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INFORMATION NOTE ON THE POLITICAL AND ECONOMIC SITUATION OF

NORWAY

AND EU - NORWAY RELATIONS

Abstract:

This note provides background information on the current political and economic situation in Norway as well as on EU-Norway relations. Each of these three sections is supported by annexed statistics. The final section also addresses recent developments regarding the question of Norway's potential accession to the EU.

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

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OVERVIEW

The "red-green" coalition of the Labour Party, the Socialist Left Party and the Centre Party has started to implement its programme, but not without some disagreements between the coalition partners.

The government's "management plan" for oil exploration off the coast of northern Norway, which was published at the end of March, represents a compromise between the governing parties, but its implementation could again test the cohesion of the coalition.

The controversy surrounding the publication of cartoons of the Prophet Mohammed has resulted in attacks on Norwegian interests abroad. Swift intervention by the prime minister, Jens Stoltenberg, and the foreign minister, Jonas Gahr Store, took the heat out of the action against Norway.

The government is aiming to increase spending in areas such as education, healthcare and local government. Some of the extra expenditure is to be met through tax increases. With high oil prices leading to record tax receipts, the government will face pressure to channel more oil wealth into public spending: High petroleum export earnings pushed the current-account surplus to a record Nkr320bn (US$49.6bn) in 2005, from Nkr233bn in 2004. This is equivalent to 16.8% of GDP, up from 13.6% of GDP in 2004.

Full-year GDP data indicate robust growth in the Norwegian economy in 2005. Mainland GDP growth averaged 3.7%, little changed from the 3.8% growth rate recorded for 2004. However, declining oil production led to a weaker performance for total GDP during the final months of 2005. As a result, total GDP grew by 2.3% over the year as a whole. GDP growth is expected to accelerate to 2.6% in 2006, from 2.3% in 2005, thanks to buoyant investment growth. Higher interest rates and a slowdown in investment growth will reduce the rate of growth to 2.2% in 2007.

Monetary policy is still expansionary, but a tightening cycle has started and will continue over the next two years. The central bank has become more concerned by the inflationary effects of strong growth and a tightening labour market, which point to the risk of emerging bottlenecks.

1 POLITICS

1.1 Political Structure

Official name
Kingdom of Norway

Form of state
Constitutional monarchy

Legal system
Mixture of customary law, civil law system, and common law traditions; Supreme Court renders advisory opinions to legislature when asked; accepts compulsory ICJ jurisdiction, with reservations

National legislature
The Storting, the unicameral parliament of Norway, is composed of 165 members, elected by proportional representation for four-year terms. Candidates are elected from party lists. At each election, the Storting divides itself into a lower (*Odelsting*) and upper (*Lagting*) house, the latter composed of one-quarter of the Storting's membership. Bills are submitted by the Government to the Odelsting first, having been considered by a Standing Committee, and subject to hearings. They are then sent to the Lagting for review or revision. If the Odelsting approves the Lagting amendments, the bill is signed into law by the King. If it does not, the bill returns to the Lagting. If still no agreement is reached, the Odelsting submits the bill to a plenary session of the Storting, where a two-thirds majority is needed for its approval.

National elections
12 September 2005; next to be held September 2009

Head of state
Norway is a constitutional monarchy. King Harald V has been the country's head of state since 1991, when he succeeded to the throne. The heir apparent is Crown Prince Haakon Magnus, son of the monarch.

Head of government
Prime Minister Jens Stoltenberg (Labour Party) was appointed prime minister by the King following the September 12, 2005 elections. The monarch usually appoints the leader of the majority party or majority coalition as prime minister, with the approval of the Storting.

Main political parties
Labour Party (A, 61 seats); Progress Party (FrP, 38 seats); Conservative Party (H, 23 seats); Socialist Left Party (SV, 15 seats); Christian Democrat Party (KrF, 11 seats); Centre Party (Sp, 11 seats); Liberals (V, 10 seats)

Cabinet (as of May 2006*)*

Prime minister	Jens Stoltenberg (A)
Agriculture & food	Terje Riis Johansen (Sp)
Children & equality	Karita Bekkemellem (A)
Cultural & church affairs	Trond Giske (A)
Defence	Anne-Grete Strøm-Erichsen (A)
Development & co-operation	Erik Solheim (SV)
Education & research	Oystein Djupedal (SV)
Environment	Helen Bjornoy (SV)
Finance	Kristin Halvorsen (SV)
Fisheries & coastal affairs	Helga Pedersen (A)
Foreign affairs	Jonas Gahr Store (A)
Health & care services	Sylvia Brustad (A)
Justice & the police	Knut Storberget (A)
Labour & social affairs	Bjarne Hakon Hanssen (A)
Local government & regional development	Aslaug Haga (Sp)
Petroleum & energy	Odd Roger Enoksen (Sp)
Renewal & government administration	Heidi Grande Roys (SV)
Trade & industry	Odd Eriksen (A)
Transport & communications	Liv Signe Navarsete (Sp)

1.2 Domestic Politics

1.2.1 Coalition

The centre-left coalition consisting of the Labour Party, the Socialist Left Party (SV) and the Centre Party (the closest Norway has to a "green" party) is expected to remain in office for the near future. The coalition formed a government after the general election on September 12th 2005, when it secured a total of 87 seats in the 169-seat Storting (parliament) and replaced a centre-right minority coalition consisting of the Conservative Party, the Christian Democrat Party and the small Liberal Party. The prime minister and leader of the Labour Party, Jens Stoltenberg, is expected to head a government committed to a moderate social-democratic programme.

Although the "red-green" coalition is the first majority government in Norway since the Conservative government of 1983-85, which will provide some stability after a period of minority governments, the administration does have potential weaknesses.

First is the risk that either of the smaller parties could decide to leave the coalition. The SV performed poorly in the 2005 election, losing eight seats compared with the 2001 result, and its popular support has since been further eroded. This may lead SV party activists to question the value of participating in government. As minister of finance the SV leader, Kristin Halvorsen, is in a strong position to influence government policy and push aspects of the party's agenda. If the SV's poll ratings fail to recover by the midterm local elections in September 2007, however, it could decide to leave government, offering parliamentary support to a Labour administration on an issue-by-issue basis. In this scenario, the Centre Party would be likely to follow suit, leaving Labour to rule as a minority government.

Second, there are a number of issues over which Labour is at odds with its coalition partners. Some, such as possible EU membership, have been sidestepped, with all three parties promising not to raise the matter. For others, compromises will need to be found. One early test for the government is the issue of petroleum exploration off the coast of northern Norway (see below) Its likely outcome is a domestic politics programme of energy development balanced by an emphasis on protecting environmentally sensitive areas.

1.2.1.1 Coalition solidarity put to the test

In the past two months the solidarity of the three-party ruling coalition has faced two important tests. The first concerned the exploitation of offshore oil and gas resources off the coast of northern Norway. The Labour Party has argued in favour of allowing offshore developments to help promote the economic development in the north. The Centre Party, meanwhile, has emphasised the needs of the fishing industry over the demands of the petroleum companies. The matter was further complicated by divergent views among the ministers involved in the decision. The minister for trade and industry, Odd Eriksen (Labour), favoured promoting development but faced opposition from the petroleum minister, Odd Roger Enoksen (Centre Party), from the environment minister, Helen Bjornoy (SV), and possibly even from his party colleague, the minister for fisheries and coastal affairs, Helga Pedersen.

A compromise was reached at the end of March, when the government issued its integrated management plan for the Barents Sea and the ocean areas off the Lofoten islands. The plan, which covers the period until 2020, will be updated in 2010. The proposals reflect the balance of interests between the three ruling parties and the ministers involved, demonstrating a desire to protect the most fragile offshore regions, to prevent any overlap of drilling and fishing in the summer season and to control illegal or dangerous use of the Norwegian maritime zone, while at the same time giving certainty to the oil and gas industry. Insofar as all interest groups were satisfied with particular elements of the plan, it served its political purpose by providing a basis for environmental, oil and gas, fisheries and development policies over the lifetime of the current parliament. However, by imposing restrictions on exploration, the government's petroleum policies increase the risk that Norway will fall behind Russia as the dominant producer in the Arctic region. The plan must now be approved by the Storting, which is an important hurdle for the coalition to clear if it is to stand any chance of survival. The support of key ministers from each of the coalition partners should guarantee adoption of the main aspects. Nevertheless, difficulties could arise over the implementation of the details of the plan, as any interpretations that seem to favour industry will be challenged by members of the Centre Party and the SV. Further pressure on the government is likely from environmental organisations such as Greenpeace and the youth movements of the Centre and Labour parties, which are opposed to oil development in the Barents Sea.

A second, and less propitious, indication of the new government's cohesion concerned a dispute over aid to the Palestinian Authority. The Labour foreign minister, Mr Gahr Store, decided to follow the US, Canadian and EU governments in stopping Norwegian assistance to the Palestinian Authority. This decision was attacked by members of the SV and some Labour activists, who felt that it followed the US line too closely and was not the best way to advance the peace process. The SV minister of international development, Erik Solheim, at first appeared not to follow the foreign minister's line, saying that aid had not been stopped, before the two ministers announced their complete agreement. However, a new statement stressed that the move was temporary and only affected one-fifth of the money budgeted to go to the Palestinian

Authority this year, a position criticised by the Conservative opposition as being too weak a response. The incident demonstrated how external events can cause rifts within the government unless managed carefully.

1.2.1.2 Cartoon Controversy

The reaction to the publication of the cartoons threatened to have an adverse effect on Norwegian interests abroad. Although Norway was not party to the original dispute between the Danish government and diplomats from Muslim countries, it became directly involved when, at the end of January 2006, several European newspapers and magazines, including a Norwegian Christian weekly, Magazinet, reprinted the sketches, prompting violent protests in several Muslim countries. Norwegian embassies and consulates in Teheran, Damascus, Beirut and Jakarta were attacked, and Norwegian diplomats were threatened by two militant Palestinian groups.

In contrast with his Danish counterpart, Anders Fogh Rasmussen, Mr Stoltenberg reacted quickly to the crisis. While upholding the right of Magazinet to publish the cartoons, he criticised it for doing so and apologised to Muslims for any offence given. Meanwhile, the foreign minister, Jonas Gahr Store, met with leaders of the Islamic Council Norway (Islamsk Rad Norge, IRN), which represents around 25 Muslim groups in Norway. The IRN offered assistance to the Ministry of Foreign Affairs in helping to restore calm, both by using its contacts abroad to explain that Norway had reacted differently from Denmark, and by reassuring its members in Norway that the government was listening to them. As a result, Norway suffered only a temporary and limited boycott of its goods in the Muslim world (although its troops were targeted in attacks in Afghanistan, possibly in response to the cartoons episode).

1.2.2 Opposition

The Progress Party is expected to continue to play the role of the main opposition party, a position it gained at the 2005 election. The long-time leader of Progress, Carl I Hagen, will finally retire in May 2006, but the party is likely to stick to its populist programme of tax cuts, increased spending on health and pensions, and opposition to immigration. Meanwhile, the Conservative Party has yet to recover from its poor election performance, and if its support fails to revive ahead of the 2007 local elections the current leader, Erna Solberg, is likely to be replaced.

1.3 International Relations and Defense

1.3.1 Background

The cornerstone of Norwegian foreign policy remains close co-operation with the country's Nordic neighbours, with which Norway shares a strong cultural and linguistic heritage. However, Norway is also actively involved in global organisations such as the UN — the first UN secretary-general, Trygve Lie, was Norwegian, and Norway is a regular contributor to UN peacekeeping missions. Norway has on several occasions served as facilitator for peace negotiations between warring parties. Norway is also a founding member of NATO. The outgoing Labour government gave unconditional support to the US in its declared war against terrorism following the events of September 11th 2001, and the current administration is broadly following suit, although there was dissent over the US-led war on Iraq, which the Christian Democrats refused to condone given the absence of a UN mandate. The December 1999 International Convention for the Suppression of the Financing of Terrorism was ratified by the Storting in April 2002. Norway is also an active member of the World Trade Organisation (WTO) and the World Health Organisation (WHO).

The collapse of communism in the late 1980s provided the possibility of improved co-operation in regions such as the Baltic and the Barents Sea. Norway has put special emphasis on improving its relations with Russia (with which it shares a border in the far North), especially over the issue of environmental protection. As a consequence, it has promoted regional bodies, such as the Organisation of Barents Co-operation and the Council of Baltic Sea States, which could help it achieve this. Norway has had an environmental co-operation agreement with Russia since 1992, and in May 1998 a Norwegian-Russian framework agreement on nuclear safety was approved. Nuclear waste, particularly on the Kola peninsula, remains of special concern to the Norwegian government.

During the cold war Norway saw NATO membership as the best defence guarantee against the Soviet Union. One new concern for Norway is that an enhanced defence and security role for the EU outside of NATO, which is currently being implemented in stages, could sideline Norway as a non-EU NATO state. In this sense, Norway's position is unlike that of its Nordic neighbours, Sweden and Finland, which are both inside the EU but are militarily non-aligned. All three are seeking a compromise solution with the EU that takes into account their specific circumstances.

The change in the nature of threats to security in the western hemisphere has altered the priorities of Norwegian defence. Instead of being chiefly geared to counter a Russian invasion, the military is adopting a more flexible posture, which should enable the Norwegian army to become more adaptable, interoperable and easily deployable, and able to tackle a wider range of contingencies.

1.3.2 Current Trends

Differences exist between the three centre-left parties in terms of foreign policy. The SV was originally formed as a splinter group from Labour, in opposition to the latter's support of Norway's membership of NATO. However, the new government programme clearly states that

one of the central elements of Norway's foreign policy will continue to be its membership of NATO. Other key aspects of foreign policy are Norway's membership of the European Economic Area (EEA), which links it closely to the EU, and strong support for the UN, including participation in conflict-solving and peace-enforcing missions. Although the possibility of joining the EU is likely to emerge in the public debate at regular intervals, the new programme also underlines that non-membership of the EU will continue to underpin foreign policy. The administration will seek to be more active in its EEA membership.

The junior defence minister, Espen Barth Eide, visited the US in late February to discuss developments in the new military aeroplane project, the Joint Strike Fighter (JSF). Norway participates in the project along with the US, the UK, Italy, the Netherlands, Turkey, Denmark, Canada and Australia. The JSF is one of four options being considered by the government to replace the Air Force's F-16 fighters. The other three are the Eurofighter being developed by the British, Germans, Italians and Spanish; the French Dassault Rafale; and the Swedish Jas 39 Gripen. Norway is already involved in the development stage of the JSF, but the government is not satisfied with the gains for Norwegian subcontractors and has threatened to discontinue co-operation with Lockheed Martin, the US manufacturer, when a new evaluation is made in June. Meanwhile, Olav Akselsen, the Labour leader of the Storting's foreign affairs committee, has suggested that Norway should examine the possibility of buying the Swedish Gripen with proceeds from Norwegian gas. Parliament is expected to make a final decision in 2008.

2 ECONOMICS

2.1 Background

Because of its small population, Norway's economy is small by world and, indeed, by European standards, with nominal GDP of just US$250bn in 2004. However, in terms of GDP per head— US$36.100 (at purchasing power parity— PPP) in 2003, according to OECD calculations— Norway is one of the wealthiest countries in the world. It ranked second in western Europe in 2003 in this respect, trailing only Luxembourg and ahead of its Nordic neighbours.

In 2004 the share of private consumption in GDP was one of the smallest in western Europe, accounting for just 44.8%, compared with an average of around 56%. The share has been relatively stable over the past decade. By contrast, public-sector consumption was slightly above the west European average in 2004, at 22%, yet remained small by Nordic standards (in Denmark and Sweden public consumption accounted for 26.7% and 27.7% of GDP respectively in 2004). Gross fixed investment measured as a share of GDP is also above the average west European level, accounting for 18% of GDP in 2004, a figure that is boosted by the offshore sector, which absorbs a large share of investment.

Norway's economy is distinguished from other west European economies by its huge offshore oil and gas sector. However, like most of its west European counterparts, the Norwegian mainland economy (excluding the offshore sector) has become increasingly services-oriented, while the primary sectors other than oil (agriculture, forestry and fishing) and secondary sectors (particularly manufacturing) have gradually declined in terms of contribution to GDP. In 2004 agriculture, forestry and fishing (including fish farming), despite still employing 3.5% of the labour force, accounted for just 1.9% of GDP. The manufacturing sector accounted for 17.8% of GDP, while services other than those provided by the government represented 48.8% of GDP. If public-sector services are included, this share increases to 66.5%.

2.2 Economic Structure

2.2.1 Recent Developments

The budget for 2006 contains notable increases in taxation, as well as greater public spending. In the near future, the government will further increase spending in areas such as education, healthcare and local government. The centre-left government has announced an end to the previous government's privatisation programme and is expected to resist foreign investment in some "strategic" sectors.

The government is expected to take a more active role in the labour market than its predecessor. The main federation of trade unions, the Landsorganisasjonen i Norge (LO), is an important ally of the Labour Party and will put forward demands to increase workers' protection. The government's ability to maintain harmonious labour relations and encourage wage moderation in line with its predecessor is receiving its first major test in the current round of collective bargaining. As of late April wage growth was being kept to a minimum, despite a tightening labour market. Monetary policy is still expansionary, but a tightening cycle has started and will continue over the next two years.

2.2.2 Fiscal policy

In 2006 the general government budget surplus will be high, exclusively because of higher tax receipts from the offshore sector as a result of high oil prices. However, the impact of fiscal policy is determined by the non-oil budget balance, and the 2006 amended budget projects a slight widening of the non-oil deficit from NKr69.9bn (US$10.5bn) in 2005 to Nkr70.8bn in 2006 (3.7% of GDP), reflecting increased transfers to local government. Transfers to local government are set to increase by Nkr5.7bn, which is Nkr3.8bn more than proposed by the previous centre-right government. Childcare and education will also receive additional funding.

Some of the extra expenditure is to be met through tax increases. The total tax take is to increase by Nkr5bn compared with 2005. The threshold for high-income earners has been lowered, implying a real increase in income tax for the higher-wage earners, even though the top marginal tax rate has been lowered from 61.5% to 54.3%. Value-added tax (VAT) on food was increased from 11% to 13% on January 1st 2006. Despite widespread protest a tax on mobile-phone and personal computer and broadband use when supplied by employers to individuals working from home was imposed in January 2006. Fiscal policy should continue to be slightly expansionary in 2007, with more spending likely to be directed to the public sector.

2.2.3 Monetary policy

Norges Bank (the central bank) operates with an inflation target. The inflation rate, as measured by the consumer price index adjusted for taxes and energy prices (CPI-ATE), is to be kept within 1 percentage point either side of a central target of 2.5%, with a forward-looking timeframe of one to three years. Norges Bank has been pursuing a loose monetary policy since 2003. The main sight deposit and overnight lending rates were increased twice in 2005 by a total of 50 basis points to 2.25% and 4.25%. Norges Bank announced a further increase of 25 basis points at its executive board meeting on March 16th, taking the rates to 2.5% and 4.5% respectively.

Although underlying inflation remains low, with the CPI-ATE rate currently stable at around 1%, the central bank has become more concerned about the inflationary effects of strong growth and a tightening labour market. A moderate wage round will reassure policymakers regarding the risk of cost-push inflation. However, credit growth remains buoyant, thanks to the expansionary monetary policy in place since 2003. The central bank will aim gradually to withdraw the monetary stimulus to combat the effects of strong house price inflation and the build-up of household debt. Consequently, monetary policy may be tightened further during 2006-07.

2.3 Economic Performance

2.3.1 Growth

Norway's economy remains buoyant, following a sharp recovery in 2004. Domestic economic activity is, and will continue to be, the main driver of growth, supported by high consumer confidence, strong investment spending in the offshore oil and gas sector, and still low interest rates. Private consumption growth, which was strong in 2005, will gradually taper off in 2006-07, as higher interest rates and tax increases start to dent household demand. Real wages will

continue to grow, reflecting a tighter labour market, and this will underpin consumption growth of 3% in 2006 and 2.4% in 2007.

Non-oil investment intensified in 2005, boosted by manufacturing and services affiliated to the petroleum sector. Oil and gas, in addition, attracted both onshore and offshore investment, partly as a result of the liquefied natural gas (LNG) project at Snohvit, but also because of increased exploration activity on the Norwegian Continental Shelf, spurred by soaring oil prices. Total fixed investment growth will remain buoyant in 2006. Even though some of the projects linked to the Snohvit development are expected to reach completion, other projects, such as the Langeled pipeline, will still drive investment, as will non-oil investment. As some other investment projects in the oil sector reach completion, investment growth will start to decelerate in 2007. In 2005 the real foreign balance acted as a drag on growth, and this will persist in 2006. The trend will be reversed in 2007, when slowing domestic demand will lead to lower import growth, while external (including EU) demand should be sufficient to maintain export growth. Real GDP grew by 2.3% in 2005. The Economist Intelligence Unit (EIU) forecasts a modest acceleration in growth to 2.6% in 2006. Economic growth will then taper off, to 2.2%, in 2007.

The risks to the EIU forecast stem from the oil and gas sector, in particular that investment in the offshore sector in 2006 could be higher than currently forecast, as oil companies consistently underestimate their reported investment forecasts. In this scenario, the pressure on the domestic economy would increase, leading to interest rates rising faster than the EIU is currently forecasting. Higher interest rates would increase debt-service commitments for many consumers who are heavily indebted, while also generating upward pressure on the krone.

2.3.2 Inflation

Headline inflation averaged just 1.5% in 2005, below official forecasts, even though prices accelerated throughout the year. Headline inflation stood at 2.4% in March 2006, boosted by an increase in VAT on food from January 1st 2006. Robust domestic demand will lead to continued upward price pressure in both 2006 and 2007. The EIU forecasts average inflation of 2.3% in 2006, rising to 2.6% in 2007.

2.3.3 Employment and wages

Labour demand continued to rise in the fourth quarter of 2005. According to Statistics Norway's labour force survey, which is internationally comparable, total employment increased by a seasonally adjusted 12,000 between the third and fourth quarters, rising from 2.29m to approximately 2.31m. Overall, employment increased by 0.6% in 2005, marking the second consecutive year of increase and the largest rise since 1998. Both man hours per week and the size of the labour force increased between the third and fourth quarters. At the same time, a seasonally adjusted fall in unemployment of roughly 5,000 saw the unemployment rate falling to 4.5% in the fourth quarter, from 4.7% in the third quarter. This tightening of the labour market is also borne out by more recent monthly data showing a decline in the number of workers registered as unemployed with the Directorate of Labour, from 103,600 in January 2005 to 85,600 in December and 79,500 in March 2006. While this partly reflects a shift of the unemployed onto special government labour market schemes, it still points to a substantial improvement in labour market conditions.

Despite the tightening labour market, the government's efforts to instil wage restraint in unionised contract renegotiations led to a slowdown in basic wages and total average earnings in 2005. Wage restraint was also maintained in other industries, including the extraction industries (oil, gas and mining), where profitability is high. The government's ability to maintain harmonious labour relations and encourage wage moderation in line with its predecessor is receiving its first major test in the current round of collective bargaining. On the evidence so far, up to late April, wage growth is being kept to a minimum, despite a tightening labour market and the temporary breakdown of discussions in the trend-setting manufacturing sector, primarily over the government's decision to end its tax deduction contribution to the early retirement scheme. However, the government then offered to extend this contribution until the new pension reform is implemented in 2010 and with discussions over social dumping and wage increases also resolved, strike action was averted. The agreement will see nominal wages in the manufacturing sector grow at an estimated 3.3%, which should serve as a benchmark for other sectoral areas.

2.3.4 External sector

The sustained high international oil prices are benefiting Norway's external balances. Although export volume growth will be moderate in 2006, after a slight contraction in 2005, exchange-rate effects and historically high oil prices will lead to a widening of the trade surplus in 2006, despite buoyant import demand. Assuming stronger export growth, a still strong currency and only moderately lower oil prices in 2007, the trade surplus should narrow in krone terms. With smaller surpluses on the income balance, as profits from the offshore sector are repatriated, the current-account surplus will narrow in 2007, after hitting a record high in 2006. Even so, it will still be substantial at around 15% of GDP in 2007.

3 RELATIONS WITH THE EU

3.1 Overview

Norway's relations with the EU are mainly governed by the Agreement on the European Economic Area (EEA), which is generally running smoothly. The EEA Agreement is in force since 1.1.1994 and extends the Single Market legislation, with the exception of Agriculture and Fisheries Management, from the 25 EU Member States to Norway, Iceland and Liechtenstein.

The EEA Agreement brings Norway into the group of countries with which the EU currently maintains its closest links. Fisheries, where the Commission has differences of view as to the management of shared resources, sometimes gives rise to friction.

Norway also has an association agreement with EU concerning the implementation, application and development of the Schengen acquis. Norway participates in the work of the Council through a Mixed Committee as of May 1999 and the operational parts of the Agreement were implemented in March 2001. An agreement between the European Community and the Republic of Iceland and the Kingdom of Norway concerning the criteria and mechanisms for establishing the State responsible for examining a request for asylum entered in force on 1 April 2001.

Despite two failed attempts by referendum to enter the European Community in 1972 and the European Union in 1994, Norway is solidly attached to the European construction through the EEA Agreement. It is a member of all relevant multilateral organizations including the Nordic, Barents and Baltic Councils, EFTA, OECD, WTO, Council of Europe and OSCE.

3.2 The High North

The Norwegian government's High North policy, set out in April 2005, aims at establishing dialogues with "like-minded Western countries" while further developing the bilateral cooperation with Russia. With shipping lanes and natural resources in Northern seas becoming increasingly accessible due to climate change, perceived opportunities cover both economic development of the region and political bridging of the East-West divide.

Norway currently holds the chair of the Barents Council, which includes the five Nordic countries, Russia and the European Commission, and mostly supports projects by regional authorities. It will also assume the chair of the Arctic Council this autumn, in time for the International Polar Year 2007-2008 which it intends to promote.

Dialogue on the sustainable development of the region has begun with Germany and the US, and is soon to extend to Canada, France and the UK. It covers energy, fisheries and other resources, effects of climate change and environmental issues.

Partnership with Russia is a long-standing priority of Norwegian foreign policy. The scope of co-operation ranges from nuclear safety through exploitation of oil fields and joint business ventures to military contacts, with Norwegian participation in a military exercise on Russian territory planned for 2006. Many projects are launched and managed by the three northern counties of Norway in co-operation with neighbouring districts of North-Western Russia.

Both in its geographical scope and in its political focus on partnership with Russia, Norway's High North policy harbours potential for synergies with the EU's Northern Dimension, which the Parliament endorsed in its resolution of 16 November 2005 and which the Finnish Presidency later this year is expected to actively promote.

3.3 EEA / EFTA

Norway is one of the four members of the European Free-Trade Association (EFTA), the others being Iceland, Switzerland and Liechtenstein. ETFA was established in 1960 to promote free trade between EFTA member states and third-party countries through free-trade agreements and declarations of cooperation. Norway also participates in the European Economic Area (EEA), as do Iceland and Liechtenstein, but not Switzerland. As a result of its EEA membership, Norway's economy is fully integrated into the EU's single market and Norwegian governments must implement the same governing rules of the single market (the four freedoms of movement of labour, capital, goods and services) as the EU member states. The EU's common agricultural policy and common fisheries policy are explicitly excluded from this arrangement.

With the 2004 enlargement of the EU - and therefore of the EEA - a five-year Financial Mechanism was established to help reduce economic and social disparities, providing € 120 million annually. In addition to its share of that fund, Norway is providing a further € 113.4 million annually for projects from the new Member States, especially around the Baltic, as well as considerable funding towards stabilising the Western Balkans and promoting democratic and sustainable development in Russia and former Soviet republics. Norway also cooperates closely with the EU on security and defence policies, contributing personnel and expertise to several EU missions in the Balkans.

3.4 EU Membership

Despite two failed attempts by referendum to enter the European Community in 1972 and the European Union in 1994, the question of whether or not Norway should once again apply for EU membership has been regularly raised in the past few years in the national Norwegian policy debate. This, however, is not going to have any practical consequences in the immediate future.

Following the rejection of EU membership by the population in the referendum of 1994, the then government declared that there would be no new initiative in this respect for at least ten years, and the Stoltenberg government, which took office on 17 October 2005, has stated that it will not apply for Norwegian EU-membership during its term in office.

The discussion is, however, likely to continue, partly on the basis of the evolution of the EU: Beyond its merely geographical widening through recent and imminent enlargement steps, the Union is also deepening in terms of the scope of EU co-operation, contrary to the EEA Agreement, which remains limited to the internal market dimension. Many EU policy areas that fall outside the scope of the EEA Agreement have developed dramatically over the past decade, not least the EU common foreign, security and defence policy, where Norway frequently joins EU positions. Norway has been actively seeking a way to be associated with the process of CFSP/ESDP policy formulation and is today associated to the ESDP through NATO and the 'Berlin plus' arrangements. Norway participates in EU joint actions such as the EU police mission in Bosnia. In addition, Norway has pledged personnel and equipment to the ESDP

Rapid Reaction Force and to the EU Nordic battle group so long as the EU actions are undertaken under a UN mandate.

Norway is also closely, but informally, linked to the Lisbon Process as Norway incorporates relevant EU legislation through the EEA agreement. However, the open method of co-ordination between the EU Member States at the base of the Lisbon Process poses another challenge, as Norway as a non-member is not formally included in this process.

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ANNEX I

Performance of the political parties

(% of vote)

	Storting elections		Opinion polls
	2001	**2005**	**Mar-06**
Labour Party	24.4	32.7	31.5
Socialist Left Party	12.4	8.8	7.3
Progress Party	14.7	22.1	30.5
Conservatives	21.2	14.1	13.4
Christian Democrats	12.5	6.8	5.6
Centre Party	5.6	6.5	5.3
Liberals	3.9	5.9	4.2
Others	5.3	3.1	2.2
Total	**100.0**	**100.0**	**100.0**

Source: EIU Country Report – Norway, May 2006

ANNEX II

EIU Forecast summary

(% unless otherwise indicated)

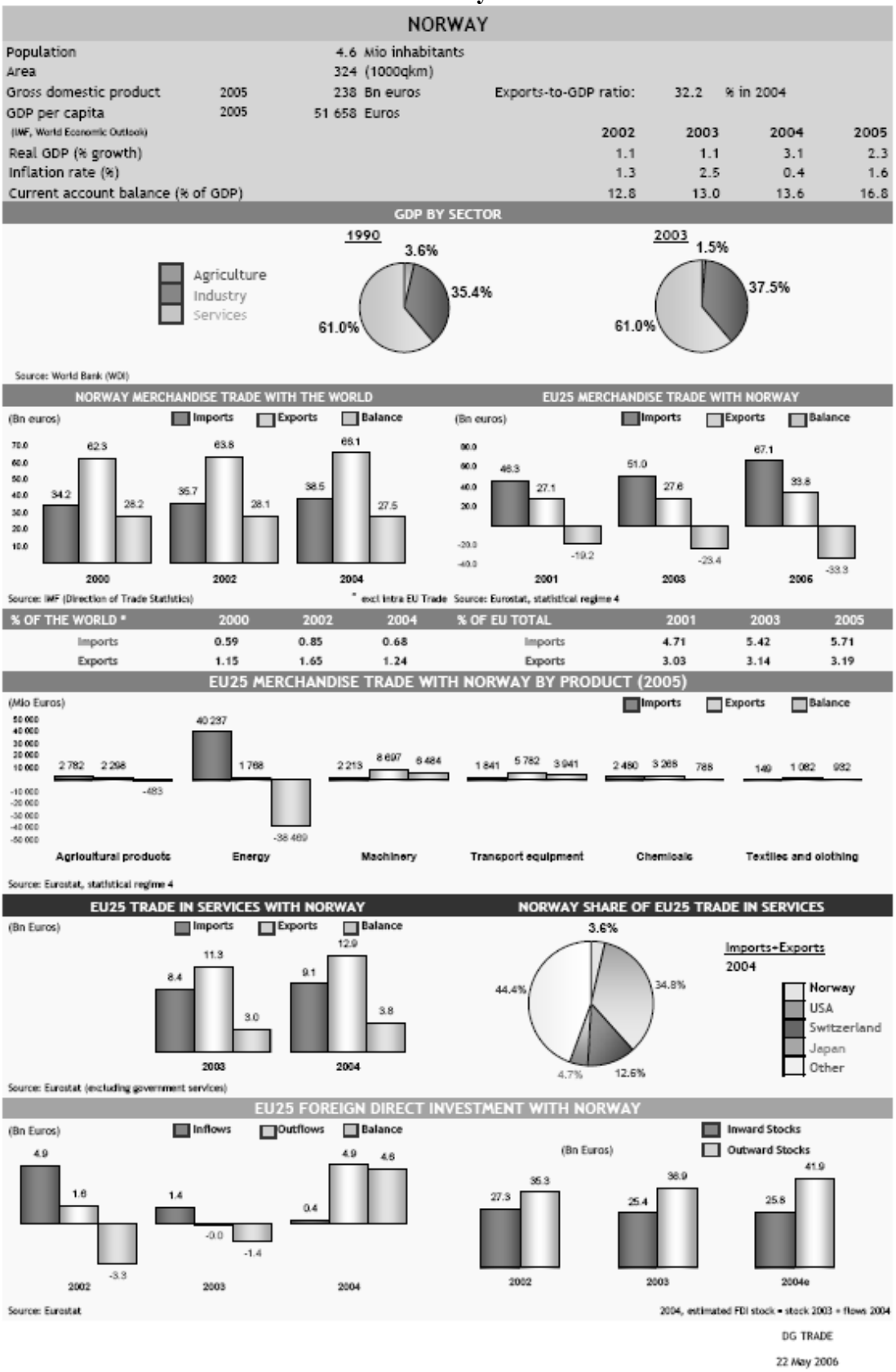
	2004[a]	2005[a]	2006[b]	2007[b]
Real GDP growth	3.1	2.3	2.6	2.2
Industrial production growth	1.9	-0.5	1.8	1.5
Unemployment rate (av)	4.5	4.6	4.1	4.0
Consumer price inflation (av)	0.5	1.5	2.3	2.6
Short-term interbank rate	2.0	2.2	2.8	3.8
Government balance (% of GDP)	11.2	14.9	14.8	10.4
Exports of goods fob (US$ bn)	83.0	104.8	121.1	123.2
Imports of goods fob (US$ bn)	49.4	55.6	65.3	67.4
Current-account balance (US$ bn)	34.4	49.6	54.8	53.7
Current-account balance (% of GDP)	13.5	16.8	17.0	15.1
Exchange rate Nkr:US$ (av)	6.74	6.44	6.22	5.78
Exchange rate Nkr:¥100 (av)	6.23	5.85	5.50	5.61
Exchange rate Nkr:€ (av)	8.38	8.02	7.85	7.79

[a] Actual. [b] Economist Intelligence Unit forecasts.

Source: EIU Country Report – Norway, May 2006

ANNEX III

EU - Norway Trade Statistics



Source: European Commission, DG Trade, May 2006

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