REGIONALE

14864?

W-6

EN

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

WORKING DOCUMENT

THE EUROPEAN ECONOMIC AREA AND ITS REGIONAL IMPLICATIONS

Regional policy paper No

W 6

DOC_EN\DV\243\243717

This document is published in all the official languages of the EC.

This paper was produced by the Directorate-General for Research of the Secretariat of the European Parliament. However the views expressed in it are purely those of the authors. The paper does not necessarily reflect the official position of the European Parliament.

Published by: EUROPEAN PARLIAMENT
Directorate-General for Research
Internal Market Division
L-2929 Luxembourg
Tel: (00352) 4300-1
Fax: (00352) 43 40 71

Edited by: Frank WIEHLER
Thomas STUMM

DOC_EN\DV\243\243717

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH

WORKING DOCUMENT

THE EUROPEAN ECONOMIC AREA AND ITS REGIONAL IMPLICATIONS

Regional policy paper No

W 6

11.1993

DOC_EN\DV\243\243717

INTRODUCTION

This paper was produced by the European Parliament's Directorate-General for Research at the request of the Committee on Regional Policy, Regional Planning and Relations with Regional and Local Authorities. It is intended as a contribution to the political debate on the regional implications of the EEA.

The agreement between 12 EC Member States and 6 EFTA countries establishing the European Economic Area has created the most important economic area in the world: the EEA accounts for 6.9% of the world population, 31% of world GNP and 43% of world trade.

With its 370 million consumers the EEA is slightly larger than NAFTA (360 million). The EFTA countries that signed the EEA agreement are major exporters, have a high level of technology and a per capita income above the EC average.

The EEA agreement will strengthen the economic development potential of both the EC and the EFTA countries that have signed it. However, not all the regions of the EEA will enjoy the same growth in prosperity.

This paper endeavours to show which regions will become more prosperous thanks to the EEA and which regions and economic sectors might find themselves facing difficulties unless flanking measures are taken. Such flanking measures include the EEA financing mechanism. In this context, we will also analyse how effective this new instrument may be in future.

Membership of the EEA will be transitory by its nature for those EFTA countries that want to join the EC. This paper will also examine the regional effects of an enlarged EC and its implications for future EC structural policy.

DIRECTORATE-GENERAL FOR RESEARCH

Luxembourg, November 1993

<u>C O N T E N T S</u>

1. THE EEA AGREEMENT OF 2 MAY 1992: GUIDELINES AND THE ROLE OF THE EUROPEAN PARLIAMENT

The EEA agreement is designed to create a uniform market for industrial goods, services, public contracts, capital and labour by extending the four freedoms to the EFTA states. It also establishes a system aimed at preventing any distortions of competition throughout the contractual area. In these sectors, the EFTA states recognize existing EC legislation with its 1500 or so regulations and directives and incorporate it into national legislation. At the same time, these states have agreed to cooperate more closely in such fields as research and development, environment, education and social policy. Border controls for goods and persons remain in place.

The EEA does not imply either a common agricultural policy or a common foreign trade policy. The common objectives of the EEA agreement differ from those of the EC, since the European Economic Area merely creates a system of free trade based on uniform conditions of competition. But there is one area in which the EFTA states agree to pursue a positive integration policy without demanding any co-decision powers in return: the sixth recital of the preamble specifically states that the aim is to promote the harmonious development of the EEA and to help reduce the economic and social regional imbalances by means of the agreement.

Spain, Portugal, Greece and Ireland in particular fear that the EEA will lead to an increasing pressure of competition. They fear that the extension of the single market to the prosperous EFTA countries will further strengthen the competitive position of the central regions in relation to the less developed EEA areas.

To compensate for this, it was decided to create a financial mechanism (Art. 116), although it was given few resources. The European Parliament addressed a total of seven recommendations to the Council and the Commission[1], which basically concerned the objectives and nature of future cooperation. The main concern was to safeguard the autonomy of the Community's decision-making process in general and Parliament's position in particular. Parliament evaluated the EEA agreement signed on 2.5.1992 on the basis of two reports: the "Rossetti" report (A3-306/92 of 19 October 1992) covered economic and trade relations between the EC and the EFTA states in the framework of the EEA; the "Jepsen" report (A3-316/92 of 20 October 1992) formed the real basis for enabling Parliament to give its assent, pursuant to Article 238 EEC, which it did by an absolute majority at the plenary sitting of 28 September 1992 in the framework of the cooperation procedure. A preliminary working document of March 1993 evaluates the negotiation results of the Protocol on amendments to the EEA agreement as generally satisfactory for the Community and its Member States.

In the years 1990 to 1992 the EEA process was accompanied by a development that was important with respect to any general assessment of the agreement: several EFTA Member States applied for accession as full members of the

---

1 See EP resolutions of 13 December 1989 (OJ No C 15 of 22.1.1990); of 5 April 1990 (OJ No C 113 of 7.5.1990); of 12 June 1990 (OJ No C 175 of 16.7.1990); of 14 March 1991 (OJ No C 106 of 22.4.1991); of 14 June 1991 (OJ No C 183 of 5.7.1991) and of 14 February 1992 (OJ No C 67 of 16.3.1992).

European Community. Austria was the first EFTA state to apply for accession (17 July 1989), followed by Sweden (1 July 1991), Finland (18 March 1992) and Norway (25 November 1992). On 26 May 1992 Switzerland also applied for full membership. On 1 February 1993 negotiations on full membership began with Austria, Sweden and Finland. On 24 March 1993 the Commission gave a favourable opinion on Norway's application for accession. Negotiations began in Luxembourg on 5 April and continued alongside the negotiations with the other applicant countries.

So the EFTA countries are following two different routes for achieving closer integration with the European Community: firstly the EEA agreement, which is designed to extend the internal market rules to the free trade area countries, and secondly membership of the European Community.

The logic behind this dual approach in relation to the two economic areas can be summarized as follows. The EEA will offer the EFTA countries mainly economic benefits but little political say. The Community, however, is mainly interested in the agreement for political reasons - because it allows it to "direct" the enlargement process.

In the event of accession, the reverse is true. For the EFTA countries, full membership of the EC mainly means an increase in political influence, while the economic advantages are fairly negligible. On the other hand, for the Community the accession of these prosperous EFTA countries means gaining new net contributors (cf: EFTA: Occasional Paper no. 41). Although the two aspects must be carefully separated in political and legal terms, there is little point in doing so from a (regional-) economic point of view.

Overall, the EEA is a preliminary step to full membership of the European Community for the applicant EFTA countries. For Iceland however, although this country has not so far applied to join the Community, the EEA agreement will remain in force for an unlimited time. The same applies to those applicant countries that may vote against membership in the forthcoming referendums.

We cannot, therefore, make any reliable forecasts about the future geographical and political dimension or the life-span of the EEA.

2. THE REGIONAL SITUATION IN THE EEA

EFTA is a central economic partner of the EC, whose importance is frequently underestimated. Even at a glance, the scale of reciprocal trade relations and the level of prosperity achieved in these countries demonstrates the importance of EFTA and also shows that the regional situation in the enlarged European Union will change compared to what it has been so far, both in the EEA and in the event of the accession of several EFTA states to the Community. This raises the question whether and which problem regions in the applicant countries could be eligible for EC structural fund aid. What is certain is that in the event of accession, these states will bring new regional problems into the Community, which will mean that the Community's regional policy will need adjusting.

- Foreign trade

The EFTA states are the major suppliers to the Community, accounting for 23% of its imports (compared to: USA c. 18%, Japan 10%). The structure of EC exports is fairly similar, with the EFTA markets taking up 27% of Community exports in 1990. The EFTA countries imported 64% of their total imports from the Community in 1990, whereas their exports to the EC accounted for 58% of their total exports.

Looking at the structure of reciprocal trade by country and product, we find that the proportion of finished products has risen markedly (1958: 24% and 1990: 69%). Notable exceptions are Finland, Norway and Iceland. In Finland products from the wood-processing industry make up 40% of total exports, of which 60% go to the Community. Iceland's main export products, which make up about 70% of its total exports, are fisheries products. In Norway, by contrast, crude oil is the main export. Some EFTA countries, such as Austria, Switzerland and Sweden, are more closely integrated in the Community in terms of foreign trade than some of its own Member States. The intensification of reciprocal trade relations which the EEA is likely to bring will certainly have an impact on the various countries' economic structures and also affect existing problem regions in the EFTA countries.

- GDP

The average annual growth of GNP in the EFTA countries between 1980 and 1989 was clearly lower (at 2.4%) than in the USA (3.2%) or Japan (4.1%), yet lay slightly above that of the EC (2.2%). Measured by the Community average, all the EFTA states have a higher level of prosperity (per capita GDP). If we compare the two economic areas, we find that the prosperity gap between EFTA countries is narrower than between Community countries. The more prosperous EC countries, however, have a per capita gross domestic product comparable to the EFTA average. In the European Economic Area, and in the event of accession, this gap between the rich countries and the poorer, more marginal countries will, therefore, widen again (cf Muns, 1992 and Annex 1). Yet this global comparison between the Community and the EFTA countries does not really show that at regional level prosperity is distributed even more unequally. A diagram relating to the Nordic states shows, however, that the gap between EFTA regions is much narrower than between EC regions (cf Annex 2).

We will now examine a few basic features of the economic structure and the major problem areas of the EFTA countries, in order to clarify the chapters that follow.

<u>Finland</u>

The period of prosperity enjoyed by Finland during the last decade gave way in the early 1990s to the first signs of crisis. The overdone Finnish boom led among others to a serious rise in unemployment (1990: 3.4%; 1992: 13%; cf: IFO, 1993; OECD study of Finland). Recently, however, things have begun to move in this country, which used to be so carefully sealed off. Deregulation, the dismantling of monopolies and reforms aimed at the liberalization of the capital market are the first steps towards adapting to the more liberal EC legislation. The mechanization of agriculture and forestry and the closure of mines released a large quantity of manpower and led many workers from the north and the centre (Lapland, Oulu, North Karelia) to migrate south, mainly towards the large towns. Much of the processing industry is concentrated in these regions (Provinces of Uusimaa, Turku Pori, Häme and Kymi) and some 70% of those employed in industry live there. Furthermore, 70% of the country's gross production and exports of industrial products are produced there. The services sector is concentrated very heavily in the Helsinki region, but also in the peripheral northern and eastern regions of Finland. Small firms, employing no more than five people, account for some 70% of total firms. The forestry and wood-processing sector is the country's strategic branch of economic activity (40% of exports) and is based mainly in the northern and eastern, rural and thinly populated regions. About 1.26 million people live there, which in fact comes to a quarter of the total population of Finland. The overall per capita GNP in Finland is close to the EC average (1989: 107.5%, recently just under 100%). Half of the Finnish provinces have a per capita GNP of between 85% and 100%. Direct aids, pensions and other transfers make up about 25% of farm incomes there. Since 1970, employment in industry has fallen by 40 000 workers because of the high transport costs in these regions.

- Sweden

Since 1989 the Swedish economy has been hit by a serious recession. Together with continued low growth rates and rising inflation (1989: 6%; 1990: 10%), the rapid rise in unemployment (1988: 1.6% and 1992: 4.4%), in this country that was a classic example of full employment, is reaching disturbing proportions. From a regional point of view, this adverse employment trend is mainly affecting areas with traditional industries (paper, steel, iron ore mining), in addition to the regions of the north that have a tradition of structural weakness. The problem becomes particularly acute in the least developed regions in the north-west of Sweden, for example in the Norbotten region. There the unemployment rate has now reached 9.5% and in some communities as much as 15%. With a view to possible accession to the Community, the Swedish Government has introduced a harmonization policy aimed in part at removing the structural economic problems. According to some observers, when it takes these measures Sweden will be the northern European country that is best prepared for the internal market in 1993. Only one fifth of the population lives in the disadvantaged areas in northern Sweden, which make up two thirds of the total surface area of the country and are predominantly wooded. Nearly 6% of the working population in Norrland (3.9% for Sweden as a whole) work in agriculture and forestry and in fishing. The farmers who live there receive state payments, which accounted for some 27% of farm incomes in 1989. Since, moreover, there are few towns in that region, the abandonment of farming would further strengthen the depopulation trend. The processing industry also receives fairly considerable state aid. Disadvantaged areas also exist in southern and central Sweden (hill and forest regions) and in the coastal areas (Baltic islands), which are quite comparable to the problem regions in the Community.

Norway

The Norwegian economy is made up mainly of small and medium-sized undertakings; nearly 80% of firms employ fewer than 20 workers. In view of the Norwegian crude oil resources, it is not surprising that the largest undertakings, apart from the dockyards and the manufacture of industrial products for off-shore activities, are to be found in this sector. There are considerable differences between the provinces in the various parts of the country. The per capita GNP in the Province of Oslo is more than twice the national average. However, provinces in south-west Norway (Rogaland 96%) and the extreme north (Finnmark 69%), are markedly lower.

The north Atlantic island of Iceland, with about 250 000 inhabitants, is the smallest EEA economy with a GNP of ECU 4 400 m in 1990. For a long time this area's economic development was characterized by an above-average inflation rate, but recently this has been to a large extent controlled by structural reform measures. One important feature of the Icelandic economy is its heavy dependence on fisheries, which in 1989 accounted for 50% of export revenue and 15% of GNP and employed 12% of the working population. By comparison, it makes up a total of 0.15% of GNP in the Community, and 2% in traditional fishing countries such as Spain and Portugal. The services sector in Iceland employs more than half the population and produces 48% of GNP, while industry employs 38% and produces 37%. Like the other Nordic states, Norway and Iceland feature the same typical regional problems (Arctic and sub-Arctic regions), while the deep clefts of the fjords and the high mountain ranges represent additional obstacles in the form of communications barriers.

Austria

Austria's industry is concentrated mainly in Lower and Upper Austria and is generally characterized by the small size of the undertakings. In sectoral terms, the regional emphasis in the chemical and textiles industry lies mainly in Lower Austria. The Vienna area contains the food, engineering, electronics and chemical industries and a growing services sector. Vorarlberg is a textile-industry region which, like Obersteiermark with its economically very heterogeneous structure, is showing signs of greater diversification. Upper Austria, by contrast, is the region facing the biggest problems because of its mining and heavy industry. The regional disparities in Austria are not nearly as marked as those in the EC, however. The main areas that could be described as problem areas are Steiermark, Kärnten and the north-eastern regions. In the hill-farming regions the rate of exodus is high because of the generally lower incomes, the difficult topographical and climatic conditions and the small scale of farm production.

No less than one third of all farms in Austria are graded as "Alpine", which means they are eligible for government aid (aid to improve production conditions, aid to create infrastructure, direct income aid), which is designed to persuade the local population not to abandon them. What are called "structurally weak or old-industry industrial areas", which extend from Steiermark to Lower Austria, make up the second main problem type. Because of the high proportion of branches whose development is at risk, they are marked by a slightly below-average level of development and a very unfavourable employment trend.

Conclusion: Overall, the problem regions in the EEA states can be regarded as "thinly populated regions in a peripheral situation with communication difficulties", "areas with declining industrial branches" and "Alpine regions" in general. The northern EFTA states in particular have a common problem, on a scale unknown in the EC: thinly populated, peripheral Arctic and sub-Arctic regions. In general they are characterized by long distances, difficult communications, extreme climatic conditions and a very strong public sector.

This new regional problem can be further clarified by a short analysis of the original demographic situation in the two economic areas. The total population of EFTA, with c. 32 300 inhabitants, is one tenth that of the present Community of twelve. The average population density in the EC is about 145 inhabitants/km^2 (as at 1990), compared to only 24 inhabitants/km^2 in the EFTA countries. Iceland, Norway, Finland and Sweden, which together account for more than 90% of the total EFTA area, are very sparsely populated. As a result, the population density in the EEA (without Switzerland) will fall to

100 inhabitants/km^2. Moreover, the regional distribution of the population in the individual states is not balanced.

3. THE REGIONAL IMPLICATIONS OF THE EEA AGREEMENT FOR SELECTED SECTORS

The geographical expansion of the internal market and the abolition of the remaining non-tariff barriers to trade by the EEA will exert further pressure to adapt by increasing the competition. The repercussions will lead to changes in the employment structure within the EFTA and the EC and between the sectors concerned and affect the regional distribution of production and incomes. The problem regions of the EEA risk becoming even less able to catch up with the more productive regions. That could further widen the gap between regions. By analysing specific aspects of the agreement that are likely to have serious regional implications, we propose to work out the regional consequences of incorporating the EEA agreement provisions into national legislation. Some of the aspects selected are an integral part of the agreement (free movement of goods and capital, competition in respect of state aids, public contracts), others are the subject of bilateral agreements, such as trade in agricultural and fishing products and transport.

3.1. Free movement of goods

Even before the EEA, trade in most goods was duty free following the free trade agreements concluded in 1972, which totally abolished customs duties on commercial products. With the advent of the internal market programme, however these agreements were no longer regarded as adequate. As in the case of trade within the Community, there are a large number of what are called non-tariff barriers to trade in the trade relations between the two economic areas and between EFTA states. The EEA agreement abolishes these obstacles to trade. But since border controls will remain, this radical revision of the agreements only creates a further-reaching free trade zone, but not an internal market like the EC one. The structural processes this produces will have a very different regional effect depending on the country, sector and region.

The importance of trade in industrial finished products. Austria, Sweden and Switzerland have a particularly strong industrial basis in EFTA, while the exploitation of natural resources is of central importance to Iceland, Norway and Finland. Consequently, Austria, Switzerland and Sweden, together with France, Germany and the Netherlands, also have the highest rates of trade in industrial finished products. Finland and Norway are at the bottom of the ladder, beside Greece and Portugal.

The results of a study commissioned by EFTA on the effects of the internal market on the processing industry are as follows (EFTA: Occasional Papers no. 38, 1992, pp. 8-11, 50-53):
The proportion of sensitive sectors in the total number employed in industry and in the industrial added value generated lies markedly below the EC values in all EFTA countries. Of all the EFTA countries Sweden is the most actively competitive and need not even fear comparison with many EC Member States. A majority of workers are employed in sectors with good development prospects. In both Austria and Finland, the distribution between strong and weak sectors is relatively balanced. Iceland and Norway, by contrast, have a large number of weak sectors. In Iceland, the high price level of its industrial and food products is regarded as the result of low competitiveness. Presumably many

producers would find themselves in trouble if the market were opened up (cf Annex 4).

The findings of a paper produced for the Bank of Finland in 1989 on the effects of the internal market on the domestic economy emphasized that Finnish industry seems to be better prepared for the internal market than many Community undertakings. In the sectors most affected by the completion of the internal market (EFTA study: clothing and food industry, building materials industry, transport equipment sector), the adjustment process is likely to be more difficult. So the regional focus of structural change tend to be in the industrialized south of the country.

In Norway the evaluation carried out by the Norwegian Institute for Regional Research and Urban Studies on the basis of the above EFTA study is rather less clear-cut (cf Halvorsen/Söerensen, 1991). According to it, the entry into force of the EEA agreement will expose industries such as telecommunications, engineering, etc., together with sectors that used to be politically protected (food, drinks, tobacco, printing products), to stronger competition and create serious problems as regarding making the necessary structural changes. Unlike the figure of 17% of workers employed in sensitive sectors such as these, according to the EFTA study, a study commissioned by Norwegian industry in 1988 produced a figure of 27.3%. Only the fish-processing industry and shipbuilding are competitive. The biggest adjustment problems occur in predominantly agricultural regions with a high number of stagnating industrial sectors.

In a book entitled "Industry and the EC in the '90s", the Swedish employers' association forecast an annual GDP growth in the event of accession of more than 1.5% above the GDP it established in the event of remaining isolated. All sectors of industry would derive benefits from accession, with the research-intensive key industries (electronics, telecommunications, pharmaceuticals) having the best growth prospects. For the more specialized sectors such as the motor vehicle and capital goods industry, which account for 30% of industrial production, accession is a prime condition for remaining competitive in the long term. Looking at these findings on a regional basis, the strongest impetus towards growth will be created in the south. If a solid link is built over the Sund (combined tunnel and bridge spanning 18 km), then according to representatives of industry and trade this will further speed up the development of a dynamic Malmö-Copenhagen economic region. It would create a dynamic and attractive growth region of 3.4 million inhabitants. Furthermore, this would create a counterpart economic centre to Stockholm. But this will no doubt have an effect on the hinterland northern regions of Sweden and reinforce the trend to migrate unless flanking measures are taken.

An inquiry into the costs of not joining Europe (accession scenario) and an evaluation of the overall economic effects of Austrian membership of the EEA (cf Breuss/Schebeck, 1991) carried out by the Austrian employers' association, in analogy to the Cecchini report, produced very positive findings. According to this survey, the medium-term trend of macro-economic target figures (GDP, employment, price level, balance on current account, budget deficit) would be positive. In regional terms, and as the Austrian 1991 conference on regional planning emphasized (cf: ÖROK, pp. 79-81), the EEA would significantly strengthen the economic links with Western Europe, which are already highly developed in western Austria. But the counterpart to this improvement for western Austria would be a slow down in the development of the Alpine regions, mainly because of their limited natural reserves. The repercussions would affect the large, central urban areas in eastern Austria, which have hitherto been more or less shielded from the pressure of international competition, and be felt most in the heavily industrialized areas. While the structural adjustments this would require (product innovation, reorganization of undertakings, opening up new markets, retraining management and workers) would be likely to prove difficult in the case of the mono-structured coal and steel regions, conditions in the western Austrian industrial areas would be favourable. In general, as ÖROK points out, it is to be expected that the traditional regional economic difficulties would tend to become more rather than less pronounced over the next decade.

The EFTA states also represent important markets and strong competitors for the EC Member States, thus increasing the pressure on certain industrial sectors and regions, which are already having to come to terms with the internal market, to adjust. In general it may be said that trade in EC Member States' finished products, with its strong industrial basis, plays a relatively more important role than it does in, for instance, Ireland, Spain or Greece (exceptions: Portugal; Netherlands; cf: Annex 6 and Chapter 3.5.). Member States in a peripheral position and regions in direct competition with EFTA in specific branches of industry are especially likely to see the EEA as a threat. This can be confirmed in the case of Portugal's wood industry, which is competing directly with all the northern European countries in which this sector is of central importance. A counter-example is Ireland, whose positive trade balance with the EFTA states is likely to be consolidated by the EEA agreement, if the trend continues. If the EFTA countries obtain greater access to EC markets, that will not have any adverse effects on this country (cf Fitzpatrick 1992).

Conclusion: It becomes clear that free trade in industrial finished products will give rise to adjustment pressures in the EFTA states, which will not, however, provoke any serious crises. The relative dynamism of the central areas can accentuate the problems in the remote peripheral and hill regions, which is an important factor in the current debates on accession taking place in several EFTA states. This is directly connected with the demands for adequate structural fund aid in the event of accession.

3.2. Liberalization of financial services and capital transactions

The EEA also regards the creation of a comprehensive, non-discriminatory framework for capital transactions, cross-frontier investment and loans as an important objective. In some specific areas, which were formerly subject to strict controls in the EFTA states, exceptions and transitional periods will apply to the countries in question. At the same time, they will incorporate the Community's legislative acts relating to financial services (banking sector, security markets, insurance) into national law.

The EFTA countries will derive considerably more benefit from the liberalization of financial services than the EC countries. Measured in percentage of GDP, the expected profits are about 1.6% for the EFTA countries and about 1.4% for the EC. This is because most financial products in the EFTA countries are slightly more expensive than in the EC. The profits vary considerably from one country to another (high in Switzerland and Austria, low in Finland and Iceland), which basically reflects the varying importance of the financial sectors in the countries in question (cf EFTA Bulletin 4/90, EFTA Occasional Paper no. 33). There will be an impetus towards modernization, although it may have very different repercussions, in those states in which the financial services are not very competitive in qualitative or quantitative terms. One positive example is Iceland, which will gain access to further sources of finance thanks to liberalization, which will in turn bring down the high Icelandic interest rates. The presence of foreign banks is more likely to be an advantage to this country, which relies very heavily on fisheries. Better investment loan terms will promote economic diversification. But it is difficult to predict the effects of the EEA on the banking sectors of Norway and Sweden, which are going through a crisis.

The prospect of the internal market gave a strong boost to EFTA undertakings and their investment behaviour. In the period from 1985 to 1987, according to EUROSTAT estimates, the EFTA states' net foreign investment in the EC increased by the power of eight, often exceeding that of the USA and certainly that of Japan. One quarter of foreign direct investment in the EC comes from the EFTA countries, accounting for about half of EFTA investment abroad. In the Community, in 1987 EFTA undertakings employed an estimated 700 000 workers, which in fact represents 0.5% of the workforce.

Sweden and Norway can be taken as an example. Between 1981 and 1990 Swedish direct investment in Europe increased thirty-fold, reaching a peak of Swedish kr 90 000 m in 1990. The wood industry alone acquired undertakings in Europe worth kr 30 000 m over the last five years and now produces in 160 locations. Swedish undertakings accounted for 25% of the total volume of purchasing activity in Europe in 1990. The reasons for this strong foreign involvement are to be found mainly in the limited nature of the domestic market and in specifically structural problems[2]. Large Norwegian firms have also shown a lively interest in the Community. Two thirds of Norwegian direct investment went to the EC, of which 80-90% of the total sum was invested by a small group of undertakings. One main reason for this investment activity is the high transport cost of Norwegian export products because of Norway's peripheral position.

So the investment potential of the EFTA states is an important economic factor, which can also benefit the disadvantaged regions of the Community. However, the regional distribution of these investment flows in the EC depends very much on the socio-economic situation of the region in question. Especially in the case of disadvantaged regions we can generalize and say that because of their poor infrastructure, foreign direct investment flows mainly towards the large urban agglomerations and the economic centres. This can be confirmed by an analysis of the distribution of EFTA direct investment in the EC from 1986 to 1991 at the level of the Member States. Only Sweden and Finland invested a share of 11% and 9% respectively of their total investment in the EC in the four cohesion countries of the Community (cf Annex 7).

The lively foreign activity of Swedish industry also has an effect on employment. The 25 largest undertakings employ c. 62% of their workers abroad, half of them in the EC. The number of Swedish workers employed abroad rose by a total of 49 000, while the number at home fell by 3 600. The question whether EEA accession will tend to draw more investment capital out of Sweden has provoked heated discussion. It should be pointed out that redirecting

---

2 Low productivity, lack of skilled workers, high energy costs, high taxes, restrictive legislative framework and heavy external economic dependence

investment abroad has more to do with falling profit expectations in Sweden rather than the founding of the EEA.

Conclusion. The internal market rules of the EEA on the creation of a large financial area and the ensuing investment shifts will mainly benefit the existing economic centres and central regions, since there are too m any structural obstacles in the problem regions (poor quantitative and qualitative infrastructure, extremely peripheral position). This applies both to the disadvantaged EC regions and to the peripheral and sparsely populated northern regions.

3.3. State aid and public contracts

By analogy with the provisions of the EEC Treaty (Art. 92f), Articles 61-64 of the EEA agreement set out the rules on competition in relation to state aid. To ensure compliance with these provisions a special "EFTA monitoring body" is set up under Article 108 with the same powers of control over the EFTA states as the EC Commission has over the Member States. In the event of an individual aid or aid system being examined, however, this monitoring body, which is unique in this form, requires close cooperation between the EC and the EFTA states, which is to be achieved through the provision of information and other forms of cooperation. The quality of the cooperation will largely determine whether the aid rules based on the "acquis communautaire" can be applied by analogy and determine their harmonious development in the EEA. Other common rules (Art. 65) to be observed include the special provisions and rules governing public contracts, intellectual property and protection of commercial legal rights which, as their incorporation into internal market legislation has shown, can also have regional repercussions. The application of the EEA provisions on state aid will also have repercussions on the sectoral and regional aid systems of the EFTA member countries. The contractual obligation to notify any new aids and the examination of existing aid structures offer an opportunity to examine the EFTA states' regional policies. Where the findings are negative, this has repercussions on the regions that receive these aids. But the EEA agreement also includes exceptional rules for disadvantaged areas.

National aids are also monitored by a complex procedure involving several stages, which we will not go into here[3].

There will in future be lively discussions about the limits of the development aid for the EFTA countries signing the EEA agreement. The accession negotiations with Austria and the Scandinavian countries have also shown evidence of some explosive material. Since Article 92 of the EEC Treaty and Article 61 of the EEA agreement are identical, there could be an approximately identical development aid limit in both cases. However, in Joint Declaration No. 11 on the EEA agreement, the contracting parties state that even if a region is not eligible for aid under the existing criteria, the matter ..."can be reviewed on the basis of other criteria, for example a very low population density." This provision for a wider review procedure is designed primarily to take account of the specific situation of problem regions in Scandinavia.

---

3 cf OJ C 212 of 12.8.1988; OJ C 163 of 4.7.1990; European Economics No. 48, 1991 "Fair competition in the internal market: the EC's aid policy"

But other areas (e.g. hill regions in Austria) could also come under this exception.

In Austria the so-called "Z areas" (areas of Graz, Eisenstadt, Klagenfurt; Amstetten-Krems-Melk-St Pölten axis), in which 12% of the population live, problems may already arise in the EEA - or at the latest with accession - in relation to compatibility with the common market. They will no longer be accepted as regional development areas. The aid level generally remains within the tolerance limit. Since some 33% of inhabitants live in development areas (leaving aside the "Z areas"), the surface area will have to be slightly reduced in the medium term.

Although the general framework is compatible with EC rules, changes will probably have to be made to the regional aid system in Norway too. This mainly concerns areas in the north and the Polar zone where the maximum aid rates are 35% and 40%. Since 36% of the population live in development regions, the surface area is likely to be reduced in future.

The present development regions of Finland account for 47% of the population and 88% of the national territory. The aid rates range from 25% to 45%. Apart from the necessary adjustments in this field, presumably indirect compensatory mechanisms will also have to be looked at to tackle long-term problems (e.g. compensation measures in respect of transport for peripheral areas).

Although first steps were taken to reduce the level of aid in Sweden, there too the level of most of the regional aid rates is still too high to be compatible with Community law. Only 8% of the total population live in areas assisted under regional policy, so that the surface area probably does not have to be reduced.

Article 65(1) of the agreement stipulates that the special Community rules on public contracts apply to all goods and to the services listed in Annex XVI in the EEA[4]. Even in the context of the EC internal market, the creation of a large market for public tenders is regarded as one of the Community's primary aims. Public invitations to tender, making up a total share of 15% of GDP, are a lucrative market in the EEA too. In the EC it accounts for about ECU 550 000 m and in the EFTA countries for about ECU 50 000-60 000 m. If we compare the past practice in the two economic areas, we see that the EFTA markets are more open, although there too, as in the EC, regional and local firms tend to be favoured. In a similar way as for Portugal, Greece and Spain, transitional periods were granted in the case of Norway and Liechtenstein.

It is difficult to identify the regional implications of the liberalization of public contracts and it can only be done through a regional analysis of the employment situation in the sectors concerned. In the EC, restructuring and adjustments are most likely in the sectors of railway equipment, the electrical industry and telecommunications. If we look at the regional concentration of employment, we find the strongest effects occurring in the

---

4 1989 building coordination directive, 1988 supply coordination directive, 1989 legal redress directive, 1990 sectoral directive. The regional and social aspects were analysed in a 1989 Commission communication (cf OJ No. C 311 of 12.12.1989), which is also an EEA reference document after Annex XVI.

central regions and the declining industrial areas. Backward and peripheral regions are less hard hit if they do not have any subsidiaries or suppliers there. Effects on a larger scale are only to be expected in the building, pharmaceuticals and textiles sector.

The above also apply to the EFTA states, as in the case of Austria. Here the opening up of the market is giving rise to competition and restructuring effects, which will considerably reduce the public procurement prices. Sectors which used to be firmly protected, such as telecommunications in the Vienna area, are especially hard hit. The OECD has emphasized that despite the continuing ban on discrimination in the award of public contracts, Sweden is still pursuing a policy of regional preference. The EEA agreement will force the Swedish central, regional and local authorities to open their large-scale contracts to public tender. This will result in budgetary savings. The competition for regional and local bidders will intensify.

Conclusion: In short, we can say that if the aid rules set out in the EEA agreement were strictly applied in all EFTA states, this would reduce the aid level. But in the short term, the EFTA monitoring body can decide on transitional measures. This will give rise to conflict. But at the moment of accession to the EC, a comparatively stricter"acquis communautaire" would have to apply.

The obligation to open public contracts to public tender will generate great savings for the public authorities. At the same time, the local and regional bidders will have to expect stronger supra-regional competition.

3.4. Transport and cross-frontier cooperation in the EEA

Articles 47-52 of the EEA agreement only devote a short section to transport. The provisions are based on the principle of reciprocal market access and are aimed at a comprehensive liberalization of transport services on a multilateral basis for all forms of transport, together with the harmonization of technical rules and working conditions. But the economic impetus of the European Economic Area can only be fully exploited and the growing traffic of the future can only be tackled on the basis of a highly developed transport infrastructure. That will also reduce the costs resulting from the geographical remoteness of the markets. At the same time it is a condition for the development of backward EEA regions. Despite the existing problems and the importance of such measures, the rules set out in the agreement do not offer any means of pursuing such a policy. The only, comparatively minor step towards closer cooperation is the fact that henceforth EFTA country representatives may participate in the work of the transport infrastructure committee.

Transport difficulties in Europe are caused mainly by the unchecked growth of traffic flows and the lack of international coordination in the development of transport infrastructure. In an EEA context, two transport bottlenecks are of particular importance in the planning of European transport infrastructure networks: the southern links through the Alps and the links with the Scandinavian countries. Both transport bottlenecks are caused by natural barriers. Because of the specific situation here, the most obvious solutions are the creation of new infrastructure and the planning of combined transport systems (cf Rathery 1993).

A number of new infrastructure programmes have been started or are being discussed in the framework of the "Scanlink Project". In the case of overland transport this involves building railway and motorway bridges across the Store Belt and the Öresund (Sweden-Denmark link) and building a railway link across the Femer Belt. Furthermore, efforts will be made to extend the access roads to Oslo, Stockholm and Göteborg and to extend and rapidly electrify the rail links from Jütland to Hannover, i.e., the stretch from Hamburg via Bremen. The attempt to make the Alps a transit area for EC transit traffic is a central objective and represents a major domestic policy issue for Switzerland and Austria. The existing high road traffic level, which will increase in future, contrasts with a volume of rail traffic that has remained more or less constant since the mid-'70s. Since the Brenner motorway was built, transit traffic has increased very significantly in Austria. Some 70% of the more than 5000 heavy lorries that cross the Alps every day use this route. In addition, the 28-tonne limit for heavy lorries decreed by Switzerland has a "re-routing effect" to the detriment of Austria. About 40% of road traffic crossing Austria would normally come from Switzerland (Rathery, 1993, p. 13 f).

The EC Member States, the Community and third countries must therefore take account of these new EEA factors in their transport policy activities.

The European Parliament discussed the question of extending trans-European networks beyond the Community in its resolution of 7 April 1992 ("Siso Cruellas" report A3-125/92)[5]. The strategic guidelines and regional emphases of overland transport, internal waterway and marine shipping and air transport in the EEA were analysed in detail in the resolution of 10 July 1991 ("Lüttge" report, A3-173/91). In it Parliament urges the Council and the Commission to recognize the importance to the Community of a range of large-scale projects in which the EFTA states should also be involved and to endeavour to coordinate the planning more closely.

3.5. Agriculture and fisheries

The question of a common agriculture and fisheries policy was excluded from the EEA agreement by a broad consensus. Specific solutions designed to expand trade in the EEA were found for these two sectors, both in the EEA agreement and on the basis of bilateral agreements. The EEA agreement seeks to ensure progress in the liberalization of trade relations by dismantling technical barriers to trade in agricultural and fisheries products. However, these provisions have little regional impact. The bilateral agreements in the form of an exchange of letters concluded with the EFTA states form part of the overall package and largely determined EC approval of the agreement.[6] They have a much stronger regional impact because of the differing importance of agricultural exports in the foreign trade of individual Member States, which is why they were concluded as an additional instrument to strengthen economic and social cohesion. The prospect of several EFTA states becoming full members of the EC (Austria, Sweden, Finland and Norway) will require them to make major structural adjustments in the field of agriculture and fisheries.

---

5 cf: COM(90) 585 fin.

6 cf: "Blaney" (A3-294/92) and "Lataillade" (A3-289/92) reports; Declaration by the European Community on bilateral agreements in the EEA agreement

In the bilateral agreements on agricultural products the contracting parties are seeking among others to help reduce the economic and social inequalities between their regions (Protocol 42). The bilateral agreements include provisions to this effect on the unilateral reduction or abolition of customs duties by the EFTA states.

Agriculture forms a central part of the current accession talks. One major difficulty is the question of adjusting the agricultural structures in the applicant countries to the comparatively more liberal situation in the Community (cf Colchester, 1992). All the EFTA countries subsidize their farmers. Agricultural protection in the EFTA countries, measured by the OECD formula of the "producer subsidy equivalent" (PSE), averages 65-70%, whereas the figures for the EC are 50-55%. If we express the transfers paid to agriculture by the individual citizen in 1991 in the form of taxes or excessive product prices in per capita terms we find that the average value for the EC is 400 dollars, but for countries such as Switzerland, Finland and Norway the average is about 1000 dollars (cf Annex 10).

In its opinions on the applications for accession by Austria, Sweden, Finland and Norway,[7] the Commission emphasized that the accession of these countries would not encounter any unsurmountable obstacles in the agricultural field in view of the nature and objectives of their agricultural policy. But this optimistic view should be clarified a little more for the individual cases, since it is likely that the Community will have to offer structural aid measures in return for concessions by the EFTA countries because of the regional implications of the latter.

Austrian agriculture is the least subsidized in EFTA after Sweden, with a figure of 524 dollars per capita. In the event of accession to the Community, the liberalization of agricultural markets will further weaken the competitive position of the peripheral hill regions and rural areas. The Austrian regional planning conference did not believe that the feared loss of economic substance could be compensated by alternative development opportunities (bio-farming, tourism, new settlements).

This Alpine country is likely to seek to obtain special terms to promote the non-agricultural sector of the economy in hill regions, in the framework of the common agricultural policy and the structural funds. Overall, however, it may be assumed that Austrian agriculture will adjust more easily to the CAP than that of Switzerland or Finland.

Swedish agriculture, especially in the northern regions, obtains a wide range of regional aids. The level of the aid is markedly higher than the usual EC level, but Sweden has made it clear that it does not want to see it reduced in the event of accession. Yet unemployment in these regions remains high, exacerbated by the decline of the mining industry, which is also based there. The reform of Swedish agricultural policy that began in 1991 includes greater deregulation with a view to reducing surplus production and is therefore entirely in line with the MacSharry reform proposals for the CAP. At the moment of accession, this sector would therefore be starting out from a good position.

---

7 Commission opinions on the applications for accession by Austria (COM(91) 1590 fin.), Sweden (SEC(92) 1582 fin./2), Finland (SEC(92) 2048 fin.) and Norway (COM(93) 142 fin.)

EC accession would put Finnish agriculture under enormous pressure to adjust, since the aid granted there is nearly three times the average Community level. In Finnish agricultural production in 1990, the "producer-subsidy equivalent" used as a yardstick by the OECD accounted for 72% of the total production value, so that the subsidies are among the highest in the OECD. The competitive boost which accession will inevitably bring would result in a greater exodus from the north and more land being abandoned there. But it is the declared aim of all Finnish governments to prevent the further depopulation of these border regions because it is difficult to control the 1200 km long border with Russia and because of the enormous economic gap between the two states. This exodus would also have an adverse effect on forestry.

Norwegian agriculture, largely based on small-holdings, only employs 5.4% of the population but is one of the most highly subsidized in the world because of the difficult climatic conditions and the philosophy of self-sufficiency which is a feature of Norway. Accession to the Community, and the incorporation of the CAP provisions into national law which that would require, together with the surrender of national privileges, will presumably provoke strong opposition in this country. It would particularly affect the cold northern border regions. Like the hill regions in the present Community, they would form a new category of disadvantaged regions.

The trade in fisheries products is gradually being liberalized under the EEA agreement. The EFTA countries will abolish nearly all duties on Community exports. In return the EC will either abolish theirs immediately or reduce them gradually. On the question of access to resources, the bilateral agreements either granted the Community additional catch quotas (Norway) or consolidated existing catch quotas (Sweden). The agreement with Iceland, however, merely provides for an exchange of quotas. So EC fishing vessels will generally be allowed larger catches.

The fisheries sector has considerable regional importance both for the Nordic EEA applicant states and for the Community. The main reason for the radical structural changes in the EC areas deriving their main revenue from fisheries lies in the continuing imbalance between existing catch capacity and available fish stocks. In the future this will lead to restructuring and the reduction of fishing fleets. In the Community, this sector directly employs no more than 0.2% (260 000 people) of the working population. But if we include the activities indirectly linked to this sector (shipbuilding, fish-processing industry), the figure can be multiplied by five. In some disadvantaged regions of the Community, however, fishing is the only source of income. In view of the strong regional concentration of the consequent effects, the Commission decided to apply flanking measures for the common fisheries policy too, in its proposal on the review of the structural fund regulation for the period 1994-1999. "Objective 6" which was originally designed specifically to achieve this was, however, dropped in favour of a new "financial instrument for the adjustment of fisheries (FIAF)"[8].

---

8 cf: COM(92) 2000 fin.; PE 202.772; COM(93) 124 fin. - SYN 457; COM(93) 8124 fin./ 2 SYN 455

The increase in catch quotas in the case of Norway[9] will have a stabilizing effect on certain EC regions, depending on how the quotas are allocated among the Member States and the origin of the fishing fleets involved. The provisions on access to fisheries resources are set out in a separate protocol. The allocation of the additional catch quotas has not yet been decided. The final decision will have to be taken unanimously by the "General Affairs" Council because the question is politically explosive. The first signs of a system of allocation based on the cohesion argument suggest that 75% of the total volume will go to Spain and the remaining 25% to Portugal. Spain, which did not fish in Norwegian waters prior to the entry into force of the EEA, would thus obtain one of the largest catch quotas in the Community. The fishing fleets concerned would come mainly from the Spanish region of Galicia and the Basque country, together with the Portuguese Aveiro (region: Centro), and will therefore help maintain employment there.

In Iceland fishing and the fish-processing industry are pivotal to its relations with the Community. The EC fisheries policy is widely criticized on the grounds that its approach is too protectionist compared to domestic practice, the labour and capital productivity is too low and it receives greater sectoral and regional aid. Apart from the excellent social and cultural standing of the fisheries sector in the national context, it is also very important to the country economically. It accounts for 14% of GDP and 70% of export revenue. One of its features is that the activities are very heavily concentrated on numerous fairly small coastal settlements, in which fishing is often the only source of livelihood. In future, according to experts, the dwindling fish stocks and the resulting surplus catch capacity will lead to a c. 40% reduction in the fishing fleet. That may lead to an increased exodus and further concentration of the population in Reykjavik. There is a danger that the released labour force cannot be absorbed by other sectors. The exceptional provisions established for Iceland in the EEA mainly relate to the fisheries sector. The fishing industry does not have to open itself to foreign capital nor do Community vessels have access to Icelandic waters, in accordance with the formula "market access in return for access to fish stocks". Moreover, in Declaration No. 9, the Icelandic Government reserves itself the right to take protective measures because of the one-sided nature of its economic structure and its low population density. This applies in particular if the implementation of the agreement gives rise to substantial migratory flows towards certain geographical areas, types of occupation or economic sectors, thus causing serious disturbances in the employment market.

In Norway too, this sector is a focal point of relations with the Community, since 60% of Norwegian fish exports go to the EC. The negotiating strategy adopted by the Commission, aimed at greater access to Norwegian fishing grounds, could weaken the Norwegian fishing regions. The northern provinces in particular (e.g. Finnmark) derive their main livelihood from fishing. It is alleged that the declining fish stocks off the Norwegian coast and the rising competition resulting from the EC's modern catch fleets are a serious threat to the locally based small fisheries. The unemployment this would create would, as in the case of Iceland, further encourage the exodus towards the south of Norway. Against this background, the Commission's opinion on the Norwegian application for accession notes that in view of the heavy regional concentration of the restructuring measures that would be required, special

---

9 Among others, additional catch quotas of 6000 t for cod for 1993, to be increased gradually to 11 000 t by 1997

attention should be devoted to the specific problems of the regions in question.

Conclusion. In the context of the EEA and on the basis of the bilateral agreements that have been concluded, the agriculture and fisheries sector has a positive effect on the regions in what are called the cohesion countries of the Community. Spain and Portugal will probably derive most benefit from the expansion of the fishing grounds. The regions of the EFTA states are far less affected at this stage, because of the special exceptional rules and the more general nature of the provisions set out in the agreement itself. The prospect of accession will, however, bring with it decisive changes and have major repercussions in the problem regions because of the necessary adjustments, especially in the new member countries. In the sparsely populated areas of Scandinavia, fisheries, the wood industry, forestry and agriculture are often the only source of employment. They will have to receive aid from the EC structural funds and the agricultural fund, especially since Finland and Norway in particular cannot allow the depopulation of these regions to continue in the long term.

4. COMPENSATORY MECHANISMS TO REMOVE REGIONAL DISPARITIES

The above chapters show that as a result of the EEA, and especially of the accession of some EFTA states to the Community, the existing regional structures will change quite substantially. We shall conclude by examining whether the existing compensatory mechanisms measure up to the requirements.

4.1. The role of the "EEA Cohesion Fund" in compensating for regional disparities in the EEA

Because of the regional disparities that still exist and the likelihood that the economic and political centre of gravity in the EEA will shift towards the economic centres in the north and north-west of the EC, the poorer Community countries called for compensatory measures.

In addition to the specific agreements in the agriculture and fisheries sector, what is called the "EEA Cohesion Fund", or more precisely an EEA financing mechanism was set up under the agreement (cf Bruggmann, 1992), funded by the EFTA states. According to Articles 115 and 116 of the EEA agreement, its purpose is to help reduce the economic and social imbalances between the regions of the contracting parties. More specific provisions on the criteria and procedures for allocating aid are set out in Protocol 38 of the EEA agreement, the special cooperation agreements to be concluded on this, the protocol of adaptation to the EEA agreement, which became necessary after the Swiss "no" vote, and the proposal for a Council[10] regulation with implementing provisions in respect of the EEA agreement.

The negative outcome of the Swiss referendum on the EEA agreement necessitated changes to the financing mechanism too, since the absence of this Alpine state meant a loss of more than a quarter of the originally proposed funds. The provisions to this effect were laid down in the protocol of adaptation to the EEA agreement of 9 March 1993. Under it the EFTA states undertake to provide the lion's share of the former Swiss quota, which increases their individual contribution to the EEA. The total volume of loans and direct subsidies has

10 COM(92) fin. of 27 November 1992

remained unchanged but the proposed cut in the interest rate for loans eligible for interest subsidies from 3% to 2% will reduce the volume of aid. In order to make provision for possible delays in the entry into force of the agreement, the provisions on the period for which it runs were also amended. It will now run five years from the date of entry into force.

The aid is made available partly in the form of interest reliefs on loans and partly in the form of direct subsidies to Portugal, the island of Ireland (i.e. including Northern Ireland), Greece and the 10 Spanish regions listed as Objective 1 regions in framework regulation 2052/88. The provisions to this effect were set out in the proposal for a regulation with implementing provisions in respect of the agreement on the European Economic Area.

The total volume of loans is set at ECU 1 500 m. The interest relief, which comes to 2 percentage points a year, can be granted over a maximum period of 10 years. Interested firms can apply directly for interest-relief loans to the EIB, by a procedure analogous to that set out in the statutes of the Bank. The total value of these subsidies is ECU 300 m.

The volume of direct subsidies which the EFTA states are to make available à fonds perdu within a period of 10 years is ECU 500 million. The recipient countries must address their applications to the EIB. However, considering the size of the EC-assisted areas, the total funding is too low to have any tangible regional effect. By comparison, in 1994 the EC will be disbursing structural aid worth ECU 20 480 m. The contribution of the EFTA countries in the form of interest reliefs and direct subsidies of c. ECU 80 m a year under the EEA financing mechanism is therefore largely symbolic.

The financial aid is available for projects in the fields of environmental protection and vocational training. Priority is to be given to small and medium-sized undertakings. Pursuant to Article 8 of the agreement on the financing mechanism, the EIB has financial control. But in its resolution of 30 October 1992 the European Parliament urged that the proposed financial aid should be controlled by the Joint Parliamentary Committee.

The annual financing of the EEA Cohesion fund by the participant EFTA countries is based on the average gross national product at market prices. In the event of the accession of one or more EFTA countries to the Community, the appropriate arrangements will have to be made to ensure that this does not impose any additional payment commitments on the remaining EFTA states.

The budgetary contribution of the participant EFTA countries has been estimated at some ECU 800 million for the entire financing mechanism. Of that, some ECU 300 m will be made up of interest reliefs and ECU 500 m of non-repayable subsidies. The annual burden on the budgets of the participant EFTA states is comparatively low, since the ECU 800 m are to be paid over a period of 10 years.

4.2. Enlargement of the Community and its implications for the EC's structural policy and the EFTA countries' regional policies

These applicant countries will introduce new, hitherto unknown types of regional problem into the Community. It is doubtful whether the structural fund regulation as it stands can take due account of these new factors. If we compare the problem regions of the EFTA states with the target regions of EC structural policy, we find that some types of problem fit into the system while others do not.

- One aspect in particular that is not taken into account in the current approach to problem areas, despite its future importance, is the problem of the sparsely populated sub-Arctic regions of Scandinavia. In the event of several Scandinavian countries joining the EC, the existing sparsely populated EC regions (which, however, have different climatic conditions) will be joined by a new type of problem area, the causes of which are not so much temporary as of a long-term structural nature. So measures on the scale of a Community initiative would certainly not form a suitable framework. It is doubtful whether the inclusion of these regions under Objective 5b would be adequate in view of the prevailing transport infrastructure problems in that area.

- The accession of Austria will bring the problems of the Alpine regions into closer focus in the Community's structural policy.

- In the opinion of the Commission, if Norway joined the EC it would become one of the main beneficiaries of the Community's structural measures in the fisheries and aquaculture sector. If the fisheries sector is fully included in the structural funds, the necessary restructuring of the Norwegian fishing fleet will justify flanking social measures because of the strong regional concentration of fishing activity.

- In the event of the accession of Finland and Austria in particular (and also Sweden), special attention will have to be devoted to the specific problem of regions whose external borders adjoin the former eastern bloc states. The existing border regions (northern Greece, north-eastern Italy and East Germany) would be joined by new, poorly developed regions. They face special problems because of their extreme economic disparity and their situation as buffer regions in relation to their eastern neighbours. It would be justifiable to extend the Community's INTERREG initiative to the Finnish border regions.

In the framework of the EEA and in the event of the accession of several EFTA member states, the (transport) infrastructure aspect will become more important for certain regions (Alpine regions, sub-Arctic regions in the north, Scandinavian and Danish, northern and eastern German regions). Under the present conditions, these regions are generally not taken adequately into account in the context of either of the structural funds or of the EC cohesion fund to be set up.

This last chapter makes it clear that future enlargement of the Community will alter the regional-policy framework of the applicant countries and the Community. The regional economic development of the existing problem areas in the EFTA states will first be influenced by the EEA. That will change their situation quite considerably between now and the moment of actual accession, quite apart from the adjustments that will be required with enlargement. There is still a considerable need for clarification regarding the repercussions that will have on future EC structural policy.

Yet if we dare to predict the future, we may assume that radical adjustments to the content and quantitative aspects of regional structural policy will be inevitable in the medium term. In terms of content, both the target areas and the socio-economic criteria used to determine them will have to be reviewed. In future, structural fund resources will flow to the northern regions of the Community. That is the only way to do greater justice to the new regional situation in the enlarged Community. But enlargement also has one major advantage: all the acceding states will be future net contributors to the Community budget. In practice that means that there is certainly a margin for increasing the structural funds.

SUMMARY

The achievement of the EEA and the possibility of several EFTA states subsequently joining the EC will affect the regional distribution of employment, production and incomes within that area. The various effects are summarized below.

The regions situated near the new growth lines will benefit most from the EEA. The closer economic integration in Europe will lead primarily to more intensive economic relations between the already efficient economic centres in the south (southern Germany, Rhone-Alps basin, northern Italy) and in the northern European and Scandinavian area of the EEA (Hamburg, Berlin, Copenhagen, Oslo, Göteborg, Malmö, Helsinki). New, further growth impulses will also occur in the border regions between the EC and the EFTA states in the EEA. However, that means that the existing transport bottlenecks in these regions must be reduced. But the growth impulses connected with the EEA will not have the same effects everywhere.

- The EFTA states that form part of the EEA will derive more benefits from this in the short term than the EU Member States, because the impetus to development created by the internal market took effect in the EU at an earlier stage.

- The competitive central regions of the EEA (London, Paris, Amsterdam, Copenhagen, southern Sweden, Hamburg, Munich, Milan) will derive greater economic benefit from the EEA deregulation measures than the weak peripheral regions. This will not produce any significant boost to development in Ireland, Portugal, Spain or Greece. They will become relatively less competitive unless flanking measures are taken.

- The same applies to the sparsely populated Arctic and sub-Arctic peripheral and border regions of Norway, Sweden and Finland and to the mountain regions of Austria, which will be under threat of depopulation unless they obtain aid in future.

- The poor competitive position of old industrial regions will visibly worsen with the EEA, so that flanking measures will continue to be necessary in the textile, steel, shipbuilding and mining industry (see Annex).

In the event of the accession of the EFTA countries to the EU, the Community's development plan will have to be changed. The existing priority objectives (Objective -1, Objective -2, Objective 5b regions) will have to be expanded to take account of the new situation. The same may apply for the Alpine regions of Austria.

Since the impetus to growth produced by the EEA will take effect predominantly in the EFTA countries, it was decided to grant financial aid for structural adjustment to Greece, Portugal, Spain and the island of Ireland. The net value of this non-repayable aid, granted over a period of 10 years, totals ECU 800 m. But in view of the dimensions of this development area, this amount (ECU 80 m a year) is not likely to create any significant regional impetus towards growth.

The EFTA countries that form part of the EEA will to a large extent be able to retain their regional aid policy, although it should be noted that both the range and the level of the assistance could be reduced. The EEA agreement leaves the EFTA countries more room for play than the EU Treaty. The EFTA countries will only feel real pressure to adjust their regional policy in the event of accession.

The obligation to put up public contracts for tender may cause more difficulties. The 12 EU states also find it very difficult to incorporate this central aspect of the internal market. It is therefore difficult to estimate its regional effects.

It is impossible to forecast the life-span of the EEA. If Norway, Sweden, Finland and Austria join the EU, that would only leave Iceland and Liechtenstein in the EEA. In that case, the complex legal instrument of the EEA would at least have had the advantage of easing some of the adjustment and transitional difficulties for the applicant states. On the other hand, the EEA may still be granted a long life if the Central and Eastern European reform countries join it.

ANNEX

1. The EEA in figures

2. The prosperity gap between EC and Scandinavian regions (per capita GDP in purchasing power parities at NUTS II level in the EC, at the level of the provinces in the Nordic countries)

3. Population density in the Scandinavian countries of Norway, Finland and Sweden

4. EEA "sensitive" sectors in the processing industry in Austria, Finland, Sweden, Norway and Iceland

5. Direct investment by the EFTA countries (1986-1991; excluding Switzerland) in the EC, with special reference to Portugal, Greece, Spain and Ireland

6. Proportion of populations of EC Member States living in national development regions (situation in March 1993)

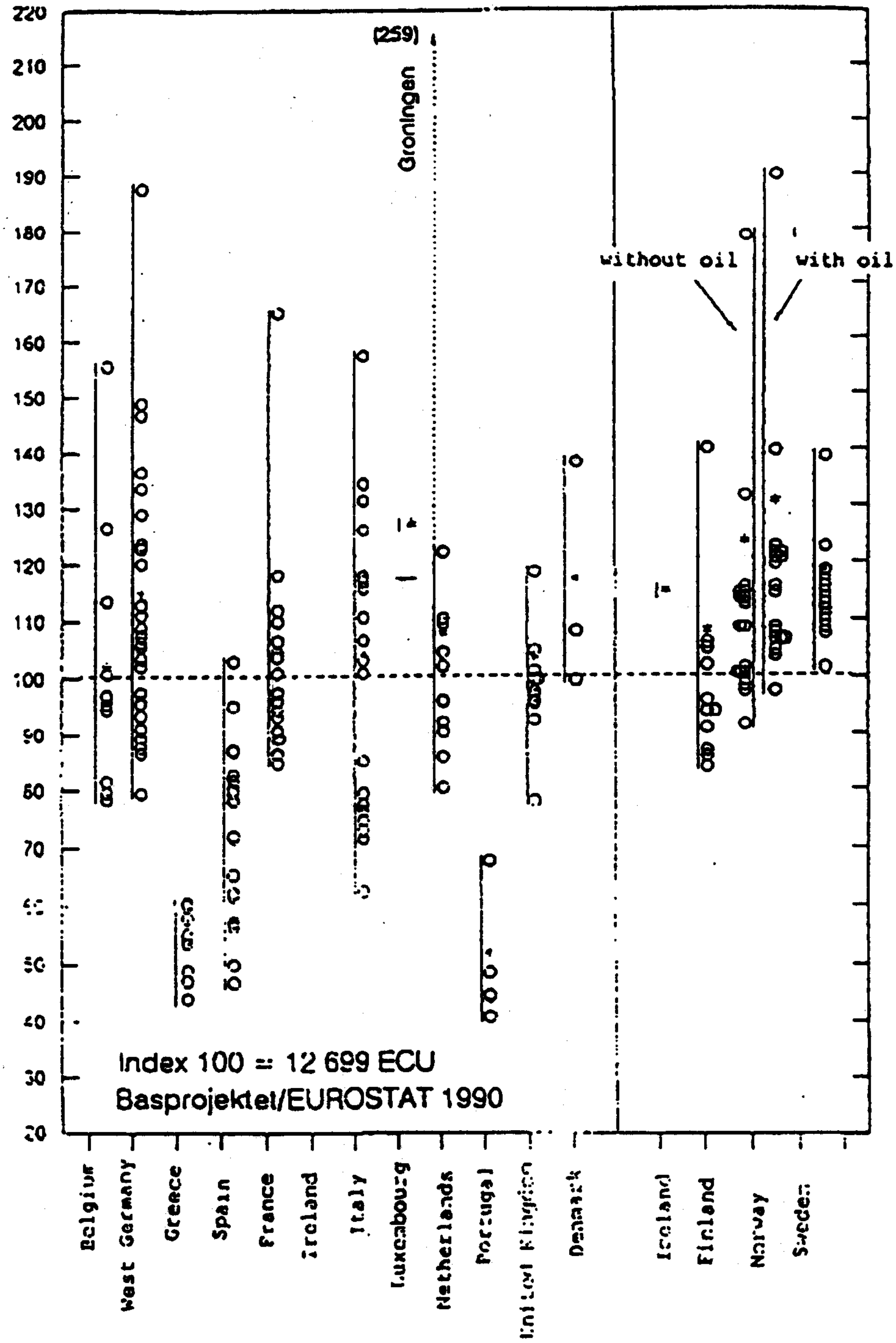
7. Regional development areas in Sweden, Norway and Finland (situation in 1990). Maximum aid for investment projects.

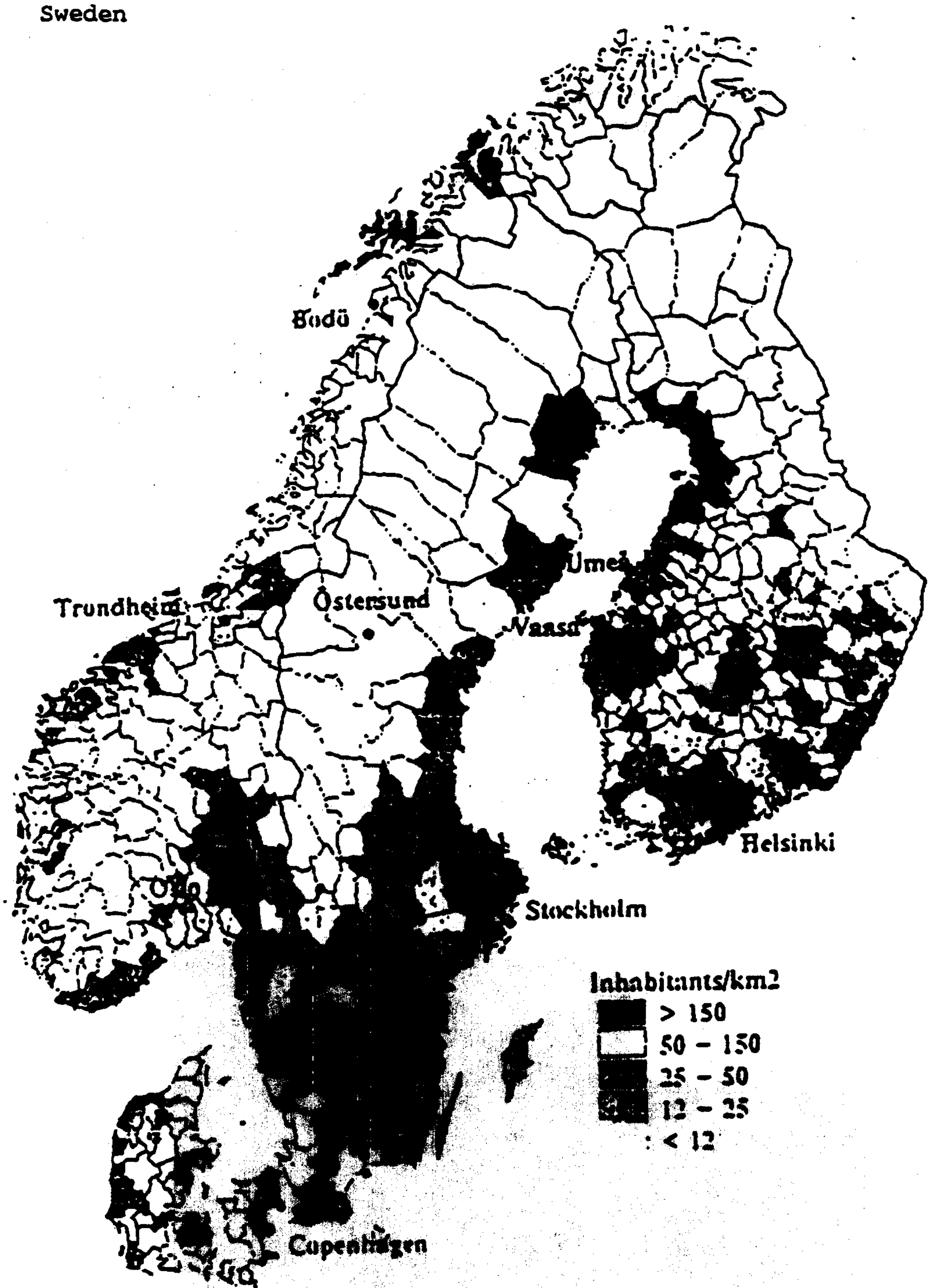
1. **The EEA in figures**

L'Espace économique (EEE) en chiffres

	Superficie en milliers de km2	Population en millions	Produit intérieur brut (PIB) en PA[illegible]	PIB par tête en PA[illegible]	Taux de chômage (% population active) (en %)	Taux d'inflation (1989/1990)
B	30,5	9,9	180,4	19 091	8,1	3,5
DK	43,0	5,1	100,9	19 814	7,9	1,9
D	357,05	79,3	1 276,9	21 131	5,1	2,8
GR	132,0	10,0	94,1	9 850	7,5	22,8
E	504,8	38,9	526,6	14 556	16,1	6,5
F	549,0	56,3	1 114,1	20 207	9,0	3,4
IRL	70,2	3,5	41,1	12 819	15,6	-
I	301,3	57,5	1 086,6	19 187	9,8	6,6
L	2,6	0,4	8,1	24 303	1,6	4,4
NL	41,5	14,9	276,0	19 147	8,1	2,7
P	92,1	10,3	90,2	10 369	4,6	13,7
UK	244,1	57,4	1 092,2	19 726	6,4	9,3
CE	2 368,15	343,5	5 752,1	17 857	8,4	5,7
A	83,9	7,7	142,6	18 615	3,2	3,5
SF	338,1	5,0	100,7	20 140	3,4	4,9
IS	103,0	0,3	5,6	21 828	1,4	-
FL	0,16	0,03	0,9	31 817	-	-
N	323,9	4,2	96,0	22 679	5,2	4,4
S	450,0	8,5	178,5	20 936	1,5	10,9
CH	41,3	6,7	165,2	24 308	2	5,3
AELE	1 340,2	32,43	688,7	21 291	2,7	-

2. The prosperity gap between EC and Scandinavian regions (per capita GDP in purchasing power parities at NUTS II level in the EC, at the level of the provinces in the Nordic countries)





Share of inhabitants and land area in municipalities where there are fewer than 12 persons per square kilometre

	Population in 1991	Share of total pop.	Land area sq. km	Share of total area
Finland	987971	19.8 %	235115	77.2 %
Norway	832704	19.6 %	248836	81.5 %
Sweden	777782	9.5 %	258552	63.9 %
Total	2598457	14.6 %	742552	72.6 %

4. **EEA "sensitive" sectors in the processing industry in Austria, Finland, Sweden, Norway and Iceland**

Table 8 The most important of the EFTA countries' sensitive sectors grouped according to their performance

(Per cent of manufacturing employment)

	AUSTRIA	FINLAND	ICELAND	NORWAY	SWEDEN
STRONG	15% Iron and steel industry Boilermaking, reservoirs etc. Plant for mines Toys and sports goods Footwear	10% Plant for mines Paper, wood Dairy products Iron and steel industry	12% Meat preparation Dairy products	6% Fish processing Shipbuilding	22% Motor vehicles Telecom equipment Plant for mines Iron and steel industry Meat preparation Machinery for food ind.
BALANCED	19% Meat preparation Radio and television Clothing and accessories Pharmaceutical products Knitting	[illegible] Meat preparation Radio, television	2% Leather	8% Meat preparation Other chemical products Plan[illegible]	11% Elect[illegible] Machine tools Domestic el. appliances
WEAK	[illegible]	14%			

Source: EFTA Secretariat

5. Direct investment by the EFTA countries (1986-1991; excluding Switzerland) in the EC, with special reference to Portugal, Greece, Spain and Ireland

DIRECT INVESTMENT ABROAD (1986 - 1991) IN MILL. ECU*

FROM \ TO	WORLD	EEC (1986 - 1991)						
	I. TOTAL ABROAD	II. TOTAL EEC	% OF I.	III. TOTAL COHESION COUNTRIES GREECE, IRELAND, PORTUGAL, SPAIN				% OF II.
Austria Mill. ECU	3.618	1.689	46%	----------------				---
Iceland Mill. ECU	19	12	63%	----------------				---
Norway Mill. ECU	5.685	3.024	53%	----------------				---
Sweden Mill. ECU	38.763	20.899	54%	Gr: 5	Ir. 1.421	P. 114	Sp. 640	11%
Finland Mill. ECU	10.797	4.649	43%	5	118	96	212	9%
TOTAL 5 countries	58.882	30.273	51%	2.751				9%

* Original data base available only in national currency. Conversion to ECU on the basis of the average annual national currency/ECU values.

Source: OECD, own calculations

6. Proportion of population of EC Member States living in national development regions (situation in March 1993)

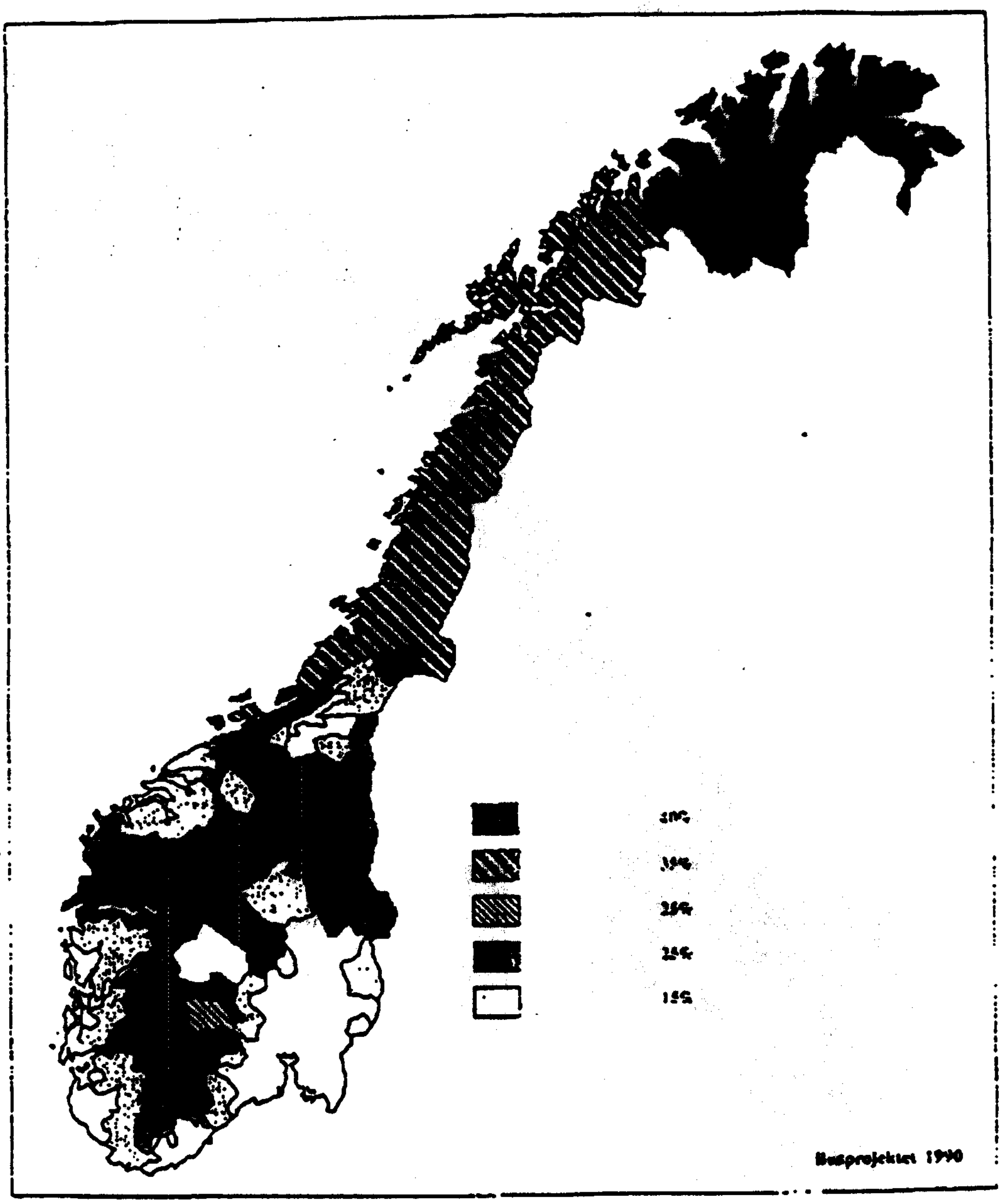
COUVERTURE TERRITORIALE DES AIDES REGIONALES NATIONALES (ARTICLE 92 DU TRAITE) - % DE LA POPULATION NATIONALE

PAYS	% POPULATION	POPULATION 1990
ALLEMAGNE	44,8 (*)	(*) 79.070,0
FRANCE	42,9 (**)	(**) 56.612,4
ITALIE	38,11	57.576,4
PAYS-BAS	16,88	14.890,9
BELGIQUE	33,1	9.947,8
LUXEMBOURG	79,7	378,4
ROYAUME-UNI	37,1	57.297,1
IRLANDE	100,0	3.498,8
DANMARK	19,9	5.135,4
GRECE	100,0	10.046,0
ESPAGNE	61,3	38.924,5
PORTUGAL	100,0	10.337,0
CEE	45,9	343.714,7
CEE SANS EX-RDA	43,17	327.218,0

SITUATION EN MARS 1993

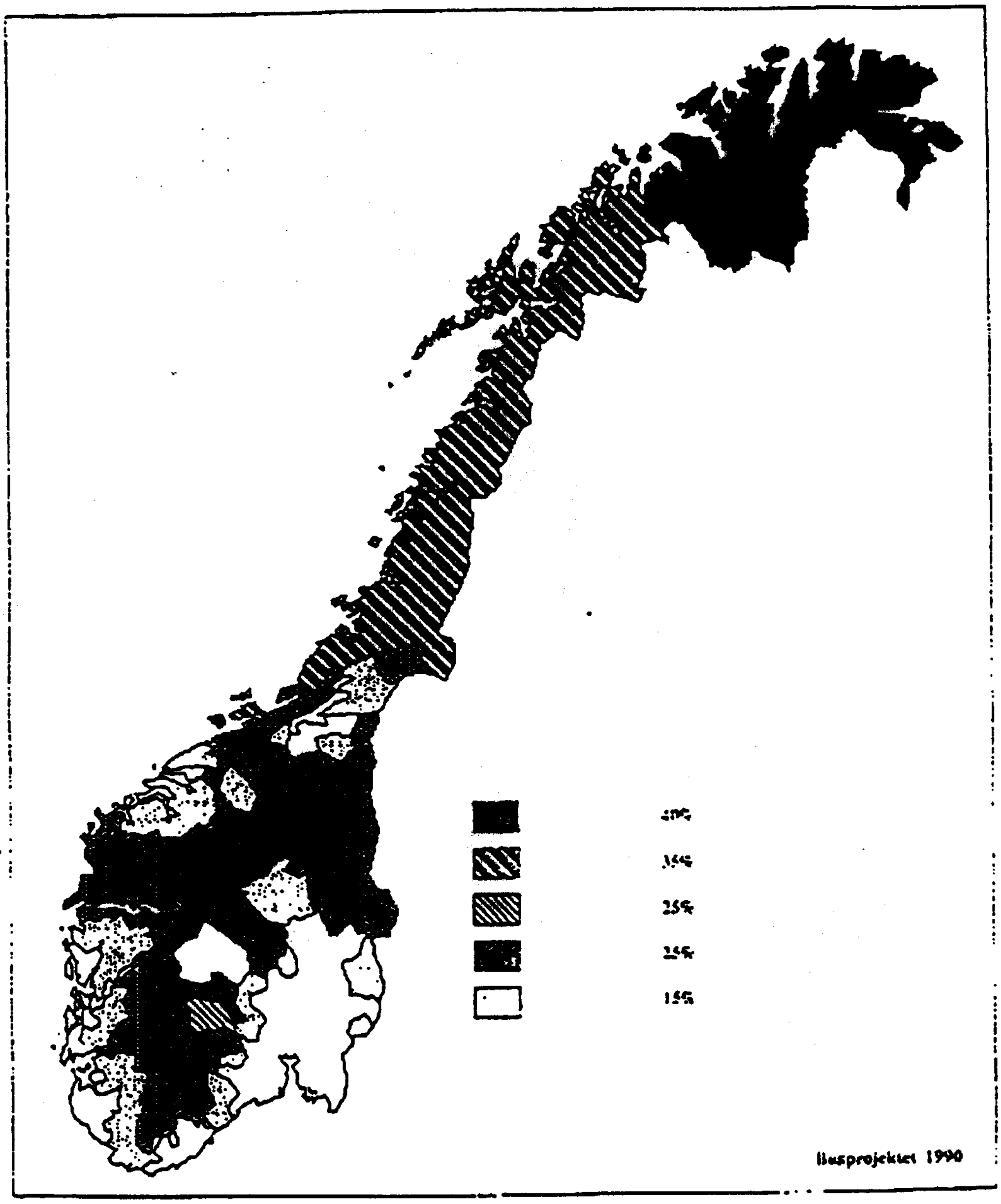
(*) EX-RDA compris
(**) FRANCE METROPOLITAINE (sans les D.O.M.)

7. Sweden: Regional development areas in Sweden (situation in 1990). Maximum aid for investment projects

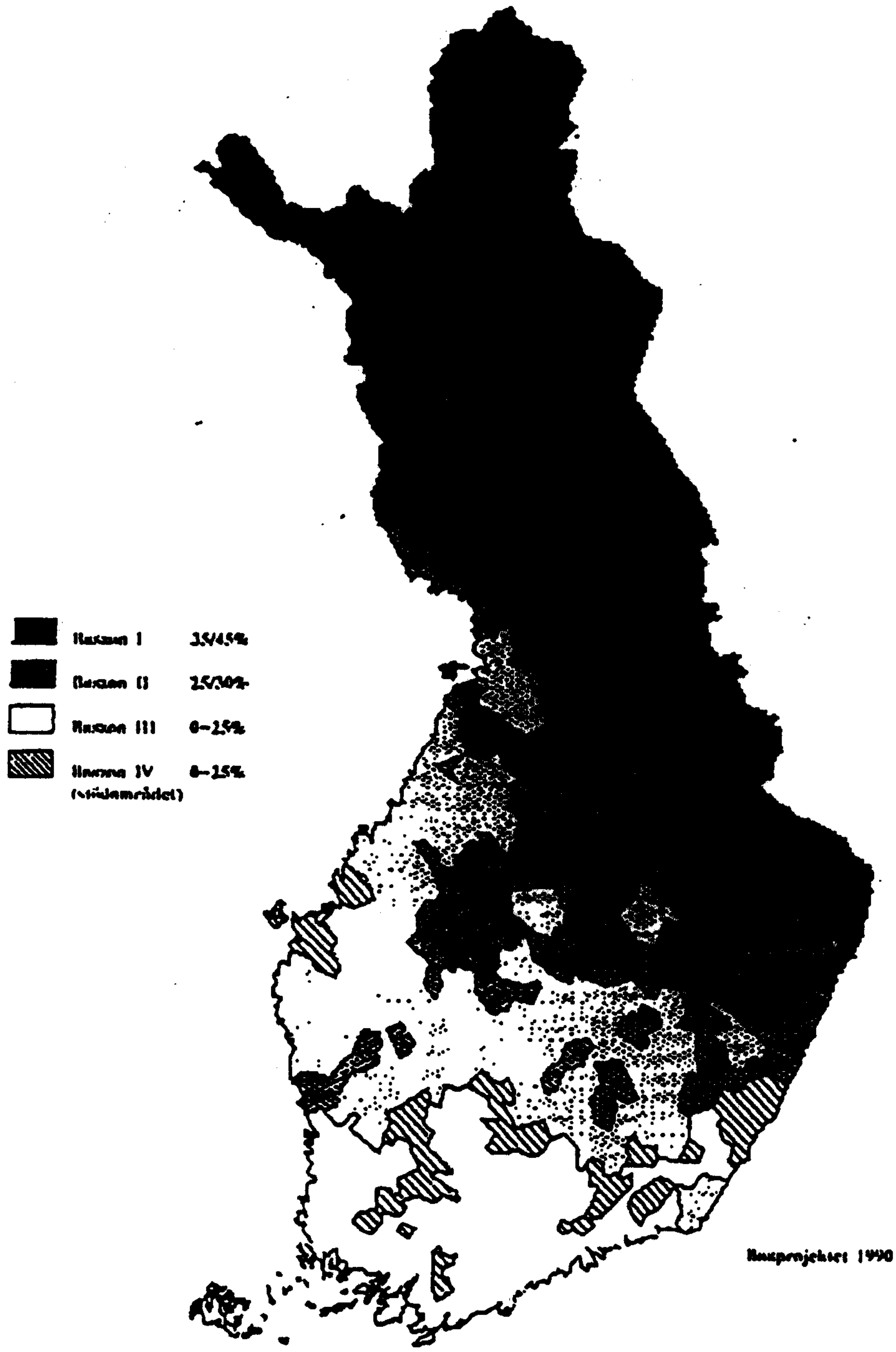


7. Norway: Regional development areas in Norway (situation in 1990). Maximum aid for investment projects

Assisted area in Norway (1990).
Maximum public contribution to investments.



7. Finland: Regional development areas in Finland (situation in 1990). Maximum aid for investment projects



Assisted areas in Finland (1990).
Maximum public contribution to investments.