STUDY

European Parliament

Balancing Integration and Autonomy

How EFTA countries reconcile EU-approximation and independence

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ABSTRACT

In 2020, the European Free Trade Association (EFTA) celebrates its 60th anniversary. During this respectable lifetime, its composition has frequently changed, starting with seven founding members in 1960 and having four today. EFTA has turned out to be an 'antechamber' for the EU, as well as a distinct organisation with its own purpose. Since the foundation of the European Economic Area (EEA) in 1992, EFTA states Norway, Iceland and Liechtenstein have joined this area, whereas Switzerland has chosen a relationship with the EU based on a number of bilateral agreements. These four EFTA states have in common that they perform a delicate and dynamic balancing act between integration into the EU and preservation of their own autonomy.

Reasons for the strong desire for autonomy can partly be found in geographic or historic factors, but these cannot explain their position entirely, as existing EU Member States may also have such particularities. That all EFTA countries have a strong economy based on specific sets of natural resources and/or financial legislation, certainly is another element that explains the desire to keep matters in their own hands as far as possible. Strong consensus oriented democratic systems with components of direct democracy complete the picture.

External events, such as the creation of the Internal Market, EU enlargement or the 2008 financial crisis have regularly challenged the balance EFTA countries have built with the EU. Even though they have led to initiatives to integrate closer with the EU or apply for membership, in the end such steps have not been completed. Whereas the UK is an important partner of all EFTA countries, mostly of Norway, its withdrawal from the EU has created another challenge to the balance.

In a larger perspective, balancing autonomy and integration is not unique to EFTA countries, but happens also within the EU in the form of opt outs or arrangements for enhanced cooperation. And in view of a large number of countries aspiring for future EU membership, concepts such as flexible arrangements or associate memberships are not likely to disappear from the EU agenda.

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1 Key developments

1960: Foundation of the European Free Trade Association (EFTA) by seven countries to promote free trade and economic cooperation. The founding states are Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

1961: Finland joins EFTA as associated member.

1970: Accession of Iceland to EFTA.

1972: Norway rejects EU membership in a referendum for the first time.

1972: The UK and Denmark leave EFTA and become members of the European Economic Community (EEC, later EU).

1979: EFTA signs its first Free Trade Agreement with Spain.

1984: The EEC and EFTA sign the Luxembourg Declaration which facilitates broader cooperation between the entities.

1985: Portugal leaves EFTA and becomes a member of the EEC (later EU).

1986: Accession of Finland to EFTA as full member.

1989: Start of talks on establishing a European Economic Space (later: European Economic Area EEA).

1991: Liechtenstein joins EFTA.

1992: Signing of the EEA agreement. After the Swiss population has rejected membership of the EEA in a referendum, Switzerland stays outside the EEA but in EFTA.

1994: Norway rejects EU membership in a referendum for the second time.

1994: The EEA Agreement between the EU and six EFTA countries (Austria, Liechtenstein, Iceland, Norway, Sweden, Finland) enters into force. It includes a mechanism for social and economic disparities between the participating countries for the first four years.

1995: Austria, Finland and Sweden become member states of the EU and thus leave EFTA. Liechtenstein, Iceland and Norway continue participation in the EEA Agreement.

1999: The EU and Switzerland sign their first set of bilateral agreements (Bilaterals I).

2003: The EU and Switzerland sign a second set of bilateral agreements (Bilaterals II).

2004: The ten states of Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join the EU and therewith the EEA.

2007: An agreement between EU Member States and Bulgaria and Romania makes them also join the EEA.

2009: After the financial crisis, Iceland applies for EU membership.

2010: Accession negotiations between Iceland and the EU begin.

2013: Iceland puts the accession negotiations with the EU on hold.

2014: EU-Switzerland negotiations on an Institutional Framework Agreement (IFA) start and that same year, Switzerland holds a referendum on migration aimed at limiting immigration through quotas.

2015: The European Union is rewarded the Noble Peace Prize in Oslo.

2018: The EU and Switzerland agree on a text for the IFA, on which Switzerland starts internal consultations.

2 Key European Parliament resolutions

Multi-country resolutions

18.05.2017 On the EU, Iceland, Liechtenstein and Norway agreement on an EEA Financial Mechanism 2014-2021

13.09.2017 On the Multilateral Agreement on the establishment of a European Common Aviation Area (ECAA)

29.05.2018 On the Agreement between the EU and Norway on the cumulation of origin between the EU, the Swiss Confederation, Norway and Turkey in the framework of the Generalised System of Preferences

13.03.2019 On Participation of Norway, Iceland, Switzerland and Liechtenstein in eu-LISA

15.01.2020 On the EU-Iceland-Norway protocol regarding the State responsible for examining a request for asylum lodged in a Member State, Iceland or Norway regarding access to Eurodac for law enforcement purposes

Resolutions on Iceland

11.02.2015 On safeguard measures provided for in the Agreement with Iceland

10.06.2015 On the EU-Iceland agreement on Iceland's participation in the second Kyoto Protocol commitment period

12.09.2017 On the EU-Iceland agreement on geographical indications for agricultural products and foodstuffs

30.11.2017 On the accession of Chile, Iceland and Bahamas to the 1980 Hague Convention on the Civil Aspects of International Child Abduction

13.06.2018 On EU-Iceland Agreement on supplementary rules for external borders and visas for 2014-2020

Resolutions on Norway

29.04.2015 On the safeguard measures provided for in the agreement between the EEC and Norway

14.12.2016 On the EU-Norway agreement on reciprocal access to fishing in the Skagerrak for vessels flying the flag of Denmark, Norway and Sweden

16.05.2017 On the EU-Norway agreement on the instrument for financial support for external borders and visa

12.09.2017 On whale hunting in Norway

17.04.2018 On the EU-Norway agreement concerning additional trade preferences in agricultural products

29.05.2018 On the EU-Norway Agreement on administrative cooperation, combating fraud and recovery of claims in the field of Value Added Tax

Resolutions on Liechtenstein

02.12.2015 On EU-Liechtenstein agreement on the automatic exchange of financial account information

02.03.2017 On the EU-Liechtenstein Agreement on supplementary rules in relation to the instrument for financial support for external borders and visa

17.12.2019 On the EU-Liechtenstein Agreement on the stepping up of cross-border cooperation, particularly in combating terrorism and cross-border crime

Resolutions on Switzerland

19.05.2015 On Safeguard measures provided for in the Agreement with the Swiss Confederation

09.07.2015 On Scientific and technological cooperation with Switzerland: Horizon 2020 and ITER activities

09.09.2015 On EEA-Switzerland: Obstacles with regard to the full implementation of the internal market

27.10.2015 On EU-Switzerland agreement on the automatic exchange of financial account information

15.12.2015 On the EU-Switzerland arrangement on participation in the European Asylum Support Office

14.09.2016 On the Protocol to the EU-Switzerland Agreement on the free movement of persons (accession of Croatia)

12.12.2017 On the EU-Switzerland agreement on the linking of their greenhouse gas emissions trading systems

13.06.2018 On the EU-Switzerland Agreement on supplementary rules for external borders and visas for 2014-2020

13.02.2019 On GATS: compensatory adjustments resulting from the accession of 13 states to the EU

26.03.2019 On the EU-Switzerland Institutional Framework Agreement

17.12.2019 On the Protocol to the EU-Switzerland Agreement concerning the State responsible for examining a request for asylum lodged in a Member State or in Switzerland regarding the access to Eurodac for law enforcement

3 Setting the scene: EFTA, EEA, Switzerland

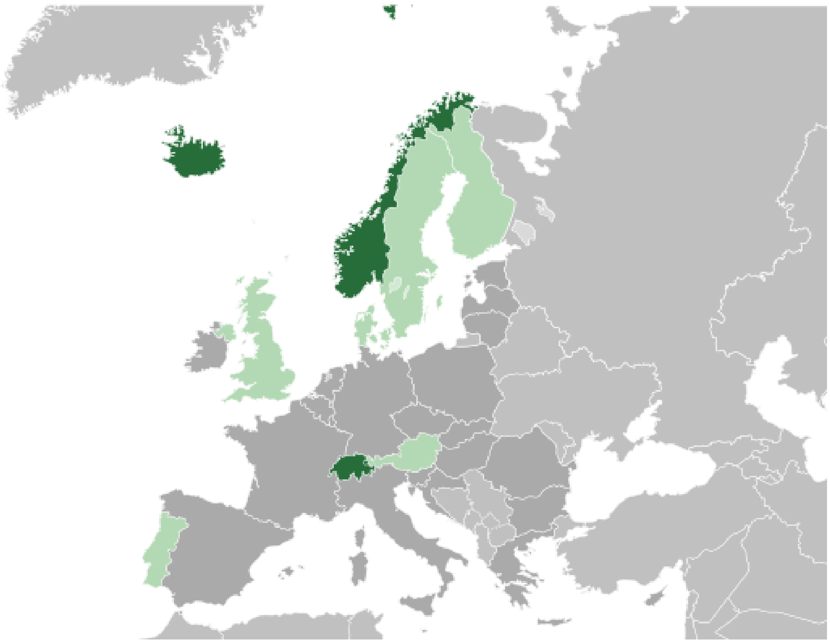
3.1 Towards the status quo

The European Free Trade Association

The European Free Trade Association (EFTA) currently unites Iceland, Liechtenstein, Norway and Switzerland in one regional intergovernmental organisation, which was set up to promote international trade between these countries and with the rest of the world. According to the **founding convention** (last amended on 1 July 2013), its main objectives are the 'strengthening of trade and economic relations between the Member States with fair conditions of competition, and the respect of equivalent rules, within the area of the Association' as well as 'free trade in goods (...), free movement of persons, (...) liberalisation of trade in services and of investment' for the benefit of the Member States and their partners. Hence, what unites the EFTA countries is their commitment to open, competitive economies and the gradual liberalisation of trade. Since its early beginning, relations with the European Economic Community, which then developed into the European Community and finally into the EU, have therefore also been of utter importance to EFTA. The states furthermore actively seek to establish relations with third countries beyond the EU.

The organisation **EFTA was founded in 1960 by the Stockholm Convention** (revised by the Vaduz Convention 2002) in the Swedish capital between its then seven founding Member States Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. It established an alternative to the evolving European Economic Area (EEC) for those states, which were either unable or did not wish to join. This was for example the case for Austria and Sweden, whose foreign policy outlook during the cold war tended towards neutrality between the eastern and western spheres of influence. The EFTA states were therefore also called the 'outer seven' to the 'inner six' countries of the EEC. Over the course of the years, countries nevertheless left EFTA to become members of the European Economic Community or later the EU. In 1973, the UK and Denmark joined the EEC, followed by Portugal in 1986 and Austria, Finland and Sweden in 1995. This left Switzerland and Norway as the only founding members still in the organisation by 1995. At the same time, other new countries joined EFTA, such as Finland between 1986 and 1994, and Iceland from 1970 and Liechtenstein from 1991 onwards.

Figure 1: Evolution of EFTA membership



Source: Wikipedia

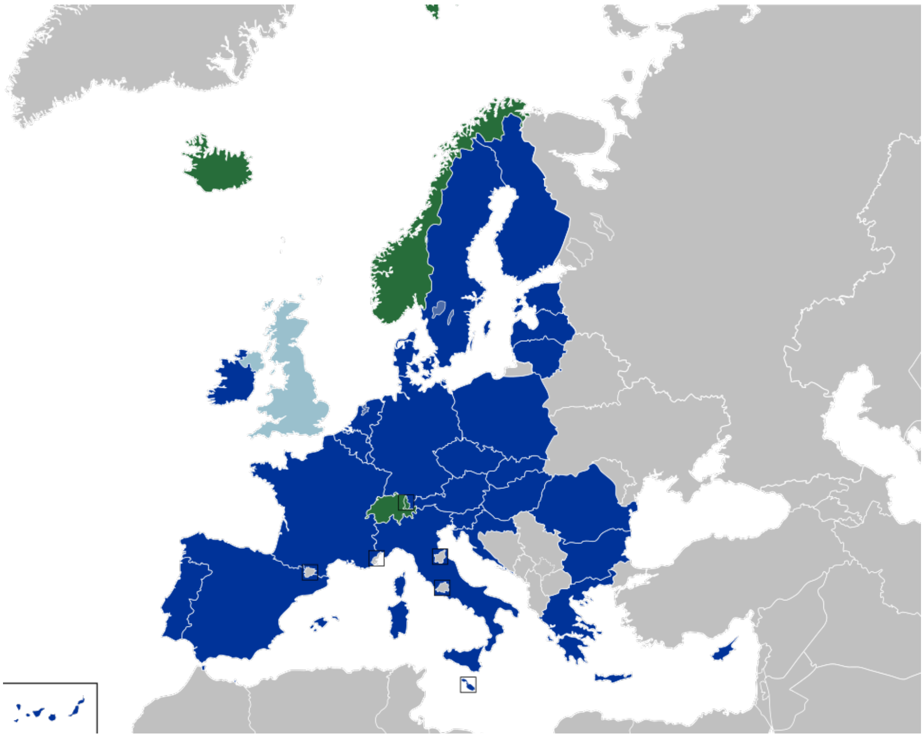
The European Economic Area

While developing the single market of the European Union, which entered into force through the Treaty of Maastricht in 1992, it was the intention to closely link the remaining EFTA states Norway, Iceland, Switzerland and Liechtenstein to this market. Even if these countries did not want to fully integrate into the newly created European Union (EU), they agreed to take over EU legislation regarding the internal market under a new agreement named the European Economic Area (EEA). The EEA agreement was signed by all EU Member States and the four EFTA countries in 1992 in Oporto, Portugal. However, following the negative outcome of a referendum in Switzerland, that country finally decided not to join the EEA, leaving only the other three EFTA countries together with the EU countries as members to the EEA. The European Economic Area finally entered into force in 1994 and since then allows the three EFTA-EEA states to take part in the EU's Internal Market despite not being EU Member States.

The EU and Switzerland

Relations between the EU and Switzerland now had to be organised on a bilateral basis. This relationship was developed over more than ten years in several rounds of bilateral agreements. During these, Switzerland has adopted a vast range of provisions of EU law as a precondition for participation in the Union's Single Market without joining as a member state. In 1972 the country had already signed a free trade agreement with the European Economic Community. After 1994 the mutual aim of Switzerland and the EU was to retain the economic integration negotiated within the framework of the EEA, while tackling the remaining issues that had led to the negative vote of the Swiss population. For this reason Switzerland stressed the bilateral nature of the negotiations between two equal entities, making Switzerland one of two essential players. As a result ten treaties between both actors were signed, the first seven of which were called 'Bilateral I agreements' and the additional three 'Bilateral II agreements'. The Bilateral I agreements are **mutually dependent**, which means that if one of them is denounced all of them are (guillotine clause). While the bilateral nature of the agreements allows Switzerland to reject adopting EU rules, this clause exponentially augments the costs of doing so. These developments resulted in the present situation, where the EU negotiates special relations with EEA/EFTA states on the one hand and Switzerland on the other.

Figure 2: EFTA state Switzerland and the three EFTA/EEA states Norway, Iceland and Liechtenstein



Source: Wikipedia

3.2 Extending the internal market to EFTA countries

The first aim of EU relations with the remaining EFTA countries was to assure their participation in the EU internal market to the furthest degree possible for mutual benefit. Whereas the core legislation of the internal market is usually referred to as the 'four freedoms', being the free movement of labour, goods, services and capital, some other sets of legislation regarding economic activities are sometimes meant to be included. These can be for example rules on state aid or competition. Without drawing a sharp line, this study will first - from the point of view of the EU - consider how rules belonging to the internal market were extended to the EFTA states. It then looks at the extension of rules regarding other policy areas.

3.2.1 The European Economic Area (EEA)

The European Economic Area (EEA) encompasses the three EFTA States Iceland, Liechtenstein and Norway and all EU Member States. It creates one Singe Market, also referred to as the Internal Market, which is governed by the same set of mutually agreed rules. It provides a framework for the 'four freedoms', which also includes the freedom of residence in all participating states. The EFTA agreement thus promotes strong and balanced trade relations.

EEA Membership

Membership to the EEA is open to all states that are either member states of the EU or of EFTA. Thus the EEA group grew with the enlargement rounds of the EU in 2004, 2007 and 2013. However, joining the EU does not automatically entail being part of the EEA: new EU Member States still have to apply to the EEA. In the case of Bulgaria and Romania, which acceded to the EU in 2007, EEA membership only provisionally entered into force eight months later and was fully enforced eleven months later. The five recognised candidates for membership in the European Union Albania, North Macedonia, Montenegro, Serbia and Turkey have all already applied to EEA. Turkey, Montenegro and Serbia have even entered into negotiations with the EEA. Further change to the organisations membership could furthermore be triggered by the UK's decision to leave the European Union, although membership of the UK in the EEA is currently unlikely.

The concept of the EEA

The agreement, which founded the EEA organisation entered into force 1 January 1994. It guarantees equal opportunities and obligations to all economic entities and individuals within the framework of the EEA. The agreement furthermore **extends the four freedoms of goods, services, persons and capital** flow to the EFTA/EEA countries. However, it does not include the Common Agriculture and Fisheries Policies.

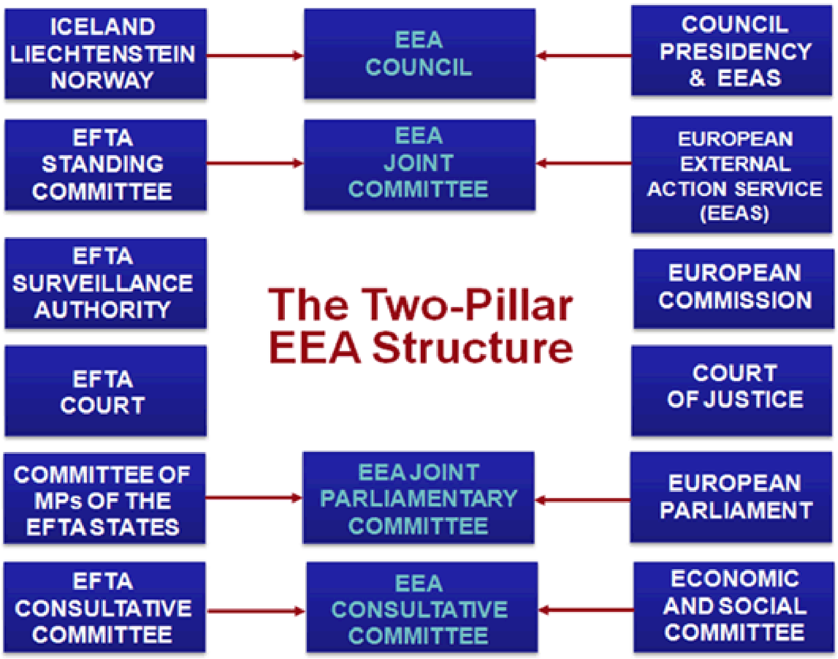
In exchange for benefitting from their access to the EU's Single Market, EFTA/EEA states have to adopt significant parts of EU legislation. However, Iceland, Liechtenstein and Norway are not represented in the EU institutions like the Parliament or the Commission and have not transferred legal competences to these bodies. This also means that they have no official formal say in the decision-making on EU legislation, which they might adopt and implement later. Representatives of these countries, however, play an essential role in prior consultative discourse on the policies in the European Commission and they contribute to shaping them during experts exchange on the more technical level. Their input is often actively sought and initiated by the Commission. The influence the EFTA/EEA states exercise is therefore referred to as 'decision shaping'. Nevertheless, this practice where EFTA/EEA states seem to take over legislation they did not equally contribute to has sometimes been criticised as 'fax democracy', suggesting that the respective states wait for legislation to be delivered from the European Commission. However, the institutional set-up of the EEA shows that this metaphor is too one-sided.

The EEA's institutional set-up

EFTA-EEA states do not, and in fact are constitutionally prohibited to, adopt decisions directly from the bodies of the European Union. At the same time, they have also not transferred any legal sovereignty to joint EEA institutions. The institutional set-up of the EFTA/EEA institutions therefore mirrors that of the EU institutions, giving the organisation what is often referred two as the two-pillar structure. However, the EFTA/EEA bodies do not have the same powerful relationship with the EFTA/EEA Member States as the EU institutions vis-à-vis the EU/EEA Member States. Every decision of the EFTA/EEA states has to be taken in full consensus, whereas the EU/EEA states can decide by Qualified Majority Voting.

The EEA Joint Committee is the most central institution for EEA cooperation. It brings together the European Commission and the EEAS as representation of the EU on the one hand, and the EEA/EFTA states Iceland, Liechtenstein and Norway as well as an observer of the EFTA Surveillance Authority on the other hand. The EEA Joint Committee is central to the EEA as an institution because it amends the EEA agreement, includes newly adapted EU legislation to it and brings together the organisation's two pillar structure of institutions of the EU and institutions of EFTA. The body takes its decisions by consensus. When EU legislation is incorporated into the EEA agreement, these acts are first scrutinised by experts in the three EFTA/EEA countries. Based on their feedback a Joint Committee Decision is drafted by the EFTA Secretariat, which will be presented to the EEAS. In a second step, the EEAS consults with the European Commission. If no adaptations have taken place, the Commission can directly adopt the draft. If substantial adaptations were made, the document is given to the Council of the European Union, which needs to adapt the new content. The EEA Joint Committee then consults on the final adaptation of the Joint Committee Decision.

Figure 3: The two pillar EEA structure



Source: EFTA

The EFTA Surveillance Authority, which is based in Brussels, ensures that the EEA agreement and the Joint Committee Decisions included are being honoured by all participating EFTA states. It performs the role of a 'guardian of the treaty' and therefore is the counterpart of the EU Commission. **The EFTA Court**, located in Luxembourg, is competent for dispute settlement between EFTA/EEA members. The court was set up because of the reluctance of the EEA/EFTA states to adhere to rulings of the European Court of Justice (CJEU). Because this means that the CJEU and the Commission are responsible for the interpretation and implementation of the EEA agreement concerning the EU states of the EEA members and the EFTA Court and the Surveillance Authority are responsible for these activities concerning the non-EU EFTA/EEA members, disputes between the respective organisations are settled rather by the EEA Joint Committee than by either of the courts. Nevertheless, the EFTA Court and the CJEU frequently refer to each other's rulings. The EFTA Court usually has to become active, where legal issues have not yet or not fully been decided by the CJEU. It is therefore able to set interesting precedents for the CJEU, even if the European Court is not obliged to take into account EFTA Court rulings. The CJEU referred to EFTA Court judgements for example concerning the interpretation of the EEA agreement. It has even taken advantage of EFTA Court rulings when interpreting EU law, for example in the cases of the Directive on Television without Frontiers.

Additionally, cooperation takes place on further executive and legislative levels: The **EEA Council,** which is the forum of the European Council and Commission together with the EFTA/EEA Foreign Policy Minsters, contributes to the political development of the EEA, as does the **EEA Joint Parliamentary Committee**, which will be presented in more detail in Chapter 3.3.

3.2.2 Linking Switzerland to the internal market

The earliest basis of the economic cooperation between Switzerland and the EU is the **Free Trade Agreement of 1972**. The agreement was approved by 72.5 % of Swiss voters and by a majority of the country's cantons and thus enjoyed great public support. An Insurance Agreement in 1989 and an Agreement on Customs Facilitation and Security in 1990 followed. Switzerland then actively negotiated the European Economic Area together with the other EFTA members and EC Member States. It signed the EEA Agreement in 1992 and that same year even requested negotiations for EC membership. This request, however, was stalled in December 1992 after the **Swiss population had rejected the EEA Agreement** in a referendum. As an EEA member state Switzerland would have enjoyed equal status with the EU Member States in the internal market. After this status was rejected, bilateral negotiations between the country and the EU were conducted sector by sector. The Swiss Federal Council favoured this step-by-step approach because it hoped to ensure more beneficial conditions in economic sectors particularly vital to the Swiss economy. In 1993, the EU agreed to this mode of negotiations for seven different sectors under the precondition that the negotiations in these seven areas would take place in parallel and the resulting agreements should be signed and enter into force together. The EU argued that only if the different agreements were bound together, they would serve EU and Swiss interests[1]. This approach, referred to as 'parallelism', legally linked the respective agreements and thus introduced what is now called the 'guillotine clause' to EU-Switzerland relations: if only one of the bilateral agreements is not renewed or is broken, all the other agreements cease to exist. **Brussels and Bern signed the first package of seven bilateral sectoral agreements in June 1999**. It was accepted by 67.2 % of the people's vote in a referendum the year later and entered into force in 2002. Together with the Free Trade Agreement, it grants the Swiss private sector access to the European single market including the four freedoms of movement of persons, goods, capital and services.

Whereas the EEA encompasses in principle all EU legislation related to the four freedoms and the internal market, the EU-Switzerland bilateral agreements do not cover some important economic sectors, such as the electricity market, public health as well as the agricultural and food sector. Concerning **electricity, Switzerland only aims at a partial opening of the market while at the same time ensuring security of electricity supply**. On the one hand, Switzerland's electricity market has always been closely intertwined with those of the countries neighbouring it. Enhancing its integration into the European electricity market would thus allow the country to secure its role as a European electricity hub. Switzerland also hopes that

[1] Source for the negotiating positions: https://www.eda.admin.ch/missions/mission-eu-brussels/en/home/switzerlands-policy/dea.html.

this will present new opportunities for its flexible hydropower. The EU and Switzerland particularly overlap in their interest in low-emission, competitive and secure energy supplies, which require more flexibility and interconnectedness because sources like sun and wind are not always available in the same manner as traditional sources were. In the **area of agriculture and food Switzerland aims at dismantling trade barriers including customs duties** and diverging product regulations. It wants to extend the liberalisation policy beyond agricultural products on input factors of agricultural production, such as fertilizers or agricultural machinery, and on processed food. Trade barriers including custom duties and differing regulations are partially being dismantled since 2002. The cheese trade is an example for the importance of advancing these policies for Switzerland. Trade in cheese has been subject to step-by-step liberalisation: Since 2007 Switzerland is able to import and export cheese with the EU without any customs duties. The country's cheese export thus rose by 7 % per year between 2005 and 2007. Also the trade of fruits, vegetables, meat, wine and horticultural products has been partially facilitated and various regulations have been reciprocally recognised by the EU and Switzerland. This also includes certified biological products. With regard **to public health** the country stresses that illnesses do not stick to borders and that potentially dangerous substances can be sold all over the European continent. Hence, Switzerland advocates for intensified cooperation in the areas of infectious diseases and food as well as food and product safety. Also the EU promotes a healthier lifestyle to protect its people from health risk. Whereas the Member States remain still responsible for their national health-care systems, the EU brings them together to jointly discuss cross-border health care issues like the treatment of rare diseases or the challenges an aging population poses. Since 2008, negotiations on including Switzerland in these discussion platforms have been taken up and concluded. However, ratifications have been put on hold with regard to the ongoing insecurities about the institutional framework agreement between the EU and Switzerland.

3.3 Extending other EU policies to the EFTA countries

Both the three EFTA/EEA states and Switzerland have also decided to adopt other EU policies than those related to the internal market. The EFTA/EEA states do this partly as a group, partly on a bilateral basis. For Switzerland, the bilateral framework was initially the only option.

3.3.1 The European Economic Area (EEA)

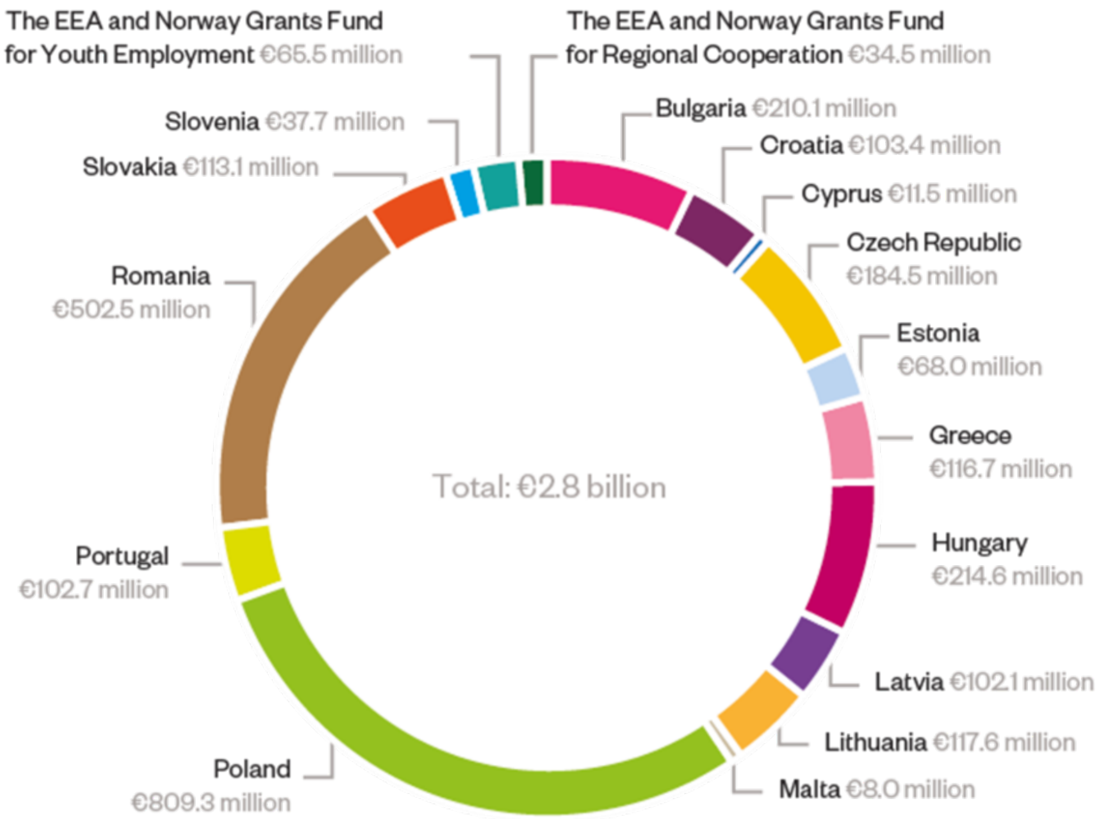
Whereas the EEA agreement focusses on the internal market, it does not include a range of further policy areas, such as a Customs Union, a Common Trade Policy, a Common Foreign and Security Policy, Justice and Home Affairs or a Monetary Union. As these issues are, however, frequently touched upon by the areas covered in the EEA agreement, they remain topics of vital discussion. On top of the four freedoms, the **EEA agreement does however provide a basis for cooperation in the fields of research and development, education, social policy, the environment, consumer protection, tourism and culture**. These areas are often referred to as 'flanking measures'.

The EEA states, both from EFTA and the EU, can mutually agree that the EFTA/EEA states participate in other EU initiatives. **An important area in which the EFTA/EEA states participate are the Schengen and Dublin agreements**, despite Justice and Home Affairs not being covered by the EEA. The countries participate in Schengen and Dublin based on agreements that transfer the relevant provisions of the EU acquis into their national legislation. This procedure follows the process of transferring legislation that was established for all areas included in the EEA Agreement. The countries are thus part of an internal free-travel area which has a common border. When Denmark, Sweden and Finland joined Schengen, Norway and Iceland, which made up the Nordic Passport Union with these three countries, also entered into the agreement. Otherwise they would have lost the right to freely travel within the Nordic region for their citizens. The three countries participate in the further development of the Schengen cooperation through the Mixed Committee, of which Switzerland is also part. Besides Schengen the EFTA/EEA states, just like

Switzerland, also participate in the Dublin agreement. The Dublin acquis defines criteria, by which the state that is responsible for dealing with an asylum request to a Schengen or EU member state is determined. They therefore participate in the examination of asylum requests and in the most recent reforms of the Dublin process insuring a fair sharing of responsibility between the participating states concerning the allocation of people who seek asylum.

The EFTA/EEA states also make financial contributions to programmes and agencies of the EU. The participation and financial contributions are twofold. **Via the EEA Grants EFTA/EEA states contribute jointly to the reduction of social and economic disparities within the EEA area.** At the same time, the common organisation of the funds aims at strengthening the relations between the countries Iceland, Liechtenstein and Norway and the 15 EU countries, which receive payments. The focus currently lies on seven programme lines. Firstly, Innovation, Research, Education and Competitiveness. Secondly, Social Inclusion, Youth Employment and Poverty Reduction. Thirdly, Environment, Energy and Low Carbon Economy, fourthly Culture, Civil Society and God Governance. Fifthly, Justice and Home Affairs. Sixthly, Regional Cooperation and finally Youth Employment. Beneficiary states are Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia. The financial contributions are seen by the EU as commitments to positive conditions for the successful functioning of the single market, of which the EFTA/EEA countries benefit. Apart from the EEA Grants, Norway sustains its own contributions scheme since 2004, which is called the **Norway Grants**.

Figure 4: The total EEA and Norway Grants allocation across the 15 beneficiary states



Source: EEA Grants

Furthermore, the EFTA-EEA states contribute directly towards EU programmes and agencies, in which they participate. These amounts are additional funding on top of the EU's budget for each programme or agency. The contributions are based on a percentage expressing the relative GDP of EFTA-EEA countries compared to the EU 27. For the timeframe of 2014-2020 the states commitment to an overall sum of EUR 3.2 billion to be distributed via 13 programmes. The forecasted commitment for the period

2021-2027 even rose to up to EUR 4.8 billion. The **13 programmes** the EFTA-EEA countries participate in are: Horizon 2020, Erasmus+, the European Satellite Navigation Systems EGNOS and Galileo, Copernicus, Creative Europe, Connecting Europe Facility, Health for Growth, Union Civil Protection Mechanism, European Statistical Programme, Employment and Social Innovation, Consumer Programme, Competitiveness of Enterprises and Small and Medium-sized Enterprises and finally Rights, Equality and Citizenship. Together the types of financial contributions ensure that citizens of the EFTA/EEA States are given the opportunity to benefit from the activities put in motion by resources from all countries of the EEA. At the same time, they support the EU 27 in providing the conditions for a successful internal market of which the EFTA/EEA states greatly benefit. The main areas the contributions of all three states together were spent on are in line with the policies outlined in the Europe 2020 Growth Strategy: sustainable growth, reservation and management of natural resources, citizenship, freedom, security and justice, the EU as a global player and administration. The Multiannual Financial Framework 2014-2020 was in particular characterised by increased spending on innovation and research, a new fund for financing infrastructure (Connecting Europe Facility) and an integrated programme for education, training, youth and sport.

3.3.2 Extending EU-Switzerland relations

Similar to the EFTA/EEA countries, both the EU and Switzerland felt a need to extend their relationship to other policy areas beyond the internal market[2]. This happened step by step through bilateral agreements. After the seven packages of the Bilateral I agreements, this resulted in an additional three packages, referred to as Bilateral II agreements. All bilateral agreements together amount today to more than 120.

The Bilateral Agreements II complement the economic focus of the Bilateral Agreements I by including the political fields of internal security, asylum, environmental and cultural policies. Even though the EU was at first reluctant to agree to a new round of negotiations, according to the Swiss government[3] it did so because it wanted to gain Switzerland for developing a system of cross-border taxation of savings income and for cooperation in the area of combatting fraud related to indirect taxes, especially tobacco smuggling. In exchange, Switzerland asked for discussions on security and asylum and insisted on processing with areas mentioned in a joint declaration to the Bilaterals I regarding, amongst others, processed agricultural products, statistics, environmental policies, education, pensions and services. The second round of negotiations started in 2002. Although the EU and Switzerland suspended their talks on the liberalisation of services in 2003, they achieved success concerning taxation of savings income, and under the principle of parallelism ensured a result that was considered balanced. Switzerland was allowed to opt-out in case Schengen regulations would include an obligation to provide assistance in tax evasion, but it agreed on deepened cooperation in combatting fraud related to indirect taxes and cross-border taxation. Bern and Brussels could thus sign the second package of Bilaterals in 2004. Differently to the first package, the Bilateral Agreements II are not legally bound to each other and thus can enter into force or terminate without affecting the other parts of the package. Except for the Agreement on Combating Fraud, all agreements have entered into force by now. The Schengen/Dublin Agreement did so in 2008.

Since the end of the negotiations on the Bilateral Agreements II in 2004 Switzerland and the EU have **launched further bilateral cooperation** in the areas of Europol in 2004, Eurojust in 2008, the European Defence Agency in 2012, the respective competition authorities and satellite navigation in 2013, the European Asylum Support Office in 2014 and police cooperation in 2019. Like the Bilateral Agreements I and II, these agreements are a cooperation between governments, which does not include transferring any kind of decision-making competences to a superior body. The agreements are hence managed in joint

[2] Switzerland's Directorate of European Affairs (DEA), which is the institution that deals with the country's EU policies within the federal administration, describes the European Union as the country's 'most important partner by far'.
[3] Webpage 'Switzerland's European Policy', 'Bilateral Agreements II'

committees bringing together both parties. When different opinions on the interpretation of the agreements occur these committees must achieve a solution unanimously.

Similar to the EFTA/EEA countries, **Switzerland contributes financially to reducing social and economic disparities after the EU's enlargements in 2004**. It does so through its own programmes and initiatives and collaborates with the 10 new EU Member States directly. Whereas Switzerland completed its programmes for the first 10 acceding states in 2017 and for Romania and Bulgaria in 2019, they will continue until 2024 for Croatia. Switzerland thus contributes to the EU's internal cohesion, without formally taking part in the Union's cohesion policy. Since 2007, it has invested CHF 1.302 billion in this regard. In autumn 2018, the Swiss government had already agreed on further contributions to specific EU Member States, however, Bern currently holds these contributions back and relates them to finalising the new overall framework agreement for EU-Switzerland relations.

Towards an Institutional Framework Agreement

After the conclusion of so many bilateral agreements, the EU is of the opinion that this bilateral, sectorial approach has reached its limit. It wants to install a legally binding mechanism to allow a dynamic take-over of EU legislation (the *acquis communautaire*) and ensure homogenous conditions on the internal market. It furthermore aimed to establish jurisdiction of the European Court of Justice (CJEU) over the interpretation and application of the existing agreements, set up an effective dispute settlement mechanism and include provisions on state aid. The Council concluded that no further access to the internal market would be granted until a new institutional framework was in place. The European Parliament has stated similar positions in several resolutions, adopted in 2010, 2012 and 2015. Given the EU's firm stance and the Swiss desire for better market access, for instance in the electricity sector, the Swiss government agreed to negotiate a framework agreement. Consequently, **negotiations for an 'institutional framework agreement' (IFA) started in May 2014**.

However, some of the EU's demands were hard to swallow for the Swiss, in particular the jurisdiction of the CJEU. Therefore, even during the negotiations, resistance against a framework agreement has never completely disappeared. Some argued that Switzerland should step down from the bilateral agreements approach and focus on a deep and comprehensive trade agreement, which would provide for the desired market access without obliging Switzerland to accept other legal constraints. However, a 2015 report comparing the bilateral agreements with a comprehensive trade agreement, requested by Liberal Member of the Council of States Karin Keller-Sutter, concluded that a free trade agreement would constitute a step backwards from the bilateral agreements, which are also a factor in the country's economic success[4].

In 2017, Commission President Juncker offered a solution for the issue of dispute settlement, refraining from unilateral competence by the CJEU, proposing instead an arbitration tribunal consisting of EU, Swiss and third party judges. After this breakthrough, **negotiators finalised the agreement in November 2018**, before the May 2019 elections for the European Parliament and the October 2019 Swiss federal elections. Solutions were also found for the final 'red lines' brought forward by the Swiss Federal Council, as follows:

- Switzerland could keep 'flanking measures' to the Agreement on the Free Movement of Persons, meant to protect Swiss social standards, obliging foreigners to announce a service in Switzerland in advance, provided that the announcement period was reduced to four days instead of eight[5].
- Switzerland would not be excluded from EU legislation on EU Citizenship (2004/38) and on coordination of social security systems (2004/884).
- As part of a mutual system for state aid provisions with independent authorities on each side, Switzerland will set up its own state aid surveillance authority.

[4] https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-57535.html
[5] The EU was of the opinion that the announcement period hampers the delivery of services on short notice, such as taxi services.

3.4 Parliamentary dimensions

The relations of the European Parliament with the EFTA countries also have three layers. Firstly, the Parliament has bilateral relations with the three countries Switzerland, Iceland and Norway. Secondly, it takes part in a multilateral dialogue to discuss topics related to the European Economic Area (EEA). This dimension includes the European Parliament and the three EFTA/EEA countries Iceland, Liechtenstein and Norway. It is at the same time the EEA Joint Parliamentary Committee, the EEA's body for parliamentary relations. Thirdly, the European Parliament has delegations that cover all its northern policies, for example those focussing on the Arctic, the Northern Dimension Policy, the Baltic Sea and the Barents region, but also the Nordic Council and the West Nordic Council. The name of the overall delegation is thus Delegation for Northern cooperation and for relations with Switzerland and Norway and to the EU-Iceland Joint Parliamentary Committee and the European Economic Area (EEA) Joint Parliamentary Committee (DEEA). The delegation comprises 17 MEPs and 17 substitutes. It is headed by one Chair and two Vice-Chairs.

The bilateral level

The delegation's bilateral meetings with Switzerland, Iceland and Norway are Parliament's earliest relations with these countries. It established its delegation for relations with Switzerland in 1981, with Norway in 1982 and with Iceland in 1987. The bilateral meetings with partner countries usually take place once a year and discuss issues of importance to both partners. They consist of exchanges of views between Members of both parliaments, often introduced by speakers from the EU Commission, EEAS and representatives of the national authorities of the respective partner country. **When Iceland applied for EU Membership, parliamentary relations were upgraded** to a Joint Parliamentary Committee (JPC) in 2010, which met even twice a year until 2015, when Iceland put its accession negotiations on hold. The European Parliament's most recent resolution dealing with Iceland's membership application was adopted in 2012 and states that Parliament remains fully committed to completing the accession process. However, although Iceland has not withdrawn its application officially, EU accession is currently not an objective of the country. Therefore, during Parliament's 8th term the EU-Iceland JPC rather focussed on issues such as Brexit, gender equality, the Trans-Atlantic relationship and trade relations with third countries.

Norway had started accession negotiations with the EU as well, in 1993. These also transformed the annual interparliamentary meetings into a Joint Parliamentary Committee with a wider mandate and biannual meetings. However, the format switched back to annual meetings after the negative outcome of the Norwegian referendum on EU accession in 1994. Since then EU-Norway interparliamentary meetings have focused amongst other topics on foreign and security policy, Brexit, migration, trade in agricultural products and snow crab harvesting.

The **EU-Switzerland interparliamentary dialogue** started out in 1981. With regard to the current recalibration of EU-Switzerland relations five interparliamentary meetings took place during the European Parliament's 8th term. The representatives of both parliaments discussed the status quo of negotiations on the framework agreement, Brexit, foreign policy, trade policy and Switzerland's possible further integration into the EU internal market.

The EEA Joint Parliamentary Committee

The EEA Joint Parliamentary Committee was established by Article 95 and Protocol 36 of the EEA agreement, and is composed of an equal number of MEPs and members of the EFTA/EEA countries' national parliaments (12 per entity). **The Committee provides checks and balances and democratic control to the EEA's executive** branch and oversees the implementation of the EEA Agreement. It furthermore serves as provider of ideas and impulses on political issues of mutual interest, for example in the area of foreign policy including defence and security and concerning global issues such as terrorism, climate change and migration. The Committee formulates its suggestions in the form of resolutions, which it addresses not only to the EEA bodies internally, but also to the European Parliament and the national parliaments of Iceland, Norway and Liechtenstein. It is thus not directly but indirectly involved in the EEA's decision-making. The Swiss parliament sends representatives to the Committee as observers. Just like other inter-parliamentary meetings the European Parliament and the national parliaments host the EEA Joint Parliamentary Committee on a rotating basis. It meets biannually. The President of the Committee alternates between a member from the European Parliament and a member of the national parliaments of the EFTA/EEA states. **During its 8th parliamentary term between 2014 and 2019**, the JPC met ten times. Besides the development of the EEA agreement, it discussed, amongst other topics, the coordination of social security systems, Brexit, EU agencies and EU-Swiss relations.

In March 2019 the European Parliament adopted a resolution on the negotiations on integration into the internal market and thus the EEA of the Principality of Andorra, the Principality of Monaco and the Republic of San Marino. It concluded that a new interparliamentary delegation could be set up to enhance dialogue and cooperation with these countries. These negotiations have however not been concluded yet.

Northern Cooperation

Although not formally linked to EFTA, because of Iceland's and Norway's involvement in Arctic and Nordic matters, it is relevant to mention that the European Parliament also participates in the Conference of Parliamentarians of the Arctic Region (and its Standing Committee), the Baltic Sea Parliamentary Conference (and its Standing Committee), the Barents Parliamentary Conference, the Nordic Council (as an observer) and in the West Nordic Council. Meetings with the West Nordic Council take place annually, with the Northern Dimension Parliamentary Forum biannually. After having expressed support in a resolution for strengthening the Northern Dimension, the European Parliament initiated the Northern Dimension Parliamentary Forum, which held its first conference in 2007. It brought together the parliaments of the EU, Russia, Iceland and Norway. The latest forum took place in November 2019. All multiparliamentary forums of the north focus on regional cooperation related to economic, security and social challenges.

4 The economy: using their strengths

4.1 Strong in particular sectors

All four EFTA countries count as strong economies with high GDP and high living standards. Based on UN, IMF or World Bank data, mostly each of the four ranks in the world top 10 of GDP per capita. Each country has been able to profit to the maximum from its natural resources or create favourable circumstances for foreign investment. Often they have achieved both.

Norway

The main assets of the Norwegian economy are oil and gas. The government controls the vital petroleum sector through extensive regulations and large-scale state-owned enterprises. The Norwegian state owns 67 % of the shares in Statoil, and receives dividends in the same way as other shareholders. The state also owns about 40 % of the stock market, with large stakes in major companies in the telecom and aluminium sectors[6], and employs 33 % of the workforce. Norway is highly dependent on the petroleum sector, which is the main driver of the strong growth of the Norwegian economy over the past 40 years, since production began on the Norwegian continental shelf in the early 1970s. Over time, production of natural gas has also gradually increased compared to that of crude oil. Norway's pipeline gas exports to

[6] The Economist, 'Norwegian blues', 10 October 2015

Europe hit a record high in 2017, making Norway Europe's second-largest gas supplier after Russia. Norway's pipeline gas exports meet about a quarter of Europe's demand.

However the importance of the hydrocarbon industry is expected to decline as Norway's oil and gas reserves are gradually exhausted and investment in these sectors is declining in response to lower global oil prices. To guarantee that both current and future generations can benefit from the oil and gas revenues, the Norwegian state saves its revenues from the sector in the world's largest sovereign wealth fund, called the Government Pension Fund Global, mostly referred to as '**the Oil Fund**'. It was established in 1990 and in 2019 its total value has exceeded NOK 10 000 billion or about EUR 990 billion. The government may use up to 3 % of the fund's returns, without touching the capital, to contribute to public finances.

Despite its high level of natural gas production, domestic consumption of gas in Norway is low and nearly all the gas produced is exported. This is possible because Norway is also one of the world's biggest users of renewable resources: due to the abundance of water, **hydropower is the principal source of electricity** supply, accounting for 97 % of total net generation in 2014[7]. Norway also exports renewable energy, which is expected to increase in the near future with new investments in wind energy.

Thanks to advanced research and use of technology, Norway is also strong in petroleum and gas-related maritime and engineering activities, biotechnology, environment, software and communication activities. It has developed technology for **carbon capture and storage** in empty underground oil fields, which it hopes to sell abroad. Norway's other major and more traditional industries are **shipping** (the Norwegian fleet is the fourth largest in the world), **fisheries and fish farming**. Norway has vast fisheries resources with significant catches including herring, cod, capelin, mackerel, blue whiting, saithe and deep prawn. The vast marine areas provide ideal conditions for aquaculture. Fish farming accounts for almost 38 % of fish output. Norway is the world's second largest exporter of fish products. Although the sector has been overshadowed by petroleum, it remains important in terms of value and jobs (fishing and fish farming accounted for 0.7 % of GDP in 2011 and 0.6 % of the labour force).

Iceland

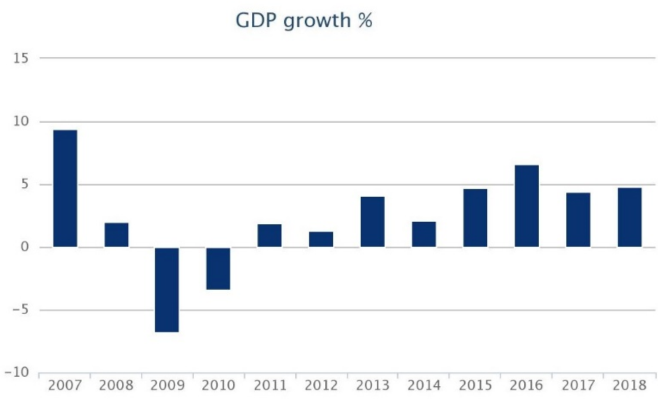
Until 1970, the **economy of Iceland** depended mostly on **fish and fish products**, which accounted for more than 90 % of its exports. The sector employs modern technologies and therefore employs only 5 % of the workforce, still accounting for 16 % of exports in 2017. Under the EEA agreement Iceland has no direct access to the EU fisheries market, but is subject to a system of 'Tariff Rate Quota', which does not prevent high export figures to the EU. However, in the past decades, three new sectors have become more important for the economy of Iceland. First of all, its abundant hydropower geothermal resources generating cheap electricity, have attracted foreign investment in the energy intensive **aluminium sector, which now counts for 20 % of exports**. There are currently three large aluminium smelting plants, which have raised environmental concerns. High-tech companies' data centres also use the cheap green energy.

Second, **tourism has grown enormously and counted for 38 % of exports in 2017**[8], owing to a combination of depreciation in the króna, additional flight connections and publicity generated by the 2008 crisis and the 2010 volcanic eruption, which drew attention to Iceland's exceptional nature. The growth of tourism has led to some discussion about negative side effects, from property prices to damage of nature and prostitution. There are signs that growth in tourism is slowing down, mostly attributed to high prices of the reinforced króna. Thirdly, the services sector increased to almost 70 % of the Icelandic economy, mainly represented by real estate, business services, transport and communication, health and social work and financial services. The **banking sector was however also the main reason why Iceland**

[7] Keyworld energy statistics 2015, International Energy Agency
[8] CIA World Fact Book

suffered so hard from the 2008 global financial crisis. Liquidity problems, also linked to investment in risk capital, of Iceland's three largest private banks (Kaupping Banki, Landsbanki and Glitnir Banki) led to the collapse of the Icelandic banking sector. This, together with the depreciation of the Icelandic króna, led to an unprecedented economic and financial crisis in which Iceland had to borrow money from the IMF and from neighbouring countries. However, the Icelandic government decided to let the banks fail because they were 'too big to save'. Because of strict capital controls, austerity measures and regulation of the financial sector, the country could pay back its last remaining debts in 2015 earlier than scheduled. Iceland's economy started to recover gradually since 2011, peaking in 2016.

Figure 5: Iceland: GDP growth in % 2007 - 2018



Source: *Iceland statistics*

Agriculture is a small sector, as due to the harsh climate conditions only 1.3 % of the land is cultivated and its main products are grass (used for sheep-farming), potatoes and vegetables grown in greenhouses heated with natural hot water. Farming mainly consists of sheep and cattle. Icelandic agriculture is heavily subsidised via income payments to farmers and agricultural imports that compete with domestic production are subject to tariffs, and non-tariff import restrictions.

Liechtenstein

The economy of Liechtenstein is most known for its banking sector, which largely serves clients outside the country. The services sector accounts for about half of its economy. Yet, roughly 40 % of its economy is built on specialised industries, from electronics to dental instruments, mostly produced in small and medium enterprises (SMEs). Finally, the agricultural sector counts for about 7 % of the country's GDP. The banking sector has developed because of favourable financial legislation and a high degree of banking secrecy. Similar to its neighbour Switzerland, from the early 2000s onwards, also because of pressure from the United States and the EU, the country started to reform its banking sector. After an unprecedented tax evasion scheme was uncovered in 2008 which included banks of Liechtenstein, a further reform package for transparency was initiated by the government to reinsure investors. The reforms convinced the OECD to remove the country from its list of tax havens. Liechtenstein has a customs union with Switzerland since 1923 and joined its economic and currency area that same year. Therefore, Liechtenstein uses the Swiss Franc as its national currency and its economic policy is closely intertwined with Switzerland.

Switzerland

The Swiss economy is one of the world's most stable and prosperous economies, with low unemployment and inflation rates, a highly skilled labour force and one of the highest levels of GDP per capita in the world. The economy is mainly based on a highly developed service sector led by **financial services**, and a **manufacturing industry** that specialises in high value goods such as watches, as well as chemical and pharmaceutical products. Its long-term political and economic stability, transparent legal system, efficient financial and banking sectors and low corporate tax rates have also made Switzerland highly **attractive for foreign investment**, which accounts for a considerable part of the economy.

With an ageing population, Switzerland has been facing a labour shortage. The **gradual opening, subject to quotas, of its labour market to EU citizens** following the 2002 bilateral agreements has been countering this shortage. In 2011, partly due to the Euro area debt crisis, labour migration within the EU and to Switzerland increased significantly by around 0.8 % of the Swiss population, which in turn led to job security fears among Swiss citizens. Against this background, the Swiss Peoples Party organised an **anti-immigration referendum in 2014**, which introduced a restriction on immigration into the Swiss Constitution. The Swiss people voted for the restrictions, but the Swiss Federal Council acknowledged that they were incompatible with the Free Movement of Persons Agreement with the EU. The EU considered the right of free movement for economic activity essential and non-negotiable. Therefore, the Swiss government finally solved the issue in 2018 by introducing conditions for foreign job-applicants into the Law on Foreigners ('Ausländergesetz'), which the EU reluctantly accepted.

4.2 Trade and investment

4.2.1 EFTA - EU trade and investment

The **EU is the most important trade partner for each of the four EFTA countries**. On the other hand, for the EU, Switzerland and Norway are important trade partners, ranking as third and sixth trade partner for trade in goods respectively, whereas the importance of the other two EFTA countries is much more modest, with Iceland ranking 52nd and Liechtenstein 81st.

Norway

The EU is by far **Norway'**s largest trading partner. Norway mainly exports **petroleum products** to the EU and primarily imports manufactured products from the EU. Over the longer term oil exports are estimated to drop as oil production passed its peak but gas revenues are expected to partly compensate for this. The most important export market for Norway within the EU is the UK. The UK's withdrawal from the EU will therefore have an impact on Norway, however, the UK being an oil producer itself, the effects may be limited in the end. The EU accounts for about 70 % of foreign direct **investment** in Norway. Most Foreign Direct Investment (FDI) concerns the energy sector, involving large EU companies such as BP, ENI, RWE DEA and GDF. Sweden is the EU country that invests the most in Norway. The EU receives about 65 % of all Norwegian direct investment, most of it going to the Netherlands.

Agricultural and fisheries policies are not covered by the EEA agreement. This is caused by strongly diverging interests in these sectors. The EU has many offensive export interests in agriculture, but the **relatively small agricultural sectors of the EFTA counties have little to export and fear cheap imports**. In an attempt to gradually open the agricultural market, article 19 of the EEA Agreement foresees reviews of agricultural trade between the EU and Norway every two years. Since the EEA Agreement entered into force in 1994, it has so far been possible to renegotiate the conditions for agricultural trade four times, in 2002, 2006, 2011 and 2017. In spite of this, trade irritants remain and come back from time to time. In recent years they concerned increases of tariffs by Norway on cheese or cut flowers. The 2011 EU-Norway bilateral agreement under Article 19 EEA also committed to encourage trade in agricultural products with Geographical Indications (GIs), but such negotiations were halted by Norway in 2016. This is not surprising, whereas the EU had some 1 150 products protected by a geographic indication, Norway had only 23.

Norway is the EU's largest supplier of fish. Several Norwegian fish species, like cod, haddock, Greenland halibut and halibut, enter the EU duty free. The EU has three fisheries agreements with Norway, namely the bilateral, trilateral and neighbouring agreements. The bilateral agreement (1981) covers the North Sea and the Atlantic and is the most important fisheries agreement the EU has with a third party. The trilateral agreement covers Skagerrak and Kattegat (Denmark, Sweden and Norway) and the neighbourhood agreement covers the Swedish fishery in the Norwegian waters of the North Sea. In the context of the Coastal State consultations, the EU, the Faroe Islands and Norway agreed on an arrangement for the management of mackerel in the North-East Atlantic for the period 2014 to 2018. This arrangement established a number of important principles, including a commitment to sustainable fisheries.

Iceland

The EU is by far the largest trading partner of Iceland, accounting for about 73 % of exports and 53 % of imports in 2017. The four largest EU partners in terms of exports are the Netherlands, Spain, the UK and Germany. Iceland's **exports to the EU are dominated by fish and fishery products**. Exports to the EU have been steadily increasing over the past decade, reaching a new peak in 2017. The large post-crisis depreciation and reduced cost of production have increased Iceland's export competitiveness.

Nevertheless, after running a trade deficit with Iceland for over a decade, the EU reported its first trade surplus with the country in 2016, and this continued into 2017[9]. Due to its small economy and limited range of natural resources, **Iceland imports a wide range of manufactured goods, petroleum products, timber, textiles, wheat and foodstuffs**. The country also heavily relies on foreign investors and runs a negative FDI stock[10].

Switzerland

For Switzerland, most of its trade in goods and services is with the EU. The US and China are Switzerland's next largest trading partners, but are relatively small compared to the EU. The **EU has a trade surplus with Switzerland**, meaning the EU exports more than it imports. Important Swiss exports to the EU are chemicals, pharma and medicinal products, machinery, instruments and watches. Foreign direct investments (FDI) have also been at a high level. The EU represented about 75 % of investment flows into Switzerland, while Switzerland counted for about 12 % of FDI in the EU.

Since 2002 the EU-Switzerland **Agricultural Agreement**, part of the Bilaterals I, aims at lowering tariffs and non-tariff barriers. It is complemented by an Agreement on **Processed Agricultural Products** under Bilaterals II, which entered into force in 2005. In 2011, Geographical Indicators (GIs) protecting regional products were incorporated into the agriculture agreement. Negotiations for further liberalisation in the trade of agricultural and processed agricultural goods started in 2008, but were suspended on request of Switzerland, who sees its interests divided between supporters of opening the agriculture market and those who want to protect the often small Swiss farmers. Fears may have risen because of a significant increase in agricultural exports to Switzerland since the agreement on processed agricultural products entered into force. On the other hand, Swiss exports of processed goods to the EU increased as well.

In reaction to Swiss reluctance to move ahead with the IFA negotiations, the **EU decided in December 2017 to withdraw EU recognition of the Swiss stock market, known as MiFIR23 equivalence**. What started as a temporary measure to incite Switzerland to finalise and sign the IFA, became a measure that was repeatedly prolonged. Switzerland reciprocated by denying Swiss equities the right to be traded on EU stock exchanges. In practice, trade in stocks between the EU and Switzerland has not halted, but has become more complicated and costly. However, if a continuing impasse would lead to additional steps, such as non-renewal of the EU-Switzerland mutual recognition agreement (MRA) for medical devices, this could harm EU-Swiss trade relations[11].

[9] European Commission, DG Trade, Iceland
[10] General history of Icelandic foreign trade
[11] https://www.lexology.com/library/detail.aspx?g=8a2263ec-0664-4fe6-a749-8a47636826fb

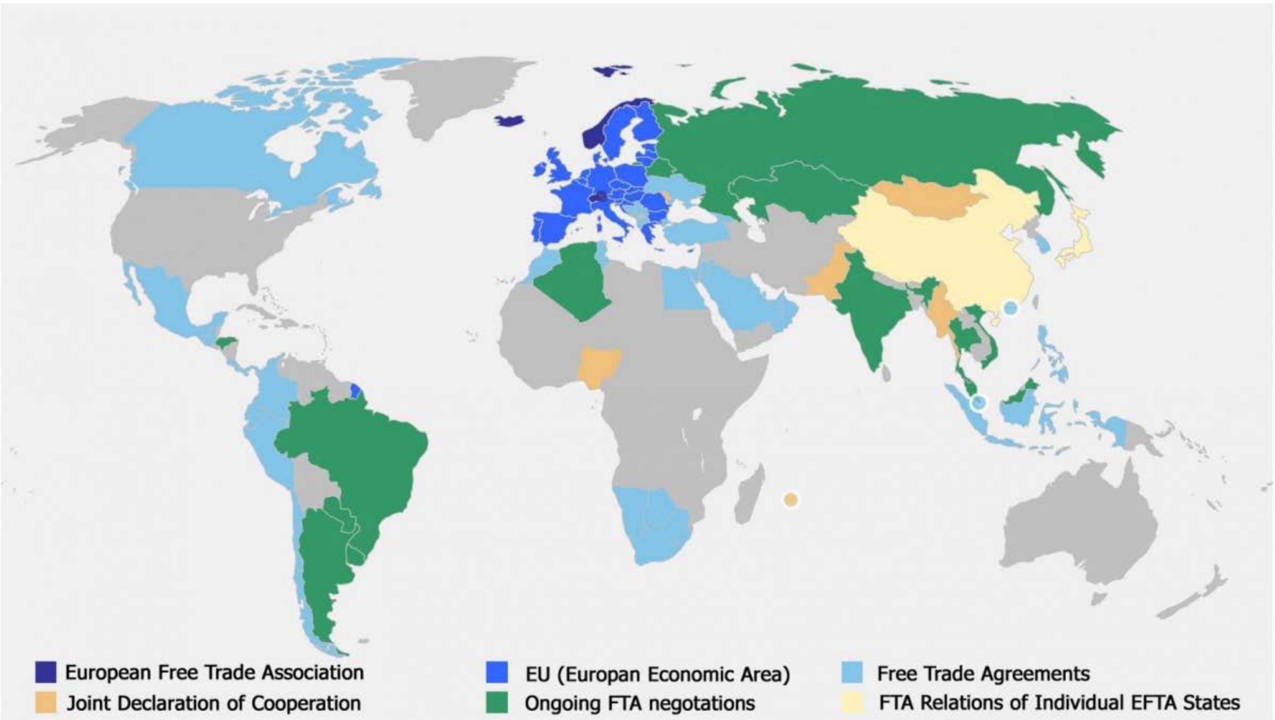
Liechtenstein

Liechtenstein relies on nearby EU countries Germany and Austria for about 60 % of its imports. However, for its exports, these countries only count for just over 30 %. As regards its imports, Liechtenstein third EU trading partner is Italy, for its exports, it is France. However, almost 60 % of its exports go outside the EU, among which the biggest share of about 13 % goes to the US. Of course, trade with neighbour Switzerland is intensive, but also because of the customs and monetary union between the two countries, no reliable data are available.

4.2.2 EFTA trade and investment with the rest of the world

Because trade policy is not covered by the EEA Agreement, both the three EEA countries and Switzerland can develop their own trade policies with third countries and negotiate trade agreements. The four countries do so, sometimes as a group in the framework of EFTA, sometimes alone through bilateral trade agreements with third countries. Today, **EFTA as a group has 29 Free Trade Agreements** (FTAs) covering 40 countries and territories outside the EU. Among these are agreements with Canada, Mexico, Singapore, South Korea and Indonesia.

Figure 6: EFTA trade relations



Source: EFTA

The EFTA-Canada FTA dates back to 2009, seven years before the EU concluded its Comprehensive Economic and Trade Agreement (CETA) with Canada. It is a good example of the **division of labour between EFTA and its individual states**. The EFTA-Canada agreement covers goods, including fish and processed agricultural products. Since 2016, Canada and EFTA have discussed extending the scope of the agreement. On the other hand, basic agricultural products are covered by bilateral trade agreements between Canada and Iceland, Norway and Switzerland.

EFTA concluded an FTA with Mexico in 2000, which is currently being reviewed. Agreements with Singapore, South Korea and Indonesia were concluded in 2003, 2005 and 2018 respectively. Again, EFTA was several years ahead of the EU, who signed its agreements with South Korea in 2010 and with Singapore in 2018. In the case of Mercosur however, both EU and EFTA concluded agreements in 2019, finalising long negotiations with Mercosur states Brazil, Argentina, Paraguay and Uruguay. EFTA, like the EU, does not have trade agreements with two of its most important trade partners, the US and China.

All EFTA countries are keen to **follow EU trade policy closely** and try not to be excluded from advantages the EU might gain by concluding new agreements. When the EU was negotiating a Transatlantic Trade and Investment Partnership with the US between 2013 and 2016 (which was never concluded), EFTA countries tried either to link themselves to such an agreement or negotiate similar market access for themselves. Similar concerns existed about CETA. A particular case was the tariffs of the US Administration on steel and aluminium introduced in 2018 and the EU safeguard measures taken in response. All EFTA countries were hit by the US tariffs. However, the EU has exempted the three EEA countries from its counter measures, but not Switzerland, arguing that this is a consequence of not being part of the European Economic Area. Any measure taken by the US against the EU is likely to hit EFTA economies as well, as they are often suppliers to European industries as part of international value chains[12].

Outside the EU, Norway's main export markets are Russia, Japan, China, Ukraine and the US. **Norway is the world's second largest exporter of fish and fish products**. Advanced technology use and a highly educated population make the export of services (mainly linked to the shipping industry) increasingly important for the Norwegian economy. Norway is also a major exporter of metals, in particular of aluminium. Norway concludes most of its free trade agreements in the EFTA framework.

The same goes for Iceland, which for this reason shares most of its trade agreements with Norway in EFTA. However, Iceland also has some bilateral trade agreements of its own. **Iceland was the first European country to sign a FTA with China in April 2013**, followed shortly after by Switzerland in July 2013. The agreement entered into force in July 2014, removing tariffs on a wide range of merchandise, including textiles and clothing. China is already the third-largest source of imports. As regards foreign investment, Iceland welcomes Chinese investments in geothermal technology and possibly a deep-sea port, but holds off tourism-related land purchases. Furthermore, Iceland is one of the few European countries to have a Trade and Investment Framework Agreement (TIFA) with the US since 2009. It also has trade agreements with the Faroe Islands and Greenland.

Switzerland also has its own trade agreement with China. This puts the country in a favourable position towards the EU, which is still negotiating its own an investment agreement with China and defines its trade relations with that country more in terms of trade defence. The Switzerland-China FTA is limited to certain types of goods only (for instance ceramics), but now that Chinese producers have similar access to the Swiss market as EU producers already had, this makes competition between the two for a share of the Swiss market tougher. Switzerland was also the first European state to conclude a free trade agreement with Japan in 2009. The US is Switzerland's second trading partner, after the EU. In 2006, the US and Switzerland signed a 'Trade and investment cooperation forum' and both countries have started exploratory talks for a free trade agreement in 2018. Such negotiations are not likely to be easy, given specific interests each country has in for instance the pharmaceutical and agricultural sector. Nevertheless, diversification in trade leads to a relatively diminished role for EU-Switzerland trade relations. The **EU's share of Swiss exports of goods has decreased from about two thirds in 1991 to about half in 2018.**

Switzerland often represents Liechtenstein's foreign policy and, logically in the light of the customs union, also trade interests abroad. Given this close economic integration, trade between both countries is intense and not even statistically recorded.

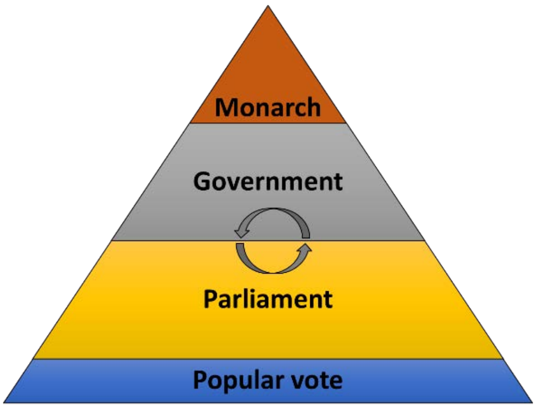
[12] https://www.economiesuisse.ch/de/artikel/news-ticker-us-strafzoelle-auf-stahl-und-aluminium#6445

5 Governance: stability inside and outside

5.1 Inside: consensual political systems

5.1.1 Norway

The **Kingdom of Norway is a unitary constitutional monarchy.** The king, currently Harald V of the House of Glücksburg, formally retains executive power, but today his powers are strictly ceremonial in practice. He usually appoints the leader of the majority party or majority coalition as prime minister, with the approval of the Norwegian parliament, the Storting. The government, the **Council of State (cabinet) is Norway's main executive power.** It is based on the majority coalition in the parliament, but also reports to the king who chairs the parliament in person on occasion.



The unicameral Storting, Norway's parliament, thus holds the executive accountable. It is composed of 169 members who are elected from party lists by proportional representation for four-year terms. There is no constitutional provision for dissolving the Storting between elections. Hence, the different political parties have to find a way to constructively and effectively work together throughout the entire legislative period. In the past, the Storting was divided into a lower house (Odelsting) and an upper house (Lagting), with the latter comprising a quarter of the Storting's members. Today, this division became a formality, but Storting continues to devote two readings to legislation, which must take place at least three days apart.

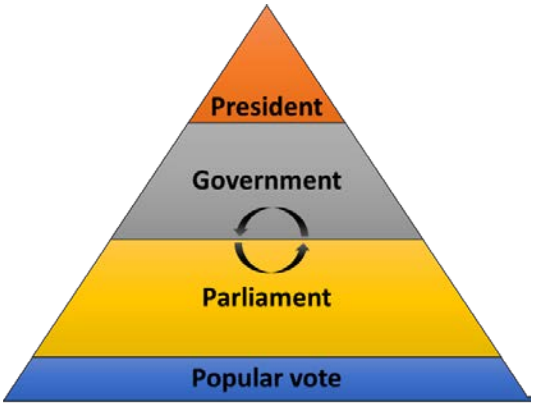
A third reading is held if the results of the first two diverge. Norway's institutional set-up also brings in the people directly, who can express their views in **referenda on issues of major importance**, as has been the case in the 1972 and 1994 EU membership referenda.

As Norway has numerous active political parties, political groups usually cooperate to get into government. This already requires a culture of negotiating interest and consensus. Like many European countries also Norway started out as a two party system between liberals and conservatives in the early 19th century. In 1928, however, the new labour party formed its first government. Between 1945 and 1961 it constantly held absolute majority in the parliament. Only in 1963 the rather splintered opposition united in order to bring John Lyng, a conservative, to power. The time after was characterised by the decline of the labour party as well as by the formation of new parties that would later become the right-leaning anti-establishment Progress Party. The party, however, was only able to become part of the government in 2013. They helped Erna Solberg from the Conservatives gather a clear majority, who in turn broke with the principle of not bringing the Progress Party into government. Her government secured renewed support following the 2017 parliamentary election and in January 2018 it was expanded with the Liberal Party. Despite a tough stance on migration given by the alliance with the populist Progress Party, Solberg's government has a clear pro-business and pro-EEA agenda based on tax cuts and increased oil exploitation. In this regard, the Norwegian Prime Minister has also been a vocal supporter of expanding oil and gas exploration in the Arctic.

This led to some disputes over the use of natural resources in the north and legal issues with regard to rights over land and water resources in the areas of **Norway's indigenous Sami population**. The Sami are nomadic people inhabiting the northern regions of Norway, Sweden and Finland. These countries concluded a Nordic Sami Convention in December 2016, which ensures the Sami population's right to self-determination through autonomy in internal issues and consultations. Furthermore, Norway's **indigenous population enjoys limited self-rule** and participates in the national political process. Already since 1989 it has its own parliament, the Sametinget, located in the northern county of Finnmark, which protects the population's language and cultural rights and influences the national government's decisions about Sami land and its resources. Sami representation is another example of Norway's consensus-oriented political culture, reflected in its institutional set-up.

5.1.2 Iceland

In Iceland the president - who replaced the former king of Iceland after the country's independence in 1944 - is elected directly by popular vote every four years. He or she formally appoints the prime minister following general elections of Iceland's parliament, the Althing (Alþingi). In practice, however, in most cases the leaders of the political parties agree among themselves how posts in the cabinet are supposed to be distributed. The president only interferes if the leaders prove unable to find a consensus, which has never happened so far.



Iceland

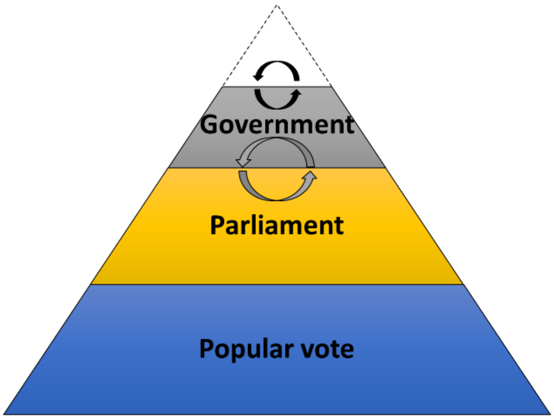
Most executive functions lie with the prime minister, who is the head of government, and his cabinet. Governments in Iceland have so far almost always consisted of coalitions of two or more parties because no single party has ever secured a majority of seats in the parliament. The country demonstrates a consensus-driven political culture comparable to the one in Norway. It is also often said to be **the oldest parliamentary democracy**, as the Althing was already established in 930. Iceland's parliament is a unicameral legislature made up of 63 representatives who are elected every four years in general elections by proportional representation.

All members of the cabinet formally sit in the Althing, but only those members who were elected as representatives can exercise the vote in parliament. This construction brings the legislative and the executive branch in a particularly strong dialogue. The country can hold referendums on its internal set-up as well as its relations to external actors and organisations, furthermore bringing in the element of popular vote in the legislative process. Referendums were for instance organised in 1944 to dissolve the union with Denmark, in 2010 to approve financial legislation after the 'Icesave' banking scandal or in 2012 for the approval of constitutional reform.

Iceland's party system brings together very different political forces and demonstrates great flexibility. The Progressive Party is Iceland's oldest and now second biggest party and is a member of the Liberal International. As a centre-right party it has often partnered with the conservative Independence Party, but also with left-leaning parties. The independence party is Iceland's conservative party, one of the oldest parties which consistently manages to secure 20-25 percent of the vote in parliamentary elections. It therefore led the Iceland's government coalition up to 2017 and since then has been in a coalition with the Left-Green Movement and the Progressive Party. The country's green party was only founded in 1999 in an effort to consolidate and structure the country's left forces. In the same year the Social Democrats were established which lean more towards the centre and constitute the only consistent pro EU-accession party in Iceland's political landscape. In the run up to the 2017 parliamentary elections three other new parties were founded. Besides Sigmundur Davíð Gunnlaugsson, a former leader of the Independence party who founded the Centre Party only weeks before the election, these parties where founded by persons who have not publicly participated in politics before: one of them a former X-Factor participant, the other one a former businessmen. The Icelandic party system thus shows surprising openness for the founding of new parties and permeability for personalities without the classical party politics background.

5.1.3 Switzerland

The **Swiss Confederation is a federal state and a parliamentary democracy with pronounced features of direct democracy.** Very differently to the other EFTA countries it does **not have a king nor a president** as head of its executive outside the government. However, the Swiss **government or Federal Council (Bundesrat)** elects the President of the Swiss Confederation on a rotating basis from its ranks, as first among equals. This rotating president then heads the government for one year, thus combining positions which in other political systems are divided into president and prime minister.



Switzerland

The Federal Council comprises seven ministers of equal rank, individually elected by the Federal Assembly for four-year terms. From 1959 until 2003, a **fixed distribution of seats among the main parties was meant to ensure the political stability of the Council**: two Christian democrats (CVP), two social democrats (SPS), two liberals (FDP) and one member of the populist Swiss People's Party (SVP). When the SVP became the biggest party in 2003, they took one seat from the Christian Democrats, the smallest party. However, in December 2007 the SVP suspended its two councillors in order to protest parliament's refusal to re-elect SVP leader Christoph Blocher to the Council because of the party's uncompromising approach and anti-immigration campaign.

The SVP regained one of its two seats in 2008, the other going to the newly formed Conservative Democratic Party (BDP), an SVP breakaway group. Following its election victory in 2015, the SVP reclaimed its seat from the BDP.

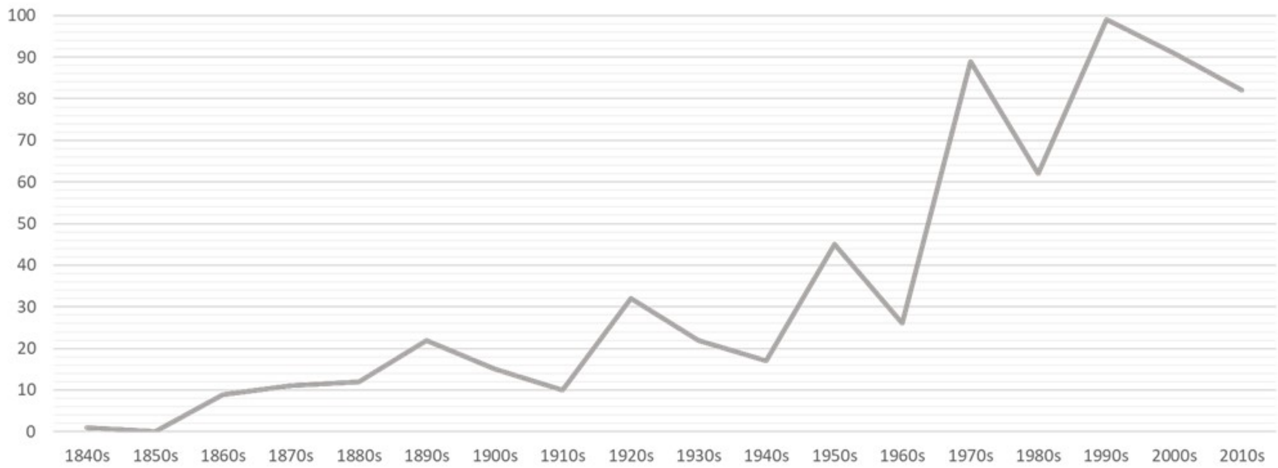
The Swiss legislature also reconciles different actors and levels. The **Swiss parliament or Federal Assembly** consists of two chambers. The **National Council** (lower chamber, German: Nationalrat, French: Conseil National) of 200 members, represents the country as a whole and is elected on four-year terms by proportional representation. In the **Council of States** (upper house, German: Ständerat, French: Conseil des Etats) of 46 members, each canton elects two members[13] according to various electoral systems. Political groups in the Federal Assembly include members of a party or members of different parties with similar agendas. A political group is therefore not necessarily the same as a party, and party discipline is not strictly enforced in the Assembly. The success of the Green Parties in the 2019 elections was not translated into a government seat for them because, due to Swiss political tradition, a party has to prove genuine success in two subsequent elections before being included into the government. This shows that the institutional set-up of the executive on the federal level aims not only at ensuring stability and continuity by including all dominant policies forces in consensual decision-making, but also by demanding that forces of change be

[13] Obwalden, Nidwalden, Basel-Stadt, Basel-Landschaft, Appenzell-Innerrhoden and Appenzell-Ausserrhoden each elect only one, being 'half-cantons' that evolved through the splitting of historical cantons.

substantial and of long-term importance, before integrating them. Here, the wish for stability limits the influence of parliamentary elections on the composition of the government, showing the unusual mix of tradition and direct democracy of the Swiss system.

A feature of the latter are the very strong provisions for **direct decision-making by citizens**, which ensures the importance of the individual citizen in the political process. In Switzerland, two kinds of popular ballots exist: votes initiated by the state are called referenda, those initiated by citizens are called popular initiatives. At the federal level, laws and international treaties passed by the parliament are submitted to a referendum if requested by eight cantons or 50 000 individuals. Any voter who manages to collect 100 000 signatures within 18 months is entitled to trigger a vote on a 'citizens' initiative' to propose changes to existing legislation, including the constitution. Popular initiatives and referendums have become more frequent over the years: whereas they were held once every couple of years in the 19th century, use of the instruments rose in the 1920s and 1950s and peaked in the 1990s with several referendums per year. Direct democracy can sometimes strengthen conservative attitudes, rejecting the new and hanging on to the known. It may be, therefore, that voting rights for women were only granted after a referendum in 1971 and Switzerland only joined the Bretton Woods institutions in 1992. That same year, a majority of Swiss decided not to join the EEA.

Figure 7: Number of referendums in Switzerland per decade 1840 - 2020

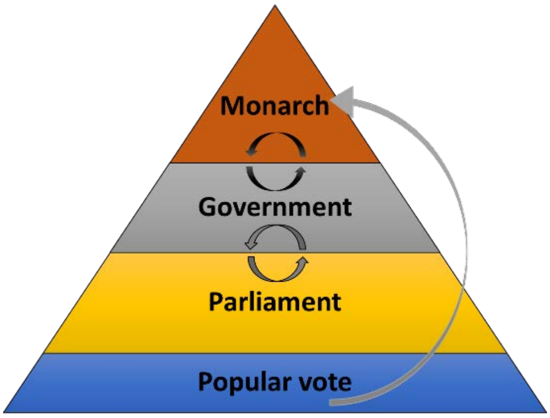


Source: Government of Switzerland

5.1.4 Liechtenstein

The small, landlocked country of Liechtenstein is particular in several ways. It stands out for its very small size of 37 000 inhabitants and its wealth, linked to its financial regulations. Its political system and landscape also differ substantially from other European countries. This is in particular the case with regard to the **country's unelected monarch, the Prince of Liechtenstein, who remains decisive in the country's politics**. Currently Prince Hans-Adam holds political powers, which include the power to veto parliamentary decisions and the outcome of popular votes, the power to sack the government and to dissolve the parliament as well as to appoint judges. Prince Hans-Adam handed over these privileges to his son Crown Prince Alois in 2004. Nevertheless, Prince Hans-Adam remains titular head of state. Hence the Prince of Liechtenstein still holds a wide range of powers and decision-making capacities, which have been criticised by international organisation such as the Council of Europe.

The **Prince of Liechtenstein also appoints the head of government.** He can thereby decide for a candidate of the majority party, but in practice he has also supported the largest minority party. The appointed prime minister then needs the vote and support of Liechtenstein's parliament. **Hence, the people of Liechtenstein are mainly represented by their parliament, the Landtag.** The Landtag consists of 25 parliamentary representatives, who are elected every four years by popular vote. The country's main parties remain in favour of the strong influence of the monarch, most likely following the positive popular sentiment, even if it diminished the parties' own role. The two parties, which have governed the country in coalition governments since 1945, are the Progressive Citizens' Party (FBP) and the Fatherland Union (VU). Both can be characterised as economically liberal and socially conservative parties. They tend to recruit their personnel and voter basis through family ties. The Free List (FL), a green, centre-left leaning pro-democracy party that was founded in the 1990s, never managed to secure more than 15 % of the vote and never participated in a government coalition. Change was only brought to the remarkably stable party landscape by the populist and partly right-leaning Independents party, which won over 18 % of the voters in Liechtenstein's 2013 elections. In the most recent elections in 2017 the party even gained one more seat. Whereas Liechtenstein's politics thus seems to be governed by a strong value consensus, diverging options and critique of the monarchic element remain prevalent as well.



Liechtenstein

However, Liechtenstein combines its monarchic particularity with strong features of direct democracy. This particularity, which is sometimes perceived as contradiction, does not mean that the people use this power against the monarch. In 2003 the people of Liechtenstein even decided in a constitutional referendum to strengthen the monarchic elements. In 2011, the Prince announced that he would veto a yes-outcome of a planned referendum on the liberalisation of abortion, thus making the referendum obsolete before it could even be held. Nevertheless, the year after 75 % of Liechtenstein's voters rejected a plan to restrict the Prince's veto powers. The people of Liechtenstein hence seem to be strongly united behind the particularities of their system.

Concluding with a comparative look at the use of referendums in the four EFTA countries, Switzerland clearly stands out with a remarkable high number, followed by Liechtenstein in second place. Norway and Iceland seem to use referendums only for exceptional matters concerning the position of the state.

Figure 8: comparative numbers of referenda in the four EFTA countries

Country	Number of referenda	Source
Norway (since 1905)	7	Wikipedia
Iceland (since 1908)	8	Wikipedia
Liechtenstein (since 1919)	61	Wikipedia
Switzerland (since 1848)	645	Swiss government

5.2 Outside: altruistic pragmatism

Looking at the foreign policy of the four EFTA states, they all show a remarkable combination of defence of the national interest with altruistic care for other people's needs and the world as a whole. All countries are strong defenders of multilateralism and diplomacy as pillars of world governance.

5.2.1 Norway

What is often called the 'Norwegian model' of foreign policy aims at facilitating peace and a stable international environment through coordination between its own governmental and non-governmental organisations and other international actors. Norway defines its role as an **honest broker and mediator between parties to international conflict**. Many individual Norwegian politicians enjoy great access to information as well as personal credibility, which facilitates their role as a mediator. This is reflected by the fact that several former Norwegian politicians now have key positions in international organisations, such as in NATO (SG Stoltenberg), the Council of Europe (SG Jagland), UNEP (Executive Director Solheim, formerly Chair of OECD DAC) or at the Nordic Council of Ministers (SG Høybråten).

The **Second World War brought an end to 100 years of neutrality between 1841 and 1940**, and Norway belongs to the founding members of NATO, which entails allowing a number of foreign military bases and exercises on its territory. Even without the underlying principle of neutrality, so essential to Switzerland's international role, Norway has played a decisive role as a mediator in international conflicts such as the one between Israel and Palestine, leading to the 'Oslo Accords', or the Colombian peace talks. Norway's image as multilateral peace builder is furthermore symbolised by the award of the **Nobel Peace Prize**. Each year the recipients of the prize are selected by the Norwegian Nobel Committee, which consists of five members appointed by the Storting. Since 1990, the prize is awarded annually on 10 December in Oslo City Hall.

Despite Norway's close relations with Denmark, Sweden and Finland the country remains the only Scandinavian country without EU membership, which has been rejected in popular referenda twice, in 1972 and in 1994. Even if EU membership is not an aspiration of the current government, cooperation with the EU, for instance by extending the EEA to many non-internal market aspects, has intensified over the years. Norway particularly **aligns itself with the EU Common Foreign and Security Policy**, including the EU's sanction policy towards Russia over its intervention in Ukraine. This has had an impact on exports in important economic sectors such as offshore energy technology and fisheries. Although other markets for its fisheries exports could be found, this is not the case for the offshore equipment. Despite Norway's contribution to the sanctions, it also remains vital to keep good relations with Russia, especially in the north, where it shares a border and needs to cooperate on access to natural resources. The **High North** being important for economic development and geopolitics, Norway published [the Arctic Strategy] in April 2017, which aims at peace and stability in the region, balancing economic activity and protection of the environment and International cooperation. It advocates building infrastructure as a condition for growth and a green transition in the Arctic, as well as safety and emergency preparedness.

Apart from its relations with the EU, Norway's foreign policy is thus defined by its Nordic cooperation and its membership in international organisations, the main ones being NATO, the UN, and EFTA. Norway's efforts in all these fora focus on promoting global justice and socially sustainable globalisation. Norway is a major contributor to UN and NATO peacekeeping operations as well as to the IMF and World Bank. In its 2019 Report on [Norway's Role and Interests in Multilateral Cooperation] Norway's Ministry of Foreign Affairs stresses explicitly the double role of multilateral practices. On the one hand, they protect Norwegian self-interest by contributing to its security, economic development and prosperity. On the other hand, they benefit the world as a whole by providing a system through which states can cooperate and fight common challenges together and solve conflicts with peaceful means.

5.2.2 Iceland

The Republic Island and its 330 000 inhabitants are physically isolated from the territories of the European continent, of Greenland and of North America. Politically they are, however, besides their EFTA and EEA participation a member of NATO, the Council of Europe and the UN. The country's foreign service was established in 1940 after the fall of Denmark to Nazi Germany. Whereas Iceland was not occupied while Denmark was, loss of Danish influence further strengthened forces for Iceland's independence in 1944. Since then **Membership of NATO** and an additional bilateral Defence Agreement with the United States of America from 1951 form the two main pillars of Iceland's security policy. Iceland is one of the twelve original NATO members and closely linked with the US. It has served as an Atlantic outpost during both World War II and the Cold War. At the end of the Second World War in 1946, Iceland and the US signed the Keflavik Agreement, which states that the US would militarily defend Iceland in the case of war and that it will maintain a permanent base on the Reykjanes Peninsula. The presence of Naval Air Station Keflavik was debated by the Icelandic people both favourably and critically regarding an alleged secret plan to store atomic bombs on the station and the base was finally closed in 2006. Iceland itself has no standing army, but contributes to NATO operations financially and with civil personnel. The US withdrawal from the Iran nuclear agreement was criticised, because the US is considered a strategic partner assuming responsibility.

Like Norway, Iceland also takes part in the current sanctions against Russia. Russia's counter-measures resulted in a 95 % decrease in exports to Russia, and Iceland has been looking into new reciprocal market access opportunities with the EU in response. However, Iceland's relationship with Russia is more complex than being on the side of NATO and supporting sanctions. Iceland and Russia also work together in a number of fields: inter-parliamentary cooperation, trade and economic affairs, fishing issues, clean energy partnership and cultural interaction. More fundamentally, its geographic position also made it a place of East-West encounter, when **in 1986 Iceland hosted a meeting between US President Ronald Reagan and Soviet leader Mikhail Gorbachev to discuss disarmament**. Even though the negotiations collapsed during the last day, the talks provided the basis for the Intermediate-range Nuclear Forces (INF) Treaty between the two powers that was signed one year later in 1987. The INF treaty banned certain types of land-based ballistic missiles, cruise missiles and missile launchers and was a major achievement in disarmament and in ending the Cold War. The fact that Iceland was able to bring both powers together shows that it was regarded by both actors as a stable environment in which negotiations could take place.

5.2.3 Liechtenstein

A **key priority of Liechtenstein's foreign policy has traditionally been fostering good relations with its neighbours Austria and Switzerland**. However, the United States of America and Germany also play an important role in Liechtenstein's foreign policy. As a rather small country in the heart of the European continent Liechtenstein has also been particularly sensitive towards politics on the continent as a whole, notably towards European integration. It mainly participates in the economic sphere of the European integration project, which it sees as the best compromise between acquiring favourable economic conditions for its development and upholding its sovereignty. With regard to the political sphere, Liechtenstein's foreign policy focus lies on the promotion of multilateralism and international law, because the country realises that it can be directly impacted by conflicts, but has limited means to influence them. Liechtenstein hence actively fosters its international networks. It maintains embassies in Austria, Belgium, Germany, the Holy See, Switzerland and the United States. Since 1919, Swiss embassies and consulates represent Liechtenstein's interests where they are not represented, until the country decides to open its own representation in the respective country. Liechtenstein itself does not host any embassies. Nevertheless, some states maintain Honorary Consulates, of which the US was the first in 2007. The country's Ministry of Foreign Affairs also covers the areas of Justice and Culture aiming at fostering and maintaining the Principality's distinct identity also through its education system.

5.2.4 Switzerland

Swiss foreign policy on strategic issues is conducted on the federal level through consensus of the Federal Council. The foreign minister will execute it and develop policies on the operational level. According to Switzerland's most recent **foreign policy strategy 2020-2023** the country pursues three major aims: Firstly, prosperity, to which consolidating its bilateral approach with the EU is key. Secondly, sustainability, implementing the 2030 Sustainable Development Goals and global climate action. Thirdly, digitalisation, raising the Swiss profile in international digital governance and bolstering Geneva's position as a global hub.

These strategic aims can be seen within the overall tradition of Swiss foreign policy. Above all, **Switzerland is best known for its principle of neutrality**, which has limited as well as enabled the country's foreign policy. Even if neutrality prohibits certain kinds of political engagement, Switzerland's international activity steadily grew over the years. Historically, the country's principled neutrality was manifested against the background of the devastating Thirty Year's War. Since 1815, Switzerland is even bound to be neutral by international law and the status of neutrality was codified in the Hague Convention of 1907. **Secondly, Swiss foreign policy tradition centres on humanitarian action.** Switzerland provides help in the field of emergency humanitarian assistance, meeting basic needs like emergency shelters or drinking water. Switzerland also promotes strengthening the legal framework governing humanitarian assistance to make sure that standards are respected by all parties. The concept of Switzerland as a refuge and safe haven for refugees and people in need first came about with the foundation of the Red Cross in 1863 and the medical assistance to the French army during the German-French War in 1871. The altruistic and impartial support of all parties to a conflict, however, is only credible and authentic because of the country's underlying neutrality. As a logical consequence, Switzerland is generally viewed as a suitable place to find agreement on international issues. In 1874 it was the founding place of the Universal Postal Union, one of the world's first international organisations. **Thirdly, Switzerland hosts important offices of many international organisations already for more than 100 years.** From 1920 onwards the League of Nations had its headquarters in Geneva. As the League's successor, the UN also chose to have its second largest office in the Swiss city. 25 international organisations officially have their headquarters in the country. Additionally, about 250 NGOs with consulting status to the UN maintain offices in Switzerland, which makes Geneva one of the biggest hubs of international politics comparable to New York city.

Globalisation and its negative and positive consequences however posed a particular challenge to Switzerland's foreign policy agenda. On the one hand, the country adapted stronger association with international and supranational organisations as one of its foreign policy priorities, at the same time the Swiss electorate decided against membership in various international organisations by referendum. The Swiss people voted for instance against UN membership in 1986 and rejected EEA membership in 1992.

Switzerland therefore seems to be torn between two interpretations of multilateralism. The positive and altruistic approach of multilateralism and strong connections with the outer world are sometimes perceived as negative by parts of society and are then difficult to reconcile with an understanding of multilateralism as being in the country's own interest. Growing Swiss cooperation with NATO or EU Security and Defence policies or differences with the EU concerning the sanctions regime against Russia are other examples of friction between practising principle neutrality and multilateralism and serving self-interest. Perception of international matters can however also change over time. In 2002 for instance, 14 years after rejection of UN membership, it was finally deemed compatible with the highly valued principle of neutrality and that year the Swiss voted for participation in the organisation.

6 Identity: shaping distinct modernities

6.1 Norway and Iceland: northern exceptionalism

Norway's geography is dominated by mountains and the sea. Mountain ranges make up more than 60 percent of the country's territory. Hence, some 6 000 years ago, Indo-European settlers founded Norway's first settlements mainly on the coastline or in the few flat areas in the South of the country, sustaining themselves by agriculture and fishing. Even today, about half of all Norwegians live in the South, closely connected and sharing the limited territory. Adding the need for cooperation during the harsh winters, one might suspect early origins here for a **consensus-driven approach** reflected in the country's political institutions. A strong community approach can also be found in Norway's legal system. Civil cases have to be submitted to a local conciliation council before they can be taken to court. These Conciliation councils (forliksråd) often succeed in settling disputes without formal legal action. Nevertheless, their decisions can be appealed in formal courts, thus finding a **middle ground between tradition and modernity**. Similarly, respect for tradition does not exclude progressive societal policies. The country's folklore, which includes the belief in trolls and fairies, is still present in public life. On festive days like 'Grunnlovsdagen' or 'Syttende Mai' (17 May) Norwegians dress up in folk dress. At the same time, Norway was the second country in the world that recognised same-sex partnerships in 1993 and seven years later legalised same-sex marriage.

Norway's other geographic feature, a long coastline and omni-present sea**,** explains its seafaring tradition, which peaked in the **extensive movements of the Vikings.** They did not only invade the British coast, but also broke through to Russia in the East, founded further settlements in Iceland and even reached the Mediterranean. The 'Viking Age' from about 800 to 1050 with its numerous Norwegian expeditions became possible because of a growing population, superior ships and instruments and adventurism. It may explain the curiosity and **outward looking aspect** of the country's identity. Differently to the other EFTA countries, Norway has never served as a crossing point for other people. It was Norway that initiated contact with other people and strove to discover new areas. This is also why the country has maintained strong **homogeneity amongst its citizens**. Up until today a great majority of Norwegians are ethnically Nordic. An exception are the Uralic people of the Sami, which inhabit the North of the country.

Norway's Christianisation furthermore reveals a history of resistance to or the desire to shape external influence. In 991 Olaf I Tyggvason, leader of a Viking expedition to England, first officially brought Christianity to the country. Baptised in England, he could claim rights as a Christian king along the coast of Norway, where Christianity had already spread. He christianised Norway in his own understanding of Christianity. Olaf turned into St. Olaf, the patron saint of Norway, after his death on the battlefield. Even though Norway still excels as a maritime transport power today, it went through a phase of economic stagnation and decline in the late Middle Ages, during which it was heavily influenced by its prosperous neighbours Sweden and Denmark. This experience of weakness might have strengthened the country's longing for independence. In the 1970s, the **exploration of oil under the North Sea** turned the situation around again and the country into a leading petroleum exporter.

In conclusion, Norway presents a country which reconciles strong traditions with a progressive and open society, a focus on its own distinct resources with an adventurous spirit and thus engagement with a globalised world. This balance between preserving sovereignty, which the country had partly lost during times of dominance of its Scandinavian neighbours, and actively fostering international networks, of which it has a tradition during the eras of the Vikings and Christianisation, is mirrored in Norway's current involvement in EFTA and its critical stance towards EU membership.

Iceland is the only island country of EFTA, but apart from that, has a lot in common with Norway: its access to the Atlantic Ocean, its position at the northern end of Europe, its foundation by the Vikings and its homogeneous inhabitants. Academia suggests that between 60 and 80 percent of the people are of Nordic descent whereas the rest descend from Scottish or Irish people. Descendants from the Nordic and Celtic settlers have long merged, so that no distinction is made between these groups within the Icelandic society. Therefore, Icelanders among themselves share an **inclusive and open political culture**.

Although linkages to the European continent have always been cultivated, Icelanders **also preserve their unique culture**. Their eposes which mostly tell the story of the islands settlement are still acknowledged as one of the most important strands of literature originating from the Middle Ages. Hence, a folkloric belief in mythical figures like elves or trolls also remains prevalent, mostly in rural areas. This might also be because speakers of modern Icelandic have no difficulties reading the eposes and the country's language preserves its distinct culture more than anything else. For example, Iceland is one of the few languages to have a distinct word for the term computer, in Icelandic is 'tölva', which unites the words for seer and numbers. Similar to Norway, during Norwegian King Olaf's missionary efforts to christianise the island, this was accepted with a mix of resistance and inclusion of original culture. In the year 1000, the Althing, Iceland's parliament, decided that all Icelanders should belong to the Christian faith, while the godar, a specific Icelandic law council, continued to exercise its power and decided how the Christian belief should be practised, leading to a **specific Icelandic tradition of Christendom**.

Nevertheless, the **Islandic could not resist the growing power of the Norwegian monarchy** in the long run and had to pledge allegiance to the king of Norway in the late 13th century. It was finally the Danish rule in the 17th century, which tightened the external grip on Iceland also on the constitutional level. Hence, a struggle for independence shaped Iceland's politics for almost seven centuries. Under the German occupation of Denmark in 1940 the union between Denmark and Iceland was finally dissolved. Under the following British presence in Iceland and the heavy presence of 60 000 US troops the island and Denmark renegotiated their relationship, leading to Iceland's independence as a republic in 1944. Its long struggle against external influence might explain Iceland's reservation towards EU membership, which has been even stronger than in the case of Norway.

In conclusion, **Iceland much like Norway combines strong traditional sentiment with a modern society.** A particular feature of Iceland is its emphasis on gender equality, with a legal requirement for equal pay since 2018. At the same time Iceland did not show the curiosity and thrive for expeditions encountered in Norwegian history and it spent a significant part of its history dependent on external forces. Its ties with the continent have thus traditionally been weaker than in the case of Norway. Together both countries seem to have crossed the gradual tipping point of EU membership in the north of the continent. Whereas certain reservations towards deeper integration can already be found in The Netherlands, which brought the project of an EU constitution to an end, in Denmark, which negotiated opt-outs from the EU in the areas of security and defence, police and justice, and the euro, or Sweden, which also opted-out of the euro, Norway and Iceland seem to just have crossed this gradual border of integration scepticism.

6.2 Liechtenstein and Switzerland: Alpine exceptionalism

Liechtenstein's **rather isolated location** between the mountain ranges of the Alps allowed the country to grow its own particular (political) culture and sense of identity. From its independence from the German Confederation in 1866 onwards, Liechtenstein was **little affected by its immediate environment,** a situation reinforced by its neutrality during both world wars. Even if industrialisation after the Second World War led to the organisation of the country's inhabitants in larger cities, up until today almost 90 % of the country's population live in areas classified as rural. Nevertheless, the country's partial isolation changed through its transition to industrialisation under Franz Joseph II who led the country until 1989. His son Hans

Adam continued Liechtenstein's **growing involvement with the world** by leading the country into the United Nations in 1990, the European Free Trade Association in 1991 and into the EEA and the WTO in 1995. Every membership in organisations above state level not only meant benefitting from exchange and a growing network. It also required that the country's interest had to be mitigated with those of other participants, where they did not naturally overlap. Also the country's cultural and individual connections with other states show the government's **balancing act** between benefitting from influence of other actors in the country and the (inter)dependence this presence creates. Liechtenstein is excellently connected to its neighbours through a rail network including a Paris-Vienna express. However, it does not have an airport, making it dependent on the infrastructure of its neighbouring countries. Its public health system is also supported and partly even supplemented by Swiss infrastructure. These Swiss facilities are in turn financially supported by Liechtenstein. Furthermore, Liechtenstein's only university mainly provides degrees in architecture and business administration. For other studies, its younger generation has to go abroad. Whereas the Hilti Art Foundation building from 2015 onwards presents Liechtenstein's most impressive privately held collections, the Liechtenstein's royal family's personal art collection can be seen in the Liechtenstein Museum in Vienna.

Liechtenstein's prominent **function as a banking centre** illustrates the balancing act between economic interest and political credibility abroad. Because of its relatively stable political situation and its strong legislation for bank secrecy, its status as a financial hub contributes to the country's wealth and material independence. This makes Liechtenstein particularly hesitant regarding the sharing of information. However, after having been accused of not doing enough against money laundering, for instance by the EU and the US, Liechtenstein removed the possibility to open accounts completely anonymously.

Also within the country the **necessity for bargaining with important stakeholders grew**. Even though Liechtenstein's institutional set-up has been described above as rewarding the Prince with strong privileges, Prince Hans Adam's relations with the other political institutions and the people have sometimes been characterised by tensions. Nevertheless, there is a remaining support for the royal family, which shows a lasting identification of Liechtenstein's society with their royals and the set of values they stand for. Such a 'dominant cultural code', a term to describe a certain pressure to subscribe to a dominant social consensus, is particularly often observed within **entities that unite smaller groups of people**[14]. The people of Liechtenstein hence hold on to tradition even after a gradual opening to the wider world.

In conclusion, Liechtenstein's strong longing to preserve its unique identity and its sovereignty continue the country's history as a small rather isolated entity that is nevertheless dependent on a series of other actors to support it in its self-sufficiency. Also, Liechtenstein's size makes cooperation with its neighbours and other influential actors vital for upholding and improving the country's living standards.

Like Liechtenstein, **Switzerland is a landlocked country in the Alps**. However, its topography of mountain ranges and valleys has also led to the development of very different dialects, which were successfully integrated into bigger language communities. In the early 2000s about 60 % of Switzerland's population spoke German, a further 20 % spoke French, about 12 % Italian and less than 1 % Rhaeto-Romance, mainly in the mountainous regions around the Gotthard and in the southeast. **Switzerland has managed to bring its various linguistic and cultural groups together** and education has thus focussed on developing these human resources efficiently and creatively while also having to address difficulties of inter-group communication and understanding. The same goes for the country's religious communities. Even if the country remains split into a Protestant and a Roman Catholic part, and thus a northern and a southern subculture, it has overcome the violent struggles between these parts entirely. Religion, which had coined Swiss history and settlement history (many cities developed out of and around monasteries such as

[14] Cf. Sutton, Democracy and Good Governance in Small States.

St. Gallen), has thus declined as a pivotal factor shaping the country today. Only about half of the Protestants and about 40 percent of Roman Catholics still attend church regularly. Nevertheless, in 2009, the positive outcome of a referendum to ban minarets in the country that was initiated and heavily promoted by the Swiss People's Party suggests certain limits to Switzerland's integrative approach.

This process of **internal formation was accompanied by external consolidation though the fight against imperial rule.** A couple of cantons, which were essentially independent states or cities, rebelled against the formation of modern nation states on the European continent and were indeed able to defend their model as an, in the beginning, rather lose confederation of defence. From the 18th to the 19th century the originally German speaking cantons opened up to French- and Italian- speaking cantons and integrated them. With the new languages there thus also came experience with different types of rule that these regions had made. After its losses against the French in 1798 Switzerland however turned away from a growing expansionist tendency. After internal clashes over religious confessions which ended with the equilibrium of forces marked by the north south divide today, it did not take part in the 30 year's war.

Since then, to the outside, Switzerland equally balanced its own national identity and traditions with promoting connections on the wider continent. As an example, **Europe's trans-Alpine routes** have coined Switzerland's role as a transit country, while preserving its own approach for safeguarding its environment. This approach was finally laid down in the Land Transport Agreement of 1999 with the EU. It fits in a long history of construction projects, going back to the bridge over the Schöllenen Gorge canyon near Saint Gotthard in the 13th century, the famous Saint Gotthard rail tunnel opened in 1882 and its 1980 and 2010 extensions. The 2010 project was approved already in 1992 by Swiss voters, which proves the population's overall commitment to their country's role as a connecting point. Also within Switzerland the country's central land between the mountain ranges of the Jura and the Alps is very efficiently connected from East to West through highways and railways that connect the urban to the agricultural centres.

However, during the 2015 migration crisis the Swiss government did not want the country to become a transit destination for refugees to Germany. As party to the Dublin association agreement, Switzerland is associated to parts of the EU asylum acquis. It has a reputation of applying **humanitarian standards**, accepting people in need and of integrating them well. However, it is also known for **applying immigration rules strictly**. Under its own Resettlement Programme, the country nevertheless accepted 662 refugees in 2016, mostly Syrian nationals, directly from the first host country where they had sought refuge. In September 2015, the Swiss government furthermore decided to take part in the EU's Relocation Programme, which aims at relocating 40 000 vulnerable persons from Dublin-countries with disproportionally high rates of asylum requests. Under the programme, between May 2016 and March 2018, 1 500 people (921 from Italy and 579 from Greece) could be relocated to Switzerland. However, in July 2018, the Swiss State Secretariat for Migration announced that it would not take part in a second relocation round launched by the EU. Also a refugee allocation initiative of Germany, France, Italy, Finland and Malta, which aims at redistributing all migrants rescued from the Mediterranean Sea, was judged 'not really convincing' by Swiss Justice Minister Karin Keller-Sutter in October 2019.

In conclusion, Switzerland's multilingual and multicultural set up as well as its historic experience made it strive for strong internal societal commitment and independence from external forces. At the same time, the country within the heart of Europe had to find a way to most beneficially engage with the outside world. It thereby left the initial short-term orientation towards expansionism much further behind than imperial Austria, which later consequently followed its continental orientation when joining the EU. Switzerland on the other hand focussed more on strengthening its internal qualities and shaping an external environment which would allow it to benefit from them.

7 Assessment and future

7.1 Challenges to the balance

What looks like a stable framework of EU relations with the three EFTA/EEA countries and Switzerland, is in fact a **delicate and dynamic balancing act between integration and autonomy**. As previous chapters have shown, this balance is sometimes challenged by external events or internal considerations. Among the external events of the past decades count the end of the Cold War and the creation of the single market and the European Union in 1992, which triggered on the one hand the EU accession of former EFTA states Austria, Sweden and Finland, and on the other the creation of the EEA for the other EFTA countries. The rejection of EEA membership by Switzerland in 1992 and of EU membership by Norway in 1994, based on the strong desire for autonomy, could be perceived as internal reactions to these events. For Switzerland, this rejection has led to the arduous and complex work on a network of bilateral agreements.

Similarly, the accession of 12 new Member States to the EU in 2004 and 2007 can be seen as an external impulse to review the EU policies on **financial solidarity**, which also had consequences for the financial contributions of the four EFTA states. Whereas the EU saw this as a joint obligation according to common rules, again, according to their internal desire for autonomy, the EFTA states emphasised the voluntary nature of these contributions and their own freedom in choosing destinations for the money. In the case of Switzerland, contributions to financial cohesion have recently even been caught up in disputes on the Framework Agreement and recognition of the stock exchange.

To a lesser extent, there have been discussions on the **participation of EFTA states in EU agencies**. Whereas the EU has been increasingly delegating certain regulatory powers to its agencies, EFTA states do not enjoy the same rights in the decision making of these agencies, while still being bound to most of its rules. Concerns were voiced for instance in Norway regarding the energy agency ACER, whose decisions are of importance for Norway's vital energy sector. For Switzerland, the issue has yet another dimension, as it does not enjoy yet full access to the EU energy market, which the EU only wants to consider after the signing of the Framework Agreement.

Other more recent external events that shook the balance were for instance the **financial crisis of 2008**, which in particular hit Iceland. The economic despair immediately after the crisis even changed the attitude towards EU membership, leading to Iceland's membership application of 2009. However, when the crisis could be resolved within the national framework, the need for EU membership soon faded and negotiations were stopped in 2013. Norway, on the other hand, has long been preparing itself for a possible economic downturn when oil runs out through its unique oil fund. It is proud of its long term perspective, pointing at the case of the Netherlands, who have spent most of their financial gains of gas exploration in the budget, as 'the Dutch disease'. Efforts of Switzerland and Liechtenstein to diversify their trade flows and be less dependent on the EU could also be seen as ways to **guarantee a sufficient level of economic autonomy**. The same goes for the reluctance of all EFTA states to open their agricultural markets to the EU.

Currently, most tensions exist between the EU and EFTA member Switzerland. Whereas negotiations on an Institutional Framework Agreement started positively in 2014, the anti-immigration referendum of the same year gave rise to tensions, also within Switzerland. Pro-European forces started a counter-initiative in 2015 under the name RASA ('Raus aus der Sackgasse', meaning 'Out of the Dead End Street') to withdraw the anti-immigration clause demanded by the 2014 referendum. This became obsolete when the Swiss government implemented the referendum through the Law on Foreigners. However, after agreeing on a text for an IFA in 2018, the Swiss Federal Council felt the need for extensive consultations on the text in order to obtain sufficient political support in the Swiss parliament and society. After this consultation, in

June 2019, then President of the Swiss Confederation Maurer informed the EU that Switzerland could only proceed with the agreement if 'clarifications' could be provided regarding three matters, which reflected the main issues of the final compromise of the year before, being the so called flanking measures for the protection of wage levels in Switzerland, the take-over of Directive 2004/38/EC on the free movement of persons and provisions on state aid. The EU considered in particular the last two requests as not being 'clarifications' but rather the 're-opening of negotiations' which had led to the agreement of November 2018. Although President Juncker expressed readiness to provide clarifications in the hope of conclusion of the IFA, the Swiss government pushed the issue past its national elections and then held further domestic consultations, notably with social partners. In this light, the EU decided to further withhold equivalence of the Swiss stock exchange, which Switzerland reciprocates to the EU, and Switzerland started linking its cohesion contribution to obtaining the equivalence.

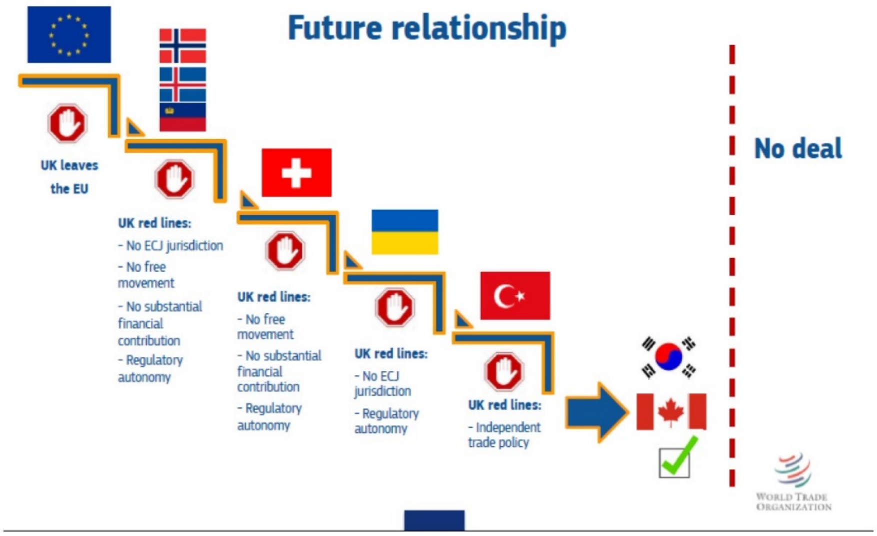
To further complicate matters, a **new referendum to limit immigration is upcoming in September 2020**. As in the 2014 referendum, in the campaign the issues of labour migration for EU citizens gets mixed up with discussions on immigration of people from third countries and asylum seekers. The new referendum was launched in August 2018 by the Swiss Peoples Party (SVP) together with the Campaign for an Independent and Neutral Switzerland (AUNS), which was formerly presided by SVP prominent Christoph Blocher and is called the people's initiative 'For a restrained immigration' (also 'Limitation-Initiative' or 'Quitting-Initiative'). If successful, the referendum would end the Free Movement of Persons Agreement with the EU, but also the legal structure of EU-Switzerland relations (Bilateral Agreements I), because of the 'guillotine clause'. Currently the SVP is the only party supporting the initiative, which makes its success unlikely.

7.2 Brexit: a game changer?

The most recent external event which challenged the balance was the decision of the UK to leave the EU. The UK being a former EFTA member itself and having strong economic ties with all current EFTA countries, mostly with Norway, this was bound to have effects on EFTA as well.

When the UK decided to leave the EU in 2016, many observers in the EU and EFTA countries thought this might become a 'game changer' in EU-EFTA relations. The United Kingdom was a founding member of EFTA, the then alternative to the European Economic Community, and left EFTA in 1973 in order to become a full member of what is now the European Union. After the United Kingdom EU membership referendum in June 2016, in which 51.9 % voted for leaving the European Union, the question of the UK's relationship to both EFTA and the EU became subject of lively discussions. The initial debate focussed on four options for a deal between the EU and the UK. Firstly, the **UK could have opted for re-joining EFTA and through this join the EEA**, acquiring a similar relationship with the EU as Norway, Iceland and Liechtenstein (EEA model). This, however, would include CJEU jurisdiction, the freedom of movement, substantial financial contributions and a limitation of regulatory autonomy, all of which the UK has by now defined as its red lines. The EFTA countries on their side have shown some unease with the prospect of having the UK as a major player with distinct interests in their group. Hence, also option number two, the Swiss model, has become rather unlikely, because Switzerland's association with the EU also still includes freedom of movement, financial contributions and limited regulatory autonomy. Finally, the discussion turned to the 'Ukraine model' of an association agreement, which nevertheless still includes CJEU jurisdiction and limited regulatory autonomy, or a customs union, like Turkey, which still limits the country's independent trade policy. It **has however become clear that the UK does not want to be bound by any of these ties**, and therefore a relationship focussing on trade policy extended to some other fields, such as security, seems the most likely option. If the two sides cannot agree however, a no deal scenario (hard Brexit) is still possible. Furthermore, EFTA countries and the EU have been very cautious not to grant the UK better market access conditions than the EEA, saying that any kind of 'cherry picking' from the UK should be avoided.

Figure 9: Options for a future EU-UK relationship as presented at the European Council December 2017 (not representing the 2020 state of negotiations)



Source: *[European Commission]*

Hence, the EFTA countries have also opened negotiations for their own agreements with the UK. Like the EU, they first have negotiated terms for the guarantee of existing rights after UK withdrawal from the EU, and in a second step their future relationships. Already in December 2018 **Norway, Iceland and Liechtenstein reached the EEA-EFTA Separation Agreement with the UK**. The agreement grants the protection of citizens' rights (residence, recognition of professional qualifications, social security systems) of the respective countries and addresses separation issues when the UK exits the EU. In this respect it equals the Withdrawal Agreement concluded with the EU in areas relevant to the EEA Agreement and proves an attempt on the side of the EFTA-EEA countries to coordinate with the EU-EEA members.

For all EFTA countries the main challenge of Brexit is the UK's future connection to the EU's internal market. The more the UK will want to pull out of the internal market, the more there will be a need to renegotiate the different affected sectors anew. This in theory would be possible for each of the EFTA countries bilaterally, for the EEA countries together or for different combinations of the countries, like for example Norway together with Iceland. Formally, the UK could not negotiate its own trade agreements with third countries while still being an EU member, although many 'exploratory talks' have taken place. During the transition period, the UK is allowed to negotiate such agreements. The content of these will however depend on the outcome of future EU-UK relations. In that sense, negotiations of EFTA countries with the UK must happen in coordination with the EU and cannot create incompatibilities with the internal market.

Because the UK is the main trade partner within the EU for Norway, the country had great interest in ensuring that the effects of the UK's withdrawal from the EU would be as minimal as possible. Norway first focused on the treatment of Norwegian citizens living in the UK and on fishery policies. Already in July 2017, the Norwegian foreign ministry appointed diplomat Atle Leikvoll to lead a new working group, involving other ministries, to follow negotiations between the EU and the UK. Although the foreign minister emphasised that the working group is in no way involved in negotiations, in April 2019 **Norway, together with Iceland, signed a Trade Continuity Agreement with the UK**, which is only supposed to apply in case of a no-deal scenario between the EU and the UK. As a next step, Norway and the UK signed a further agreement in January 2020 guaranteeing continuity in the two countries' relations during the UK's transition period with the EU.

Very similarly to Norway, Iceland has close relations with both the UK and the rest of the EU and it intends to keep them after Brexit. Because of this and its ambivalent relationship with the EU, first reactions in Iceland on the Brexit referendum were much more mixed than in the EU. Although the UK departing from the EU was seen negatively as it would break up the Internal Market, some also considered it a potential opportunity to reposition Iceland somewhere between the EU and the rest of the world. However, it seems a majority in Iceland is in favour of the EEA and the opportunities of belonging to the Internal Market. Since EU-UK negotiations did not develop satisfactorily, Iceland started to think about 'contingency measures' to be prepared for a hard Brexit if needed. Therefore, it signed the above mentioned Trade Continuity Agreement with the UK, together with Norway.

The UK is the seventh most important trading partner for Liechtenstein. Therefore, the question of how to deal with Brexit triggered also debate in Liechtenstein. Moreover, the position of Liechtenstein is one of the most complex of all EFTA countries, as it is on the one hand in the EEA but on the other hand also in a customs and monetary union with Switzerland. It seems that the country is trying to combine the best of both worlds, as it is part of the above mentioned EEA-EFTA Separation Agreement with the EU, but also party to a **UK-Switzerland-Liechtenstein Trade Agreement, which was agreed in spring 2019**. The latter is an additional agreement to the UK-Switzerland Trade Agreement and extends relevant parts of that agreement to Liechtenstein.

The Swiss policy for future Swiss-UK relations has been based on its 'mind the gap strategy' of 2016. Its focus was to ensure the continuation, after the UK's withdrawal from the EU, of the rights and obligations between Switzerland and the UK as they currently exist under the bilateral agreements between the EU and Switzerland. Between 2016 and 2018, EU-UK negotiations on withdrawal, EU-Switzerland negotiations on an IFA and informal talks between Switzerland and the UK have been conducted in parallel for more than two years. Although Switzerland is, at least according to the intentions of the IFA, moving closer to the EU, whereas the UK is moving away, in both cases new relations have to be defined for a very close relationship, which is however not EU membership. Initially, several politicians in Switzerland estimated that Swiss and UK interests overlap to a high degree and that both countries could pursue similar and maybe even coordinated negotiation goals as regards access to the Internal Market or the jurisdiction of the Court of Justice of the EU. However, because negotiations on the UK's withdrawal from the EU took longer than planned and ran into multiple obstacles, links between IFA-negotiations and Brexit have been limited. The EU has kept its stance on the integrity of the internal market vis a vis both countries. Although Switzerland insisted that it was not formally negotiating with the UK on a future Swiss-UK relationship, in **February 2019 both countries agreed on a text for a draft UK-Switzerland trade agreement**, which would take effect after the current transition period of the UK, when the EU-Switzerland trade-related agreements no longer apply to the UK. According to the UK government, the agreement would cover trade in goods – including provisions on rules of origin, preferential tariffs and quotas, and non-tariff measures -- geographical indications and government procurement.

Overall, one can conclude that **EFTA countries have reacted quickly to the upcoming withdrawal of the UK from the EU and have negotiated various solutions for the period after**, either jointly or bilaterally. All draft agreements should be provisional, because they may have to be adapted, to what the EU will negotiate in 2020 with the UK for their future relationship. If the EU fails to conclude an agreement with the UK (hard Brexit) and relations fall back to WTO trading rules, then the draft agreements of the EFTA countries might stay as they are. However, even then, the draft agreements should at least not contradict the EEA. Regarding the initial question whether Brexit is a game-changer for EU-EFTA relations, it seems the answer should be twofold. On the one hand, the UK will become yet another country close to the EU with its own exceptional relationship and interests. On the other hand, whereas the UK will most probably not re-join EFTA, there is likely to be **little impact on the day to day functioning of EFTA and the EEA**.

7.3 The future: more flexible arrangements?

As we have seen EFTA was founded as an alternative to the European Economic Community (EEC). At the same time it soon developed and was regarded by a couple of its Member States as a stepping stone towards the EEC and later the EU. A certain ambivalence of the organisation and its members towards the EU can therefore already be found at the very beginning of its history. Over the years EFTA and especially its EEA states transgressed the line of pure economic integration and chose not only to participate in the EU's Internal Market, but also in related policy fields, which ensure its success. Cooperation in the fields of Security and Defence, in Schengen, Dublin but also programmes like Erasmus and Horizon 2020 is constantly deepening. **The EEA states as well as Switzerland with its bilateral agreements, hence followed the same logic which has driven European integration: the spill over from cooperation on a practical, rather economic level onto a broader political level.**

Nevertheless, there has also always been scepticism towards the EEC. Already the institutional set-up of the EEA is a good example for the wish for equal powers and influence vis a vis the EU. The emphasis on especially the Two-Pillar EEA structure shows the importance to Norway, Iceland and Liechtenstein of stressing their impact in the process of decision-shaping concerning EU legislation. In this respect, a dispute settlement mechanism outside the jurisdiction of the EU Court of Justice also had to be established, which in fact was found by this study to even inspire the EU court and thus develops an internal impact on the EU itself. The EU Court of Justice's competences have also been a major challenge within the negotiations of an International Framework Agreement (IFA) with Switzerland. A further point of friction, for the EEA states as well as during the negotiations on the IFA, is the countries' contribution to social and economic cohesion within the EU. Whereas the Union stresses their necessity for the efficient functioning of the internal market and thus their importance to all EFTA countries, the EFTA Member States' commitment to these funds has always been subject to discussions. In conclusion, the **EFTA states balance interest in cooperation, where priorities with the EU and the identification with common goals overlap, with a strong sense of autonomy and their own distinct identity, which they aim to preserve**.

The balancing of autonomy and integration, however, is not unique to the EFTA countries. It can be considered a recurring topic both in the EU's own internal discourse, as well as in its various relations to third countries. **Internally the EU has been discussing the nexus of deepening versus widening** its own Union especially in the years before the 2004 enlargement. The EU discourse was not explicitly framed in terms of identity, but more as the need to share common values regarding democracy, the rule of law and the fight against corruption. Other aspects of those debates were the institutional decision making capacity of the EU and the need to take more decisions by qualified majority instead of unanimity. Although technically many of these aspects were arranged in the Nice and Lisbon Treaty reforms, in practice, the dilemma between autonomy and integration has also returned in the EU after enlargement, for instance in debates on how to deal with immigration.

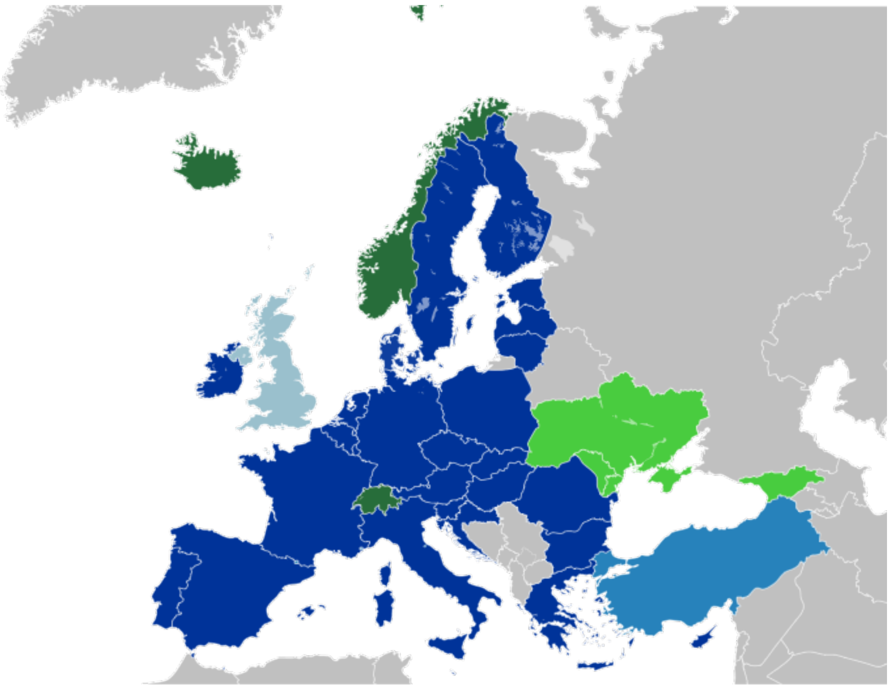
Apart from EU enlargement, **even before, Member States have been reluctant to adopt common rules in policy areas like security and defence, foreign policy or monetary policy**. All of these are areas which particularly touch upon autonomy and sovereignty of states. As indicated, examples of these are Denmark, which negotiated opt-outs from the EU in the areas of security and defence, police and justice, and the euro, or Sweden, which also opted-out of the euro. And although the Netherlands participates in all these areas, the negative outcome of the 2005 referendum on the European Constitutional project revealed fears in the population over a loss of sovereignty and autonomy.

The **EU has from the beginning allowed for regional arrangements of cooperation**, such as between the Benelux countries or, after accession of Sweden, Finland and Denmark, their continued membership in the Nordic Council. More generally, in response to wishes for differentiation in the pace of level of EU integration, the EU has over the years developed several mechanisms, also reflected in the Lisbon Treaty. These are the **provisions for 'enhanced cooperation'** which allow groups of member states to pursue differentiated integration. These provisions have so far been used in four cases: the European Public Prosecutor's Office, Divorce Law, Property Regime Rules and the European Unitary Patent. In the field of European defence policy, the Permanent Structured Cooperation (PESCO) was agreed and implemented in 2017. Finally, as mentioned, in the areas of free movement or monetary policy, certain flexibilities or opt-outs exist as well.

Externally, we see a sort of **inversion of the autonomy versus integration nexus in discussions on enlargement**. Whereas EFTA countries could probably relatively easily fulfil the EU accession criteria, it is them who choose not to apply for accession and keep their autonomy. There are however countries in the South and East of Europe who have applied or aspire to apply for EU membership, but who cannot fulfil their wish for integration, because they either do not (yet) fulfil the accession criteria or the EU is not ready to take them in as new members, or a combination of both. This discussion has recently flared up regarding the accession of North Macedonia and Albania. Questions of identity, rule of law or economic compatibility all play a part in these discussions. This will be the case even more so for those states that aim for EU membership in the long-run, like some countries of the Eastern Partnership.

All these examples show **a need to reflect on forms of EU membership or linkage of countries to the EU other than full membership**. This discussion is not new either: the concept of associate membership has been brought up in relation to countries aspiring membership before and comes back from time to time. Opinions on such concepts are diverse, ranging from rejection because they would dissolve the EU to support because they might provide a solution to the paradox of autonomy in integration. Even if the departure of the UK from the EU does not seem to be a real game changer for EU-EFTA relations at this moment, these kind of considerations are likely not to disappear for the EU.

Figure 10: Countries linked to the EU: EFTA (dark green), customs union (middle blue), Eastern Partnership (light green)



Source: Wikipedia

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