agreement. But the EFTA states were not to have the same right to vote on EU policy making in return. The result of the negotiations was the Agreement on the European Economic Area (EEA) that was signed by all EFTA and EEC states on 2 May 1992.

The institutional set-up of the EEA can best be described as a two-pillar structure with the EEA/EFTA institutions mirroring those on the EU side. It ensures that within the functional scope of the EEA agreement, the same legal obligations apply to both EEA/EFTA and EU states. The complex institutional structure of the EEA reflects the lack of willingness of the EFTA states to cede legislative power to the EU, as well as the EU's condition that its legislative authority and the integrity of its jurisdiction cannot be limited by the EEA.

The EEA Agreement was judged to be unsatisfactory by some EFTA states. They were particularly concerned about their lack of the right to vote in the EU policy-making process on EEA relevant EU policies. As a consequence, all but Iceland and Liechtenstein decided to apply for EU membership. However, the governments' plans for integration of the EFTA states, were blocked by popular votes in Switzerland and Norway. In Switzerland, the people rejected the EEA agreement on 6 December

1992. In Norway, the parliament ratified the EEA agreement in 1992, but the voters rejected accession to the European Union (EU) two years later. In contrast, Finland, Sweden and Austria joined the EU on 1 January 1995.

The negotiations on the EEA agreement confirmed the EU's wish to cooperate with non-member states on the basis of the *acquis*. Moreover, the EU did not content itself with the traditional arrangements of international law but demanded strict enforcement mechanisms designed to ensure the integrity of EU law. The EEA is thus a clear example of external differentiated integration that extends the validity of EU rules to non-member states and ensures equal means of enforcement and judicial review within the EU and EFTA pillar.

## Swiss-EU integration

After Swiss voters rejected EEA membership in a popular vote, Switzerland has actively developed what is now called the 'bilateral way'. The best known elements of this bilateral way are the 16 sectoral agreements which Switzerland and the EU have concluded in two agreement packages: a package of seven agreements called Bilaterals I was signed in 1999 and entered into force in 2002. Another package of nine agreements, known as Bilaterals II and including Switzerland's association to the Schengen and Dublin regimes, was signed in 2004. The last agreements of this package entered into force in 2008. In addition, a series of other crucial agreements, such as, for example, the agreement on customs security measures, and around one hundred other agreements of very diverse importance are in force between Switzerland and the EU (for more information see EFTA-studies analysis **From Liberalisation to Cooperation: The diverse Purposes of Swiss-EU agreements**).

Since 2008, the Council of the European Union has repeatedly claimed that Switzerland's sectoral approach has reached its limits because of the allegedly incorrect implementation of several agreements (FMPA, FTA) and the static character of the market access agreements that endanger the homogeneity of legislation in the Single Market. As a result, since 2014, Switzerland and the EU have been negotiating an overarching institutional solution for all Swiss-EU market access agreements.

## Today's challenges for external differentiated integration

In 2016, a majority of the British electorate voted to leave the EU, making the United Kingdom (UK) the first country to invoke Article 50 of the EU treaty according to which an EU state can withdraw from the EU. This vote was preceded by negotiations between the UK and the EU about greater internal differentiation. The negotiations now taking place will most likely lead to another form of external differentiated integration, as the UK will most probably seek to preserve some form of access to the EU's Single Market. The challenge is thus once again – as in the relationship between the EFTA states and the EU – to find an agreement which safeguards the autonomy of decision-making of both the EU and the UK, while at the same time maintaining the integrity of the EU's legal order and the four freedoms of the EU Single Market.

This short history of European integration with an unusual focus on the more circuitous approaches of reluctant countries shows that the history of European integration is also a history of external differentiated integration. In view of recent developments like 'Brexit' and a more politicised and sceptical discussion about the EU's role and future in various countries, we believe that the research into those states which are not members of the EU is crucial to understanding the nature and significance of European integration.

## To cite this article

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EFTA-Studies.org provides in-depth analyses of the institutions and processes that link the EFTA states to the EU. An independent academic blog addresses developments in the EFTA states from a political and legal perspective, thus providing up to date information on the EFTA states' relations with the EU.

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