

## EUROPEAN ECONOMIC AREA

### ISSUE

The members of the European Free Trade Association Council (Iceland, Finland, Norway, Sweden, Switzerland, Austria) and the EC Commission are engaged in ongoing negotiations on the creation of a European Economic Area (EEA). At present, more than 50% of total EFTA imports come from the Community, while an equally large share is exported to the Community. The EEA would lead to even deeper economic ties between EFTA countries and the EC. The conclusion of such an agreement would result in a market of more than 350m people, with minimal trade barriers.

### BACKGROUND

In the 1970s, each EFTA country concluded a bilateral free trade agreement with the EC which eliminated most tariffs on EFTA-EC trade in industrial goods. In 1984, a European Economic Area was defined for the first time, signalling the deepening of integration and expansion of cooperation between EFTA and the EC.

### EC POSITION

The EEA would not only cover the extension of freedom of movement of capital, goods, services and persons to the EFTA countries, but also the adoption by EFTA of a competition policy analogous to that of the EC; the extension of cooperation; the harmonization of taxes; the simplification of border-crossing procedures; and special treatment for disadvantaged areas and groups of people. The EEA would require a strengthening of EFTA institutions to implement these provisions. The EC-EFTA negotiations are marked by three main problem issues: EFTA's determination to play a greater role in EC decision-making, the diverging interests among EFTA members and thus their inability to speak with one voice, and the requests of the individual EFTA countries to be exempted from various existing EC rules. Further complications arise from EFTA countries' varying attitudes towards full EC membership. Austria has formally applied to join the Community. Other EFTA countries, particularly Norway and Sweden, are considering very seriously the possibility.

### CANADIAN POSITION

The EEA would improve access of EFTA countries to the EC market. Since Canada competes directly with EFTA countries in supplying the EC market for fish, forestry products and some other commodities, the EEA would increase the competition that Canadian exporters to the Community face. Canada is attempting to use the Uruguay Round to reduce or eliminate the margin of preference for many EFTA products in the EC market, and to ensure that any future EFTA-EC agreements comply with GATT rules. Canada recognizes, however, that the EEA would provide a larger single market, and more trade opportunities for Canadian firms.