

**NORTHERN EXPOSURE:
SWEDEN, FINLAND AND NORWAY
JOIN THE EUROPEAN UNION**

**A Thesis Presented by Anjariitta RANTANEN
to
The Institute of Economics and Social Sciences
In Partial Fulfillment of the Requirements
For the Degree of MA
In the Subject of International Relations**

Bilkent University

October, 1994

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I certify that I have read this thesis and in my opinion it is fully adequate, in scope and in quantity, as a thesis for the degree of Master of Arts in International Relations.



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ABSTRACT

The study examines the decision of three Nordic countries - Sweden, Finland and Norway - to apply for full membership in the European Union (EU). The membership negotiations were concluded in March 1994 and the European Parliament voted in favor of accession in May 1994. Depending on the outcome of national referendums, the three Nordic countries are expected to enter the EU on 1 January 1995, together with Austria.

Although the Nordic countries were already deeply integrated with the EU in terms of trade and economy through EC-EFTA free trade agreements and the European Economic Area agreement, they had refrained from extending economic integration into political integration. In the case of Finland and Sweden, this "encapsulation" of integration was connected to their policies of neutrality and non-alignment in the Cold War climate.

The study analyses the decision to apply for membership in the light of regional integration theories. Traditional neo-functionalism working through a gradual spill-over mechanism can not explain the sudden shift in favor of membership. Instead, the applications are studied in the framework of intergovernmental institutionalism with emphasis on deliberate governmental decision-making. The initiative to apply was mostly an economic and business consideration. However, the decisive factor which enabled Finland and Sweden to reassess the compatibility of the EU membership with their policies of neutrality was the change in the international geopolitical climate since 1989 which removed the image of the EU as a western block.

ÖZET

Bu çalışma Nordik ülkelerinden Finlandiya, İsveç ve Norveç'in Avrupa Birliğine tam üyelik başvurusu kararlarını incelemektedir. Üyelik görüşmeleri Mart 1994'de sonuçlanmış ve Avrupa Parlamentosu Mayıs 1994'te yapılan oylamada katılımın lehinde karar almıştır. Bu üç ülkenin, yapılacak olan ulusal referandumların sonuçlarına bağlı olarak, Avusturya ile birlikte 1 Ocak 1995'te Avrupa Birliğine girmeleri beklenmektedir.

Nordik ülkeleri, EC-EFTA serbest ticaret anlaşmaları ve Avrupa İktisadi Bölgesi anlaşması yoluyla ticari ve ekonomik bakımdan Avrupa Birliği ile entegre olmuş olmalarına rağmen iktisadi entegrasyonu siyasi entegrasyona uzatmaktan kaçınmışlardır. İsveç ve Finlandiya için bu türden bir "sınırlı" entegrasyon, bu ülkelerin Soğuk Savaş dönemindeki bağımsızlık ve tarafsızlık politikaları ile bağlantılıdır.

Bu çalışma, üyelik başvurusu kararlarını bölgesel entegrasyon teorisi çerçevesinde irdelemektedir. Geleneksel "neo-functionalism" teorisinin zaman içerisinde genişleme-büyüme yaklaşımı, ülkelerin üyelik lehine ani karar değişimini açıklayamamaktadır. Dolayısıyla, ülkelerin başvuruları hükümetlerin bilerek ve isteyerek karar alma süreçlerinin önemine ağırlık veren hükümetler arası kurumsalcılık (intergovernmental institutionalism) teorisi çerçevesinde incelenmektedir. Bu ülkelerin başvurularındaki temel güdünün iktisadi ve ticari kaygular olduğu söylenebilir. Ancak, Finlandiya ve İsveç'in Avrupa Birliği üyeliği ile tarafsızlık politikalarının birlikteliğinin olabirliğini tekrar gözden geçirmelerine yol açan temel faktör, 1989 yılından bu yana uluslararası jeopolitik atmosferde meydana gelen ve Avrupa Birliğinin 'Bati Bloku' imajını ortadan kaldıran gelişmeler olmuştur.

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CHAPTER 1

INTRODUCTION

This study will examine the decision of three Nordic countries - Sweden, Finland and Norway - to apply for membership in the European Union (EU). The membership negotiations were concluded in March 1994 and the European Parliament voted in favor of accession on 4 May 1994. Depending on the outcome of national referendums, the three Nordic countries are expected to enter the EU on 1 January 1995, together with Austria.

The Nordic countries in question are already deeply integrated with the EU in terms of trade and economy through the European Free Trade Association (EFTA) and the European Economic Area (EEA) agreement. The EEA, agreed upon in 1992 and realized as of the beginning of 1994, extended the four freedoms of the Single Market, free movement of goods, persons, services and capital, to the EFTA countries in most respects. In return, the EFTA countries accepted the Community legislation covering these areas.

The latter stages of EEA negotiations were marked by several EFTA countries, including Finland, Sweden and Norway, moving to apply for full EC membership. Meanwhile, the European Community (EC) transformed itself into the EU with much deeper political integration, including common

foreign and security policy (CFSP), the program for economic and monetary union (EMU), and a framework for cooperation in home affairs and justice.

Sweden and Finland have traditionally been reluctant to expand economic integration into political integration because of official policies of neutrality and non-alignment, and for fear of losing national authority in political decision making. Norway as a NATO country did not have such a reservation, but the rejection of EC membership in a referendum in 1973 after successful accession negotiations prevented it from applying again. The second time around, it is counting on Nordic "momentum" behind its membership to win popular approval; it is clear that if Sweden and Finland enter the EU, staying behind means isolation.

The fourth country expected to join on 1 January 1995, Austria, is not included in the main focus of this study, although the accession negotiations were conducted in parallel, and it shares most of the characteristics of the countries under consideration: EFTA and EEA membership, extensive trade relations with the EU, and adherence to a policy of neutrality and non-alignment. Hence, the argumentation presented will also apply to Austria, and references are made to it throughout the study.

The aim of the study is to identify the main reasons for the sudden change of opinion in favor of full EU membership in Sweden, Finland and Norway. This shift of position happened in a matter of two or three years starting from 1989. Because of the abrupt nature of the decision, the traditional explanation of a gradual deepening of integration through a spill-over mechanism from economic integration to political integration cannot explain the process. The study includes a short overview of integration theories which have been used to explain the dynamics of European integration in the EC framework. The establishment and the initial success of the EC gave birth to neo-functionalist integration theories, but they fell out of fashion during a decade of stagnation from the 1960s to the late 1970s. The relaunch of the Community with the White Paper on the completion of the internal market in 1985, and the following adoption of the Single European Act (SEA) in 1987, rekindled the interest in integration theories. Traditional neo-functionalism failed, however, to explain this sudden and radical stepping-up of the integration process. Among the wide literature on the SEA and integration theories, two main lines of theoretical interpretation can be discerned: "modern" neo-functionalist perspective and "institutionalized intergovernmentalism". Modern neo-functionalism, or "supranational

institutionalism", distances itself from the deterministic thinking of earlier neo-functionalism, and concentrates on the internal dynamics within the EC emphasizing the deliberate efforts of the Community institutions to encourage further integration ("cultivated spill-over"), supported by transnational interest groups ("pluralistic spill-over"). Intergovernmental institutionalism, although recognizing the importance of supranational and transnational actors, places the national interests of the member states and interstate bargaining in the main role in explaining stepped-up integration. Common to both approaches is the rejection of the automatic spill-over mechanism as the only explaining factor, and consequently, greater emphasis on voluntaristic elements and intergovernmentalism.¹ The main argument is that although economic integration may indeed proceed incrementally through functional-technical spill-over, political integration in most instances takes the form of sudden steps in the form of deliberate revision of political preferences. The initiative for change of opinion is explained to be controlled by mainly two factors: motivation in form of perception of external challenges² or crisis within the system, and an absence of restraints in the external environment.

It should be noted here that integration theories have often been criticized as belated scientific responses to developments in the real world,

without predictive value.³ Furthermore, since the famous "blind men and an elephant" -anecdote, where each man touched a different part of the animal and concluded that an elephant had the shape of the part he touched,⁴ most authors have agreed that no single theory is able to account for all aspects and steps of European integration, but they have to be used complementary to each other.⁵

The study aims to explain the change in political preferences in Sweden, Finland and Norway towards the EU membership summarizing the internal debate in these countries and connecting it to integration theories used to interpret European integration. The membership applications can be characterized as deliberate decisions of moving from economic integration established by interdependence through trade relations to political integration. The factors that made this decision possible are argued to be, on the one hand, motivation ("external threat" or "system crisis") in the form of deep economic recession, diminishing returns from EFTA and the EEA, and a fear of losing the opportunity to fully shape and take advantage of the Single Market; and on the other hand, the absence of restraints in the international environment as dramatic changes in the geopolitical setting after the fall of the Berlin Wall in 1989, and the subsequent end of the Cold War made it possible to

reinterpret the national policies of neutrality and non-alignment. The theoretical approach adopted is intergovernmental institutionalism with input from business interest groups. Traditional neo-functionalism with gradual functional-technical spill-over is clearly not explanatory for a sudden shift from economic integration into political integration, and supranational institutionalism does not fit the situation where the initiating party was the respective national governments, not the Community institutions.

Before going further, one question of terminology should be clarified. The European Community was recasted into the European Union by the Treaty on European Union (commonly known as the Maastricht Treaty), agreed upon in December 1991, signed in February 1992, and put into force on 1 January 1994. Therefore, it would be correct to refer to it as the EC or the Community before that date, and then change it to the EU starting from 1 January 1994. For the sake of convenience, however, there is some fluctuation as to how the names are used, and the reader can assume that they are used interchangeably.

The study is organized in the following way. Chapter 2 gives a short overview of the development of EC-EFTA relations, culminating in the EEA agreement. The enlargement policy of the EU is explained in Chapter 3.

Chapter 4 discusses the characteristics of the three Nordic countries, both in terms of economy and foreign policy orientation. It also includes Commission opinions on the membership applications. Chapter 5 summarizes the accession negotiations. After a short overview of the success of different regional integration theories to explain the dynamics of European integration in the first section of Chapter 6, the decision of the Nordic countries to apply for full membership in the EU is rationalized by economic necessity and the absence of foreign policy restraints in the present international environment. The analysis relies on the presumption that contrary to traditional neo-functionalism, political integration mainly depends on deliberate decisions made by the political elite with input from the change in perception and opinion of different interest groups. Economic integration, working through functional-technical spill-over, is considered a necessary, but not sufficient precondition for this upgrading of integration process. Some future implications of the accession of Sweden, Finland and Norway to the EU are discussed in Chapter 7, especially in respect to Nordic cooperation. The last chapter contains a short conclusion.

CHAPTER 2

EC-EFTA RELATIONSHIP: AN OUTLINE

2.1 FROM SEPARATION TO INTERDEPENDENCE

When the European Communities were established in the 1950s - first the European Coal and Steel Community in 1951/52, then the European Economic Community and Euratom in 1957/58 - all of the Nordic countries chose to stay outside. Instead, Sweden, Norway and Denmark joined the European Free Trade Association (EFTA) as original signatories of the Stockholm Convention of 1960, together with other Western European countries which had not joined the EEC. Finland became an associate member of EFTA in 1961, and a full member as late as 1985. Iceland has been a full member of EFTA since 1970. The initial separation of the two institutions started to diminish when the UK and Denmark joined the EC in 1973, and a network of free trade agreements between the EC and individual EFTA countries were negotiated the same year. It has been observed that while during the 1960s both the EC and EFTA concentrated on enforcing their internal trade relations, the following decades were characterized by stable or declining internal trade and an increase in EC-EFTA trade.⁶ This progression in the EC-EFTA relations has been delineated by describing the 1960s as

"separation", the 1970s and early 1980s as "pragmatic bilateralism", and after the relationship started to take the form of an open-ended agenda with an aim of ever closer cooperation based on slow political upgrading in the mid-1980s, as "combined bilateralism and multilateralism".⁷

The share of intra-regional trade in total trade is often used as an indication of economic integration and interdependence. Until the mid-1980s, EC-EFTA interdependence was asymmetric in the sense that the importance of the EC to the EFTA countries as an export market was much more pronounced than the importance of EFTA market to the EC.⁸ However, goods from the EFTA countries sharply increased their share of the Community market in the period 1985-1991, jumping from 8.9% to 22.4% of Community imports. Community exports of goods into EFTA countries constitutes a quarter of its exports.⁹ Nowadays, the trade of Sweden, Finland and Norway with the EC is around 50% of both their exports and imports, with the importance of EFTA diminished. The same is true for Austria to an even higher degree. Table 1 shows the structure of trade of these countries in respect of intra-EFTA trade and trade with the EC. It should be remembered, however, that individually none of these countries are indispensable for the EC: on a country by country basis, they have relatively minor importance for

the Community. For example, Sweden accounts for 5.1% of Community imports and 5.2% of Community exports, and Austria 4.5% of imports and 6.5% of Community exports.¹⁰ Thus, EFTA countries are much more dependent on the Community market than the EC is on individual EFTA countries.

Table 1: Structure of Trade, 1990

Country	Imports from (%)		Exports to (%)		Exports as % of GDP
	EC	EFTA	EC	EFTA	
Finland	44	19	44	20	25
Sweden	56	17	52	20	32
Norway	46	24	65	16	36
Austria	68	7	64	11	36

Source: Jens Thomsen, "The Monetary Dimension," in Helen Wallace (ed), *The Wider Western Europe. Reshaping the EC/EFTA Relationship* (London: Pinder 1991), 82.

2.2 EEA NEGOTIATIONS

The relationship between EFTA and the EC had developed since the 1970s through free trade agreements negotiated between individual EFTA countries and the EC. The effect of this network of agreements was free trade in industrial goods between EFTA and the EC. Connected with their interest

in profiting from the EC's internal market program, the EFTA countries started to look for a new way to deepen their relationship with the EC in the mid-1980s.¹¹

The program for the European Economic Area (EEA; or the European Economic Space, as it was called in the beginning of the negotiations) was launched in April 1984, when the two organizations adopted the Luxembourg Declaration, stating their aim to establish a wider free-trading zone through closer cooperation.¹² Assimilation of the EFTA countries into the EC was not politically conceivable at the time, and thus the President of the EC Commission Jacques Delors, came up with an alternative which he described as a "more structured partnership with common decision-making and administrative institutions".¹³ The agenda for future negotiations was set in a joint EC-EFTA ministerial meeting in December 1989. It included, among other things, the goal of achieving the free movement of goods, services, capital and persons ("the four freedoms" of the Single Market), strengthened and broadened cooperation in other areas, such as R&D, environment, education, working conditions, social welfare and consumer protection, and reduction of economic and social disparities between the regions. In return to the free access to the internal market, the EFTA countries would submit to *acquis*

communautaire in the fields covered by the EEA agreement. The formal negotiations started in June 1990 and were concluded in October 1991. The agreement was signed in Oporto in May 1992, and came into force on 1 January 1994.

The extension of the four freedoms to the whole EEA area (encompassing the 12 EC member states and 6 EFTA member states after Switzerland failed to ratify the agreement) marked the formation of the largest integrated economic area in the world with 18 countries and 372 million people. The negotiators were careful not to venture to potentially controversial areas, such as the Common Agricultural Policy, foreign policy or taxation, and certain areas, such as fisheries and transportation, were covered by bilateral side-agreements allowing for exceptions and transitional periods.¹⁴ Furthermore, it should be kept in mind that the EEA is not a customs union like the EC, but an improved free-trade area.¹⁵

The obvious question arises then, as to why the EFTA countries began to desert the EEA structure in favor of full EC membership. Austria applied for EC membership in July 1989, Sweden in July 1991, Finland in March 1992 and Norway in November 1992. To put it the other way around, why

were the EEA negotiations initiated if it was foreseeable that a majority of the EFTA countries would move towards EC membership in the near future?

The answer to the second question is that in the mid- or even late-1980s, the neutral EFTA countries (Austria, Sweden, Finland and Switzerland) could not reconcile the Western European block image of the EC and its cooperation in foreign policy matters with their national policies of neutrality and non-alignment. Further, they could not accept the supranationality of decision making in some of the EC institutions, as they assigned great importance to sovereignty and national authority. However, the EEA process was increasingly seen more as a tactical agreement than a long-term solution from the point of view of both negotiating parties. It was useful for the EC to delay further membership application while completing the internal market, solving the budgetary question (the so-called Delors II package), accommodating the Eastern Länder of Germany within the Community, and taking political integration one step further through the vehicle of the Treaty on European Union. Meanwhile, the EFTA countries wanted "to keep the process moving while enabling some of them to put off final, and potentially damaging, political decision over membership".¹⁶

The year 1989 was a turning point in the non-aligned countries' position. The end of the Cold War and consequently the disappearance of the block-based structure of Europe the EC had contributed to, made it possible for them to reassess the compatibility of the EC with their respective policies of neutrality. This was the most important reason for the shift in favor of full membership, and will be discussed in detail in Chapter 4.

The EEA negotiations had not been problem-free, and the agreement included provisions the EFTA countries felt uncomfortable with. The shortcomings of the EEA were mainly in the fields of institutional structure and decision-making procedure. The creation of an independent EEA Court was rejected by the European Court of Justice as incompatible with the Treaty of Rome, and a separate EFTA Court had to be established, which did not guarantee the harmonious interpretation of law throughout the EEA. No legislative powers were transferred to the EEA. The EEA Joint Committee could only decide whether to adopt new *acquis communautaire*. The EFTA countries have only an unspecified right to be consulted over new EC legislation during the decision-shaping process with no formal powers over the content of *acquis* extended to the EEA. In effect, the EFTA countries were left without any say over the substance of legislation they were to be subject to. Because the EC

Council of Ministers makes its decision concerning the functions of the internal market by qualified majority, a supranational element of being bound by rules some EC member countries had objected to, was inserted to the EEA. The EEA Surveillance Authority, with competence in the field of competition law also has supranational powers. The introduction of supranational elements into the EEA agreement was the first time the EFTA countries departed from intergovernmental decision making. The supranationality of some EC institutions was one of the reasons EFTA countries had not applied for full membership, because of the fear of losing their national autonomy. The last criticism of the EEA decision-making process from the point of view of the EFTA countries was the presumption that they could "speak with one voice" in the Joint Committee. The EFTA countries have diverse concerns and interests, and up until that point, the EFTA structure did not expect such a high degree of coordination.¹⁷

The shortcomings of the EEA from the point of view of the EFTA countries proved one thing: "only by joining the club can you get the rights the members have".¹⁸ The EEA was not a real alternative for most of the EFTA countries, just a partial adjustment on the way towards an even closer association.

CHAPTER 3

EUROPEAN UNION ENLARGEMENT POLICY

When the EEA negotiations were initiated, the party on the other side of the negotiation table was the EC. When the individual membership applications came under consideration, they were in effect applications to join the European Union although they were submitted before the Union actually came into effect. The EU represents a deepening of European integration, adding new characteristics: a program for the economic and monetary union (EMU), including the European Central Bank and a common currency, introduction of common foreign and security policy (CFSP) to replace European political cooperation, cooperation in the areas of justice and home affairs, bringing into the Union competence fields that have traditionally been considered belonging to areas of sovereign national decision making, and establishment of European citizenship including political rights.¹⁹

The Nordic candidates for membership had traditionally limited their integration into the areas of trade and economy, but now the time had come for all of them to reassure in their membership application that they had no reservation about political integration, including adopting common foreign and security policy, and future participation in the economic and monetary union.

Immediately after the Maastricht Treaty had been agreed upon in December 1991, the Council of Ministers asked the Commission to prepare a report examining the implication of the Treaty on other European states wishing to join the European Union. The Commission presented its report to the Lisbon European Council in June 1992.²⁰

The Commission report set guidelines for conditions for new members (paragraphs 7-13). According to Article 237 of the Treaty of Rome and Article O of the Maastricht Treaty, "any European State may apply to become a member". The Commission did not try to give a static definition of "European", but instead referred to a combination of geographical, historical and cultural elements which all contribute to "European identity". Secondly, the Commission referred to Article F of the Maastricht Treaty, and concluded that, apart from European identity, a successful candidate for Union membership must satisfy the criteria of democratic status and respect for human rights. The fulfillment of obligation of member states under the Treaty further requires that applicant countries have a functioning and competitive market economy and an adequate legal and administrative framework (par 7-9).

Paragraph 10 of the Community report set very definite conditions on adherence to the common foreign and security policy (CFSP). Applicant states

should accept the CFSP without reservations also with regard to the future. The saying used was "as it evolves over the coming years". This is an example of the *finalite politique* of European Union membership. The Union does not allow deviations from the CFSP for the sake of a policy of neutrality and non-alignment; the paragraph continues in the following way:

"An applicant country whose constitutional status, or stance in international affairs renders it unable to pursue the project on which the other members are embarked could not be satisfactorily integrated into the Union."

The formulation used is slightly milder than the corresponding paragraph in an unofficial preliminary report drafted by the Commission in November 1991, which said:

"Neutrality would be incompatible with such common policies which are likely ultimately to lead to mutual military assistance, membership of WEU/NATO, joint military forces and planning, etc."²¹

The next condition for membership candidates is adoption of the *acquis communautaire*, i.e. the acceptance of the rights and obligations, actual and potential, of the community system and its institutional framework (par. 11). It was further clarified that in the field of the CFSP, the *acquis* will include the Maastricht Treaty and its political objectives (par. 13). The Commission considered the adherence to the CFSP so paramount that the absolute subscription to its principles, now and in the future, is once more repeated in par. 17.

Among the EFTA countries applying for membership, Finland, Sweden and Austria had traditionally followed a policy of neutrality and non-alignment. As it will be discussed in the next chapter, the two Nordic neutral states long considered the political aspect of the EC to be an absolute obstacle for membership, although within the EC, foreign policy formulation was in an embryonic stage. The changes in the geopolitical environment since 1989 made it possible for these countries for the first time to consider full membership, even in the EU, where the CFSP was now much more institutionalized and committed, with the possible result of common defence, military assistance and membership in "European" defense organization (most probably WEU, but reference was also made to NATO in the draft report). The shift of opinion happened very quickly: in late 1990 Finland still rejected Sweden's proposal to make a common application as premature²² (Norway also rejected it, but for other reasons). Although membership in the WEU has not been officially discussed in Finland, the most recent commentators do not rule it out.²³

The Commission also discussed the position of the EFTA countries which had applied for membership at the time - Austria, Sweden, Finland, and Switzerland. It concluded that there would not be "insurmountable problems"

from the economic point of view either for them or for the Union, and that these countries would actually strengthen the Union. The Commission also counted it as a plus for the EFTA applicant that they had already adopted a large part of the *acquis communautaire* following the EEA Agreement. In this respect, the EEA served as a stepping stone. However, the Commission warned about possible difficulties with a number of sensitive fields that were not covered by the EEA (par. 16), and the compatibility of neutrality with the CFSP (par. 32). It concluded that negotiations with these countries could be opened after the Maastricht Treaty was ratified and the budgetary question solved (par. 33).

The Commission report also discussed problems connected with institutions and decision-making procedures in the face of a much larger Union, and the position of other countries that had applied or were potential applicants for membership. Although these issues are beyond the scope of this study, some references to them will be made in the closing chapter.

The European Council in Lisbon passed a short list of conclusions based on the Commission report.²⁴ It agreed with the Commission that the negotiations with the applicant EFTA countries could be opened as soon as the Maastricht Treaty was ratified and Delors II package on Union resources

agreed upon, and asked the Commission to start the preparatory work. The European Council stated that the accession of the four EFTA countries was possible on the basis of the institutional structure included in the Maastricht Treaty. It clearly wanted to speed up the enlargement to the affluent EFTA countries. The Commission reference to institutional restructuring would come up earliest in the 1996 intergovernmental conference on revision of the Maastricht Treaty.

One of the two preconditions for opening enlargement negotiations was fulfilled when a budget package for the next seven years was adopted in the Edinburgh summit in December 1992. Meanwhile, the fulfillment of the second condition had encountered difficulties: the rejection of the Maastricht Treaty by the Danes in 1992, the following ERM crisis throughout Europe, and debates on the Treaty in several other countries. It looked like the ratification of the Treaty and the realization of the European Union would be delayed. Thus the Edinburgh summit modified the condition by agreeing that enlargement negotiations with the EFTA applicants could be started in the beginning of 1993. However, the negotiations could be concluded only after the Treaty had been ratified, and had to be based on the acceptance of the principles in that Treaty. The next European Council meeting in June 1993 in

Copenhagen foresaw the progress in the negotiations, and set a tentative timetable for the accession to be on 1 January 1995.²⁵

CHAPTER 4

COUNTRY PROFILES

4.1 BASIC STATISTICS

Before moving to more detailed country profiles including both economic factors and foreign policy orientation, the following table will display some basic statistics about the three Nordic countries.

Table 2: Basic statistics

Factor	Finland	Norway	Sweden
Population (m)	5 m	4.3 m	8.6
GDP (1992) (billion \$)	112.7	112.6	245.9
GDP per capita (1991; \$)	24,845	24,854	27,498
GDP growth (1991)	-6.4	1.6	-1.7
GDP growth (1992)	-3.6	3.3	-1.7
GDP growth (1993)	0	1.5	-2.0
Budget balance (1992)	-8.9	-2.8	-7.1
Unemployment (1992)	13.1	5.9	5.3
Inflation	1.1	2.6	-0.6 (1992)

Source: OECD Economic Outlook (1994), IMF International Financial Statistics (1994).

Note: GDP per capital average in the EC member states in 1991 was \$ 17,697. My calculation based on OECD statistics.

4.2 SWEDEN

Sweden formally applied for EC membership on 1 July 1991, during the latter stages of the negotiations concerning creation of the EEA. Sweden had always considered it necessary to cooperate with the EC in the fields of trade and economy, but stopped short of political integration; it regarded its policy of non-alignment and neutrality to be incompatible with the EC. Another reason for not applying for full membership has been the view that national sovereignty would suffer too much from submittance to extra-territorial and supranational authorities.

The evolution of Sweden's EC policy can be divided into four phases.²⁶ At the time of the creation of the EEC, Sweden was in favor of a wider and looser free-trade network containing no aspects of a customs union, ideological underpinning or extra-territorial authorities. The establishment of the EFTA in 1960 by the Stockholm Agreement suited Sweden's needs perfectly, particularly as none of its three main trading partners (Norway, Denmark and the UK) were original signatories to the Treaty of Rome.

In the 1960s, Sweden opened negotiations on closer association with the EC three times (1961, 1967, and 1969-70), but never considered the full membership option. Although intra-EFTA trade increased during the 1960s, Sweden saw its importance diminishing towards the end of the decade, particularly because of the "defection" of several member states. Britain, Denmark, Ireland and Norway were candidates for EC membership, and the first three joined the EC in 1973 after long and complicated negotiations. All of the Swedish negotiation initiatives were characterized by insistence on special concessions with regard to external trade and foreign policy, neutrality, and maintenance of national sovereignty. Sweden ended up with a limited free-trade agreement similar to those the EC signed with other EFTA states in 1973. No political commitments were included in this agreement.²⁷

The 1970s were characterized by deepening economic ties between the EFTA countries and the EC. However, there was no spill-over effect into the field of political cooperation. For the first half of the decade, Sweden emphasized its non-alignment policy with the lead of Prime Minister Olof Palme. Although there was a change in the governing party in 1976 in favor of the center-right, political attitudes did not shift to a more favorable stand towards the EC.²⁸

The 1980s marked a new start in closer cooperation with the EC, initiated by Palme²⁹, who had returned to power with the Social Democrat Party. In 1987, the government declared its commitment to further integration of Sweden with Europe through the legislative proposal "Sweden and West European Integration", excluding, however, foreign and security policy:

"We shall further develop Nordic cooperation, we shall strengthen EFTA at the same time as we extend and deepen cooperation with the EC as far as this is compatible with our policy of neutrality."³⁰

Sweden now took a leading role in the negotiations concerning the strengthening of the EC-EFTA relationship. While the EEA agreement was negotiated, the Swedish Foreign Minister suggested in 1990 to Norway and Finland that they should jointly apply for full EC membership. Although this proposal was rejected at the time, the problems connected with the EEA, deep economic recession in Sweden, and Austria's application for full membership in the summer of 1989, moved Sweden in July 1991 to be the first Nordic EFTA country to apply for full EC membership.

From the Swedish point of view, the neutrality question is the most difficult one to reconcile with EC membership. Sweden's policy of neutrality is not *de jure* neutrality as in the case of Austria and Switzerland, but *de facto* active political neutrality. The Swedish policy of neutrality is based on historical traditions and restrictions imposed by the Cold War block confronta-

tion, and characterized by active foreign policy participation in the UN and solidarity with Third World interests.³¹ On the one hand, practising a unilateral policy of neutrality is complicated by problems with political recognition and credibility, but on the other hand it gives the country a possibility to adjust it according to national interests, as a statement by Olof Palme, "we alone determine Sweden's policy of neutrality", clearly shows.³² The question of redefining neutrality is more complicated for Austria and Switzerland, because of their *de jure* policies of neutrality, connected with such abstractions as "Swiss identity" in the case of the latter, discussed below. It should also be noted that the international environment plays a part in the choice of policy, and thus *de facto* policy of neutrality is often reactive instead of active.³³

Although Sweden is a visible participant in most international organizations, it has regarded the EC as a threat to neutrality. Nordic opinion has been that the neutral states face political constraints on integration which outweigh the economic benefits for integration. Opinions in this respect changed quite quickly following the end of the Cold War: in May 1988 the Swedish Prime Minister Ingvar Carlsson stated that neutrality remained the primary obstacle to Swedish membership³⁴, Sweden applied in the summer of 1991, and in

December 1991, Prime Minister Carl Bildt welcomed the contents of the Maastricht Treaty by saying:

"[Sweden's] willingness to participate actively, as a member of the Community, in the cooperation (*sic*) in the field of foreign policy and security cooperation, considering that this cooperation will mean that the Community will be able to contribute with reinforced strength and consistency to security, stability and cooperation in the development of the new Europe"³⁵

Unlike Austria, Sweden applied for EC membership without mentioning maintenance of neutrality as a condition. The membership negotiations were conducted on the basis that Sweden would fully participate in the common foreign and security policy.³⁶

The end of the Cold War was a necessary condition in the change of Sweden's policy towards participation in the political aspect of the EC. The "block-aspect"³⁷ of the EC had disappeared. It was no more a "Western" European institution but "a potential pan-European institution promoting European security in the broadest sense"³⁸, and consequently, EC membership had become compatible with Sweden's neutrality. The experiences of other neutral countries, namely the Republic of Ireland's since 1973, and Austria's decision to apply in 1989, point in the same direction.³⁹ The redefinition of the compatibility of the Swedish policy of neutrality with the EC was influenced by domestic interests, the international system allowing.

It has been argued that Sweden's policy of neutrality necessarily includes the element of maintenance of peace with prosperity, and that membership in the EC had now become a condition for prosperity, while changes in the international environment made it no danger to peace.⁴⁰

The established trade linkages between the EC and Sweden are extensive. For Sweden, the EC is a more important market than the EFTA countries (see Table 1). Sweden is the fourth biggest importer to the Community market and the fifth largest export market of Community products.⁴¹ Swedish firms have expanded aggressively to the Community market.⁴² The serious recession in Sweden since 1989 (see Table 2) has made the Swedes reconsider the commitment to "the Swedish model" of a welfare state. According to the latest statistics, recovery is not yet on the way.⁴³ Although the EEA guarantees free access to the Single Market, the opinion began to shift, starting from business circles, toward the direction that economic integration could and should be connected with political integration. Gradually, developments both in the European political climate and domestic economic problems crafted a political consensus among major parties that EC membership was inevitable and that Sweden needed the EC.⁴⁴

The Commission completed its opinion on Sweden's application on 31 July 1991, a month after the Lisbon summit.⁴⁵ As towards the other EFTA applicants, the Commission opinion was very favorable. Sweden is one of the most affluent countries in Europe, with GDP per capita 20% higher than the Community average. It had already accepted lots of *acquis communautaire* through the EEA agreement. No problems were foreseen with regards to EMU, because Sweden had unilaterally linked its currency to the ECU since 1991, although it had to drop out on the outset of the ERM crisis in 1992. Despite the recent years of recession, Sweden's performance in economic and monetary policy is comparable to or better than the EC average. The Commission concluded that "The Union will on the whole benefit from the accession of Sweden, which would widen the circle of countries whose prospective economic, monetary and budgetary performance is likely to contribute to the development of the economic and monetary union."⁴⁶ Sweden was expected to strengthen the Union in several other fields, such as social and environmental policy and R&D. As possible problem areas, the Commission mentioned agricultural policy, regional policy and state monopolies (especially the state alcoholic beverage monopoly). Swedish agriculture is heavily subsidized because of harsh Arctic climate and government efforts to support regional

cohesion and traditional life-style; thus adaptations in the Swedish policy are necessary for compliance to the Common Agricultural Policy. Similarly, regional differences in development has provided justification for high levels of regional aid not compatible with EC economic and social cohesion plans. On the other hand, parts of Sweden hardest hit by the recession might qualify for EC aid because of high levels of unemployment.⁴⁷

The question of Sweden's policy of neutrality received special attention. Although the Commission acknowledged that Sweden itself had expressed its willingness to full participation in the CFSP, it recommended that according to its opinion expressed in the report on enlargement, "specific and binding assurances from Sweden should be sought with regard to her political commitment and legal capacity to fulfil the obligations in this area."⁴⁸ *Laurson* has commented that by this statement, which the Commission attached to its opinions on all of the neutral EFTA countries' applications, the EU was asking a higher degree of commitment than some of the current members, particularly the UK, the Irish Republic and Denmark, are showing towards the CFSP presently.⁴⁹

4.3 FINLAND

Finland applied for EC membership on 18 March 1992. The geopolitical situation of Finland and the foreign policy it had practised since the Second World War caused it to consider a long time before making the decision to open the EC membership negotiations. The reasons for the change in opinion were mostly the same as in the case of Sweden, namely the changes in the global political climate and recent deep domestic economic recession. However, Finland's situation was more complicated because of its policy of peaceful co-existence with the former Soviet Union. Finland had been extremely cautious about Western European integration, and maintained strict neutrality in order to stay out of a possible superpower conflict. It had tried to balance its relationship with Western Europe and the former Soviet sphere of influence.⁵⁰ Although Finland had struggled to be recognized as neutral since the Second World War, the exercise of independent Finnish foreign and security policy were constrained by the Paris Peace Treaty, and the Treaty on Friendship, Cooperation and Mutual Assistance Treaty signed with the Soviet Union in 1948. The Friendship Treaty was abrogated in January 1992. Before the gradual disintegration of the Soviet Union and its sphere of influence, it was out of the question for Finland to join Western European *political*

integration. The following account is a tell-tale indication of the careful

Finnish attitude:

"The last President of the Soviet Union, Michail Gorbachev, spoke at Finlandia Hall in Helsinki in 1989, only a few days before the fall of the Berlin Wall. Gorbachev's main message to his Finnish audience was crystallized in a single sentence from his speech: "Finland is a neutral Nordic country". After hearing these words, the distinguished Finnish audience interrupted Gorbachev with a standing ovation - not because they themselves were not aware of their own international position but because Gorbachev was the first Soviet leader who was ready to recognize it openly."⁵¹

Finland's integration with Western markets was based purely on trade agreements without political commitment. It has been commented that Finland "encapsulated" economic integration by steering away from any political elements.⁵² In 1961, soon after the establishment of EFTA, Finland negotiated an association agreement. It became a full member in EFTA as late as 1986. However, Finland participated actively in EFTA-EC integration starting from the early 1970s, and the free-trade agreement with the EC dates from 1973. Despite some initial hesitation, Finland also entered the further deepening of the EFTA-EC relationship starting from the Luxembourg Accord in 1984 which finalized into the EEA Agreement of 1992.

When it came to enhancing economic integration with political integration, the Finns were still wary. The relationship between EFTA and EC was considered the maximum integration solution. The redefinition of the role of

politics in European integration started in 1987, when both the Prime Minister and the Foreign Minister expressed the opinion that the Finnish policy of neutrality would not be an obstacle for participation in Western European integration. At that stage, membership in the EC was still ruled out on the basis that participation in a supranational arrangement would undermine domestic autonomous decision making, which was considered a necessary element of neutrality, and a guarantee of trustworthy posture towards the Russians.⁵³ The change in integration policy was reinforced following the changes in the geopolitical setting, and in February 1992, the President of the Republic Mauno Koivisto opened the parliamentary session by recommending application for EC membership, which got the support of all three of the nation's largest parties.⁵⁴ The end of the Cold War, Sweden's previous membership application, the fact that the EEA agreement had left the EFTA countries practically without means to influence the decision-making concerning common issues, and deep economic recession after losing trade with the Soviet Union were the main reasons for moving towards applying for full membership.⁵⁵

Through the EEA Agreement, Finland had already achieved a high degree of integration, mostly economic, but also in certain respects political

integration. The Finnish membership application stated that because the division between Western and Eastern Europe, to which the Community had in certain respects contributed, had disappeared, it was now an institution contributing to the political and economic development of the entirety of Europe. Furthermore, it was stated that Finland now saw the EC as the best way to achieve the best things for the country.⁵⁶ As the President of the Republic put it in his speech in Brussels on 28 October 1992:

"The Community plays an ever more important role in the determination of the developments in our continent. We are planning to participate in this process. We have carefully studied the obligations connected with the accession to the EC. With our membership application, we accept *acquis communautaire*, the Maastricht Treaty and the political goals of the European Union."⁵⁷

Within the political goals of the EU, the two that have aroused the most discussion among Finnish commentators, are EMU and the common foreign and security policy. The former was debated because after having linked its currency, the markka, to the ECU in 1991, Finland was the first European country to drop out of the system in the autumn of 1992. The Finnish currency crisis was caused by deep economic recession, the worst since the Second World War. Nevertheless, the Finnish membership application and statements accompanying it restated a commitment to EMU.⁵⁸

Taking into account the traditional "broad" neutrality of Finland, the adherence to the common foreign and security policy was potentially problematic. However, the government assured that its commitment would also cover this area. The statement of Foreign Minister Heikki Haavisto at the meeting of the EU's enlargement conference in November 1993 was simple:

"Finland accepts the provision of the Maastricht Treaty on a common foreign and security policy. We look forward to actively contributing to its implementation. In the light of this, I do not find this Chapter to pose problems to Finland, and we are therefore prepared to close it."⁵⁹

Still, there remains an understanding that the "core of neutrality", including military non-alignment and independent defence should be preserved. The national security risks posed by a potentially unstable Russia have been widely discussed in Finland. Even after withdrawing its troops from the Baltic states, the two most important Russian military installments in the North-West, the Leningrad military district and the Kola Peninsula, border Finland. For the time being, the question of Finland joining the WEU or NATO has been deferred. Finland is not joining the EU with military security in view, but to enhance political and economic security.⁶⁰

The Finnish economy is living through its deepest recession since the Second World War. The GDP growth has been negative or remained constant for four consecutive years (1990-1993), unemployment was over 15% in

1993, and the country is running a high public deficit. The situation can not be explained only by referring to common economic downturn in Europe or cyclical reasons. The Commission opinion on the Finnish membership application especially pointed out that apart from the fact that Finland has in general neglected investment in export industries, the concentration on bilateral trade with the former Soviet Union for several decades explained why Finnish industry was unexposed to the market forces of international trade, and thus had reduced competitiveness. The collapse of the Soviet Union deprived Finland of approximately 25% of its markets. Finnish industry has to reconstruct and regain its competitiveness in European markets. Deep recession, combined with a commitment to maintaining social welfare, also affected public finance, where more austerity is required.⁶¹ Regardless of its recent bad economic situation, Finland still remains one of the most affluent countries in Europe in terms of per capita income, and has a strong industrial base, although with a heavy reliance on timber, wood pulp and paper industries. Like the other Nordic applicants, national protection of Arctic agriculture vis-a-vis the Common Agricultural Policy of the EC was expected to be a problem in the accession agreements, and special guarantees to

adherence of the CFSP, similar to those of Austria and Sweden, were requested.

4.4 NORWAY

Norway was the last of the countries under consideration to apply for EC membership. It submitted its application on 25 November 1992. Norway had made two previous requests to join the EC, in 1962 and 1967. The accession negotiations were successfully concluded in 1972, but the Norwegians rejected membership in a referendum, with 53.6% of votes against. Instead, Norway negotiated a free trade agreement with the EC in 1973. With the other EFTA countries, Norway gradually deepened the relationship. The fact that other Nordic EFTA countries had applied for full EC membership and the realization that the EEA would not adequately safeguard Norwegian interest in the longer run, combined with changes in the European geopolitical environment, convinced the Norwegian Government to open new membership negotiations.⁶² Although Norway is a member in NATO, it felt that with the decreased interest of the United States towards the European security question, it was left out of European foreign and defence policy decision-making, increasingly conducted in the framework of the EC and definitely an important

part in the future EU.⁶³ Besides, the end of the Cold War enabled Finland and Sweden to consider joining the EC, and thus Norway would benefit from a Nordic "momentum" to influence public opinion on the issue.

Norwegian Prime Minister Gro Harlem Brundtland explained the changed position of Norway in her speech to the Norwegian Parliament on 16 November 1992, expressing particular concern about the negotiated decision-making mechanism of EEA:

"It is the countries that participate in the cooperation that will determine its further course, not those that remain on the outside. Given that decision by the EC will have a profound effect on our country, we should also participate in this important new phase of European cooperation as we have done in EFTA throughout the entire post-war period."⁶⁴

As in the case of the other EFTA countries applying for the full membership, the Commission's opinion was very positive. Nevertheless, several problematic areas had emerged. The Commission referred in particular to the agricultural sector, Norway's regional policy, fisheries, state aid, and state alcohol monopoly. Norway's fisheries policy had already proven a difficult issue to solve during the EEA negotiations. Fisheries do have a traditional importance in Norwegian economy, contributing 6% to total exports. Norwegian accession would increase the tonnage of the Community fishing fleet by 17% and the number of fishermen by 10%. Norway's fishing

zones extend to 200 miles, and the main problem to be solved was its demand to protect their fishing zones in the North Sea against Spain and Portugal's fishing fleets. The Community would not allow such protective measures. The fishing issue remained central in the Norwegian membership negotiations. Another controversial sector is agriculture. Because of harsh Arctic climatic conditions, subsidies to agriculture considerably exceed Community levels, and are further enhanced with a regional support program noncompatible with the EC's economic cohesion policy. Producer prices in Norway are twice those in the EC. Compliance to the Common Agricultural Policy of the EC would require major reforms in the Norwegian agricultural policy. No major problems were expected in the field of economy in general, although the Commission noticed a heavy reliance on oil, natural gas and energy production. In terms of macro-economic indicators, Norway is one of the most prosperous countries in Europe, and its performance in monetary and exchange rate policy is well in line with the EMU requirements with an already established link to the ECU. As a particular strength, the Commission cited Norway's commitment to environmental issues, with positive future contribution to the deepening in this sector within the Community. The area

of foreign and security policy was not considered problematic, as Norway is a founding member of NATO and an associated member in WEU.⁶⁵

4.5 OTHER EFTA COUNTRIES

Austria is a fellow candidate for EU membership with Sweden, Finland and Norway. It was the first EFTA country to apply for full EU membership during the EEA negotiations. Among the EFTA countries, Austria has the highest percentage of exports to the EC. Austria's exports also have the special feature of being highly sensitive to changes in Western European integration patterns: since the establishment of the EC until the negotiation of EFTA free-trade agreements with the EC, Austria's exports decreased significantly, but recovered afterwards substantially.⁶⁶

Austria shares most of the characteristics of the Nordic EFTA countries: problems in reconciling the policy of neutrality and non-alignment with political integration into the EU, long-established economic integration, including co-ordination in monetary policy by linking the Austrian Schilling to the DM, and special concerns in some limited sectors, such as agriculture and regional policy, and, in the case of Austria, transportation.

Austria's policy of permanent neutrality is different from Sweden's and Finland's policy of neutrality because it is based on national legislation and on international public law. The legal basis in national law is the Constitutional Law on the neutrality of Austria of 26 October 1955, and in international public law, the notification of that Law to each state with which Austria had diplomatic relations in 1955 or has established since. Acceptance of notification by any other country (such as all of the current EC member states) means that it recognizes and honors Austria's neutrality. The international public law aspect of Austrian neutrality poses several legal difficulties with regard to the treaties establishing the EC and the Maastricht Treaty provisions on common foreign and security policy. The Austrian application included a note that it was applying with the understanding that it would maintain its neutrality. Although the negotiations on the Maastricht Treaty had not been concluded at the time the Commission issued its opinion on the Austrian application, it indicated that special assurances from Austria would be requested as to participation in the future CFSP.⁶⁷ Austria's policy of neutrality has also lately gone through reinterpretations, as the growing sense of insecurity due to possible escalation of violence in and from the neighboring Balkans has

prompted Austria to look to European foreign and defence policy as a structure to enforce its neutrality.⁶⁸

The Commission complemented Austria as being stable and strong economically, and thus equivalent to the current member states that can fully participate in Community projects, such as the internal market, EMU, strengthened economic and social cohesion. Austria's degree of economic integration was already advanced, and its monetary policy connected with the ERM through the link between the Schilling and the DM. The Commission concluded that the accession would not require or cause any fundamental changes in Austria's economic policy. Apart from some agricultural subsidy questions, the Commission identified as the most problematic issue transportation. Austria is a transit country in the heart of Europe, and has adopted very restrictive transportation policy because of the growth in the road transit through the Alps. During the EEA negotiations separate bilateral transportation agreements were negotiated between the Community and Austria, as it refused to accept the EC common transportation policy. Apart from these agreements, Austria has adopted several unilateral measures and regulations to limit transportation on Alpine roads. As justification, Austria quotes the high costs

of building Alpine roads and air pollution due to truck-traffic as an environmental reason.⁶⁹

Iceland joined the EEA Agreement, but is not considering applying for EU membership. Iceland's national economy is based on fishing industry, and the conditions of the EU's Common Fisheries Policy would severely harm its interests.⁷⁰ The fisheries question was solved through bilateral agreements in the EEA.

Switzerland has been a permanently neutral country *de jure* since the 1815 Vienna Congress. Traditionally the Swiss Federal authorities had considered neutrality as an absolute obstacle for participation in the EC, or, for that matter, other international organizations. Only from the beginning of the 1990s, the opinion began to shift from the previous stand of incompatibility to the understanding that it was possible to maintain the Swiss identity and neutrality even within the EU.⁷¹ Switzerland took part in EEA negotiations and signed the agreement, but its ratification was stopped by a referendum on 6 December, 1992, in which the Swiss voted by 50.7% against joining the EEA. Switzerland had already decided to apply for full membership, but the rejection of EEA left this application suspended for consideration.⁷² Some commentators have speculated on different options Switzerland

has in finding new paths towards participation in European integration, considered a necessity for the country.⁷³ After Liechtenstein voted for participation in the EEA, Switzerland remains the only Western European country outside the Single Market.

Because of the Swiss rejection of the EEA, **Liechtenstein** faces institutional problems. Although it decided by referendum to participate in the EEA, it must modify its ties with Switzerland in order to be able to do so. These modifications will require an amendment in Liechtenstein's constitution.

CHAPTER 5

MEMBERSHIP NEGOTIATIONS

5.1 NEGOTIATIONS WITH THE CANDIDATES

The time-table for the negotiations was set to ensure that the European Parliament would be able to vote on the accession⁷⁴ before it went into recess to prepare for the European Parliamentary election to be held on 9 and 12 June 1994, and thus achieve accession on the date set by the Copenhagen summit as of 1 January 1995. The deadline for concluding the negotiations was to be the end of February 1994.

Right from the start of the negotiations it was clear that areas where it would be most difficult to find solutions would be agriculture and regional aid in the case of all of the applicants, fisheries policy with Norway, and transportation policy with Austria. Common foreign and security policy was not problematic of all. Illustration of this was the statement made by the Finnish Foreign Minister quoted on p. 31, as among the candidates, Finland was presumed to be forced the most to request reservations in this respect because of its difficult geopolitical location. In light of the opinions expressed in the Commission report on enlargement policy emphasizing full commitment to the CFSP, this question would conceivably have been most difficult to

reconcile. However, no problems were encountered. By the first week of February, the CFSP was one of the chapters concluded with all of the applicants.⁷⁵

In addition to not finding solutions to some of the sensitive fields with the four applicants, the Union was also unable to find a common position in some of the issues. Throughout the negotiations, the southern countries of the Union, led by Spain, were unhappy with the agricultural and regional policy initiatives. These countries, with heavy reliance on agriculture and regional aid, were opposed to granting aid to the agricultural sectors of Nordic countries and to Austria to maintain unproductive Arctic and Alpine agriculture traditionally subsidized through national regional aid programs. Their position is understandable, as the applicant countries are clearly the most affluent countries in Europe as a whole. In the case of Norway, Spain and Portugal strongly opposed the compromise on the fisheries issue. Germany and Italy had special concerns about transportation through Austria.⁷⁶

The deadline was slightly missed, but the beginning of March brought about the conclusion of negotiations with Sweden, Finland and Austria. Adjustments to the common position were needed in order to reach the end of negotiations. Political accords with Sweden and Finland were reached on 1

March 1994, and similar efforts were coming to an end with Austria. It was decided that negotiations with Norway over the fisheries issue would resume on 7 and 8 March because of deadlock.⁷⁷

Sweden won the debate on the conditions of regional aid, as it was agreed that sparse population density would be added to the criteria. An exchange of notes between the Commission and Sweden will accommodate the country's objective of being able to carry on extensive regional aid programs such as those prior to membership. A new structural fund instrument, Objective 6, was introduced to support regional and structural aid in northern and central areas of Sweden. Support for agriculture in northern Sweden would be maintained at its current level. Sweden's net contribution to the Union budget would be phased-in over a period of 5 years. The concession in the position of Finland was that only 85% of the arable land area would be eligible for support, whereas it had requested 100% of the country to be included to the less-favored areas provisos. The whole of Finland would be eligible for Nordic and national agricultural aid. Quotas for sugar and milk remained, although in diminished form. Finland would become a net contributor to the EU budget only after the first membership year. On the road transportation issue Austria won an "environmentally-oriented" agreement. The existing

EEA bilateral agreement would stay in force at least until the year 2001, and could be extended to the end of the year 2003 depending on gas exhaust emission levels.⁷⁸

Norway and the Community finally reached a compromise on the fisheries issue on 16 March, including deals on access to waters, resources, and market, and fish resources management, combined with a time-table for integration of Spain and Portugal into the common fisheries policy.⁷⁹

5.2 INTRA-COMMUNITY DEBATE

Although the negotiations were now concluded with the four applicant countries, an intra-Community debate continued on institutional chapters. Two problem areas were unresolved: new members' participation in EMU and the Council of Ministers voting rules. Although the applicant countries had expressed their full commitment to EMU, and the Commission had not seen any problems in that respect as the countries had already directly or indirectly participated in the exchange-rate mechanism, Spain raised an objection to including the new countries in the calculations of convergency criteria which determine the entry into the third stage of EMU. Spain's rationale was that because the applicant countries' economies are more stable than those of some

of the present member countries, compliance with the criteria would become more difficult; for example Spain might be left outside the third stage of EMU. Spain waived its reservations after the President of the Commission and creator of EMU, Jacques Delors, assured Spain that the transition is not strictly a matter of simple calculations, but a political decision.⁸⁰

A far more difficult question to solve was the size of the blocking minority in the Council of Ministers after the new countries' entrance. The Council decision-making procedure has been a controversial issue since the creation of the Community. The EC is a rare institution in the field of international organizations in the respect that apart from normal intergovernmental agreements, supranational powers to make legally binding decisions is included. Commissioners functioning in an individual capacity and promoting the Community interests with no regard to national interests is the best example of this. Even within the Council, a basically intergovernmental institution, most of the decisions are passed with qualified majority instead of requiring unanimity⁸¹. The supranational element in Council decision making had already caused a crisis in the past. The original EEC Treaty included a transitional period for replacing unanimous decision making in the Council by a qualified majority in many fields as of 1966. France was opposed to using

qualified majority voting in agricultural pricing decisions, and put forward several proposals on linked matters. Other countries' refusal to accept them led to the French "empty chair" policy and a complete deadlock in Council decision making. In order to resume work a compromise was drafted, known as the Luxembourg Accords, in January 1966. It was agreed that in a case where a qualified majority should have been used, a country could claim "very important interest" and voting would be postponed for a "reasonable" period of time, during which negotiations would continue in order to establish a consensus. The French interpreted "reasonable" to mean possibly an indefinite period of time. The effect of the Luxembourg Accords was that for the next decade there was practically no voting in the Council. Although the Accords were not legally binding, they were respected as a "gentlemen's agreement". The Accords caused a legislative stalemate resulting in a climate of stagnation, "Eurosclerosis", that lasted until the adoption of the internal market program in 1985, and the enforcement of a qualified majority voting in the Single European Act in 1987.⁸²

A similar kind of debate over supranational decision making came up in connection with the enlargement negotiations. According to a simple mathematical formula, the new members should have votes in the Council in

the following fashion: Sweden 4, Austria 4, Norway 3, and Finland 3.⁸³ The total number of votes in the Council would increase from 76 to 90 votes. The qualified majority would be 63 instead of 54, or, to put it the other way around, votes required for the blocking minority would increase from 23 to 27. It has to be remembered that the Council votes were not changed after German unification, which brought 17 million more Germans into the Union, but the question of institutional reforms was postponed until the inter-governmental conference on the revision of the Maastricht Treaty which will be held in 1996. It is true that the votes do not exactly correspond to the population size of member states, but at least using the best approximation, the qualified majority had always been and would be if the formula was to be used, around 70% of the total population.⁸⁴

The UK and Spain rejected the arithmetic adjustment and insisted that the blocking minority should remain 23, even when the number of total votes in the Council is increased to 90. The block by 23 votes makes it possible for two big member states which have 10 or 8 votes (eg. the UK and Spain) and one small state to veto any proposal in the Council. The reasons for insisting on the 23 votes rule were different for the UK and Spain. The latter, with support from Italy, was worried about the weight in decision making moving

towards northern interests. Keeping the size of the blocking minority down would enable the Mediterranean countries to look after their special interests, especially agriculture and regional aid. For the UK the reason was much more fundamental: it wanted to reduce the use of supranational decision making on every occasion. The blocking minority of 23 among 90 votes casted would be easy to convene in almost every issue, and thus it would become impossible to use the qualified majority decision-making mechanism. The UK has always been against the federalist approach of most of the continental countries, and wished to re-introduce intergovernmental decision-making based on consensus. Also, it saw it would be easy to collect 23 votes from the northern countries to veto issues with solely southern "spendthrift" interests. It was claimed that Britain wanted to "widen and weaken" the Community by diluting internal cohesion and making evolution towards intergovernmental cooperation based on consensus inevitable. Simultaneously, the European Parliament who was to vote on the enlargement, stated that it was in favor of arithmetic adjustment, and would not approve accession if the blocking minority was not increased to 27 votes. Several compromises were sought: tying the blocking minority directly to how large percentage of the Community populations it represents, or using different minority rules depending on whether a "big"

country is evolved or not (23 and 27 votes, respectively). Akin to the interests played out during the Council voting debate, the final compromise proposed by the Presidency was very much like the Luxembourg Accords. It was proposed that even though the qualified majority would be increased to 64 votes (thus, the blocking minority to 27 votes), in cases where the majority did not exceed 68 votes (thus, minority 23 votes), the minority states could ask for further effort ("reasonable" time in the Luxembourg Accords) to reach a compromise.⁸⁵

The Council convened into an informal meeting in Ioannina, Greece, at the end of March to solve the voting question. The agreement reached, called either the "Ioannina compromise" or the "Pangalos compromise" after the name of the Presidency of the Council, included the main lines of the latest proposal, but with specification that other member states would be able to challenge how long a time period is "reasonable", and to elicit voting through a fall-back to the Council's Internal Regulations. This rule eroded the British interpretation that "reasonable" can mean an indefinite period. The compromise further promised a setting-up of a Committee of "wisemen" or "special representatives" to prepare the institutional revision question for the 1996 intergovernmental conference, and thus conferred that the compromise

was valid only for a limited duration. The compromise looked acceptable, and Spain was ready to close the issue. It took a longer time for Britain, partially for reasons of domestic politics, but finally it had to succumb in order not to be labeled as the spoilsport of the enlargement negotiations. It should be noted that Britain has always been in favor of widening. Surprisingly, the British Prime Minister made a public statement that the compromise was legally binding. Quickly, the Presidency made a public statement stressing that like the Luxembourg Accord, this compromise was only a political understanding with no legal form. However, the European commentators rushed to predict that the Ioannina compromise would be a bigger obstacle to the Council decision making, and consequently to deepening of the Union than the Luxembourg Accords had ever been.⁸⁶

The last step to be taken was the vote in the European Parliament. Throughout the institutional debate, individual MEPs had strongly condemned any deviation from the mathematical formula, and announced that the EP would vote against the accession of the four applicants if any compromise in blocking minority was included. However, after the representatives of the applicant countries had asked the EP not to postpone their accession, a busy

campaign to count votes for and against started.⁸⁷ The vote was held on May 4, and was overwhelmingly in favor (Table 3):

Table 3: Voting on the accession in the European Parliament, 4 May 1994.

	votes cast	in favor	against	abstaining
NORWAY	456	376	24	58
AUSTRIA	459	374	24	61
FINLAND	459	377	21	61
SWEDEN	461	380	21	60

* The European Parliament had 517 members at the time. A single majority (259) was needed.

Source: *The Economist*, May 7, 1994, 30-31.

The applicant countries will hold referendums on EU membership. Austrians already voted for the membership on 12 June. The next referendum to take place will be Finland's, on 16 October, 1994. The Scandinavians are relying on common momentum: because Norway is the most likely to reject membership, its referendum will be held last, under the assumption that if the others approve, the Norwegians can not turn in a different direction.

Opinion polls national attitudes towards the EU membership have fluctuated throughout the negotiation process and summer, with plenty of people still undecided on the issue. In countries who won concession at the

end of negotiations, such as Norway, polls have turned slightly more favorable. In the beginning of March, only 29% of the Norwegian voters were in favor of membership, with 44% against (rest undecided), whereas at the time of the end of the negotiations 41% were in favor. Still, 49% of Norwegians were against the membership.⁸⁸ On the other hand, the intra-Community quarrel on Council voting rules or realization of the effects of the adaptations required by the Community membership may have disillusioned some voters. For example, in Finland, at the time when the membership application was made (March 1992), 56% of the voters were in favor and 28% against (rest undecided), but in the beginning of April 1994 only 42% were in favor of joining.⁸⁹ The latest opinion polls in Finland are slightly in favor of membership, with 40% for and 37% against. However, the trend seems to be that voters still undecided join the anti-EU camp, and that they are slowly catching up.⁹⁰ Different Swedish polls have shown 52-54% against, 46-48% in favor.

Once the membership agreements are accepted in referendums, ratification in national parliaments is not assumed to be problematic, and if everything goes smoothly, the new countries will enter the Union as of 1 January, 1995.

CHAPTER 6

EXPLAINING EUROPEAN INTEGRATION

6.1 REGIONAL INTEGRATION THEORIES APPLIED TO THE EC

The interest in regional integration theories has closely been linked to the evolution of the European Community. The original studies on regional integration were inspired by the creation and initial success of the European Coal and Steel Community and the European Economic Community. *Ernst Haas* and *Leon Lindberg* formulated what was to be known as the neo-functional theory in the late 1950s and early 1960s. At the center of the theory was the presumption that integration in one sector would have a "spill-over" effect to integration in other sectors. Further, it was assumed that the spill-over could occur from economic to non-economic, i.e. political sectors, resulting in a supranational institution with the loyalties and expectations of the political actors transferred from national settings towards a new centre possessing jurisdiction over the preexisting national states.⁹¹

The regional integration within the framework of the EC was to be a laboratory to test the validity of neo-functionalism. The stagnation, both economical and institutional, in the EC from the mid-1960s till the 1970s, showed that the spill-over did not happen automatically, and that national

interests could replace the development towards a supranational institution. Most of the proposals for deepening the integration were ignored. Included here were the report of the Werner Committee in 1971 on monetary union, the 1972 Paris summit resolution on transferring economic integration into political integration, and several other documents on political "European Union". The departure from the supranational decision making was not only apparent in the Luxembourg Accords, but also in the fact that the area where political cooperation was achieved was the foreign policy field, based on inter-governmental cooperation.⁹² Neo-functionalism fell out of fashion.

Even the revival of European integration during the 1980s, resulting in the Single European Act (SEA), did not re-establish neo-functionalism in its original form, although the interest in regional integration theories in general was rekindled. The spill-over mechanism could not explain the sudden relaunch of the Community and the adaptation of such major decision as the SEA after more than a decade of stagnation. Neo-functionalism relies on incremental steps, whereas the changes in the mid-1980s were abrupt, not logical and predictable consequences of earlier developments as theory predicted. Besides, had stepped-up integration developed according to theory, it should have occurred 10 years earlier.⁹³

Neo-functionalism was crafted into several variations. The notion of "spill-over" was modified into different mechanisms. The variation traditional neo-functionalist theory had used was now defined as "functional-technical" spill-over. The role of voluntaristic elements was increased: "cultivated spill-over" denoting institutional decision-making bodies having an independent role in deliberately creating and cultivating different sectors and their interconnect-ness as active supranational executives; and "pluralistic spill-over" referring to how integration in one sector brings about political pressures from various interest groups, including national governments and transnational business elites, for further integration. It depends on the chosen approach whether the importance of governmental elites or nongovernmental elites is stressed more.⁹⁴ These redefinitions added new voluntaristic and intergovernmental elements to the basic neo-functionalist notion of automatic spill-over.⁹⁵ Undirected incremental changes were not ruled out, but they are suspected of playing a bigger part in the gradual growth of interconnectedness rather than in dramatic changes.

Many of the recent studies in European integration have concentrated in finding a theory that would explain the sudden momentum to adopt the Single European Act. There are two competing theoretical interpretations:

supranational institutionalism (also called modern neo-functionalism) and intergovernmental institutionalism. The former stresses the role of the Community institutions in shaping new policies with possible input from transnational business groups and national governments.⁹⁶ Intergovernmental institutionalism concentrates on studying the national interest played in interstate bargains, disregarding spill-over as the critical explanatory factor in explaining European integration.⁹⁷ However, most of the scholars at the moment seem to be of the opinion that different theories should be used in a complementary fashion in order to explain different stages in EC integration.⁹⁸

If the automatic spill-over mechanism is dismissed as the explanatory factor in integration, and the importance of voluntaristic elements is increased, there remains the decisive question as to what provides the initiative to political decision-makers, either supranational or intergovernmental, in the system to launch political integration projects. The most discussed factor is perceived external challenges or threats in the form of changes in the international environment.⁹⁹ A crisis can transform the goals or the interest perceptions of actors so as to increase new demands for deeper integration. Changes in the international environment have been used to explain the

establishment of the EC. In the 1950s, the external threat was in the form of political and security concerns. From the 1970s to the present, the external threat has mostly been of an economic nature. Moreover, it has been argued that within the EC, economic threat creates a stronger response than political, because it mobilizes a wider range of actors. In addition to political leaders, business circles and national electorates pressed by economic down-turn will become active.¹⁰⁰ For example, the adaptation of the SEA has been explained to have been a response to the economic-technological challenge from Japan,¹⁰¹ in combination with a failure of economic policies in many member countries.¹⁰² When it comes to economic crisis, it has been argued that what matters most in the process of European integration is not the political will of the member states to promote European unity in itself, but "the concern of member states about the costs of failing to satisfy the external demands on their economic efficiency and on their ability to take political decisions, which could no longer be met at a national level".¹⁰³ Political considerations still play their role: the deepening of the common foreign and security policy with the Maastricht Treaty has been connected to the disappearance of bipolarity and German unification.¹⁰⁴ However, it has to be taken into consideration that in most cases direct and immediate linkage

between external threat and integration responses are difficult to establish, and what actually matters more is the perception of a threat in conjunction with a time-lap.

If political integration is linked to change in the environment, it is not sufficient to take into consideration motivation, but also the *restraints*, which can be both internal or external in the form of restraints imposed by the international economic or political climate. Both the motive ("threat" or "crisis") and the opportunity (absence of restraints) have to be present to enable a major political decision toward deepening the integration process.

6.2 MOTIVATIONS AND RESTRAINTS FOR SWEDEN AND FINLAND

In the framework of "motivation" and "restraints", the EFTA countries following policies of neutrality, such as Finland, Sweden and Austria, can be characterized by constant economic motivation to approach the EC since the initial separation restrained by the bipolarity of the international environment. Until 1989, all the steps taken were concerned with solely economic integration.

The first rapprochement after the separation between the EC and the EFTA countries occurred immediately after the "defection" of the UK, Denmark and Norway by applying for EC membership. The British decision was based on fear of being left out from an organization that was clearly developing into the strongest policy formulator in Europe. Thus Britain's decision was based on preventing a loss of opportunity to participate in policy making as a traditionally "big" European country. Denmark followed the UK because most of its trade was with it. The original reason for setting up the EFTA - dislike of supranationality and preference for intergovernmental decision making - did not disappear from their observed behavior. Both of the countries can be considered as "minimalist" in terms of the deepening the EC.

The defection changed the atmosphere within the EFTA. Sweden, Switzerland and Austria asked for association with the EC, subject to neutrality reservations. The accession of the UK and Denmark to the EC in 1973 left the remaining EFTA countries demoralized and in loss of a large part of their export market. Free trade agreements were negotiated to insure the access to the EC market as the importance of the EFTA diminished, and the success of the member countries' economies depended on the access to EC market.

The next move closer was the initiation of the EEA in the mid-1980s. Although the EC-EFTA trade had gained in volume, both of them were facing keener competition from the US and Japan. Around the same time the EC launched its program towards the Single Market, and the EFTA countries wanted to take advantage of it by guaranteeing preferential access. Because the foreign policy concern of several EFTA countries following a policy of neutrality - Sweden, Finland, Austria and Switzerland - still ruled full membership out of the question in the prevailing bipolar environment, a tightening of economic integration was the next best way. At the same time, the first effort to participate in decision making was made through joint EEA institutions, but with a dissatisfying outcome. The EEA could be characterized as ultimate economic integration without much political integration.

At the beginning of the 1990s, a deep economic recession throughout Europe was experienced. Of the Nordic countries under consideration, Sweden and Finland were especially hard hit. In their case, factors other than the down-turn of the global business cycle contributed to the situation. Both of them had tried to maintain the "Scandinavian" model of a welfare state, resulting in high public expenditures and consequent budget deficits. In the case of Finland, the reliance on trade with the former Soviet Union had made

the industry in general non-competitive in Western markets. It has been commented that Finland had decoupled from world trade and continued to protect its own market from international competition.¹⁰⁵ Even before the relaxation of the global political climate, efforts were made to re-establish Finnish firms in the European market. However, until the disappearance of bipolarity, this approach was possible only for business leaders. A similar adaptation can be discerned in the behavior of Swedish business.¹⁰⁶ In the case of both countries, this can be documented through investment in the EC markets. From 1985 to 1990, Finnish direct net investment in the EC countries grew sixfold,¹⁰⁷ and in 1990 Swedish outward investment was six times greater than inward investment, Swedish firms being the biggest investors in cross-border European acquisitions.¹⁰⁸ The interest of the business elite to be considered as an official move towards political integration was restrained only by official foreign policy concerns.

The sudden changes in the international political climate, the disintegration of the Soviet Union and its sphere of influence since 1989, and the consecutive disappearance of the image of the EC as a "Western" European block made the re-evaluation of the relationship between economic and political integration possible. There were no more restraints in the global

environment. The change in political attitude towards the EC happened very quickly in both of the countries, even within the traditionally reluctant Social Democratic Parties. This has been attributed to the "unusual confluence of rapidly changing political and economic conditions, both in the international system ... and domestically [as] economic uncertainty ... [and] the deterioration in overall economic outlook".¹⁰⁹

Two more factors have to be taken into consideration as internal restraints. First, why did the business elite not manage to influence foreign policy decision making earlier? Both of the countries under consideration here, Finland and Sweden, are characterized by political cohesion and consensus. Business circles did not want to "embarrass" the foreign policy leadership. The incorporation of these countries was not an economic act, but a major political decision which required the disappearance of the block-based structure of Europe.¹¹⁰ When the process got under way, the cohesion actually benefitted the process by making it faster.¹¹¹ In the case of Finland, the supporting factor was the "Swedish imperative"; never to be left out of markets the Swedish industry has access to.¹¹²

The second restraint was the reluctance to relinquish any autonomous decision-making power to a supranational institution. The strict adherence to

national autonomy was the dividing factor between the EC with supranational aspects and EFTA with intergovernmental cooperation.¹¹³ However, the EEA agreement exemplified that the EC is not an easy bargaining partner. In a situation where it was clear that the EC had reserved legislative powers for itself, gaining the right of political participation in the formulation of rules and procedures which would become binding in any case weighted for more than potential political losses.¹¹⁴

Norway did not have the same external restraints as Finland and Sweden. The main obstacle for applying for membership had been the fear of repeating the same kind of embarrassing domestic debate staged in 1973.¹¹⁵ Overall, Norway's decision to apply can be characterized, together with some defence policy concerns linked with the decreased importance of NATO, as trying to prevent the situation of being isolated if other Nordic countries joined the EC, and taking advantage of the Nordic momentum.

CHAPTER 7

THE NORDIC GANG

Cooperation among the Nordic countries has a historic and institutional basis. The Nordic Council functions as a forum for integration projects ranging from recognition of university diplomas, through harmonization of legislation and travel without passport requirement, to a common stand on foreign policy issues. The Nordic Council, which encompasses Finland, Sweden, Norway, Iceland, and Denmark, with a special voice for extraterritorial areas, has often been used as an example of regional political integration.¹¹⁶ Denmark made reservations for both its accession agreement and the Single European Act, stating that nothing included in them could restrict its participation in Nordic cooperation in foreign policy issues.

Now that four out of five Nordic countries will be members of the EU, some continental European observers have noted that they could possibly "gang-up" to support their particular interest against, let's say, the Mediterranean countries. Although the Nordic politicians were brisk to comment that such fears are unfounded, they also recognized that "positive" Nordic cooperation would continue.¹¹⁷

Still, other EU member states are watchful, not least because of the "minimalistic" approach Denmark has adopted in participation in some important fields of the Community *acquis*.¹¹⁸ Denmark has traditionally seen European integration to be primarily economic in nature. Apart from the reservations to the original Treaty of Rome, Denmark faced difficulties in ratifying the Single European Act. Although Denmark favored further economic integration, it was hard for it to accept some changes brought by the SEA to the decision-making process. It saw this transfer of powers to the EC institutions as an erosion of its national autonomy. The SEA was rejected in the Danish Parliament, but the following national referendum turned in its favor. As in the case of other Nordic countries, the end of the Cold War changed Denmark's attitude towards political integration in a more favorable direction. However, this shift was based on completely different reasons: Denmark saw its southern neighbor, Germany, taking the form of a bigger unified Germany and growing to be the strongest nation in Europe. Political integration with Europe could now be interpreted as a way to control Germany through the EU mechanism.¹¹⁹

Despite the observed benefits of closer participation in the EU, the Danes rejected the Maastricht Treaty in a referendum on 2 June 1992. The

main stumbling block was the defence policy and idea of a single European currency. Although the Danes were in favor of economic integration, they were again afraid of losing too much of national political authority. Because a failure to ratify the Maastricht Treaty could have had wide-ranging repercussions for the future of European integration, the EC negotiated a special compromise with the Danish government in the Edinburgh summit in December 1992 to reconcile the situation. Denmark got authorization to opt out from certain provisions: no participation in the third stage of EMU, and no participation in the common defence policy including the WEU.¹²⁰ It should be noted here that the requirements set for the three Nordic membership applicants concerning participation to the CFSP rule out any reservations of this kind. Thus, the commitment required was much stronger than what Denmark was ready to give. This is surprising, because after all Denmark is already aligned with NATO (as is Norway), but Finland and Sweden have had strong policies of neutrality and non-alignment.

The Edinburgh decision explicitly stated that the concession given to Denmark, the "Danish solution", is not replicable with other countries. Just before the beginning of membership negotiations, it was made clear by the EC Commissioner for External Affairs that only a time-limited exception from the

Maastricht Treaty could be granted to applicants, not permanent, as in the Danish case.¹²¹ The fact that there would not be deviations from the full commitment to the CFSP was obvious already from the Commission report on enlargement and the special statements on the issue in the Commission opinions on the membership applications. All the public statements made by Finnish and Swedish politicians vehemently denied that they were planning to request something like the Danish solution from the Community.¹²² The traditional notions of neutrality and non-alignment appeared to be totally disregarded in the face of economic necessity to deepen the integration with Europe, when the opportunity had opened due to changes in the geopolitical climate.

The most pressing concern for Denmark had always been the safeguarding of autonomy in national decision-making. The other Nordic countries had learned a different lesson from the EEA negotiations. The biggest disappointment with the EEA had been the low degree of influence over decision making within that arrangement. Without EC membership, the EEA countries would remain "second-rate" Europeans. The countries were willing to tolerate infringement on their autonomy in order to be a full-powered player in deciding further European development. This may be referred

to as the "small country syndrome" when the importance of access to markets and the right to political participation outweighs the potential losses in national decision making.¹²³ The other Nordic applicants did not want to be left with a periphery status in Europe. In addition, especially Finland desired to emphasize its European status¹²⁴ after having lived in the shadow of the Soviet Union most of the century and created the notorious term, "Finlandization".

All of this is true at least for the attitudes adopted before and during the membership negotiations. The commitments expressed were very strong. The applicant countries had to be "good Europeans" in order to gain the right to enter. Based on his model of unipolar regional integration, *Mouritzen* has speculated that the other Nordic countries might start behaving like Denmark, i.e. demanding concession, earliest in the case national referendums went against the membership or latest when they have established themselves as members.¹²⁵ The model is unipolar, because the restriction to policy-makers of the bipolar power structure have disappeared. In this model, participants are classified as outsiders, would-be insiders, and insiders. The gist is that *both* the complete outsider and the full-power insiders have a lot of leeway in forming their stand depending on their national interest: the previous because

they have no obligations or aspirations to please the system, and the latter because they already established themselves and participate in the interpretation of the rules of the pole. The would-be insiders, however, have no leeway. They have to obey the rules established by the pole (like in the EEA to submit to Community legislation they have no power to shape) and to compete for goodwill of the pole in order to gain the access to the insider group. This stand-by model explains well the situation of the EC membership applicant. Economic situation in these countries forced them to move from an outside orbit to a would-be insider orbit when external restraints allowed it, and the acceptance depended on their "good behavior", i.e. expression of total commitment. With well-established insider status they may start imposing special conditions.

CHAPTER 8

CONCLUSION

This study has examined the accession of three Nordic EFTA countries - Sweden, Finland and Norway - to the European Union. The process was followed up from the initiation of EFTA-EC negotiations on more structured relations following the Luxembourg agreement in 1984 to the favorable vote on accession into the EU in the European Parliament on 4 May 1994.

The different stages of this integration process, especially moving from purely economic areas to political integration was explained in the framework of motivation and restraints. It was concluded that the most important motivation to the present candidates to change their position towards the EC membership was the fear of losing their European market combined with deep economic recession. The importance of intra-EFTA trade diminished starting from the 1970s, and the EC became the most important trade partner of the EFTA countries. At the same time, Europe was facing strong competition from Japan. The Community launched its internal market program to regain its competitiveness, and the EFTA countries wanted access to this market.

The decisive factor enabling the neutral EFTA countries to apply for membership was the disappearance of external restraints in the form of the

end of the bipolar international system. Before, only transitory arrangements, stopping short of full membership, had been possible for many of the EFTA countries for reasons of policies of neutrality and non-alignment. Of the Nordic countries, Sweden and Finland belonged to this group. There are slight differences in the foundations of these policies; Sweden has a more idealistic approach to foreign politics, whereas for Finland, it is a geopolitically and historically imposed pragmatic way of balancing relations with the neighboring Soviet Union and market interests in Western Europe. For whatever reasons, the EC was long perceived as a "Western European" block contribution to the bipolar system of international relations. The end of the Cold War made the reconsideration of this interpretation possible. The disintegrated Soviet Union could not anymore influence the Finnish decision-making that much, and the EC emerged as an institution contributing to pan-European integration. Finland and Norway also had to safeguard their security interests. Norway felt that the declining interest of the US in the European security system in the framework of NATO, and the relocation of major European defence policy decision-making into the EU's CFSP diminished its possibilities to participate in the shaping of European security policy.

At the same time, business interest ("pluralistic spill-over) was strongly pressing toward an ever closer relationship with the EC. Economic recession had hit Sweden and Finland especially hard. Finland had lost approximately 25% of its foreign trade after Soviet disintegration. Long-established trade relations with the Soviets had also eroded the competitiveness of Finland in the Western market. The only way to regain an economic edge was to get into the European markets. Sweden faces similar problems with its "Swedish model". Closer integration with Europe was especially pressed by business interest groups, which had long tried to establish strong standing in Europe. On the other hand, Norway felt that staying outside if the other two Nordic countries joined would mean isolation on the periphery of Europe.

The already negotiated EEA agreement did guarantee access to the internal market, but the EFTA countries saw big problems with the outcome. The decision-making mechanism on new legislation of the EEA was in practice left totally in the hands of the EC, without a possibility for the EFTA countries to participate in deciding the substance. One reason for especially Finland, Sweden and Austria to reject EC membership previously, had been the loss of national authority to supranational decision-making bodies. However, within the EC, all of the member countries have at least a chance of

shaping decisions, although the outcome can be decided by a qualified majority. These countries considered that option better than being left totally without say.

Compared to previous enlargements, Austria, Finland, Sweden and Norway finished their accession negotiations in a short period of time. It took 12 years for Britain, Ireland and Denmark to be accepted as members, 5 years for Greece, and 8 years for Spain and Portugal. This time around, the time lapse between the first application (Austria) and predicted accession date is 4 years, and from the last (Norway) only slightly over 2 years. Naturally, the present candidates shared some very favorable features: they are more affluent countries than the Community average and they had already achieved a high degree of integration with the Community through EFTA free trade agreements, and especially, the EEA. The general opinion, shared by the Commission and the Council, was that these countries would strengthen the Community. It is significant that all the new member countries are expected to become net contributors to the Union budget after a short transitional period; previous enlargements had always been marked by ensuing budgetary crisis. Furthermore, some of the candidate countries were also ready to get in at

almost any price: recent deep economic recession and the disappointment with the EEA agreement made them see this as a necessity.

This kind of a window of opportunity may not reappear in the near future. Almost all Western European countries which have a level of economic development comparable to the Community standards, and are willing to join (Switzerland and Iceland are not) are already included. Future enlargements will happen in the direction of south or east. Some of these countries have already applied, some earlier than the present candidates, either for EU membership or for an association status. The 1992 Lisbon summit did not recommend opening accession agreement with anyone additional to the four EFTA applicants. The opinion of the Community on the other applications was to postpone further enlargements for the time being for two reasons: the countries in question are not ready to join, and intra-Community institutional questions have to be solved first. However, after the accession negotiations were concluded with the four EFTA applicants, the Council moved to the direction that negotiations could be opened with the two smallest applicants, Malta and Cyprus, depending on achieving a settlement between the two Cypriot communities.¹²⁶

Central and Eastern European countries are not ready for membership in term of their economic performance or stability their political structures. The Union prefers to limit their association to the network of "Europe agreements"¹²⁷, although some of these countries are inspiring hopes of full membership. Turkey's relationship with the EU will be strengthened through the completion of a customs union.

When the Commission wrote its report on the enlargement question in 1992, it already paid a lot of attention to institutional questions. It said: "The accession of new members will increase its [the EU's] diversity and heterogeneity. But widening must not be at the expense of deepening. Enlargement must not be a dilution of the Community's achievements."¹²⁸ Furthermore, it feared a loss of effectiveness in the face of a Union with more member states than before. Using a simple mathematical formula to increase the number of MEP in the European Parliament, granting every country at least one post of Commissioner, and adjusting the votes and number of votes required for a qualified majority in the Council of Ministers in a situation where the Union possibly had 20 or even 30 members, was considered a question that had to be solved before any new members would be accepted. The Commission conclusion was that a limited number of members, i.e. the

four EFTA applicants, could be accepted using the present rules, but before further enlargements the fundamental questions of decision-making and the institutional framework should be studied. A change in the number of member states will invariably influence the nature of any structure of the Union, starting from translation costs to the functioning of the Commission and the Council of Ministers.¹²⁹ The institutional reform issue will come up in the 1996 intergovernmental conference on the revision of the Maastricht Treaty.

The debate on Council voting rules at the end of accession negotiations was not connected to the present applicants *per se*. However, the fact that two member countries, Spain and the UK, started to promote their (different) national interest over the common position of the other ten, was already described as "a serious crisis".¹³⁰ It became clear that the main reason for the UK to raise this problem was in order to reduce the use of supranational aspects of the Union, whereas other countries considered it as an essential feature of the Union. The British did not conceal their feelings: "... this is a union of nation States ...".¹³¹

As the depth of integration should be measured both in expansion in functional scope, and in terms of institutional capacity and decision-making procedures, this will cause concern for most observers. The EC and now the

EU have always been a battle field between member states who prefer supranational decision-making, "the federalists", and those who are reluctant to submit their national authority and instead prefer intergovernmental decision-making, "the confederalists". This debate goes to the roots of political integration, which has traditionally been defined as movement towards supranationality. The separation between the EC and EFTA originated from preferences towards either supranationality or intergovernmentalism. The four new members have traditionally belonged to the group that prefers intergovernmental arrangements. Combined with the possibility that the new members, or at least the three Nordic ones, will in future adopt the "minimalist" approach characteristic of Denmark, the present enlargement may dilute the supranational features of the Union. In the same vein, they may be reluctant to participate in certain fields of the Community competence which they have traditionally perceived as questions of national sovereignty. Although the participation in the national foreign and security policy was assured during the membership negotiations, only by time we will learn how easily this concept is compatible with Finland's and Sweden's policy of neutrality. Though these policies have gone through a process of redefinition

in new circumstances in the international political climate, as concepts they are part of national consciousness.

However, the new members are small countries, so they can not that much change the direction of the EU endeavor. They will strengthen the Union in terms of economic performance, and they may add their own imprint on certain issues, such as environmental and social policy, but their accession will also decrease internal cohesion.

NOTES

1. For the neo-functional approach, see, e.g. Wayne Sandholtz & John Zysman, "1992: Recasting the European Bargain," *World Politics* 62/1 (1989) and Jeppe Tranholm-Mikkelsen, "Neo-functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC," *Millennium* 20/1 (1991); for its criticism and intergovernmental perspective, see e.g. Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organizations* 45/1 (1991) and Thomas Pedersen, "Political Change in the European Community: The Single European Act as a Case of System Transformation," *Cooperation and Conflict* 27/1 (1992).
2. Sandholtz & Zysman, *op.cit.* (note 1), 95 ff; 126-128; Morten Kelstrup, "The Process of Europeanization. On the Theoretical Interpretation of Present Changes in the European Regional Political System," *Cooperation and Conflict* 25 (1990), 37; Thomas Pedersen, "Problems of Enlargement: Political Integration in a Pan-European EC," *Cooperation and Conflict* 25/2 (1990), 85 ff.; Pedersen [1992], *op.cit.* (note 1), 25-29.
3. Kelstrup, *op.cit.* (note 2), 38; Pedersen [1992], *op.cit.* (note 1), 8.
4. Donald Puchala, "Of Blind Men, Elephants and Internal Integration," *Journal of Common Market Studies* 10 (1972).
5. See, e.g., Sandholtz & Zysman, *op. cit.* (note 1), 127; Kelstrup, *op. cit.* (note 2), 25; Pedersen [1992], *op.cit.* (note 1), 9; Raimo Väyrynen, "Finland and the European Community: Changing Elite Bargains," *Cooperation and Conflict* 28/1 (1993), 31.
6. Jan Fagerberg, "The Process of Economic Integration in Europe: Consequences for EFTA Countries and Firms," *Cooperation and Conflict* 26/3 (1991), 197-199.
7. For a historical outline and different stages of the EC-EFTA relationship, see Pedersen, "EC-EFTA Relations: An Historic Outline," in Helen Wallace (ed) *The Wider Western Europe. Reshaping the EC/EFTA Relationship*. (London: Pinter Publishers for the Royal Institute of International Affairs, 1991), 13-27.
8. Carl-Einar Stålvant & Carl Hamilton, "Sweden," in Helen Wallace, *op. cit.* (note 7), 195.
9. *Eurostat*. Key figures. September-October 1992.
10. *Commission of the European Communities*, "Challenge of Enlargement, Commission Opinion on Austria's Application for Membership, Bulletin of the

European Communities, Supplement 4/1992, 10; *Commission of the European Communities*, "Challenge of Enlargement, Commission Opinion on Sweden's Application for Membership, Bulletin of the European Communities, Supplement 5/1992, 11.

11. J. Jamar & Helen Wallace (eds), *EEC-EFTA. More Than Just Good Friends? CEE-ELE. Mariage en vue?*, (Bruges: De Tempel, 1988); Helen Wallace, *op. cit.* (note 7).

12. Finn Laursen, "The Maastricht Treaty: Implications for the Nordic Countries," *Cooperation and Conflict* 28/2 (1991), 116-117; Paul Luif, "L'elargissement aux pays de l'AELE," *Politique étrangere* 1 (1993), 63.

13. Quoted in John F.L. Ross, "Sweden, the European Community, and the Politics of Economic Realism," *Cooperation and Conflict* 26/3 (1991), 120.

14. *The European Economic Area*, Targer 92, Supplement 4, (1992), i-ii.

15. Laursen, *op. cit.* (note 12), 122-125.

16. Ross, *op. cit.* (note 13), 121.

17. *Agreement on the European Economic Area*, Council of the European Communities/Commission of the European Communities (Luxembourg: Office for Official Publications for the European Communities, 1992); *The European Economic Area* (1992), *op. cit.* (note 14), ii; Christopher Reymond, "Institutions, Decision-making Procedure and Settlement of Disputes in the European Economic Area," *Common Market Law Review* 30 (1993), 449 ff; Laursen, *op. cit.* (note 12), 124-126; Ross, *op. cit.* (note 13), 120-121.

18. Laursen, *op. cit.* (note 12), 126.

19. *Treaty on European Union*, Council of the European Communities/Commission of the European Communities (Luxembourg: Office for Official Publications of the European Communities, 1992).

20. *Commission of the European Communities*, "Europe and the Challenge of Enlargement, Bulletin of the European Communities, Supplement 3 (1992).

21. Quoted in Laursen, *op. cit.* (note 12), 133.

22. Ross, *op. cit.* (note 13), 121.

23. Ilkka Suominen, "Finland, the European Union and Russia," *The World Today* 50/3 (1994), 14.

24. Reprinted in *Commission [Enlargement]*, *op. cit.* (note 20), 23-24.

25. *European Council of Edinburgh*, 11-12 December 1992, *European Council of Copenhagen*, 21-22 June 1993. Faximiles provided by the Office of the Representative of the European Union in Ankara.
26. Ross, *op. cit.* (note 13), 118 ff.
27. *Ibid.*, 118-120.
28. *Ibid.*, 119.
29. Palme was the first Swedish Prime Minister to pay an official visit to Brussels, in 1983. *Ibid.*, 119.
30. Governmental Proposal 1987/88:66, 4; quoted in Stalvant & Hamilton, *op. cit.* (note 8), 205.
31. Nils Andren, "On the Meaning and Uses of Neutrality," *Cooperation and Conflict* 26/3 (1991), 67 ff.
32. *Ibid.*, 70 ff; quotation *ibid.*, 77.
33. *Ibid.*, 77.
34. Ross, *op. cit.* (note 13), 121.
35. *Commission [Sweden]*, *op. cit.* (note 10), 6.
36. *Ibid.*
37. "Block-based integration" is a notion developed by Harko Hakovirta, "The Neutral States and Block-based Integration," *Cooperation and Conflict* 13 (1978), and "The Nordic Neutrals in Western European Integration," *Cooperation and Conflict* 22 (1987). For the new orientation towards this concept in Nordic discussion, see Ross, *op. cit.* (note 13), 117, 121.
38. Ross, *op. cit.* (note 13), 122.
39. *Ibid.*
40. Andren, *op. cit.* (note 31), 82.
41. *Commission [Sweden]*, *op. cit.* (note 10), 11.
42. Ross, *op. cit.* (note 13), 123.
43. *The Economist*, "Economic Indicators," (May 14, 1994), 110. GDP growth is up only 0.5% last year, and decreased by 2.2% during the last three months.
44. Ross, *op. cit.* (note 13), 125.

45. *Commission* [Enlargement], *op. cit.* (note 20).
46. *Ibid.*, 21.
47. *Ibid.*, 11-14.
48. *Ibid.*, 20-21.
49. Laursen, *op. cit.* (note 12), 136.
50. On Finnish foreign policy and relations with the Soviet Union, see, eg. Roy Allison, *Finland's Relations with the Soviet Union, 1944-1984* (Oxford: Macmillan & St. Anthony, 1985).
51. Quoted in Suominen, *op. cit.* (note 23), 12.
52. Esko Antola, "Finland," in Helen Wallace, *op. cit.* (note 7), 17-18.
53. Väyrynen, *op. cit.* (note 5), 36.
54. Suominen, *op. cit.* (note 23), 12.
55. *Ibid.*
56. *Commission of the European Communities/Commission des Communautés Europeennes*, "Demande d'adhesion de la Finlande. Avis de la Commission. Sec (92) 2048 final. 4.11.1992. Bruxelles," (Original Document), 5.
57. Cited *Ibid.* My translation.
58. Suominen, *op. cit.* (note 23), 12-13. *Commission*, [Finlande], *op.cit.* (note 56), 7, 9.
59. Quoted in Suominen, *op. cit.* (note 23), 13.
60. *Ibid.*, 13-14.
61. *Commission* [Finlande], *op. cit.* (note 56), 6 ff.; Väyrynen, *op. cit.* (note 5), 34-35.
62. *Commission of the European Communities*, "Challenge of Enlargement, Commission Opinion on Norway's Application for Membership, Bulletin of the European Communities, Supplement 2 (1993), 6.
63. Martion Saeter & Olav F. Knudsen, "Norway," in Helen Wallace, *op. cit.* (note 7), 192.
64. Quoted in *Commission* [Norway], *op. cit.* (note 62), 10.
65. *Ibid.*, 10-18, 29-30, 32.

66. Paul Luif, "Austria," in Helen Wallace, *op. cit.* (note 7), 136.
67. *Ibid.*, 124-126; *Commission [Austria]*, *op. cit.* (note 10), 15-18; Luif, *op. cit.* (note 12), 69.
68. Luif, *op. cit.* (note 12), 70.
69. *Commission [Austria]*, *op. cit.* (note 10), 13-14.
70. Laursen, *op. cit.* (note 12), 116; Gunnar Helgi Kristinsson, "Iceland," in Helen Wallace, *op. cit.* (note 7), 157 ff.
71. Richard Senti, "Switzerland," in Helen Wallace, *op. cit.* (note 7), 215 ff; *Conseil federal suisse*, "Message relatif a l'approbation de l'accord sur l'espace economique europeen du 18 mai 1992. 95.052; *Conseil federal suisse*, "Rapport sur la question d'une adhesion de la Suisse a la Communaute europeenne du 18 mai 1992. 92.053.
72. *European Council of Edinburgh*, 11-12 December 1992.
73. Rene Schwok, "Causes et consequences du refus de la Suisse d'adhérer a l'Espace economique europeen," *Relations Internationales* 73 (1993), 106-107. As a minor comment I can add that although Switzerland rejected the EEA it will be happy to play host for the EEA Surveillance Authority in Geneva.
74. The EP's assent is required under Article O of the Maastricht Treaty. The provision originates from the Single European Act.
75. *Europe*, 7-8 February 1994, 9-11.
76. *Europe*, 10 February 1994, 5.
77. *Europe*, 2 March 1994, 5-6; 3 March, 5-7.
78. *Europe*, 28 February - 1 March 1994, 1, 5-8; March 2, 5; 3 March, 1, 5-7; 4 March, 6; *European Report*, February 26, 1994, i-vi; March 2, i-v; March 5, iii-viii.
79. *Europe*, 17 March 1994, 5-6.
80. *Europe*, 18 March 1994, 5.
81. Actually Art 148 EC provides for simple majority voting in the Council of Ministers, unless the Treaty provides otherwise. In practice, it almost always does so provide and most legislative measures require qualified majority.
82. See, eg. Josephine Shaw, *European Community Law*, (London: Macmillan Press 1993), 29-32.

83. Sweden had asked for 5 votes.
84. *Europe*, 18 March 1994, 6. For a purely mathematical treatment of the Council votes, see Madeleine O. Hosli, "Admission of European Free Trade Association states to the European Community: Effects on Voting Power in the European Community Council of Ministers," *International Organizations* 47/4, (1994), 629 ff.
85. *Europe*, 9 March 1994, 7-8; 10 March, 1, 3-4; 12 March, 7; 16 March, 3; 14-15 March, 3; 17 March, 1, 3; 18 March, 1, 5-6; 23 March, 4.
86. *Europe*, 26 March 1994, 3; 28-28 March, 1, 3-5, 31 March, 1, 3-4, 1 April, 3.
87. *Europe*, 14 April 1994, 3; 21 April, 6 ff.
88. *Europe*, 18 March 1994, 4; *The Economist*, 2 April 1994, 34.
89. Compare, e.g. Suomalaisten EY-kannanotot, Kevät [Spring] 1992, cited in Väyrynen, *op. cit.* (note 5), 40 and *The Economist*, 2 April 1994, 34.
90. *The Wall Street Journal*, 8 September 1994, 1.
91. Paul R. Viotti & Mark V. Kauppi, *International Relations Theory. Realism, Pluralism, Globalism* (New York: Macmillan 1987), 207.
92. For these examples, see Shaw, *op. cit.* (note 82), 30-33.
93. Sandholtz & Zysman, *op. cit.* (note 1), 99; Trandholm-Mikkelsen, *op. cit.* (note 1, *passim*; Pedersen [1992], *op. cit.* (note 1), 10-11; Erik Beukel, "Reconstructing Integration Theory, The Case of Educational Policy in the EC," *Cooperation and Conflict* 29/1, 1994, 33-34.
94. Beukel, *op. cit.* (note 94), 42-46.
95. Pedersen [1992], *op. cit.* (note 1), 7-10.
96. Sandholtz & Zysman, *op. cit.* (note 1), *passim.*; Trandholm-Mikkelsen, *op. cit.* (note 1), *passim.*
97. Moravcsik, *op. cit.* (note 1), 19 ff, Beukel, *op. cit.* (note 94), 51.
98. Sandholtz & Zysman, *op. cit.* (note 1), 127; Pedersen [1992], *op. cit.* (note 1), 9; Väyrynen, *op. cit.* (note 5), 31.
99. Sandholtz & Zysman, *op. cit.* (note 1), 129-127; Pedersen [1990], *op. cit.* (note 2), 85 ff.; Pedersen [1992], *op. cit.* (note 1), 25-29; Beukel, *op. cit.* (note 94), 50.
100. Pedersen [1992], *op. cit.* (note 1), 25-27.

101. Sandholtz & Zysman, *op. cit.* (note 1), 103 ff.
102. Moravcsik, *op. cit.* (note 1), 53-55.
103. Jens von Scherpenberg, "Crisis of the Economy - Crisis of European Integration," *Aussenpolitik* 4, (1993), 324.
104. Pedersen [1992], *op. cit.* (note 1), 32.
105. Väyrynen, *op. cit.* (note 5), 34-35.
106. Ross, *op. cit.* (note 13), 122-124.
107. Väyrynen, *op. cit.* (note 5), 35.
108. Ross, *op. cit.* (note 13), 123.
109. *Ibid.*
110. Väyrynen, *op. cit.* (note 5), 35.
111. Ross, *op. cit.* (note 13), 126.
112. Hans Mouritzen, "The Two Musterknaben and the Naughty Boy: Sweden, Finland and Denmark in the Process of European Integration," *Cooperation and Conflict* 28/4 (1993), 389.
113. Pedersen [1991], *op. cit.* (note 7), 21-24.
114. Väyrynen, *op. cit.* (note 5), 34.
115. Saeter & Knudsen, *op. cit.* (note 63), 180-181, 183-185, 192.
116. On the Nordic Council and regional integration, see, e.g. Erik Solem, *The Nordic council and Scandinavian Integration* (New York: Praeger Publishers, 1977).
117. *Europe*, 21 April 1994, 6.
118. I have borrowed the term "minimalist" from Laursen, *op. cit.* (note 12), 120.
119. *Ibid.*, 120-122; Mouritzen, *op. cit.* (note 112), 378-382.
120. Mouritzen, *op. cit.* (note 112), 373-377; Laursen, *op. cit.* (note 12), 128-132.
121. Quoted in Mouritzen, *op. cit.* (note 112), 382.
122. *Ibid.*, 383-385.

123. Väyrynen, *op. cit.* (note 5), 34. He does not use the same epithet.
124. Mouritzen, *op. cit.* (note 112), 389-391.
125. *Ibid.* He calls this phenomenon "low profile diffusion within a larger multilateral framework", p. 383. The model is explained p. 391 ff.
126. *Europe*, 20 April 1994, 6bis; 21 April, 7ter.
127. Commission [*Enlargement*], *op. cit.* (note 20), 18-19; Jens Henrik Haar, "The Same Old Game? the European Community in the International Political Economy," *Cooperation and Conflict* 28/1 (1993), 91 ff.; Michael Spector, "The European Community's Expansion Mechanism and the Different Approaches of EFTA and Eastern Europe to Community Membership," *Law and Policy in International Business* 25 (1993), 347 ff.
128. Commission [*Enlargement*], *op. cit.* (note 20), 10.
129. Bernard Cassen, "How Large is "Europe"?", *European Affairs* 4 (1991), 19-20.
130. Presidency of the Council Theodoros Pangalos, in *Europe*, 9 March 1994, 7.
131. British Chancellor of the Exchequer, Kenneth Clarke, quoted in *Europe*, 21-22 March 1994, 3.

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