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The European Economic Area and the Nordic Countries - End Station or Transition to EC Membership?

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THE EUROPEAN ECONOMIC AREA AND THE NORDIC COUNTRIES - END STATION OR TRANSITION TO EC MEMBERSHIP?*

HELGE HVEEM¹

1. Introduction

By what should be referred to as a strange coincidence, I have been invited to lecture on the relationship between the Nordic countries and the European Community in the very week that may see the make or break of the European Economic Area (EEA).

It is perhaps less of a coincidence that the decision on whether there will be a make or break appears to rest with my own country, Norway. After prolonged negotiations between the EC 12 and the EFTA 7², two problem areas remained as we entered October: transit transportation through Austria and Switzerland; and Icelandic and Norwegian fisheries facing EC demands for reciprocity that fishermen find unacceptable. It was believed that a third contentious area, a new fund to be established to transfer resources from the richer EFTA to poorer EC partners, would fall into place as soon as the fish issue had been solved.

As the transit problem was reported to have been solved last week, negotiators now appear to face only North Sea fisheries. As I will explain later, that is no small problem. Analysts with a sense for melodramas may find it strange that the whole package elaborated since the negotiating process started in 1989, may get drowned with the fish. Or the popular newspaper headline would put it this way: the fishermen of Northern Norway decide the fate of the EEA treaty.

I shall look at the background for this apparently dramatic situation. At the same time I shall dedramatize the role of Northern Norwegian fishermen and put the issue of make or break into a broader international perspective where it truly belongs. The fate of the EEA is not only decided by EFTA actors. It is very much influenced by developments in

* Lecture given within the framework of the Jean Monnet Chair of the European Policy Unit on 15th October 1991.

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2 Finland, Iceland, Norway, Sweden and Austria and Switzerland plus Liechtenstein which became member of EFTA in 1990.

Eastern and Central Europe. Moreover in discussing possible obstacles to final agreement and implementation, one should not overlook the importance of institutions. The EEA is in some respects an innovation *e.g.* in setting up a new dispute settlement mechanism and new decision-making procedures. Will these reduce the position of EC institutions, and will those institutions accept that possibility?

I shall argue that in the end it is the European Community that will decide on the future role of the EEA. In the short term perspective, however, the negotiating set-up for this week looks like a perfect timing and a preferred end-game from the point of view of the EC negotiators. It was the Norwegian prime minister, Gro Harlem Brundtland, who in 1989 took the idea of what was then referred to as the European Economic Space to concrete negotiations. The Oslo Declaration adopted by the EFTA members in March 1989 started the process of negotiations. She has invested considerable efforts and prestige in carrying the idea through to realization.

Now the EC has kicked the ball back into her yard. EC negotiators may bargain on the assumption that she will not let the EEA get drowned with the fish. According to simple bargaining theory, therefore, Norway could be expected to make a major concession in order for the treaty to be saved.

Looking beyond that end-game, there are however several more questions to be asked. What does EEA - *if* it passes the last hurdle - mean to the larger issue of all-European cooperation? Austria and Sweden have applied for membership in the EC while negotiating the EEA, and Finland may follow early next year. Above all therefore, the question is whether the EEA is but a preparation for the eventual membership of the Nordic countries in the European Community?

Norway, which voted against membership in a referendum in 1972, is split on the issue of membership. The issue is hotly debated among the public. And for Iceland membership is hardly an issue at all if Icelandic fisheries are to become the object of EC regulation.³

2. Two diverging hypotheses on the purpose of the European Economic Area (EEA)

One may see a distant forerunner of the EEA in the 1956 MacMillan-Maudling Plan for a wide European free trade area. The British gov-

³ In addition the sub-region is made up of three semi-independent entities with home rule: the Faroes, Greenland and the Aaland islands (off the coast of Finland).

ernment launched the plan as one of several options which were being considered in discussions on European economic integration. The MacMillan initiative however failed in 1958 apparently after a *de facto* French "veto". Instead the European Common Market of the Six was created on the basis of the French-German axis. The EEC grouped what may be referred to as the "federalist" countries. Soon after the UK led the "non-federalist" grouping of most of the remaining Western European states into creating the European Free Trade Area (EFTA) in 1960.⁴

2.1 Periodization of European market integration

After the formative years there followed a period of group introversion. The two new organizations - the EEC building on the achievements of the European Coal and Steel Community (ECSC) - led to an expansion of intra-trade and a relative reduction in inter-trade between them. In terms of trade creation, EFTA did roughly as well as the EEC. But the latter remained the more attractive for reasons lying outside the trade area. UK and Denmark therefore chose to join the EEC in 1972 after referenda and were followed by Ireland, whereas the Norwegians voted "no" to entry by a 53.5 against 46.5 percent majority.

The following period, 1973-83, was characterized by a relative shift to inter-trade and bilateral organization of the inter-relationship between EFTA and EC countries. As the EC was consolidating itself as a unitary actor in trade and other fields, the bilateral relationship turned into one of a series of free trade arrangements between the EC on the one hand and the individual EFTA countries on the other. The institutional differences between the two organizations had become very apparent and represented an asymmetry which should be considered as important as the obvious difference in the size of the respective markets.

The last phase, the one that may come to an end with the creation of the EEA, started with the Luxembourg agreement in 1984. The two parties had come to realize that the FTAs were insufficient as a framework for Western European cooperation. Although reorganizing trade relations was still a priority issue, the two parties discussed a programme for wider cooperation at the meeting in Luxembourg. According to the Cheysson programme, the future agreement would include R&D cooperation, industrial cooperation notably through the establishment of an internal

4 The background for and the process of forming the EFTA is being analyzed in one among several research projects under a major research programme, "Challenge and Response in Western Europe: The History of European Integration" directed at the European University Institute by Alan Milward and Richard Griffiths.

market, common international action in particular on monetary affairs, and more coordinated cooperation with the Third world.

2.2 *The purpose(s) of the EEA*

A major aim behind the Cheysson programme apparently was to respond to the supposed threat of "Eurosclerosis" and use European economic and scientific cooperation in order to improve competitiveness and meet the challenge of the US and Japanese corporations in world markets. Despite growing support for that aim among political and business leaders in both groups, the Luxembourg process remained inconclusive. Until Jacques Delors, the President of the EC Commission, in January 1989 made a public invitation to EFTA to negotiate a widened and geographically enlarged market arrangement. The follow-up by the Norwegian prime minister that produced the Oslo Declaration in March 1989 was most probably agreed before Delors' invitation was made public.

The substantive aim was, however, broader and more deeply political. There is no economic programme of this scope and potential without a political strategy behind it. Thus functionalist or neo-functionalist theories of integration tend to underplay the importance of politics in explaining successful economic integration. This was probably true even of the first post-War II achievement, the ECSC. As its chief founding father, Monnet in cooperation with Schumann worked consciously and with priority attached to seeking support from the highest political level in order to pull off his idea of French-German cooperation.⁵

There appears, however, to be at least two alternative views on what was the "lead" political strategy behind the launching of the EEA process. We may refer to them as the permanency and the stepping-stone hypotheses respectively.

The permanency hypothesis holds that the main reason why Delors made his invitation speech to the European Parliament in 1989 was that the Commission wanted to stem the tide of new applicants and get an orderly management of an eventual geographical enlargement. With a Turkish application that obviously created problems (and was expected to be followed by other Mediterranean applicants) and not the least with the break-up of the Eastern European system, the Commission feared the burden of accommodating and eventually integrating new members. In addition there were those in the EC who felt that geographical enlargement would jeopardize the deepening of the Community.⁶

⁵ Cf. Jean-Jacques Servan Schreiber, *Passions*. 1991.

⁶ Reference is made to the typology used in Pelkmans and Winters, *Europe's Domestic Market*. Routledge, London 1988. They distinguish between deepening

The stepping-stone hypothesis holds that Brundtland as well as leaders of (most) other EFTA countries visualise the EEA as a temporary arrangement and suppose that the EFTA countries will eventually become full members of the EC. The fact that some EFTA members applied for membership after negotiations had started on the EEA, is seen by some as supporting evidence for the hypothesis.

In reality, parties to the process may have mixed motives and may in fact prefer to keep both these options open. They may, for instance, pursue short-term strategies that may not necessarily be consistent with the long-term goal. Social and political processes intervene to make this a possibility. Neither of the two organizations act as unitary actors, but accommodate various, perhaps conflicting interests. This may turn the cards and in fact change priorities in the process.

According to recent media reports, Delors is said to prefer a two-step strategy which would make his long-term goal more that of the stepping-stone hypothesis. He is said to have urged member states to realize the deepening decision at the Maastricht Summit in December 1991 and then immediately to start preparing for geographical enlargement leading eventually to a Community of 24 to 30 members.⁷

On the other hand, Brundtland may well have to shift to the permanency position as a result of continued strong opposition to EC membership in the Norwegian population. If she does not, her minority government may very well fall.

3. The analytical model: four dimensions

The above observations should lead one to observe at least the following three *caveats*:

- a) the complexity of the political economy of European integration is not to be underestimated;
- b) there are different, on some issues conflicting views within the two organizations and groups of countries on long-term goals and strate-

(towards more supranationality and union), widening (integrating more sectors or fields of cooperation) and geographical enlargement (integrating new member countries).

⁷ In a forthcoming lead article in the French magazine *Belvédère* as reported by the *International Herald Tribune* October 14, 1991. The IHT also quotes *Der Spiegel* which reports that Delors, apparently under the impact of the breaking up of the Soviet Union, recently said that the EC must become a superpower in order to avoid breaking up in the future. In order to accomplish that he is also reported to have urged the Community to widen its scope of activity to include new areas of foreign policy including defence.

- gies. Behind the different political goals and strategies there are alliances that cut across the two entities;
- c) outcomes of bargaining processes are often not predictable according to initial preferences of respective parties as they may change those preferences in the process.

The relationship between the Nordic sub-region and the core of European integration which is the EC, should be analyzed in terms of geopolitics, the scope and strength of regional integrative institutions, in terms of economic factors, and in terms of the socio-political system of the respective countries. I shall review these four dimensions rather briefly while taking as a point of departure the position of the Nordic countries.

Looking at the Nordic-EC relationship in terms of these four dimensions separately offers different outcomes when answering the questions I raised. This is more true for certain epochs than for others.

3.1 Geopolitics and the limitations of sub-regional integration

The Nordic sub-region has been the object of geopolitical rivalry over the last three centuries, that is since the Swedish empire more or less ended in the 17th century. This has created a push-and-pull process which has often split the sub-region and limited the extent to which the Nordic countries themselves were truly autonomous political entities.

Hegemonic rivalry over the sub-region was particularly intense during the Napoleonic wars, before and during the two world wars, and during the Cold War. In particular during the second of these periods, the rivalry took place in a three-polar structure between Russia, Germany, and Great Britain (substituted by the United States), whereas during the last period, the Cold War, the structure was bipolar. The economic and political collapse of the Soviet Union means that we are presently living in a unipolar structure. This may well change - or already be changing. I am referring to the frictions within the cooperative Atlantic relationship and the possible (some say actual) emergence of the EC as a regional hegemon.

The rivalry has created cycles of pull and push, of centrifugal and centripetal forces. During the Cold War the sub-region was divided into three NATO members, one non-aligned (Sweden) and one (Finland) with a special treaty with Moscow. Security matters were never officially allowed to be discussed in inter-Nordic affairs at the government level. When bilateral relations prevailed, as they did during the heights of the Cold War, the Nordic countries were pulled in different directions. When, on the other hand multilateralism increased such as after the

Conference on Security and Cooperation in Europe started to have an impact and the Cold War finally ended, the conditions for pushing the Nordic countries together were created.

Thus until *glasnostj* and the beginning of the end of the Soviet empire, the situation was quite stable and centered on the strategic military balance between the superpowers. During the last few years, this stability - sometimes referred to as "Nordic stability" - is changing or maybe vanishing. Norway and Iceland (with EC member Denmark) are still members of NATO, but NATO may change. The "special relationship" between Finland and the Soviet Union, including the Friendship Treaty, has been brought to a virtual end. Sweden concluded without much heated debate, that its non-alignment policy was no longer a barrier to entry in the EC. As I pointed out above, even Finland now appears to agree.

What are the long-term implications of the end of the Cold War for the sub-region and for the whole of Europe? European countries will influence the answer to that question, so may Russia rather than the Soviet Union which appears to collapse. The open question is what the United States will do. According to the "Idealist thesis" it will let Europe organize itself with US sympathy and help as an active economic partner and as a political and military associate. Or (the "Realist" version) its policy will be to maintain control over European affairs through continued strong military presence and containment of plans for a strong European defence under a looser NATO? If it were to opt for the latter it may be for reasons such as checking Germany's aspirations for regional hegemony, and influencing trade and investment relations with the EC.

3.2 *The attraction and unevenness of institutional development*

Since the beginning, EFTA has mostly responded only to EC initiatives. This naturally has become more evident as EC has deepened, widened and enlarged itself whereas EFTA has remained an economic consultant to governments, not developed into an institution with any real independent authority.

Nordic sub-regional cooperation has come considerably further than has EFTA. There is an *acquis Nordique*, and it is more than just "low politics". One need not be a Nordic chauvinist to observe that harmonization and cooperation in the sub-region during the pre- and post WW II epoch on some measures have been comparatively advanced. What the Nordic sub-region lacks is the credibility and weight that goes with power resources. The following are probably well known images of the Nordics: they are too few to count, and they are too homogeneous to make achievements in cooperation spectacular. If the image had been otherwise

the sub-region would probably have been widely recognized for having as a matter of fact

- developed a single labour market;
- made sizeable cross-investments in manufacturing and partly finance and helped each other to prepare for internationalization at regional and global levels by using the Nordic sub-region as an extended home market⁸;
- established a Nordic passport union;
- harmonized public administrative and social welfare systems to a large extent;
- developed permanent cooperation and much common representation in the United Nations family, in the Bretton Woods institutions, and in development assistance policy and programmes.

The sub-region has, in other words, already established sizeable parts of the 1992 agenda. This is no small achievement if one considers the fact that Finland is linguistically far apart from the other nations, that pull forces have been strong all along the post WWII period, that there was intra-Nordic colonization until quite recently⁹, that there are competing industrial structures among them and that complementarity is barred from having an integrative effect in some important areas such as agriculture. The latter factors were largely instrumental in barring the proposed customs union or Nordic Economic Community in the 1950s and 1960s from being realized.

Faced with the institutional development of the EC, the Nordics as well as the rest of the EFTA countries face a relationship of unequals. One analyst thus refers to the EEA as "legalized hegemony" of the EC in the wider European region.¹⁰ He is referring not only to the facts of differing size and level as well as scope of institutional development. The concept may also refer to the proposed institutional arrangement of the EEA.

The FTAs between EC and the individual EFTA countries had no judicial instrument nor common decision-making bodies to solve disputes bilaterally, only joint committees under government control which were inaccessible to individuals.¹¹ This deficiency, which is not found in some

8 This has been important for some Norwegian industries, but above all for Finnish manufacturing industry which is a relative newcomer to the internationalization process and which used the Nordic market to learn the lesson before moving on to global markets.

9 Iceland remained a colony of Denmark until 1920, Finland under Sweden (and then Russia) for a long period, Norway a colony of Denmark until 1814 and then under Sweden until 1905.

10 Daniel Thurer in Helen Wallace, ed, *The Wider Western Europe*.

11 For further details, see Friedl Weiss, "The Legal Issues", in Helen Wallace, ed, *The Wider Western Europe*, pp. 246-267.

agreements between EC and third parties, may partially account for the relatively great number of anti-dumping charges that the EC has brought against EFTA country firms. As GATT is the only institution to which these charges and the subsequent action can be referred, and the GATT process of arbitration is slow and uncertain, EFTA governments have given priority to correcting this deficiency in the EEA negotiations.

The treaty will in all probability contain the following elements:

- a) The decision-making on common EEA matters will not set aside but rather be unable to overrule EC institutions and processes. The treaty will contain the *acquis communautaire* modified in part to take some specified EFTA concerns into account. These concerns are in particular related to environmental policy and health and safety standards and to social welfare. The institution to be set up will allow EFTA members a consultative role in matters dealing with standardization, harmonization and similar matters where EC will maintain its own decision-making authority unaffected by the EEA.
- b) The judicial process that will resolve conflicts arising from the interpretation and the practising of the EEA agreement will be vested in an independent institution, the EEA Court. Members of the Court will be appointed by all participating governments and the EC and serve in their individual capacity.

If these institutional innovations are eventually part of the final agreement, it is quite possible they will work in a way that makes the concept of "legalized hegemony" misplaced. What remains as a fact, however, is that the EEA represents what has been referred to as a "two-tier" system or as "variable geometry": the EEA admits degrees of differentiation in the application of common legislation and selective implementation of policy.¹²

For all its structural and institutional inequalities, the EC remains a *pole of attraction* for EFTA and the Nordics. As a matter of fact, these inequalities are by some seen as an argument in favour of membership in the EC: only as full members may EFTA countries share in decision-making. Opponents of economic integration, on the other hand, see the inequality in decision-making power in the proposed EEA institutions as an argument against ratifying a draft EEA treaty. For them, a continued or renegotiated bilateral FTA is to be preferred.

¹² See Introduction in Helen Wallace, ed. *The Wider Western Europe* for a discussion of the concept.

3.3 Economic incentives and risk-avoidance

EFTA negotiators have tried hard to support their own bargaining power by presenting the EC with some simple statistical facts. Firstly, the EFTA countries, despite the small absolute size of their markets, taken together represent the single biggest export market for EC products. They account for some 23 percent of EC exports. For the EC the EFTA market is bigger than the US and Japanese markets combined. This being so, the EFTA side would expect the EC negotiators to soften their stand on issues which are particularly sensitive for EFTA.

EC negotiators, however, appear not to have been impressed by this calculus. The reason is probably fairly straightforward: The EFTA countries are very dependent on EC as their primary export market (the share of EC in their total world exports ranging from 45 to 75 percent). The EFTA countries thus are *export dependent* on the EC whereas the EC countries are much more *export diversified*. This considerable difference in vulnerability gives the EC, not the EFTA side the better bargaining card.

Most of the concessions sought by EFTA have to do with their social welfare and environmental policies and with protecting what is perceived as fundamental national sovereignty. If no major concessions can be expected from the EC, will the economic benefits outweigh these mostly non-economic factors? With an exception made for some countries and on some issue-areas, the Nordics appear to think so.

Nordic exporters certainly do expect a trade creation effect from the EEA, including the gains that would accrue when applying standard economic analysis of comparative advantage, specialization and the exploitation of economies of scale, and in particular if static analysis¹³ is complemented by dynamic analysis of economic effects.¹⁴ But generally speaking Nordic producers probably do not have very high expectations for the gains from the Internal Market. Some in fact may stand to lose from increased competition because of weak competitiveness and/or inferior marketing and distribution networks. Moreover, the FTA's have already liberalized the flow of goods to a large extent. The much publicized effect of the Internal Market is not being much noticed in the public debate.

Rather than looking upon the changes of 1992 offensively, as a challenge, defensive motives appear to dominate. Industries do not want to

13 See e.g. Paul Krugman, "EFTA and 1992", *EFTA Occasional Paper No. 23*, EFTA Secretariat, Geneva, 1988.

14 Richard Baldwin, "The growth effects of 1992". *Economic Policy*, 9 October, 1989, pp. 247-70.

miss out on an opportunity. They want to ensure that they will benefit if there will be one. Decision-makers in firms with no long-term strategy jump on the band-wagon; or they perceive a risk if being left behind as the train goes. In addition, they fear that the EC may develop more of the bloc position that goes with pursuing the CAP, anti-dumping and quota restrictions, all institutions which figure prominently in the EC's foreign economic policy up to this date.

Only a few companies, mostly Swedish, are big and technologically advanced enough to compete at a regional or global level when or if size and R&D capability respectively matter most. The majority of firms will have to opt for niches of the European market; in that respect some of the Nordics may in fact be in a good position.

For Sweden therefore the main concern is to stop the general decline of manufacturing competitiveness and the exodus of specific Swedish corporations.¹⁵ Sweden is much more of an internationalized economy, much less of a traditional exporter than the other Nordics. Still Swedish export interests are still important in forestry, mechanical industries, and in the automobile industry.

Finland's move into manufacturing including hitech industry has been spectacular during the 1980s, but has now come to a stop. Unemployment rose from some 3 to more than 10 percent. One major reason for this was that Finland lost a very particular but ultra-stable market: deliveries to the Soviet Union under a long-term industrial cooperation and trade agreement. Ever since WWII the Finns have been able to profit from their economic relationship with the big Eastern neighbour, but with privatization and above all the collapse of the Soviet economy the Soviet share of global Finnish exports went from some 20 to 5 percent in a few years.

For Norway the economic incentive is more mixed. Norway's main export commodity is now petroleum, increasingly natural gas. The mainland industry is mostly based on processing of raw materials some of which are imported (alumina oxide, manganese for steel alloys, etc). These industries fear being excluded from the expanded European market (and they fear competition in the EC from Central European producers). As for other industries such as machinery, they have lost considerable market shares since the 1970s and hope to reconquer some of the lost ground through the EEA.

15 Swedish foreign direct investments in the EC increased exponentially during the latter part of the 1980s and several big companies planned major strategic shifts to abroad if Sweden were not to become member of the EC.

For great parts of the manufacturing sector in these three countries, in particular in Sweden, restructuring and the re-establishment of competitiveness are more important issues than the issue of market access.

For Iceland, market access for fish is the overriding concern. But looking at the fish export sector in Iceland and to a lesser extent in Norway means introducing the fourth dimension.

3.4 The complication of socio-political processes

The most vocal opposition to European integration in the Nordic countries probably comes from the Norwegian farming community and the environmentalists. In Norway, and to a lesser extent in Sweden and Finland, agriculture is subsidized according to a system which is different from the Common Agricultural Programme of the EC. As for environmentalists, their critical attitude towards the EC is based on their perception that the environmental policies of (most) EC countries are far less progressive than their own. But other well organized groups of producers are also much more influential than their share of total income and employment would indicate. As agriculture is not negotiable in the EEA but kept largely outside of it, I shall use fishing as a case.

Put simply and briefly, the fishing problem seen from the point of view of Iceland and Norway is that the EC demands access to fish resources in the coastal waters of these two countries in return for giving their fish exports, particularly processed fish, free access to the EC market. The present FTA does not offer processed fish free access; on the contrary the EC imposes a tariff duty that varies with the degree of processing of the products exported. Thus, EC collected roughly 500 mill. NOK in import tax from Norwegian fish exporters out of a total of some 10 billion NOK worth of fish exports.¹⁶

Fish accounts for about half of Iceland's total exports, but only 13 percent of the labour force is employed in the fishing industry. Although a clear majority of the Icelanders are reported to be in favour of implementing the "Four freedoms" and even favour Iceland's membership in the EC, fishing interests may decide the issue, even whether or not to accept the EEA, if these interests go against the negotiated agreement. The reason is quite simply that the fishing industry interest is socially well organized, dispersed in many small communities along the coast, and politically very influential. In addition Iceland's fishing industry is economically efficient, particularly if compared to that of the EC which continues to support the sector despite a 25 percent overcapacity. Hence

¹⁶ Norway supplies one fourth of EC's fish imports

the Icelanders see no economic reason for giving away markets and resources to inefficient EC producers.¹⁷

For Norway the situation is rather much the same. But in the Norwegian case the political influence associated with the *location and organization of particular interest* is even more striking.

Fish exports account for 5 percent of total Norwegian exports, and the fishing industry for 2 percent of the labour force. These figures, however, do not tell much about the political economy of the sector. Norwegian fishing is, like the Icelandic, relatively efficient and more so than the average EC fishing. But in addition a large part of Norwegian fishing is done by relatively small units: medium-sized or small self-owned boats constitute the backbone of Northern Norway's fishing. Historically they have been very dependent on resources along the shores of the great number of villages and small towns that make up the fishing community. Many fishermen have even been part-time farmers to make a living for their family. This situation has not changed radically with the decrease in the number of fishermen.

The Norwegian fishing industry is therefore made up of roughly three interest groupings: Northern Norwegian fishermen, the owners of long-distance fleets (most of which are located further South), and the processing industry. A high degree of regulation and organization link these groups in a complicated system of quota allocations, income transfers and sharing of value-added. In addition a fourth group may be identified: sea-farming interests which produce for the export market. It was developed during the 1980s to take rather rapidly a major share of the market for salmon in North America and some EC countries. Recently its exports to the United States were virtually stopped as the US government imposed an import tax after the International Trade Commission of the US found it proved that the Norwegian exporters dumped the price.¹⁸ This has increased Norwegian fish export interests in the EC market which already took 60 percent of total fish exports in 1989.

The strength of the particular interests is nothing peculiar to Norway; it is found in many or most Western industrialized countries. The case of Northern Norwegian fishermen therefore must be further substantiated by pointing to the relative importance of regional policy in Norwegian politics. Or perhaps it is more appropriate to say that particular interests align with regional to form a strong political coalition. If these two poles of strength in addition obtains the support of either the ruling party or, if

17 Thorvaldur Gylfason, "Iceland on the outskirts of Europe: The Common Property Resource Problem", in EFTA, *EFTA Countries in a Changing Europe*. The 30th Anniversary Round Table, Geneva 5-6 November, 1990.

18 Norway has brought the matter before GATT.

such support is difficult, of labour in particular the Confederation of Labour Unions (LO), then that coalition is almost unassailable in Norwegian politics.

The power of regional interests is far greater than in Sweden and also greater than those in Finland. Sweden is a far more centralized political system than is Norway. The combination of a strong centre/weak periphery and more consensus between urban and rural interests in Sweden also explain the difference with Norway in attitudes and policy outcomes. In Finland agriculture has traditionally had a strong political basis, and there has been an advanced urban-rural coalition through most of the post WWII period. In addition the EEA-EC issue in Finland is defined much more as a regular foreign policy issue: In such issues the President has a dominant influence which is exercised above party, regional and particular interest group politics.

The regional interest is mostly sceptical or opposed to integrating with the EC. The Community's regional policy is seen as not offering much to the Norwegians who are too rich to get fund support. Whereas this assumption may be challenged, there is a widespread feeling that Norway's net economic balance with the EC as far as the public sector is concerned, will be negative.

Northern Norwegian fishermen look upon the prospect of greater access to Norwegian waters for EC fishermen as a threat to their own livelihood. Gains from improved market access for processed fish will not accrue to them in the first place as processing units are mostly located further south. Norwegian fishing is highly regulated and could do with less regulation. But much of the regulatory system is based on self-regulation and hence looked upon as legitimate and an exercise of sovereignty. EC regulation, on the other hand, is looked upon as centralizing and exercised by distant "landlords".

Under the present agreement between EC and Norway, there is considerable swapping of resources in that fishing vessels from the two parties do fish in each other's economic zones. Norway has basically traded quotas of groundfish in exchange for EC quotas of pelagic fish. The issue now is not only whether Norway should give in to EC (*i.e.* Spanish) demands for greater quotas in Norwegian waters. The conflicting issue as seen from the Norwegian side is also one of resource policy, or of sustainable development. The minimum EC fishnet hole width is 90 mm for catches of cod in the North Sea, whereas the Norwegian minimum is 100 mm (and 130 mm in the Norwegian sector of the Barents Sea). Environmental considerations have led an international panel of marine biologists to recommend a minimum of 120 mm. The sector cum regional interest coalition has broadened to include the environmentalists.

4. Scenarios for the short- and medium-term future

In the long term, everything is possible. Let me therefore end this paper with some observations on the prospects for the short-and medium-term future, that is for the remainder of this decade.

In the short-term perspective, the present cycle of geopolitics (dimension 1) appears on the whole to favour Nordic integration with the EC. Finland's remarkable change of position is the clearest indication of this. Dimensions 2 and 3 offer a somewhat less clear picture. There have been consultations recently among Nordic prime ministers to make efforts to coordinate European policy and look at possibilities for strengthened Nordic cooperation in the near future. This option may be seen as a *contingency plan*: if membership for some reason is not available, then a sub-regional deepening is a good alternative prospect. One view that is currently gaining support is that a deepened Nordic base is particularly important if the other Nordic countries were to join Denmark in the EC.¹⁹

Denmark's position is understandably somewhat delicate. It is a full EC member. It is at the same time still a member of the Nordic Council and its related institutions. It holds several important policy preferences in common with the other Nordic countries: social welfare, high health, safety and environment standards, etc. It sides with the British and Irish in its reluctance to extensive deepening of the EC, thus potentially providing a bridge to among others the Norwegians. But in order to avoid being caught falling off the bridge, the Danes both officially and privately exert friendly pressure on the Nordics, in particular on reluctant Norway, to join the EC as full members. Denmark's foreign minister even upset sceptics in Norway by publicly urging them to drop the EEA and instead join the EC. At the most he was prepared to see the EEA as a transitory stage of "some length" before full membership.²⁰ His thoughts were seconded by proponents of membership who publicly referred to non-EC EEA members as second class Europeans.

As I have shown above, the socio-political factor (dimension 4) may turn Iceland and Norway against membership and even call into question their ratification of the EEA. The case of Norway is again particularly illustrating.

¹⁹ For a discussion of this as well as other option, see the report from the four Nordic foreign policy institutes and the University of Reykjavik, *Norden i det nye Europa (Norden in the new Europe)*, July 1991, 224 pp. See also a similar report published by the Nordic peace research institutes:

²⁰ *Aftenposten*, 25 March 1991

For the Norwegian opposition to integration with the EC, scepticism to EC union plans (centralization) and fear of loss of national sovereignty figure among the most important arguments along with regional and primary sector interests and policies. In addition the opposition may claim to uphold the "legacy of 1972", the protection of the will of the people. It is therefore commonly agreed across party lines that the vote of 1972 can be reversed only by a new referendum, if or when the membership issue comes up again. There is even the possibility that the EEA treaty, if it survives this week's negotiations, will be put to a referendum.

Opinion polls show about as favourable attitudes toward EC in both Sweden and Finland as were found in the case of Iceland. In Norway, however, the issue remains unsettled. There is probably a clear majority for the EEA, but it may be put to serious test if the draft treaty gives Norwegian regional and particular interest groups what they themselves see as a bad deal. Polls on the membership question support the picture of the public debate as a very heated one. In fact the Norwegian public is split down the middle on the issue as was the case in 1972. Intense conflict is producing a good number of Dont know's (DK) and a feverish variation of the Nos and Yeses over the months (Table 1).

Table 1
Norwegian polls on EC member-ship

	Referen- dum AVST.- 72	1981	March 91	April 91	May 91	June 91	July 91	Aug 91	Sep 91
YES	46,5	18	34	28	36	38	31	38	32
NO	53,5	68	30	35	36	33	31	32	36
DK		14	36	37	27	29	38	30	33

Source: EC Barometer, Market and Media Institute, Norway, October 1991

Groups and people opposed to membership have mobilized a nation-wide campaign which has managed to heat up the debate to a level un-

matched in other European countries.²¹ The urban-rural and the regional dimension is strongly born out in the background data on national polls. This further substantiates the claim that the issue of European integration is particularly complex in the Norwegian case.

The *medium-term perspective* holds the possibility of membership of several or all the Nordic countries in the EC. But it also is possible to look upon the EEA as a permanent institution, a scenario which would probably imply *either* that Sweden, perhaps also Austria, do not join, *or* that new members substitute for those who transfer to the EC - as did happen with EFTA in the past.²²

Those new members would have to be recruited from Central or Eastern Europe, and the most likely candidates are the newly independent Baltic states. The Nordic countries were the first to recognize their autonomy, and the Baltic governments have made no secret of their intention to develop special relations with the Nordics in the economic as well as the political field. The three states thus declared their intention to form an "internal market" among themselves and to "develop closer cooperation with EFTA".²³

Is the long-term goal of the Baltic States to become members of EC, or do they want to support the development of the "other room" of a European house? Their intentions are not as declared and evident as those of the three Central European countries, Poland, Hungary and Czechoslovakia. They have repeatedly stated that their goal is membership in the EC.

The final decision will be that of the EC. For strategists in the Commission there are several options. But which ones are the more realistic? Even the EC will have to reconcile aspirations for geographical enlargement with considerations that are internal to the Community and even to individual countries. At least the following considerations may apply when the question of geographical enlargement is decided upon:

- Whether it is compatible with widening and in particular deepening of the EC, a question which concerns decision-making and other institutions in the Community; simple organization theory will tell you that

21 Their organization, "Nei til EF" (No to the EC), counts some 70.000 members, whereas a similar organization in Sweden with double the population of Norway, counts a few hundred.

22 Finland joined EFTA after it was formed on a special status (FINNEFTA) in 1961, but did not become full member until 1985. Her policy was dictated by her special non-aligned status. For a detailed discussion, see Esko Antola, "Finland", in Helen Wallace, ed., *op.cit.* pp. 146-158.

23 According to the *International Herald Tribune*, 14th October 1991.

- there are limits to how much and how fast organizations, in particular big organizations, may adapt.
- Whether it is compatible with the social formations and economic balances within the Community: an influx of members which are poorer, less industrially developed and more pollutive, will represent an additional strain on the already strained economy of the Community.
 - Whether or not it will tip the political balance within the EC: will Nordic membership be interpreted by the "Latin" members of the EC as tipping the balance in favour of the "Anglo-Saxons", thus also putting extra strain on the German-French axis.
 - Whether or not the EC (despite all these possibly problematic aspects), for reasons of security and in order to strengthen a European position in the competition with North America and Japan, will still perceive it as of paramount importance that a stronger Europe is built on a continental base.

Organizational overload, socio-economic overburdening and/or new political imbalances may stop the process of geographical enlargement. Alternatively one may argue that the dynamism that the Community has shown over the last years is quite outstanding and could very well continue. Those who favour geographical enlargement irrespective of its effects on socio-economic and political structures within the Community could very well argue that it has to follow the momentum of success and capitalize on its being the pole of attraction. They may also argue, as they in fact do, that geographical enlargement presupposes deepening first in order for the Community to be able to handle the problems following enlargement.

But even if one puts aside questions about the realism of the deepening project (viz internal opposition from the UK and its followers), those who argue that deepening (union) and widening (defence) can easily be completed parallel with geographical enlargement should find more solid arguments for their case. If the latter motive should prevail, it would probably mean that geographic enlargement takes precedence over deepening. It would also imply that the EC is willing to accept members from the Mediterranean - an option that would increase the likelihood of a socio-economic imbalance, provided that is that the present regional and other funds are maintained with increased budgets. It would also mean that the EC accepts the prospect of Turkey and possibly Cyprus and Malta becoming members.

But will it? If not, the EC may find the coming of the EEA an appropriate opportunity to leave the door to the Community closed for some time, at least for the medium-term perspective adopted here. This would make the difficult deepening process easier to accomplish, it would satisfy

those who fear that the socio-economic and political balance be threatened by enlargement, and it would not offend applicants too much if they found themselves in the company of many others.

For the EC to select among aspirers is possible, but still somewhat dangerous politically. The criteria for membership that have been widely publicized - a certain level of economic development and a functioning market economy - could turn out to be dangerous in the longer run as political and security arguments come to the forefront.

To be more concrete: If those criteria are applied, then the Nordics are clearly eligible, whereas all or most other aspirers are for some time not eligible. But the attention of the EC is now turned towards Central and Southern Europe. Will Budapest, Prague and Warsaw understand and accept a judgment that, after all the promises they have been given, they should be left to wait indefinitely while others are let in?

Some of these questions may be settled once some decisions have been made and some of these fears proven unwarranted. But as long as they are not, some more questions may be asked: Will the EC be able to keep up the momentum it has created if the process of implementing the Internal Market turns halfhearted in some of the member countries, if the deepening process runs into obstacles, or if some other unforeseen change of the course of past success occurs? Maybe economic integration of this scope and depth takes place in cycles and that the EC will, almost inevitably, meet its downturn slope sooner or later?

All this should lead us to keep options open. I believe that the EC without any doubt will remain the central actor in Europe for decades. And I also believe that there is a fair chance that the EC may succeed both in its deepening and its enlargement projects. But it may lose its widening momentum if it does not manage to deepen within a few years or carry out missions in which it engages its prestige and authority (Yugoslavia). If that happens, it may chose not to enlarge.

The alternative scenario is thus for a Europe of stronger sub-regions. They would trade with each other in a FTA; they would strengthen all-European institutions in order to handle collective security and environmental protection. That is not necessarily a more conflictual Europe. General integration theory does not hold that the more integrated a region is, the less conflict there will be. On the contrary there may be an upper limit to integration beyond which it creates more conflict than it solves.²⁴

The purpose of all these questions is to show that the process of European integration is not unidirectional, and that it is complex. I do

²⁴ For an elaboration, see Barry Buzan, *People, States and Fear*. Second edition. London, Harvester and Wheatsheaf, 1991.

favour European integration personally. My purpose in this particular context, however, is analytical, not normative. The complexity of the issues should be properly acknowledged and further analyzed. This should not be a concern just for Nordic actors and scholars, but for all others seriously engaged in the intellectual enterprise of studying the processes of European integration and their future.

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