



EUROPEAN  
MOVEMENT

# Relegated to the Second Division?

## Why Associate Membership of the EU would be bad for Britain

*by Diana Wallis MEP*

European  
Movement  
Policy  
Paper **4**

July 2005

## Diana Wallis MEP

Diana Wallis MEP is the Liberal Democrat Member of the European Parliament for the Yorkshire and Humber region of the United Kingdom. For five years from 1999 she was First Vice-President of the Switzerland, Iceland and Norway Parliamentary Delegation and latterly also a member of the European Economic Area (EEA) Joint Parliamentary Committee.

Since September 2004 Diana Wallis has been President of the Combined Delegation and Joint Parliamentary Committee known as SIN/EEA (Switzerland, Iceland, Norway and the European Economic Area).

She is the co-author of the book *Forgotten Enlargement: Future EU Relations with Iceland, Norway and Switzerland*, first published by the Centre for Reform in November 2002. The success of the book, especially in the three countries, led to a recently updated second edition. She is a frequently invited speaker to Iceland, Norway and Switzerland.

In writing this pamphlet she would like to acknowledge the contribution of her Policy Assistant Stewart Arnold.

# Relegated to the Second Division?

## Why Associate Membership of the EU would be bad for Britain

### Introduction

Eurosceptics in the United Kingdom often claim that Britain's relationship with the European Union (EU) should be more like Iceland's or Norway's who are members of the European Economic Area<sup>1</sup> but not of the EU. They argue that these two countries, with their oil, their fish, and their high standard of living, are a model for Britain. If not, they say, Britain should set up some sort of customs union with the EU, or a series of bilateral agreements, as Switzerland has done. However, these assertions tend to be made with no true understanding of the nature of these relationships.

**Eurosceptics talk of the amount of money Britain would 'get back', of the need to 'restore democracy', and 'regain control over our borders'. But do they realise how one-sided and undemocratic the arrangements they would like to copy actually are? It could be argued that an Estonian or a Cypriot now have more say over legislation in Iceland, Norway or Switzerland than does any citizen of those countries.** Moreover, the EU Constitutional Treaty, should it ever come into force, gives the European Parliament further powers of co-decision, with the result that the 'democratic deficit' for the Icelanders, Norwegians and Swiss in their relations with the EU will grow.

These models of 'association' with the EU, while they may suit Iceland, Norway and Switzerland, are totally unrealistic for Britain. It is of course a matter for the Icelanders, the Norwegians and the Swiss to decide whether these models suit them. There are many indications that increasingly they do not. My perception, over the six years of observing these countries, is that such relationships are untenable even in the medium term. In Norway, for example, opinion polls for the past two years have pretty much consistently shown a majority in favour of full membership of the EU. Membership looks like an increasingly inevitable option at some point.

<sup>1</sup> European Economic Area and the European Free Trade Association. See Appendix 1.

## Everything but a share in the decision making

For Europe, the year 2004 was historic. It marked the enlargement<sup>2</sup> of the European Union, at one stroke, from fifteen to twenty-five.

Its significance was felt in the European Parliament. There was a sense of expectation, of excitement, especially since most of the new member states were in Central and Eastern Europe, freed at last from the dead weight of Communism. Our final parliamentary session before the new elections was in May, when the delegates from the new member states joined us as full members. It was an inspiring occasion.

Yet three Western democracies were unable to share it with us, because they remain outside the European Union. Iceland, Norway and Switzerland, whilst keen supporters, had the role of onlookers at that historic moment and the ensuing celebrations - rather as Britain did when the single currency was born on 1 January 2001.

Some would argue that Iceland and Norway share with Britain not only a deep sense of history but also a geographical position that puts them on the periphery of Europe, on the margin, where insular views can prevail. This is true to a certain extent of Switzerland too, which has been described as 'an island surrounded by mountains'. Eurosceptics maintain that this insularity is why Iceland, Norway and Switzerland can never fully embrace life within the EU and portray this as Britain's true destiny in common with the three countries too.

**Being on the periphery, whilst it might have its enthusiasts, also brings its problems, not least in the participation in the decision-making process. On several occasions, I have heard Commission representatives, when referring to the position of Iceland, Norway and Switzerland, use the phrase 'everything but the institutions.' This surely means 'everything but a share in decision-making'. In other words, as a non-member state you may come along and do as you're told, but don't expect to play a full and active part. You will have no voice, or vote, in the Council, no national of your country on the Commission, no members of the European Parliament, no judge on the European Court of Justice. And your citizens will have no access to the European Ombudsman.**

This is serious, because Iceland, Norway, and Switzerland already have close relations with the EU. Their economies do not work in a vacuum. In short, they have no influence that is direct, open and transparent.

2 Enlargement: On 1 May 2004 ten new states entered the European Union: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

## Norway

**Norway, for example, remains largely outside the EU's fisheries and agricultural policies, but it participates in nearly all the rest of the EU's *acquis communautaire*<sup>3</sup> - the accumulated legislation already passed. Indeed, Norway has implemented the almost 3,000 pieces of legislation (directives, decisions or regulations) of the EU's single market. In regular scoreboards of member states' success in implementing the *acquis*, Norway often comes top. (See appendix 3)**

As a member of EFTA, as well as being bound by the decisions of that body's own Surveillance Authority in Brussels, and Court in Luxembourg, Norway is equally bound by relevant decisions of the European Commission and European Council, enforced by the European Court of Justice over which it has no say. The Norwegian Government sometimes finds itself obliged to implement initiatives with which it disagrees. In early 1999, for example, the Norwegian Government was forced to implement an EU veterinary directive despite its reservations. Norway's gas industry has also found itself under the threat of massive fines for breaking EU competition rules.

Increasingly, European legislation in the Internal Market area which is directly EEA relevant often goes beyond the purely Internal Market aspects. For example, the EU Emissions Trading Scheme is a piece of environmental legislation, seen essentially as the EU's way of meeting its Kyoto Agreement targets and possibly only indirectly relevant to the Internal Market. However, the Commission is insisting that it be implemented in all three EEA countries because, in its view, Emissions Trading is Internal Market legislation.

**The somewhat peculiar circumstances in which legislation is implemented in Norway were summed up in February 2001, when the then Norwegian Prime Minister, Jens Stoltenberg admitted: "in more and more areas, we realise we are not participating in decisions which are important for Norway ... that is the consequence of us saying no to membership of the EU." Stoltenberg coined the phrase "fax democracy", in which Norwegian officials sit by the fax machine waiting for the latest rules and regulations to arrive from Brussels.**

3 *Acquis Communautaire* includes all EU Treaties, all legislation enacted to date, the judgements of the Court of Justice, and joint actions taken in the areas of the Common and Foreign Security Policy and Justice and Home affairs and all international agreements concluded by the Union. On joining the EU new member states are legally obliged to accept the *acquis communautaire*.

On fisheries policy too, where Norway - claimed by British Eurosceptics as a model for Britain - mostly opts out, there are problems. These arise mainly from the voluntary export constraints and tariffs that Norwegian fisheries producers have to meet when selling into the EU. Fisheries, though not a big contributor to Norway's Gross Domestic Product, have considerable political clout. **In the past, Norwegian fishermen have been among the most vociferous campaigners against EU membership.**

**More recently, a sizeable minority have begun to change their minds. This reflects the move to fish farming methods where reliable markets for farmed fish are essential. However, under pressure from Scottish and Irish salmon farmers, the EU has decided to impose both a minimum import price and a tariff quota on salmon imported into the 25-nation bloc from several countries, including Norway, over accusations of 'dumping'. Although the Norwegian Government has criticised the move and threatened to take the case to the WTO, Norway's fish farmers have recognised just how difficult life can be outside the EU's enormous market.**

The Norwegian experience suggests that British withdrawal from the EU, or even from the Common Fisheries Policy, would have a devastating impact on UK fishing, especially on the shellfish exporters along the North Sea coast who sell nearly two-thirds of their catch to other EU countries.

In other areas of trade policy, Norway's position is inextricably linked with that of the EU. Although Norway is free to pursue its own trade policy vis-a-vis non-member countries, there is little practical scope for divergence. The general lowering of tariffs has meant that trade policy, as dealt with through the World Trade Organisation, is increasingly concerned with non-tariff barriers. In the case of the EU these are usually already set by the internal *acquis*, which Norway has to apply.

## Iceland

Iceland is a very small country with a population of under 300,000. Its economy is based on the export of natural resources, such as fish, and the import of manufactured and finished goods. It is difficult therefore to draw many parallels between the position of Iceland and that of the UK.

It is an argument used by some EU-sceptic Icelanders that as Iceland is such a small country, 'how could we possibly have any influence in the EU anyway?' Of course this represents a very simplistic analysis of the way the EU institutions work. A lot of technical work is done by the European Parliament and the Committee of Permanent Representatives (COREPER)<sup>4</sup>, made up of civil servants from the various member states, where it is often easier to get legislation tailored to the needs of individual states.

Achieving even straightforward requests for uncontroversial or minor changes to legislation is much more difficult outside of the decision-making process. With no voice on the Council, it is very difficult for Iceland to make the case for its exceptionality in any area. For a small country with such a distinctive economy and labour market, this is clearly not ideal.

**Icelandic academic Eirik Bergmann Einarsson has written widely on the topic of European integration and Iceland and says that through the EEA agreement part of the Icelandic legislature has been outsourced to Brussels. "Through the agreement we have to take up into Icelandic law most of the EU regulations that apply to the Internal Market. This has reduced the Icelandic Parliament to the role of a decision taker instead of decision maker in many important fields."**<sup>5</sup>

I have been lucky enough to visit Iceland many times over in the past few years, and I have been awestruck by the site of Iceland's original parliament, the oldest in the world. Here, hundreds of years ago, one third of the law was recited every year, emphasising the parliament's closeness to the people. Such traditions of democratic involvement run deep. With this heritage in mind, it is unthinkable to me, as a parliamentarian, that Icelanders, as well as Norwegians and Swiss, should wish to continue disenfranchising themselves from the future development of Europe. The choice, of course, is theirs to make, but it is not, I believe, viable for Britain.

<sup>4</sup> COREPER (Committee of Permanent Representatives) Each EU Member State has a team of permanent representatives based in Brussels, civil servants who act as ambassadors for their governments at the Council of Ministers. Within COREPER there are representatives responsible for each policy area.

<sup>5</sup> Bergman Einarsson, Eirik Evropusaruninn og Island (Iceland 2003)

## Switzerland

The Swiss experience is instructive. **Having declined to join the EEA, but still having on the table an application for full membership of the EU, the Swiss Government has sought other ways of gradually drawing closer to the EU despite a sceptical public opinion back home. Its method has been a number of bilateral agreements on issues relating to the internal market, gradually clearing the way for full membership should the Swiss ultimately wish to take that step.**

The first set of seven agreements, which came into force in June 2002, included provision for the free movement of people. However, that soon showed how hard it can be to accept only part of the *acquis communautaire*, because Switzerland next wanted to take part in the Schengen agreement and other systems relating to border control. In other words, once a country begins to 'take a part of Europe' it tends to find it needs the next part and the next. Indeed everything is intricately interrelated.

Switzerland has now completed a second set of seven bilateral agreements with the EU, which have been ratified by the Swiss Parliament. A referendum on adoption of the Schengen/Dublin Accords<sup>6</sup> held on 6 June 2005 will come into force in 2007. Another referendum with regard to free movement for the citizens of the new member states will take place in September 2005.

**This process of incremental bilateral agreements imposes a heavy burden on both the EU and the Swiss Government, since there has to be a joint committee between these two bodies to administer each agreement. I cannot believe that the EU will ever contemplate that kind of relationship with each of its new neighbours, or even with any existing member state that decided to leave the Union.**

Such a relationship is incredibly complex and difficult. A good example of just how difficult this relationship is that of Switzerland's financial services industry, which the Swiss Government wanted to benefit from the EU's internal market. The Commission said: 'No, unless we have some movement on banking secrecy.' At one point, Commissioner Bolkestein even threatened sanctions which might be thought rather extreme, since such action is normally reserved for pariah states. But it shows how tough life can be for countries on the outside. When they try to secure only the choice morsels they covet, they cannot expect the Commission to bend the rules.

<sup>6</sup> Schengen Convention and Dublin Accords. The Dublin Accords entered into force in 1997 in connection with the Schengen Convention. Under the Accords the Member State that first permits an asylum seeker to enter or reside in the EU is responsible for handling their claims. As such, asylum seekers are unable to attempt to claim asylum in one Member State after the other should their claim be rejected - something which would be possible within the Schengen area without the Dublin Accords.

## The future

I mentioned earlier the historic enlargement of the EU in 2004. What is the next move for the EU in terms of the enlargement process and its relationship with non-EU members, and what will be its implications for the European Economic Area and European Free Trade Association countries?

It was amusing - and rather alarming - to realise that when the European Parliament first considered the Commission's proposals in its response to the White Paper on Wider Europe, Iceland, Norway and Switzerland were grouped together with Andorra, San Marino and Vatican City - the so-called 'Lilliputian' countries. Clearly, this is not how Icelanders, Norwegians and Swiss see themselves, but it may indicate that not very many people in the European institutions appreciate the EEA and how deep and important is its relationship with the EU. Eventually, of course, the European Parliament's report was changed through the efforts of several MEPs from different countries; but this is not the same as there being Icelandic, Norwegian and Swiss MEPs watching out for their own countries.

**There is no EU enthusiasm for revisiting the EEA Agreement: indeed I don't detect any interest or talk about it at all. Since May 2004, the European Union has changed out of all recognition, but the countries in the EEA have had a static relationship with the EU, with little or no change and no likelihood of change. The Commission has made it clear that, despite the EEA's attempt to 'update' the Agreement, it will remain as it is.**

## Worth the Price

**The static nature of this relationship is exemplified by the so-called 'Financial Mechanisms' in which the three non-EU members of the EEA take part. Like the EEA itself, these 'Financial Mechanisms' were established to support social and economic cohesion. Over the five years 2004-2009, they will make available 1.17 billion Euros to the EU Budget for such aims as protecting the environment, conserving Europe's cultural heritage, improving health and child care and developing human resources. (See Appendix 2.)**

Essentially, the Financial Mechanisms are the 'subscription fees' or as some call it, 'a membership fee without membership' negotiated to allow the three EEA countries access to the EU's internal market: they correspond to the payments that EU members make to the EU budget. Switzerland, although outside this specific financial machinery, will contribute about 150 million Euros annually to the EU's Cohesion Fund over the next five years.

The internal market is worth the price. The EEA has helped to modernise and liberalise the economies of Iceland and Norway, and I suspect that even those who are sceptical about the European Union accept that its internal market has been a success. This is probably true of British Eurosceptics too. **The difference, of course, is that Britain takes part in preparing the thousands of legal instruments that make the internal market work and has a say in how to spend the Budget. Iceland and Norway, by contrast, do not: they just have to accept the results. As many as 89% of all EU Directives have been incorporated into the EEA agreement of 2002, mainly in the area of the internal market.**

In addition it is fair to say that the internal market is by no means a 'finished product', but rather an ongoing process. The EU will continue to produce new legislation as necessary to remove trade barriers and make the market work better. With the EU's further enlargement comes a double challenge: to implement the legislative agenda and to see that the rules are kept. The latter is vital. Without it we should lose the very benefits that Europe has delivered. Ironically, while Norway and Iceland have recently been at the top end of the scoreboard for implementing the rules, the laggards have been the original six member states. (See Appendix 3.)

Many Eurosceptics are looking for ways to accept those bits of European integration that they like, such as the internal market, while trying to avoid those they dislike, and to evade making their full contribution. Such a pick-and-mix Europe would be a free-for-all in which only the strong would enjoy short-term advantages, and everyone's welfare would suffer.

## The inconvenience of being outside

If Britain were to adopt some such relationship with the EU - 'everything but the institutions' - what would this mean for getting the British voice heard?

Again, let's look at Switzerland, rightly proud of its tradition of direct democracy. Some Swiss feel that their use of referenda and people's initiatives would be threatened by membership of the EU, with its allegedly centralising tendencies. Yet Switzerland's federal constitution, with its respect for linguistic differences, for the role of regional governments, and for the power of the citizen, has much to offer the EU.

The Swiss, like all non-member states and non-applicant countries, had no seat at the Convention drafting the EU Constitutional Treaty, but this did not stop a number of Swiss trying to influence the process by offering their own experience. When a group of campaigners, including a number of Swiss, came to see me, saying that they hoped to get a Europe-wide right of people's initiatives into the draft Constitution, I thought there was no chance. To my amazement, it actually worked, and is now enshrined in Article I-47. This gives the citizens of Europe, if they can secure a million signatures in enough member states, the same right as the European Parliament to initiate legislation. Under this Article, our citizens would be able to 'move Europe'. This really could bring Europe and its peoples closer together. Some non-governmental organisations are already looking to use it. Despite the apparent failure to ratify the EU Constitutional Treaty, I would expect that provision could still be implemented.

This 'right of initiative' is more than we have in Britain, where petitions sit on shelves and are politely ignored, and where MPs have to win a ballot for the right to initiate a piece of legislation in the House of Commons, which is usually talked out anyway.

So it was some enterprising Swiss, in concert with other campaigners around Europe, who managed to get people's initiatives included in the EU's draft Constitutional Treaty. But they were working on the outside, in external meetings and in corridors, lobbying MEPs and national parliamentarians. They were lucky enough to find some 'insiders' willing to take up their proposals: otherwise they would have failed. It was absurd that such an important borrowing from Swiss democratic tradition was left to chance - particularly since the Swiss would have to adopt the EU Constitutional Treaty, if and when it comes into being, if they eventually join the EU.

There is evidence that small but important inconveniences could begin to stress the difficulty of outsider status. In the spring of 2004 there were delays on the Swiss-German border - a border that had to be supervised as a frontier with a non-EU State. In the blunt words of the German Foreign Minister, 'Switzerland is outside the EU and every person has to be checked.' From time to time, such checks reveal high-profile 'suspects' such as the Hollywood actor Don Johnson, but for every such exceptional case there are many thousands of daily instances where travelling between Switzerland and Germany becomes wearisome.

In Norway, for the most part, the opinion polls over the past couple of years show a rising tide of enthusiasm for joining the EU. This has not yet changed the stance of the Norwegian Government, since the issue could break the ruling coalition, which contains parties with widely differing views. So at Government level the subject is simply not discussed.

Outside the Government, however, the Norwegians show considerable interest in what is happening in the EU. They have been most active in sending all sorts of visitors' groups to the European Parliament: farmers, businessmen, civil servants, fishermen - all have beaten a path to our doors.

**They want to know if and how they can influence our decision-making. Recently, I had a meeting with some Norwegian officials. They said they had drawn up a possible amendment to a particular piece of EU draft legislation. Rather coyly, they handed me a folder. Could I perhaps table it? As it happened, I could. Think for a moment about what this means. Officials from a sovereign state have to come to a parliamentarian from another country to ask warily if they can get tabled an amendment to a piece of legislation that will have a direct effect on their country but will be implemented without any debate on their part. In effect, they have been reduced to the status of lobbyists: their citizens have been deprived of democratic input or representation. This is a double 'democratic deficit'. Eurosceptics claim, falsely, that the European Union is the antithesis of democracy. But how much more undemocratic is the sort of manoeuvrings that those on the outside are forced into?**

Extreme British Eurosceptics claim that the EU is a French or German plot, to succeed where Napoleon or Hitler failed. They play on people's fears of being run by 'Brussels bureaucrats', governed from elsewhere by foreigners. Paradoxically, as I have said, this is partially true of Iceland, Norway and Switzerland. But it is not true of Britain. **As a full member of the EU, we have representation, and a voice, throughout its institutions. The UK's Presidency of the EU is a real opportunity to lead and influence not only in European terms but also beyond on the global stage which we otherwise might not enjoy. The real threat to our ability to determine our own destiny would be if we left the European Union and sought some loose association - 'everything but the institutions'. That would mean having to accept EU law with no chance to help shape it - Britain a first-rate power reduced to second-class citizenship.**

The conclusion from the experience of Norway, Iceland and Switzerland is that the UK would suffer enormous damage from being an Associate Member of the EU. It would lose direct input into legislation; it would more often have to accept legislation which it disliked or found harmful and it would lose the extremely valuable clout of the EU in global negotiations. With future expansion of the European Union Britain's national interests will continue to require committed and full membership.

## Bibliography

Wallis, Diana, MEP, with Arnold, Stewart and Jones, Ben Idris: *Forgotten Enlargement: Future EU Relations with Iceland, Norway and Switzerland*, 2<sup>nd</sup> Edition (Centre for Reform, London, 2004).

Emerson, Michael, Vahl, Marius and Woolcock, Stephen: *Navigating by the Stars: Norway, the European Economic Area and the European Union* (Centre for European Policy Studies, Brussels, 2002).

## Appendix 1

### European Free Trade Association (EFTA) and the European Economic Area (EEA)

Following the Treaty of Rome of 1957, while the six members of the newly created European Economic Community were committed to an ambitious project of integration, the seven other members of the Organisation for European Economic Co-operation (Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom) - to which all thirteen belonged - feared that the proposed customs union would restrict access to the markets of the EEC countries. They therefore decided to establish a looser free trade area for industrial products only, strictly intergovernmental in nature, between the EEC and themselves. The European Free Trade Association (EFTA) was established by the Stockholm Convention in 1960, and functioned on the basis of bilateral agreements between the EEC and EFTA members. Iceland became a member of EFTA in March 1970, Finland in January 1986 and Liechtenstein in 1991. Austria, Denmark, Portugal, Sweden and Finland subsequently became full members of the European Union, leaving Iceland, Liechtenstein, Norway and Switzerland as the only remaining members of EFTA today.

In 1984, a decision was taken to extend economic cooperation still further, as the European Community undertook to create the European Single Market. The 'Interlaken Principles' of 1987 stressed that EFTA states could not remain outside the EC indefinitely and still enjoy the benefits of free trade. In June 1990 negotiations began which ultimately established the European Economic Area (EEA) in May 1992. The EEA included the EC member states and Norway, Iceland, Liechtenstein, Austria Finland and Sweden. Switzerland decided not to participate following a referendum. The principal purpose of the EEA is to allow free movement of goods, persons, services and capital throughout the EEA. Under the agreement, EEA-EFTA states have the right to be consulted by the Commission during the formulation of any EU legislation in areas relating to the EEA, but not the right to a voice in decision-making process, which is reserved exclusively for member states. They are also required to contribute to social and economic cohesion within the Internal Market, which is administered to poor regions by the European Investment Bank.

On 1<sup>st</sup> May 2004 the EEA was enlarged simultaneously with the EU, a move which resulted in a ten-fold increase in the financial contribution of the EEA EFTA States, in particular Norway, to social and economic cohesion in the Internal Market. The EEA remains open to new members.

## Appendix 2

### EFTA and EEA countries contribution to EU budget

Under the terms of the enlargement agreement (2004), the three EFTA states (Iceland, Norway and Liechtenstein) will contribute a combined total of €600 million (equivalent to £415 million) over a five year period (2004-2009) to help the process of integration of the ten new member states, as well as Greece, Spain and Portugal, into the internal market. Out of the €600 million, Norway will contribute a total of €567 million (equivalent to £393 million) and Iceland and Liechtenstein €23 million (£16 million) between them. In addition to this, Norway will make an additional, bilateral payment, of the same amount, €567 million, over the same period, which will be used by the EU specifically to implement the *acquis communautaire* in the fields of the environment and the Schengen agreement. This takes Norway's contribution to the EU to a total of over €1.13 billion (£784 million) over the five year period. This breaks down to an annual contribution of €233.4 million (£161 million.)

## Appendix 3

### Internal Market Scoreboard

Each new Internal Market directive comes with a deadline by which it must be adopted into the national legislation of each member of the EEA. The success of states in implementing legislation on time is monitored each year by the European Commission and the EFTA Surveillance Authority in what is known as the "Internal Market Scoreboard."

**The Scoreboard thus measures the extent to which EFTA states adopt new legislation on time. Although the ideal would be for states to implement all legislation on time, the European Council, with the agreement of the EFTA authorities, has set a target of 1.5% as the highest acceptable "transposition deficit," which is the percentage of legislation not adopted by the stated deadline.**

In the most recent scoreboard, that of January 2005, the EU-15 average was 2.9%, while that of Iceland was 1.4% and that of Norway was only 1%, topping the table. The table on page 16 shows the success of EU and EFTA states in implementing Internal Market directives on time.

#### Sources:

- European Commission Second Implementation Report of the Internal Market Strategy 2003-2006, published in January 2005. (Accessible at [http://europa.eu.int/comm/internal\\_market/en](http://europa.eu.int/comm/internal_market/en))
- EFTA Surveillance Authority Internal Market Scoreboard No 15, January 2005. (Accessible at <http://www.eftasurv.int/information/internalmarket/>)

Member State	Position on Scoreboard	Transposition Deficit (%)
<b>Norway</b>	<b>1</b>	<b>1.0</b>
Lithuania	2	1.0
Spain	3	1.3
<b>Iceland</b>	<b>4</b>	<b>1.4</b>
Netherlands	5	2.0
Sweden	6	2.0
Hungary	7	2.0
Austria	8	2.1
Denmark	9	2.3
Finland	10	2.3
Ireland	11	2.4
Germany	12	2.5
UK	13	2.5
Liechtenstein	14	2.7
Poland	15	2.9
France	16	3.2
Slovenia	17	3.2
Portugal	18	3.2
Belgium	19	3.4
Luxembourg	20	4.2
Cyprus	21	4.4
Italy	22	4.5
Estonia	23	5.0
Greece	24	5.1
Malta	25	6.0
Slovakia	26	6.3
Latvia	27	7.0
Czech Republic	28	9.6

## Appendix 4

**John Vea, Director of International Affairs at NHO (Confederation of Norwegian Business and Industry) draws on the experience of Norway to demonstrate why a loose association with the EU is not an option for the UK from a business perspective.**

The main intention of the EEA has been fulfilled: it has provided a functioning homogeneous market covering all 28 member states, and Norwegian business has profited greatly from it. The biggest success of the EEA for Norwegian business can be summed up as market access, market access, and market access. The EU is Norway's most important trading partner. Only five countries trade more with the EU than Norway: The US, China, Switzerland, Russia and Japan.

The EEA Agreement also provides for participation in numerous EU programmes in areas such as research, education, environment, and Small and Medium Enterprises. Norway has full access to these programmes, and Norwegian business has been successful in achieving EU-project grants.

Due to the success of the EEA, it can be claimed that Norwegian businesses are in fact, economically speaking, members of the EU.

**Although the EEA Agreement has been a success, it also presents a number of problems. Defending the interests of Norwegian business without being represented in the EU decision-making bodies can and has on several occasions proved to be difficult. That is why we, on behalf of Norwegian business, aim for EU membership in the future.**

### Fish

Norway insisted on fisheries being excluded from the EEA Agreement, but this has later turned to our disadvantage and fish has been a major source of friction between Norway and the EU in the recent years.

The fundamental issue posed by the fisheries sector is that, whereas Norway has large resources and is a net exporter of fish, the EU as a whole is a net importer and has a fishing fleet that is too large in relation to its own resources. Norway aims to obtain unhindered access to the EU market for its fishery products, while the EU seeks access for its fishery fleet in Norwegian territorial waters.

The EEA Agreement covers trade in certain fishery products, categorised according to species and by the degree of processing. Species in which the EU perceives itself to be potentially uncompetitive are not however covered by the EEA Treaty and the EU has kept high tariffs. This includes, among others, salmon, which constitutes almost half of Norway's fish exports to the EU.

Production and export of salmon bred in fish farms have increased greatly in the last decade. Fish is by far the single most important Norwegian product exported to the EU. It has also become the main source of friction between the EU and Norway in the fisheries sector. Norway has frequently been forced to introduce voluntary export constraints following demands by EU fish farmers. The Commission has on several occasions initiated 'anti-dumping' procedures against Norwegian salmon exports. The Commission entered into so-called 'undertakings' with each fish farmer until 2002, whereby the latter agrees to abide by the minimum price. In return, the EU has agreed not to initiate further anti-dumping procedures, and not to introduce extra duties on salmon imports from Norway.

During the spring of 2005 the EU decided once again to introduce extra duties on salmon imports from Norway. The cost for Norwegian producers has been stipulated to be 600 million NOK (75 million euros) for the first six months. Norwegian business and authorities strongly disagree with the EU measures.

In 1994, Norwegian fishermen were among the strongest opponents of Norway's bid for EU membership, whereas the fish-processing industry was among the most ardent supporters. But with Norway's status as a non-EU-member causing increasing problems for the Norwegian fisheries sector, important actors among Norwegian fishermen have argued that EU-membership would be better for the sector than the current arrangements.

Problems have also arisen in policy areas that are covered by the EEA Agreement.

## **Energy**

Tensions have occurred in the area of energy policies, mainly due to Norway's role as a major producer and net exporter of oil and gas, while the EU is an energy consumer and net importer. Norway is interested in securing reasonably good prices, while the EU will always be concerned with reducing its energy dependence and ensure a reasonably low and stable price for oil.

More recent disputes have concerned hydro-electricity.

## **Unpredictability**

Although the areas covered by the EEA Agreement are clear on paper, this is not always how it works in practice. One example relates to trade: When the US imposed safeguard-measures on steel imports from amongst others the EU and Norway, the European Union launched counter-measures also against Norway, in breach of the EEA Agreement.

Another example relates to the area of taxation, formally excluded from the EEA Agreement. The extended use of competition law and rulings by the European Court of Justice in this area has however led to changes in Norwegian tax schemes. This has affected business in many ways. Some favourable national schemes have had to be altered or abolished.

## **Democratic deficit and difficult lobbying**

The nature of the EEA Agreement is special, with the EU being the policy-maker and Norway, the policy-taker. This creates unease in Norway as it would in other countries over questions of democratic legitimacy, transparency and accountability in its relations with the EU. For business, voicing our concerns and lobbying in matters that are of vital interest to us becomes almost impossible when they are being dealt with at the European level. Although our membership in UNICE and other sectoral business organisations allows Norwegian actors to contribute to co-ordinated lobbying efforts, there are no Norwegian members of the European Parliament to approach. Norwegian politicians are not represented in the Council, where the decisions shaping the legislative framework that business operates by are being made.

The working environment for the government is also increasingly difficult. It proves very time-consuming to voice and defend Norwegian interests by travelling to 25 EU-capitals instead of meeting around the table where decisions are being made in Brussels. And with 25 countries trying to agree on common decisions, the attention paid to a non-member state is often less than small. Norway is simply not an interesting political party in the negotiating system of the EU.

## **A static EEA in a dynamic Europe**

The EEA does work, but it turns out to be very different from what was initially envisaged. The number of EFTA-EEA countries is reduced to three, whereas the EU has grown to 25 member states. The EEA is increasingly important for Norway, whilst the EEA is decreasingly important to the EU.

The scope of the EEA is currently determined by 4,900 pieces of legislation, while the EU expands its co-operation to new policy areas. The EEA Agreement does not reflect the evolving nature of EU co-operation. With the geographical and political expansion of the EU, the EEA Agreement is becoming less and less known. This is true in the European institutions, but also in the national administrations of the old and new EU-member states, and amongst business in the EU. It is a cause for concern that Norwegian businesses to an increasing extent have to defend their rights as rightful members of the internal market.

Conclusion: the EEA is not a satisfactory solution for Norwegian business

Norway might serve to some as a good example of a successful loose association to the EU. It may seem as if Norway is associating selectively with the EU, joining in its activities where this suits us, and keeping at a greater distance in areas where it is less convenient.

But in the eyes of Norwegian business, this is not the true picture. The EEA secures market access legally, but the EU decides the policy and Norway has to implement it without having participated in the policy-making process. Even if Norwegian enterprises have access to the EU market, the EEA regime leaves open a political uncertainty factor that may reduce the attractiveness of Norway as an investment location for mobile capital.

In the end, it all comes down to the EEA being about law, whereas the EU is about politics - and that represents a significant problem for Norwegian business while Norway is outside.

## European Movement Policy Papers

Policy Papers are published from time to time by the European Movement to stimulate debate, both within the European Movement and more broadly, on matters of current concern, with the objective of formulating clear proposals for action. The views expressed in European Movement Policy Papers are, however, solely those of their authors.

The European Movement (EM-UK) is an all-party, membership-based, non-governmental organisation with branches throughout the UK. It is part of a network of similar organisations across Europe, founded in 1948 at The Hague following a call by Sir Winston Churchill for increased co-operation and unity among European peoples and nations. EM-UK exists to put the case for constructive British engagement with Europe and to lead the debate on Britain's future role in Europe.



EUROPEAN  
MOVEMENT

### EUROPEAN MOVEMENT

7 Holyrood Street, London SE1 2EL

**President** Rt. Hon Sir Edward Heath KG

**Vice-Presidents** Rt. Hon Kenneth Clarke QC MP

Rt. Hon Neil Kinnock

John Pinder OBE

Baroness Williams of Crosby

Ernest Wistrich CBE

**Chairman** Lord Haskins of Skidby

**Director** David Stephen

**telephone** 020 7940 5252

**facsimile** 020 7940 5253

**e-mail** [info@euromove.org.uk](mailto:info@euromove.org.uk)

**website** [www.euromove.org.uk](http://www.euromove.org.uk)