EFTA BULLETIN

The European Free Trade Association (EFTA) is an international organisation comprising four states: Iceland, Liechtenstein, Norway and Switzerland which have eliminated barriers amongst themselves for industrial products but do not apply a common external tariff. Apart from Switzerland, the EFTA States base their relations with the European Union on the European Economic Area Agreement allowing for their participation in the Single Market. Switzerland's relations with the EU are based on bilateral agreements. The EFTA States have developed an extensive network of free trade agreements with non-EU countries and regional groupings in Europe and beyond. EFTA has headquarters in Geneva and offices in Brussels and Luxembourg.

The EFTA Bulletin is intended to serve as a platform for discussion and debate on topics of relevance to European integration as well as the multilateral trading system constantly being re-shaped and transformed by the twin forces of globalisation and interdependence. In this endeavour, the EFTA Bulletin draws on the experience and expertise of academics, professionals and policy-makers alike.

Previous issues:

- The European Economic Area and the Internal Market – Towards 10 Years, 1-2003 June
- Activities and Financial Contributions under the EEA Agreement, 2-2002
- The European Economic Area: Decision Shaping and Participation in Committees, 1-2002
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- Special Relationship: EFTA and the European Community as Actors in European Free Trade, 2-2000 October
- EFTA: 40 Years of Free Trade, 1-2000 September

EFTA AND EU ENLARGEMENT

1-2004 SEPTEMBER

EUROPEAN FREE TRADE ASSOCIATION
Rue de Trèves 74
B-1040 Brussels
Belgium
E-mail: **mail.bxl@efta.int**

Bulletin Editor:
Sebastian Remøy

Assistant Editor:
Jean Lusweti

Authors of this Issue:
Claudia Weiss – Project Coordinator
Tore Grønningsæter
Adalsteinn Leifsson
Ágústa Thorbergsdóttir

Special Assistance:
Joachim Svendsen

Front cover photograph: Stare Mesto, Prague, Czech Republic
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FOREWORD

William Rossier, Secretary-General

This edition of the EFTA Bulletin looks at EU/EEA enlargement from an EFTA perspective.

A few months ago, the EFTA countries' relations with the ten new EU Members changed significantly as a result of EU enlargement east and southwards. With the extension of the Agreement on the European Economic Area (EEA) to the ten new EU Members, the Internal Market today comprises some 460 million citizens. Since 1 May 2004, the way is open for a Polish student to study at the University of Reykjavik as part of the Erasmus programme and for a Norwegian company to contract suppliers from the Baltic states, in conformity with EU regulations. Switzerland's bilateral agreements with the EU have likewise been extended to the new Member States.

Both celebratory and informative, this issue addresses enlargement from various angles. Comissioner Potočnik from Slovenia gives a newcomer's appreciation of EEA enlargement. The Chairman in Office of the EEA Joint Committee, Ambassador Kjartan Jóhannsson explains what enlargement means for the EEA EFTA States. The Bulletin highlights some of the new opportunities for EEA citizens and also presents the views of a number of companies from Iceland, Liechtenstein and Norway on the implications of enlargement for their businesses. One of the articles considers enlargement from a local government perspective revealing how local authorities in the EEA EFTA countries and the new Member States have been co-operating with each other. In addition, Economiesuisse, Switzerland's Business Federation, assesses the impact of the extension of the bilateral agreements to the new EU Members on Swiss business.

What emerges clearly from the various contributions is that enlargement did not come to an end on 1 May 2004 but that it is an ongoing process. The EFTA countries very much look forward to contributing to the forging of closer links and networks with the ten new Members, on an individual basis, and as part of an enlarged and changing EU.

William Rossier

Secretary-General
3 September 2004

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EEA ENLARGEMENT: A NEWCOMER'S VIEW

Janez Potočnik, Member of the European Commission

I feel very honoured to have the privilege of saying a few words on the EEA enlargement in this issue of the EFTA Bulletin. This is especially so because I come from a country which, although young in its existence, has managed to develop exemplary relations with the EFTA States. After all, the first free trade agreement that Slovenia signed was with EFTA. And, less than ten years after signing that agreement, Slovenia has also become a member of the European Economic Area, sharing the benefits and responsibilities arising out of an internal market serving some 460 million consumers.

Across Central and Eastern Europe, EFTA has contributed to an extraordinary transformation process, not only by concluding free trade agreements but also by sharing best practices and establishing other closer forms of co-operation. A fine example of this is the 'Enhanced Cooperation' with Slovenia. Under that scheme, Slovenian experts sat as observers on EFTA experts committees, an experience which not only helped improve practices and establish valuable professional contacts, but also forged personal friendships. The contribution of the EEA EFTA States in the PHARE programmes also comes to mind in this context.

Many of the new EU Member States have a lot in common with the EEA EFTA States. Most are small open economies which rely heavily on external trade for growth. I also like to think that we are rather like minded countries, aspiring to a high level of transparency and accountability in the way we are governed. What all of us share, without exception, is so obvious that we forget about it – we are all in Europe and we are all European, regardless of the model of integration we choose to participate in.

The EEA enlargement negotiations have proved that our common future may not always be uncomplicated, but that we are able to constructively overcome challenges when they arise. A balanced solution satisfactory to all was arrived at on November 11 last year. The willingness of the EEA EFTA States, through both EEA EFTA and Norwegian funds, to contribute over € 1.1 billion for social and economic cohesion in the enlarged EEA should be well noted in this context. The solutions found enabled us to take the special geographical position of Liechtenstein and the issue of frozen herring flaps into account. And last, but not least, the EFTA Secretariat perfectly mastered the technical details of the process.

The benefits and changes arising out of the EEA enlargement are discussed in more detail in the successive articles, but please allow me to at least touch upon some of them. Co-operation between the EEA EFTA States and the ten new EU Member States will be considerably strengthened, going quite a way beyond mere trade co-operation. Our citizens will share access to an enlarged internal market comprising some 460 million consumers in 28 countries, where they will have the right to sell the goods they produce, have a wider choice of goods on their home markets, be able to reside and establish businesses, receive and supply services, and, eventually, also work throughout this area encompassing most of the European territory. Our researchers and students will have an opportunity to exchange and develop new ideas under almost thirty EU programmes in which EEA EFTA States also participate. Co-operation that will arise from projects covered by the EEA Financial Mechanism and the special Norwegian Financial Mechanism also offer exciting prospects. Projects co-financed under both Mechanisms will not just help make a difference on the ground but will also raise awareness about the existence of the EEA and of its efforts to promote social cohesion in the beneficiary communities and countries. Projects can be proposed in a range of priority areas including preservation of cultural heritage, the environment, sustainable development and implementation of the Schengen acquis. Contribution to such objectives of common interest helps not just the citizens in the countries concerned, I believe, but also those of donor countries.

Will there be many changes to EEA co-operation? The procedures and the institutional set-up will not change as a consequence of enlargement. The two-pillar system will continue to be the institutional framework, and there is no reason to believe that enlargement would slow down the speed of integration of new acquis into the EEA Agreement. We must make sure that the Internal Market keeps functioning well. New Member States are, I think, well aware that they must implement on time and efficiently all the commitments undertaken in the accession negotiations in order to allow for full extension of the Internal Market benefits to all EEA citizens. Old Member States, on the other hand, have to make sure that their legislation takes into account the rights and obligations of the new Member States.

Initially, the translation challenges presented by the new languages may create certain delays with respect to the draft decisions of the EEA Joint Committee, which have to exist in all languages. But as the general translation capacity will improve, such delays in incorporating new legislation will only be a temporary problem. EEA co-operation should be able to function as smoothly as before. I certainly hope that the experts from the EEA EFTA States will continue to contribute their expertise in the well over 400 existing EU committees and working groups.

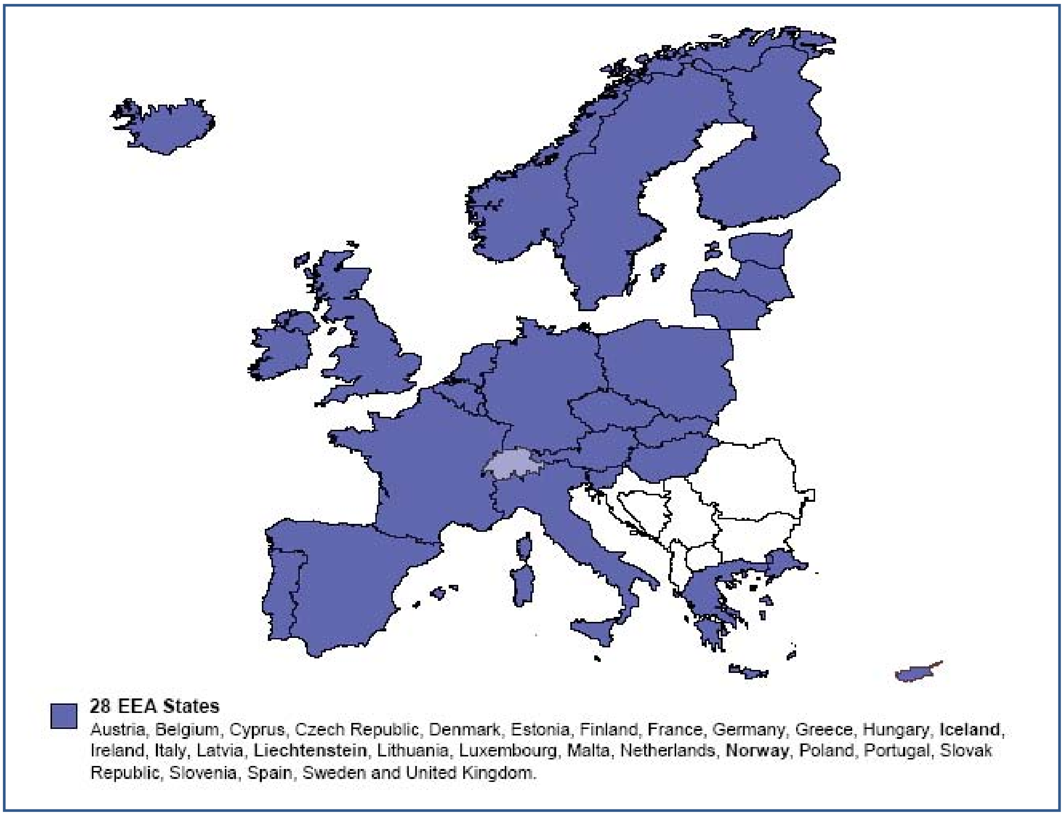
Looking beyond co-operation in the enlarged EEA, the new Member States' relations with Switzerland will also become considerably strengthened in the future through the EU-Swiss bilateral agreements that cover a number of sectors. On 25 June 2004, after several years of negotiation, nine new sectoral agreements were initialled and will hopefully come into force soon.

In assessing the new European prospects, one should also not forget about our new neighbours, outside of the EU and EEA areas. The EU's European neighbourhood policy was created as a response to concerns over new dividing lines in Europe. It is designed to encourage closer co-operation and to offer our new neighbours the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation. I hope for a continued exchange of views with the EEA EFTA States on this policy, which has as one of its aims a substantial degree of economic integration with our partners.

I am looking forward to our common future. I believe that excellent co-operation between Slovenia and the EEA EFTA States in the past will become even stronger in the future. And, as the first member of the European Commission from Slovenia, I will do what I can to help maintain and further develop the strong links between the EU and EEA EFTA States.

EEA ENLARGEMENT IN BRIEF

The 28 States in the EEA



Introduction

The Agreement on the European Economic Area (EEA) unites the 25 EU Member States and the three EEA EFTA States (Iceland, Liechtenstein and Norway) in an Internal Market governed by the same basic rules. These rules aim to enable goods, services, capital and persons to move freely in the EEA, a concept referred to as the four freedoms. The objective of the Agreement is to strengthen economic and trade relations between the members and create a homogenous European Economic Area.

The EEA provides for equal conditions for business across the entire Internal Market, through competition and state aid rules. It also contains horizontal provisions relevant to the four freedoms and co-operation outside the four freedoms in so-called flanking areas. This covers areas such as research, the environment, information services, education, training and youth, employment, enterprise and entrepreneurship, etc. Co-operation is also carried out through common activities such as EEA EFTA participation in some 40 EU programmes. Since 1 May 2004, the enlarged Internal Market consists of about 460 million citizens, making it one of the world's largest internal markets.

Enlargement of the European Economic Area

The EEA Agreement includes a clause stating that countries joining the EU need also apply to become members of the EEA. The terms of EEA membership are to be the subject of an agreement. With ten new members acceding to the EU, there was therefore a need to negotiate and adapt the EEA Agreement to take account of this new situation. This was the first time in the ten-year history of the EEA that new members acceded to the Agreement with negotiations on the terms of participation.

Negotiations on EEA enlargement were launched on 9 January 2003 in Brussels. The negotiating parties included the EEA EFTA States, the ten acceding countries and the Commission, on behalf of the EU Member States. Although the negotiating process proved challenging at times, the parties eventually arrived at a balanced result. The areas that needed to be re-negotiated included the financial contributions from the EEA EFTA countries, trade in fish and agricultural products.

The main issues were negotiated in a plenary setting with seven rounds of negotiations. The plenary was assisted by three technical working groups in the areas of financial contributions, trade in fish and agricultural products. The aim of these groups was to exchange and analyse facts and figures, clarify negotiating positions and examine possible models for further talks in the plenary.

Following six months of negotiation, the EEA Enlargement Agreement was initialled on 3 July 2003 in Brussels. The signing of the Agreement was completed on 11 November 2003.[1] On 1 May 2004, the enlarged EEA entered into force – concurrently with EU enlargement[2].

[1] All agreements concluded in relation to the enlargement of the European Economic Area can be consulted on the EFTA website at: www.efta.int

[2] All 28 contracting parties need to ratify the Agreement. Pending completion of ratification by all parties, the Agreement has been applied on a provisional basis since 1 May 2004

The Main Elements of the Enlargement Agreement

Transitional periods and safeguards in the Internal Market

To ensure the objective of a homogenous EEA, it is crucial that the transitional periods applicable to the Internal Market acquis agreed during the EU accession negotiations be applied in a uniform manner throughout the EEA. This is why the EEA Enlargement Agreement contains the same transitional periods as those in the EU Accession Treaty.

The new EEA Members have taken over and are implementing the entire acquis as from 1 May 2004. Each new EEA Member has, however, a limited number of transitional arrangements in certain areas. These may vary from country to country and are limited in time and scope. In EEA-relevant policy areas, these include – to name just a few - competition policy, the environment, social policy and employment, energy and transport policy. In line with the EU Accession Treaty, the free movement of workers from the new EEA countries is also subject to transitional arrangements (see pages 30 to 31). Liechtenstein's specific arrangements under the EEA Agreement in this area have been maintained in the EEA Enlargement Agreement.

Another feature of the EEA Enlargement Agreement is – again in parallel with the EU Accession Treaty – the possibility to invoke safeguards in the event of a serious breach of the functioning of the Internal Market during the first three years of operation of the Agreement. The other safeguards, provided for in the EU Accession Treaty, will be dealt with by Article 112 of the EEA Agreement (general economic safeguard).

Financial Mechanism

As a contribution towards reducing social and economic disparities in the enlarged Internal Market, the EEA EFTA States will contribute 600 million euros (120 million per annum) from 2004 to 2009 to the ten new EU Members as well as to Greece, Portugal and Spain according to a distribution key. On top of the EEA Mechanism, Norway will make a bilateral contribution of 567 million euros through a Norwegian Mechanism benefiting the ten new EU Members over the same period. Both Mechanisms will fund projects in areas such as the environment, sustainable development, cultural heritage, urban renewal, human resources development, health and childcare. The Norwegian funds will provide project assistance in the same areas with a focus on the implementation of the acquis.

A detailed overview of the Mechanism's objectives and how it will operate is contained in the contribution by Anders Erdal, Chairman of the Financial Mechanism Committee, on pages 34 to 39.

Trade in fish and marine products

The two EEA EFTA States Iceland and Norway are among the largest fish exporters in the world. Under EFTA's free trade agreements (FTAs) concluded with eight of the ten new EU Members in the 1990s, free trade in fish was exempted from customs duties and quotas.

On joining the EU on 1 May 2004, the existing FTAs were terminated and the ten acceding countries took over the EU's existing trade regime for fish products with the EEA EFTA countries, based on quotas and import duties for certain species. These differed from the trading conditions under EFTA's FTAs.

To maintain some of the established trade in fish under the FTAs, negotiations took place. Negotiators looked at trade figures of the past years and identified the key fish products traded. The agreed solution was that the EU would open up annual duty-free quotas for the most typically traded products between EFTA and the new Members from 1 May 2004 to 1 May 2009.

The tables below indicate the agreed annual duty-free quotas for fish imports from Norway and Iceland into the EU.

Norway

Product	**Annual quota** (tonnes)
Frozen round mackerel	30 500
Frozen herring	44 000
Frozen filets of herring	67 000
Frozen and peeled shrimps[3]	2 500

Iceland

Product	**Annual quota** (tonnes)
Whole frozen herring	950

Initialling of the EEA enlargement negotiations on 3 July 2003

[3] Subject to settlement of the transit of fish issue

In addition, frozen herring flaps (butterflies) from Iceland will receive the same treatment as frozen fillets. The above-mentioned quotas are contained in two additional protocols on fish, one between the EU and Iceland, and the other one between the EU and Norway (see EFTA website). Since 1 May 2004, trade in fish between the EEA EFTA countries and the ten new EU Members is subject to these two fish protocols together with a number of other agreements on fish.

Trade in agricultural products

Under EFTA's FTAs, the new EU Member States enjoyed certain duty reductions for exporting a limited number of agricultural products to the EFTA countries. As with fish, the objective was to maintain some of this established agricultural trade between Norway and these countries. Negotiators identified the most important products traded during the previous few years and Norway agreed to duty-free quotas for key products. The table below shows the agreed annual duty-free quotas as from 1 May 2004.

Norway

Product	**Annual quota** (tonnes)
Strawberries	1 400
Raspberries and other berries	950
Apple juice	1 300
Rye grass seed	100
Pet food containing meat	1 000

These quotas are laid down in an exchange of letters between Norway and the European Community on certain agricultural products (see EFTA website). Since 1 May 2004, trade in agriculture between the EEA EFTA countries and the ten new EU Members is governed by this protocol together with a number of other agreements (for example, Protocol 3 to the EEA Agreement).

How to read the EEA Enlargement Agreement

The negotiations on enlarging the EEA produced five different legal instruments that form a package. They include:

- an amending Agreement (EEA Enlargement Agreement)
- an Agreement between Norway and the EU on a Norwegian Financial Mechanism
- an additional Protocol between Norway and the EU on fish
- an additional Protocol between Iceland and the EU on fish
- an Exchange of Letters between Norway and the EU on certain agricultural products

The EEA Enlargement Agreement is a so-called amending agreement to the existing EEA Agreement that lists the relevant Articles, Annexes and Protocols that need to be adjusted as a result of enlargement.

A reference technique has been used to reflect the changes to the EEA Agreement arising from the EU Act of Accession. There is one general article in the amending Agreement stating that any amendments made to Community acquis through the EU Act of Accession (that is the EEA-relevant areas of the acquis) are hereby "incorporated into and made part" of the EEA Agreement. On top of this article, there is an Annex A, which lists all the legislative acts in the Annexes and Protocols of the EEA Agreement that have been amended through the EU Act of Accession and where they are to be found in the Annex.

Annex B to the amending Agreement lists those areas in the EEA Agreement in which the new

EEA members have transitional arrangements and where they are to be found in the Annexes and Protocol to the EEA Agreement. The Annexes and Protocols to the EEA Agreement have been consolidated to reflect these transitional arrangements. Again, a reference technique has been used here: a clause has been inserted after the relevant EU directive or regulation stating that the transitional arrangement found in the EU Accession Treaty also applies in the EEA Agreement. To find out in more detail what the transitional arrangement for a country entails, however, the reader needs to consult the relevant part of the EU Accession Treaty. The references to the relevant parts of the EU Accession Treaty are provided in the EEA Agreement Annexes.

Chronology: EFTA and Enlargement

9 November 1989	Fall of Berlin Wall
1991-1996	Conclusion of EFTA Free Trade Agreements with the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Slovenia
12 and 13 December 2002	Conclusion of the EU accession negotiations at the European Council in Copenhagen
End of December 2002	Ten new EU Member States apply for EEA membership
9 January 2003	Launch of the EEA enlargement negotiations
16 April 2003	Signing of the Treaty of Accession in Athens
3 July 2003	Agreement on enlargement of the EEA initialled
11 November 2003	Agreement on enlargement of the EEA signed
1 May 2004	EEA Enlargement Agreement enters into force Extension of Swiss-EU bilateral agreements to the ten new EU Member States

ENLARGEMENT BRINGS OPPORTUNITIES FOR CITIZENS AND BUSINESSES

Kjartan Jóhannsson, Ambassador, Mission of Iceland to the EU

Is there a paradox in the fact that the EEA EFTA States wholeheartedly supported the enlargement of the EU even though they themselves have opted for a different kind of partnership with the EU? The answer is "Not at all!"

The EEA EFTA States are already a part of the European family through the EEA Agreement and are very much integrated into the Internal Market. Rationality and experience tell us that the enlargement of the European Union and the strengthening of ties between the States of Europe are for the benefit of all. Closer economic and political co-operation that takes into consideration the different situation of each partner projects stability, prosperity and the sustainable development of the whole of Europe. This is the position of the EEA EFTA States. It is therefore logical that they supported the enlargement.

Still, the support of the EEA EFTA States for the enlargement of the EU was less based on logical argumentation or careful calculation of economic interest than on political and emotional grounds. The re-emergence of the great democracies and cultures in Central and Eastern Europe is a historic event of great consequences for the whole of Europe. People in the EEA EFTA States celebrated the fall of the Iron Curtain. The desire to enhance the ties with the Central and Eastern European democracies is sincere and strong. The EEA EFTA States quickly negotiated free trade agreements with most of the countries concerned as soon as the opportunity was there and they made steps to increase co-operation at all levels from the high political level to the co-operation of non-governmental organisations. The simultaneous enlargement of the EU and the EEA was never questioned by the EEA EFTA States.

The enlargement of the European Union will have widespread political, social and economic consequences for the Member States themselves but also for the EEA EFTA States.

Increased trade

What does the extensive expansion of the Internal Market mean for the economic operators in the EEA EFTA States? Some might say that it does not mean much as the European Union was already by far the biggest market for products from the EEA EFTA States prior to the enlargement and the EFTA States had free trade agreements in force with most of the new Member States. However, that does not tell the whole story. Participation in the European Economic Area itself spells much deeper co-operation than free trade agreements and there will be new opportunities particularly in the growing fields of services and capital movement. This is not to underestimate the difficulties encountered in some areas when the free trade agreements were terminated.

Economic operators in the EEA EFTA States are increasingly investing abroad and/or merging with foreign firms. When businesses look for opportunities to invest or enter into close co-operation with foreign operators one important element is the legal framework existing in the country of investment. Participation in the European Economic Area means that in the most important aspects, the legal framework surrounding investment and economic operations is the same.

Many companies in the EEA EFTA States wish to take part in the economic revival of the new Members States - an economic revival that will result in increased productivity and increased demand in the whole of Europe.

Co-operation on many levels

The enlargement of the European Union touches citizens in the EEA EFTA States in many different ways. One of the most direct influences comes through participation in the various EU programmes, although the EEA EFTA States already take part in around 40 of those. The most prominent of these programmes are in the areas of research and development and student mobility between the Member States. The enlargement brings much welcomed opportunity in this area with direct co-operation with the new Member States. The programmes serve as a caterpillar for increased co-operation, for example in research and business development, and increased understanding through the exchange of students and teachers.

Solidarity

The EEA EFTA States will make available a grand total of 1.167 million euros for cohesion in the new Member States through two funds, the so-called EEA Financial Mechanism and the Norwegian Financial Mechanism.

These two funds are to be seen as a part of the contribution of the EEA EFTA States towards the reunification of Europe and as a tool to facilitate the integration of the new Member States into the Internal Market. This is an expression of solidarity in order to reduce social and economic disparities in Europe. The funds will surely contribute to economic growth and stability by supporting projects for research and development and building up of important infrastructure.

There are also other elements involved. Even though the funds are provided for the relevant Member States, they could be a foundation for building up closer co-operation between the private sectors in the EEA EFTA States and the new Member States that could lead to further developments of such co-operation in the future.

The EEA Agreement in an enlarged EU

The EEA Agreement gives the EEA EFTA States an opportunity to take part in decision-shaping in the EU in the areas where the EEA EFTA States will be affected by the final outcome of the legislative process. One of the concerns in the EEA EFTA States following the enlargement was that it might be a challenge to maintain the vitality of EEA EFTA participation in committees of an EU of 25 instead of 15 Member States. The experience from the last few months indicates that the work of the committees concerned has not been hampered by the enlargement and the new EU Member States bring with them valuable knowledge and experience. However, the EEA EFTA States have found that it requires a greater effort to make their voice heard and keep the 25 Member States informed about their position. Also, the enlargement has brought some temporary difficulties that will be overcome with joint effort. For example, it comes as no surprise that decisions are delayed due to the limited capacity of the translation services. This also has an effect on the EEA EFTA States that integrate EU legislation into their legal order, often with some adaptation texts.

Political dialogue between the EU and the EEA EFTA States is an integral part of the EEA Agreement. The enlargement should in no way hamper the continued dialogue or reduce its importance. On the contrary, there should be every opportunity and reason to deepen and strengthen the political dialogue. There have been some reservations on the EU side due to the increased workload with the enlargement. The increased workload is indeed a good reason to strengthen political dialogue.

Some conclusions

The negotiations on the EEA enlargement focused on ensuring that trade relations would not deteriorate with the switch from the existing free trade agreements to EEA membership by the new Member States. Also, a common ground was found in relation to the financial contributions from the EEA EFTA States towards cohesion in the enlarged European Union.

The agreement that was reached is of benefit to all and the enlargement brings about opportunities for closer ties between the peoples and businesses of the EEA and should serve to strengthen political ties as well as economic co-operation.

The process of enlargement has given all parties important experience that will surely be beneficial for making the accession of Bulgaria and Romania a success.

The EEA enlargement brings about opportunities. What is made of these opportunities is first and foremost up to the citizens and economic operators themselves to explore. The governments are there to assist them and make sure that they are not faced with hurdles along the way.

Kjartan Jóhannsson, Ambassador and Chairman in Office of the EEA Joint Committee

EEA ENLARGEMENT: WHAT IT MEANS FOR BUSINESS

In this article, the EFTA Bulletin looks at what EEA enlargement means from a business perspective. The Bulletin asked nine companies from the three EEA EFTA States, Iceland, Liechtenstein and Norway, for their views on enlargement. All the companies had some experience of doing business in the new EEA countries.

When the White Paper for the completion of the Internal Market was adopted in 1985, there were probably very few people who foresaw that by 2004, there would be 28 countries involved in the project. Of the newcomers, apart from Cyprus and Malta, not only are former centrally-planned economies now fully integrated into the EEA and EU, but three of these countries were actually part of the Soviet Union. Because of their successfulness in transforming themselves rapidly into well functioning market economies, it takes a long stretch of the imagination to understand that fifteen years ago trade opportunities with eight of the new EEA countries were so remote as to be well out of reach for most Western European companies. Most new Member States undertook many necessary and painful reforms in order to prepare for their entry into the Internal Market. This involved not just the signing of free trade agreements and dropping customs tariffs but also extensive structural changes and harmonisation of regulations.

Enlargement is a long-term evolution which started when the countries applied for EU membership, and will continue for many years to come

Many companies in the EEA EFTA States may hardly have started to think about EEA enlargement. This might surprise politicians and diplomats who have spent a great deal of time preparing the enlargement agreement. However, 1 May 2004 represents only the conclusion of the political process of enlargement. Economic integration started before this date and will continue afterwards. When the EFTA Bulletin asked Orkla Foods Trade Policy Manager, Trond Aanerud, what had changed as of 1 May 2004, he reflected a commonly held view amongst experienced investors in the region that enlargement was "a long-term evolution which started when the countries applied for EU membership, and will continue for many years to come".

Its progress depends not only on action by governments, but also on whether people and businesses become aware of and start to exploit the new opportunities that enlargement brings. Exporters, trading partners and investors have to find each other, become familiar with market conditions and to trust that the market is governed by fair and equitable rules that are uniformly applied. When that happens, the legal and institutional provisions which took effect on 1 May will really begin to pay dividends. With the understanding, then, that 1 May did not represent a "big bang" for businesses, neither as a beginning nor an end, one can look at the benefits enlargement will bring to businesses across the EEA.

Developments since the Cold War – Building Market Security

For some firms, business expansion in the new Member States started almost immediately after the end of the Cold War. It was primarily the larger companies that could afford to take this

Icelandic company 66° North's manufacting facility in Latvia business risk in the early 1990s. For example, Liechtenstein corporation Hilti AG, operating on a world-wide scale and specialising in construction tools and systems, has been active in a number of the new Member States for two decades, and has operations in the Baltic states, Poland, the Czech Republic, Slovakia, Hungary and Slovenia. This early presence in the region has paid off with opportunities exceeding the risks according to Hilti. Hilti acknowledges though that red tape and bureaucratic rules were key features under the old regimes. The companies that have already invested in the new Member States did so because of perceived growth and profit potential, either from gains in production efficiency or from sales.

Alongside the obvious business opportunities in these growth markets, it helped that the new Member States were given early assurances by EU leaders in 1993 that they were on track to EU membership and clear criteria were established. This sent out strong signals to businesses as to how the business environment and regulatory framework were to develop in these new markets and gave the pre-accession process a clear target and direction. Both Byko-Lat, an Icelandic owned lumber manufacturer in Latvia, and Kaiser, a Liechtenstein-based manufacturer of utility vehicles, noted that they had witnessed improvements in the business environment already during the pre-accession period.

Norwegian high-street fashion retailer, Dressmann, has opened several retail outlets in Latvia and Poland and does not exclude the possibility of further expansion in the new EEA countries, in the long-term. "The easier it is to expand to a new market, the more attractive it is to establish operations there" said Dressman's Press Officer, Karen Onsager, to the EFTA Bulletin. "However, at the end of the day, the most decisive factor for us is that we feel secure that we can operate a profitable business in the actual market, regardless of the countries' regulatory framework."

But part of feeling secure that one can operate a profitable business has everything to do with a country's regulatory framework. Liechtenstein heating and ventilation firm, Hoval, ranked improved legal security as the primary point, when asked by the EFTA Bulletin what had changed. The new EEA countries have reformed investment, right of establishment and competition rules in order to be compatible with EEA and EU membership. Companies throughout the EEA now have the security of knowledge that there are basic guarantees and protections for operating in the enlarged Internal Market. Moreover, problem-solving mechanisms are improving in the EU. The SOLVIT system, for example, currently has around 400 cases under review, and SOLVIT is recognised as a very effective system for resolving disputes. For people like Trond Aanerud at Orkla, SOLVIT might provide a useful channel through which his company can resolve some of the bureaucratic frustrations he says it experiences in the enlarged EEA. The establishment in the new EEA States of a fair and predictable rule of law over the past decade is seen as a major benefit by companies in EEA EFTA States.

1 May 2004 – What Happened?

Only fifteen years after the end of the Cold War, ten new countries joined the EU and the EEA on 1 May 2004 – the largest enlargement in the EU's history. The following figures illustrate well the scale and challenge of this round of enlargement: the size of the Single Market has increased by 74 million people (a 20% increase), growing from 370 to 460 million. The EU's GDP, however, will only increase by 5%.

Although this date is largely of a symbolic value and the culmination of the pre-accesion process rather than a big bang event, the trade impact is likely to be significant in the long-term. As of 1 May 2004, common rules and obligations in respect to the Internal Market apply throughout the EU and the EEA. Access to an enlarged Internal Market is guaranteed through a single set of trade rules, a common tariff system and common administrative and customs procedures. The new Member States must apply the same standards and norms and remove technical barriers to trade. Luckily, this started already during the pre-accession process in the 1990s. Allowing for certain transition periods, the four freedoms (goods, services, capital and persons) and the right to establish businesses have now been extended to all 28 countries. All new EEA Members will take over and implement the entire acquis without derogations. Transition periods have, however, been granted in areas where required, but are limited in time and scope. In EEA-relevant areas, these include, for example, the environment, competition policy, social policy, energy and services. According to a company survey published by Eurochambres and SBRA (Slovenian Business and Research Association), the areas of the acquis that companies find most difficult to comply with are rules of competition and labels, trademarks and patents.[4] The companies surveyed estimated the current level of compliance to be at grade 2.2 (grade 4 being the highest). There is also the possibility to apply safeguards if a new Member fails to implement commitments, causing a serious breach of the functioning of the Internal Market.

Are companies ready to exploit the opportunities enlargement brings?

Many in Brussels described the lead up to enlargement as the best prepared pre-accession process ever. Considerable assistance was given to administrations in the new Member States to prepare for the implementation of acquis communautaire. But how well prepared is the business community? According to the same Eurochambres company survey on the State of Preparations for the Single Market, 40% of the companies surveyed had not yet started 'organised preparations' for the Internal Market. It is not surprising that it is the larger companies that are better informed about acquis and that the small and medium-sized enterprises (SMEs) need more information and support: among the SMEs, only 61% believe that they are fully or partially informed. Nevertheless, almost two thirds of the companies surveyed in the new Member States are optimistic about their business prospects in the enlarged Internal Market and expect tougher competition in the home market, easier access to EU markets and more transparent domestic business practices and a bigger inflow of foreign direct investment as a result.

It is difficult to generalise about awareness of enlargement opportunities amongst companies in the EEA EFTA States. The Norwegian oil giant Statoil, for example, has a well established presence in Poland and the Baltic countries and sufficient human resources to be able to track market and regulatory developments in these markets. Companies like the Hilti corporation and Orkla, present in the Baltic countries, Poland and the Czech Republic, have ample

[4] See CAPE Survey published by Eurochambres and SBRA: Corporate Readiness for Enlargement in Central Europe. A Company Survey on the State of Preparations for the Single Market, Fourth Edition, Brussels 2004

resources to research market conditions. Some smaller companies, such as Kaiser Fahrzeugwerk, also have plans to further exploit opportunities in the new markets. Kaiser told the EFTA Bulletin that it expects to increase its procurements from the new Member States. The company singled out the demand in the new Member States for new infrastructure (for example, water distribution and environment technology) as key factors that will stimulate demand for Kaiser's products. The company, with only 140 employees, identified a major challenge as being the selection of qualified partners in local markets that can help keep administrative, certification and language barriers to a minimum. The biggest obstacle for small companies establishing market presence, especially for those with no former experience in the new EEA countries, will be to find the financial and human resources required to navigate uncharted territory. Kaiser's strategy of identifying qualified local partner companies might provide a useful example to other SMEs thinking about expansion into new EEA markets. Export promotion and information services (see below) in the EEA EFTA States can help companies with market research and partner searches.

Seafood processing at Superfish, a Polish subsidiary of Orkla Foods

Helping small businesses grasp the opportunities of enlargement

Small businesses represent the vast majority of businesses in Europe. Grasping the opportunities of enlargement is a particular challenge for SMEs that do not have great resources at their disposal. The Euro Info Centre (EIC) network is designed to assist, inform and advise SMEs on the Internal Market. It already had a foothold in the new Member States before enlargement and has now close to 70 offices in all the new Member States. Norway has 5 EIC offices across the country and Iceland has one in Reykjavik. The wide representation of the EICs gives them a unique position to assist companies in exportation, importation and in the search for business partners outside their borders. The EICs are a natural first stop for small businesses that want to develop ties with companies in other countries in the Internal Market and play an important role in bringing together businesses in the new and old countries.

To find out more about the EIC network, see the following website:
http://europa.eu.int/comm/enterprise/networks/eic/eic-geo-cover_en.html

The EICs in Iceland and Norway have organised various enlargement-related activities, as part of a special enlargement campaign organised by the European Commission. The following information shows the sort of information and activities available to those who use the service.

Euro Info Centre in Iceland

A conference on enlargement took place in October 2003 and a seminar on the Financial Mechanisms in April 2004. Also, EIC Iceland has arranged for companies from the Czech Republic, Estonia and Slovakia to visit Iceland and present their business environments to potential investors. Outward business trade missions have been planned to the Czech Republic, Slovakia, Romania and Bulgaria.

EIC Iceland event to inform about enlargement opportunities

Euro Info Centre in Norway

Euro Info Centre Norway carried out awareness-raising activities, study trips and established a network for business with Central and Eastern Europe. This resulted in several meetings of the network, with contributions from a number of Norwegian ministries, including the Ministry of Foreign Affairs, the Ministry of Regional Development and the Ministry of Trade and Industry.

The network will continue and four meetings are scheduled in autumn 2004. The main subjects to be dealt with are priorities and procedures under the EEA and Norwegian Financial Mechanisms, the EU structural funds, public procurement rules, and new market opportunities in the new Member States.

The Euro Info Centre is also co-ordinating a joint effort in Innovation Norway in a project related to both Financial Mechanisms. The project involves awareness-raising for Innovation Norway in the Norwegian regions and their offices abroad and for Norwegian SMEs in general. The aim is to help Norwegian companies market their products and competence within the areas that are priorities in the countries covered by the Financial Mechanisms. The Centre has established a project organisation with an internal working group and an external reference group consisting of the Ministry of Trade and Industry, the Ministry of Foreign Affairs and the Ministry of the Environment. The Norwegian Research Council is also represented, along with the Norwegian Shipowners Association, the Norwegian Confederation of Business and Industry (NHO) and the Norwegian Association of Local and Regional Authorities. These organisations are in close co-operation with the Ministry of Foreign Affairs with regard to information and other activities outside Norway, e.g., seminars and meetings in the new member countries.

Looking Ahead

The impact on trade and economic development may not be very visible in the short-term. However, the new Member States are potential engines of growth with growth rates ranging from 5 to 8% of GDP. By comparison, the average growth rate for the EU 15 was 0.8% in 2003. Thus, growth in the new Member States is expected to outstrip rates for the old Members States for at least the next decade.

This rapid pace of economic development will lead to rising living standards in the new Member States, an increase in purchasing power and a growing demand for consumer goods and services, not least financial services such as mortgages and credit cards. Higher production and labour costs in new Member States will also inevitably ensue. Currently, hourly labour costs are on average approximately four times lower in the new Member States according to Eurostat figures. For the time being, though, it appears that many companies view low production costs, coupled with rising standards of living, as an attractive feature of the new EEA countries. Icelandic outerwear manufacturer, 66° North, has already established a manufacturing plant in Latvia, and is considering locating a distribution centre for the European market in one of the new Member States. The company says it views the growth potential in the new countries as strong because of the well skilled and highly educated work force. 66° North has resigned itself to the fact that it cannot have its cake and eat it: that is to enjoy low labour costs and high spending capacity in the local market.

Orkla also foresees rising production costs in the new EEA countries. As purchasing power increases, the Norwegian food conglomerate predicts that more competition will be attracted to the market. Even so, the company considers its business potential to be good, because the market for processed foods and ready meals will grow as wealth increases along with demands on people's time. Hilti is also optimistic about the growth potential in the enlarged EEA, and plans higher than average investments in this region. This optimism is shared by Norwegian publishing and media concern Schibsted, which considers that the widening of the Internal Market will inevitably provide new opportunities. Hoval, present in Poland, Hungary, Slovakia and the Czech Republic for the past decade, has plans to extend its network of distribution companies in the new Member States. Whilst many companies point to the low labour costs in the new Member States, they realise that the wage level differences will gradually disappear. This will lead to an increase in the cost of production for those producing locally, but it should also strengthen purchasing power in these same markets. Byko-Lat, the Icelandic owned lumber manufacturer in Latvia, looks forward to stronger growth in sales in local markets, compared with in their primary markets of the UK, the Netherlands, Iceland, Denmark, Sweden, Ireland and Japan.

In addition, many of the new EEA countries have fiscal regimes that are particularly attractive for investors, especially where corporate taxes are concerned. Despite recent discussions in Brussels about setting minimum corporate rates, competitive tax conditions in the new Member States can also be a major draw for companies.

For companies that had already established operations in these countries prior to their joining the EEA, doing business is likely to be simpler. The very fact that these companies entered those countries before 1 May 2004 shows determination to "grasp the nettle" and overcome the various hurdles that exist in an unfamiliar market. For small companies or firms with little or no experience in these markets, enlargement should make an even greater difference. The entry into force of the EEA Enlargement Agreement on 1 May provided a guarantee of harmonisation of rules and the regulatory framework governing the Internal Market. Companies in the EEA EFTA States can go into agreements with companies in the new EEA countries, and have more certainty about their rights, protection, and means of redress. The ability to move goods, services, people and capital to, from and between the new EEA countries should make operating in the enlarged Internal Market much simpler and more cost-effective. One of the remaining challenges will now be to eliminate national barriers in people's heads, as Kaiser told the Bulletin. From a business point of view, the success of EEA enlargement will depend on improving awareness of the EEA Agreement and the rights, obligations and opportunities that it brings. In order for this to happen, national administrations, local authorities, social partners and the organisations described in the box above will have to undertake targeted and effective information activities.


A Hilti production plant in Hungary

WHAT EEA ENLARGEMENT OFFERS PEOPLE

Introduction

You do not have to be that old to remember a time when travelling as a tourist beyond the Iron Curtain to places like Prague involved substantial formalities culminating in a mix of anxiety and excitement when you finally crossed the border. The possibility for a student to go abroad and study two semesters at a place like the University of Cracow, one of Europe's oldest universities, was almost unthinkable. Co-operating and exchanging ideas with academics from universities in the new Member States in research projects was difficult to say the least.

Besides the business opportunities for companies, the enlargement of the Internal Market brings a number of new opportunities for citizens to travel, study, and work abroad in ten new EEA countries. In other words, enlargement is of direct relevance in one way or another to some 460 million citizens living in the enlarged European Economic Area. Many of them may not yet be fully aware of these new opportunities because they have so far been hardly involved in the enlargement process: for the past decade, it has been mainly politicians and civil servants that have been planning and negotiating this historic enlargement. In making a success of enlargement, however, it is primarily the citizens that will play a crucial role in reuniting Europe and recreating a bond.

Since 1 May 2004, some 5 million citizens living in the EEA EFTA countries have been enjoying the same rights and benefits as the 455 million EU citizens living in the 25 Member States with respect to the Internal Market and other forms of co-operation. The Internal Market is a cornerstone of European integration and the free movement of workers is one of the most fundamental and visible freedoms for citizens. This freedom, coupled with the possibility to participate and co-operate in a wide range of EU programmes and exchange and mobility programmes in areas such as education and research, gives citizens a direct taste of and experience with the EU.

As a result of fifty years of division in Europe, many citizens today still have only little knowledge of the new Members States and vice versa. Participating in EU co-operation programmes and exchanges of people will increase mutual understanding among Europe's citizens. These networks are also a powerful means of instilling shared values and a sense of European identity.

This section looks in more detail at some of the new opportunities and networks available to workers, students and researchers.

Free Movement of People

The free movement of people is one of the four core freedoms covered by the EEA Agreement, providing opportunities for EEA citizens [5]. This freedom covers the rights to study, retire, reside, work or look for work in an EEA country other than one's own. These different categories of people, e.g., workers, self-employed workers, students, pensioners and accompanying family members, are governed by a different set of EU rules. Since 1 May 2004, self-employed persons, students, pensioners or persons with their own financial means from the new EEA member countries have the right to move to and reside in an EEA country other than their own.[6]

Free Movement of Workers

It is important to point out that it is the free movement of (employed) workers that is subject to transitional arrangements. It will be implemented during a period of up to 7 years, as agreed in the EU Accession Treaty between the 15 EU Member States and the 10 new EU Member States. Hence, self-employed workers, for example, providers of cross–border services may practise their trade without having to establish in the countries concerned. Also, persons or companies setting up business activities in an EEA country other than their own are not affected by the transitional period [7].

The free movement of workers is one of the core freedoms under the EEA

[5] The bilateral Agreement on the Free Movement of Persons concluded between the EU and Switzerland also provides for the free movement of persons. See the contribution by Economiesuisse for further information on page 48

[6] Special arrangements concerning the taking up of residents in Liechtenstein will continue to apply for the citizens of the EEA Members States

[7] Austria and Germany have specific safeguard clauses limiting the ability of companies established in the new EEA Member States to provide services involving the temporary movement of workers to Austria and Germany. This applies to a limited number of sectors, for example, construction

Transitional Period

The Accession Treaty provides for the possibility to restrict access to labour markets to workers from the following eight new EU Members: the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia. For Cyprus and Malta there are no restrictions. Malta, however, has the right to make use of a safeguard clause. Through the EEA Enlargement Agreement, the EEA countries have taken over the same transitional periods applicable to Internal Market acquis as agreed between the EU and the new EU Member States. This means that the EEA EFTA States also have the possibility to apply the transitional period with respect to the free movement of workers as under the Accession Treaty.

In practice, this 7-year transitional period is broken down according to the following formula: "2 years, plus 3 years, plus 2 years". It is possible to restrict the free movement of workers for an initial period of 2 years from 1 May 2004 to 1 May 2006. During this period, each EEA country is entitled to apply its existing national law and policy to workers from the new Member States. Rules may therefore differ from one EEA country to another. In 2006, each EEA country will need to decide on whether to continue applying the transition period for another three-year period or allow the free movement of workers. In May 2009, transitional arrangements should end. There is, however, the possibility for EEA countries to continue to apply the transition period for another two years if it is experiencing serious disturbances on its labour market. The transitional arrangement cannot be extended beyond the maximum period of seven years.

The EEA Members (with the exception of Ireland, the UK and Sweden) have decided to make use of this first stage of the transitional period of two years. The three EEA EFTA countries Iceland, Liechtenstein and Norway are also applying the transitional period of two years. In addition, Liechtenstein's specific arrangement regarding the free movement of persons under the EEA Agreement has been maintained.

This means that access to the labour markets of the EEA EFTA countries will be subject to transition periods for all but two of the new EEA members, i.e., Malta and Cyprus. The nationals of these two countries already enjoy full rights to work in EEA EFTA countries. For nationals of the other new EEA countries, the normal national system including the requirement of work and residence permits, as for non-EEA nationals during the transition period, will apply. New EEA Members may also impose reciprocal restrictions on workers from another EEA Member in reaction to a transition period imposed on them by that other EEA Member. These restrictions need to be equivalent to each other.

In Iceland, temporary work permits will be granted to nationals of the new EEA countries in the case of labour shortages. The granting of a work permit is dependent on an existing job offer. It is the employer who puts in an application for a temporary work permit. In addition, the employer needs to apply for a residence permit.

In Norway, likewise, job-seekers will require a residence permit that confers on them the right to take up employment. Again, this permit is conditional upon an existing job offer. One of the changes for job-seekers from the new EEA countries is that they may stay in Norway for up to three months (or six months if they register with the national employment service) to look for a job without a residence permit. If they have not found a job within that period of time, they have to leave the country but may re-enter at a later stage.

Information points:

EURES

Further information can be obtained from EURES, the European Mobility Portal, that contains information on the transitional rules applied in the EEA Member States at:
www.europa.eu.int/eures

NATIONAL CONTACT POINTS IN EEA EFTA COUNTRIES

For **Iceland**, further information can be found at: **www.vinnumalastofnun.is** (Directorate of Labour) and **www.utl.is** (Directorate of Immigration)

For **Liechtenstein**, further information can be found at: **www.llv.li** (Government Portal) or **www.berufsberatung.li** (Employment Information Centre)

For **Norway**, further information can be found at: **www.udi.no** (Directorate of Immigration)

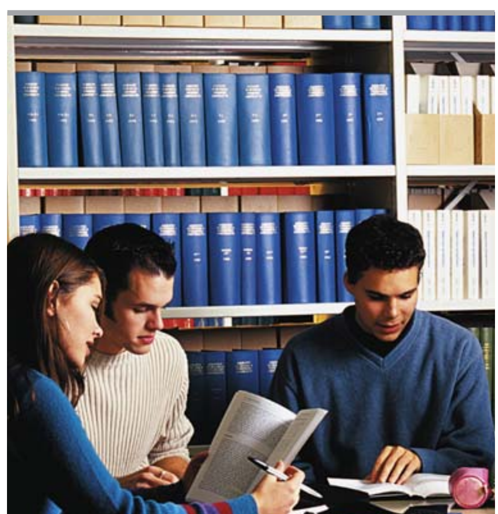
DIALOGUE WITH CITIZENS

The Commission's website contains information on citizen's rights such as living, working, studying, travelling and buying goods and services in the EEA.

For further information, consult:
www.europa.eu.int/citizensrights

Social Security and Recognition of Diplomas

The free movement of persons is complemented and supported by a system that co-ordinates social security schemes for people moving within the EEA. This means, that no contributions are lost when moving around and that the worker is normally covered by the social security system of the EEA country where he or she works. In addition, there is a system that ensures that qualifications and diplomas are recognised in EEA countries other than the holder's. The EU rules in these areas are not subject to transition periods and have applied since 1 May 2004.



Enlargement facilitates student exchanges

Direct Programme Co-operation with the New Member States

To underpin the development of the Internal Market, the EU has established programmes and actions to strengthen co-operation outside the four freedoms. The programmes cover areas such as research, education, information services and social policy, to mention but a few. In these areas, 'soft' instruments are applied, usually in the form of project funding and studies. The EEA Agreement covers such co-operation, thereby extending more than 30 EU programmes to the EEA EFTA States.

Following the enlargement of the European Union, for the first time, bilateral projects involving the three EEA EFTA States (Norway, Iceland and Liechtenstein) and the 10 new Member States will be eligible for EU financial support. Although the 13 countries have all been participating for many years in several of the EU programmes, every project has until now required at least one partner from an EU Member State to be eligible for funding.

Consequently, in bilateral exchange, such as that channelled through the Socrates, Leonardo da Vinci or the Research Framework programmes, participants from the three EEA EFTA States and the 10 new Member States were only allowed to move to and from the Member States of the European Union, e.g., Icelandic students could go to France, and so could Czech students. But now the way is open for direct exchange between the three EEA EFTA States and the 10 new Member States through Erasmus student stipends, Leonardo placements, Marie Curie post-doctoral research fellowships, or any other type of support offered by one of the 30 or more EU programmes with EEA EFTA participation.[8] The Research Framework Programme offers the same possibilities to

Enlargement increases opportunities for researchers throughout the EEA

Switzerland as the country is a full participant in this programme since 2004. However, as before, bilateral exchange or projects between the non-EU Member States will not be allowed.

Informal contacts between many of the EFTA Working Groups and representatives of the new Member States in Brussels in recent months have shown that little attention has so far been paid to the new possibilities for more direct collaboration between the EEA EFTA States and the ten new Member States because the latter have mostly focused on the EU itself. However, thanks to national initiatives, such as the Norwegian Erasmus Link[9], numerous visits and other contacts, the message is gradually coming through.

The Commission is particularly concerned about the participation of the new Member States in the Research Framework Programme - one of the largest EU programmes - given the large budget contributions in question. Here, as with many other programmes, the biggest obstacle may not be to obtain EU funding but to find national resources for the participants' share of financial contribution towards co-funded projects, which normally amounts to 50% of the total budget. As for student exchange programmes, extra money is needed to cover the high costs of living abroad. It will therefore come as no surprise if a substantial part of the increased co-operation offered by enlargement

[8] A full overview of EEA EFTA participation in EU programmes can be found on the EFTA website: http://secretariat.efta.int/Web/EuropeanEconomicArea/ParticipationInEUProgrammes

[9] Norway has since 2002 offered individual grants to students from countries that are candidates for EU membership wishing to spend up to a year at a Norwegian institution of higher education. The initiative Erasmus Link is a 'shadow' programme to the ordinary Erasmus programme, as the latter does not allow exchanges between the candidate countries and the EEA EFTA States. The programme will continue with the current candidate countries Bulgaria, Romania and Turkey

is between the new Member States themselves. Also, a partner from one of the EEA EFTA States may participate in such co-operation. Probably for the first time soon, there will be EU projects involving EEA EFTA partners and not a single partner from the older EU Members States.

Leonardo da Vinci - Student exchange between Norway and Poland

Bergen University College is a state institution of higher education in Norway. It has faculties in education, health and social sciences and engineering. The College has about 5 000 students and an academic and administrative staff of 500. Recently the College applied for support from the EU vocational training programme Leonardo da Vinci for transnational placement and mobility, in particular with Poland. This move illustrates the new forms of co-operation available to institutions in the EEA EFTA countries and in the new EU Member States. Jill Johannessen, Press Officer at the Bergen University College, interviewed two of her colleagues on their first experiences with this new form of co-operation. Below are their views.

"Owing to enlargement, it will be much easier to co-operate with Poland and the other new EU Member States", explains Kristin Solheim of the College's International Office. The College has received funding for 4 students to be placed in Polish enterprises and the Polish partner institution has applied for 4 of its students to be placed in Norwegian companies. Before, it was impossible to obtain Leonardo da Vinci support for such exchanges between Norway and Poland, even if both countries participated in the same EU programme: the rules required that at least one of the countries be an EU Member State. The enlargement of the EU therefore opens up new possibilities for increased co-operation with the countries of Eastern and Central Europe, says Ms Solheim.

The Leonardo da Vinci programme also offers more funding than many other EU programmes. This is especially important for attracting foreign students to Norway, where the cost of living is much higher compared to that of many other countries. Polish students cannot benefit from the type of financing offered to Norwegian students by the Norwegian State Educational Loan Fund.

The first contacts with Poland date back to 1994 when Mads Grahl-Madsen, Associate Professor at the Department of Mechanical and Marine Engineering, visited the country together with his Polish colleague, Jecek Stecki, currently at the Monash University in Melbourne. Later, with support from the Erasmus Link programme the first Polish students were able to come to Bergen.

"Through the programmes and enlargement of the European Union, we will be able to significantly enhance our co-operation with Poland, as regards both student mobility and research", says Mr Grahl-Madsen. Poland has high competence in the College's areas of specialisation and the increased co-operation with the country contributes to the College's overall effort to strengthen its international relations.

Starting in autumn 2004, the College will offer a study module in the "Design of fluid power components and systems". All classes will be given in the English language. The module is a complete 18-month full-time study course that can easily be combined with studies in Polish institutions. Both Mr Grahl-Madsen and Ms Solheim hope that other departments at the College will discover the possibilities available under the Leonardo da Vinci programmes, and in particular the potential for co-operation with the new EU Member States.

THE EEA FINANCIAL MECHANISM & THE NORWEGIAN FINANCIAL MECHANISM (2004-2009)

Anders Erdal, Chairman of the Financial Mechanism Committee

Background

The Single European Act first introduced economic and social cohesion as a separate Community policy in its own right in 1987. The purpose of this policy was to contribute to the good functioning of the Internal Market, promote economic and social progress and reduce the disparities in living standards between the Member States and between regions. This was followed by the Maastricht Treaty of 1993, which created the Cohesion Fund, a new instrument to finance projects designed to improve the environment and develop transport infrastructure in EU Member States.

The three EFTA States - Iceland, Liechtenstein and Norway - became part of the EU Internal Market by signing the Agreement on the European Economic Area, also known as the EEA Agreement in Oporto on 2 May 1992 [10]. The Agreement covers the four freedoms of goods, services, capital and persons and strengthens and broadens co-operation in flanking and horizontal policies. Regarding economic and social

[10] The Agreement entered into force on 1 January 1994 in the case of Iceland and Norway and on 1 May 1995 in the case of Liechtenstein

cohesion, the EFTA countries were prepared to enter into discussions on possible areas of co-operation. These discussions resulted in the establishment of the EEA Financial Mechanism (1994-1999), the EEA Financial Instrument (1999-2003) and finally that of the new EEA Financial Mechanism (2004-2009), which was incorporated into the EEA Agreement with the EEA Enlargement Agreement. Additionally, following the enlargement negotiations, the Norwegian government established a separate Norwegian Financial Mechanism contributing to the same cause.

Objectives

By establishing the EEA Financial Mechanism and the Norwegian Financial Mechanism (hereinafter referred to as the Mechanisms) the EEA EFTA States agreed to continue their efforts to enhance cohesion within the European Economic Area. As in previous cohesion initiatives from the EEA EFTA States, the objectives of these two Mechanisms are to enable all Member States to participate fully in the Internal Market and to reduce the social and economic disparities within the EEA.

The main focus of the two Mechanisms will be on the new Member States. Accordingly, projects from these will be eligible for assistance from both Mechanisms. The Mechanisms will be a means to enhance co-operation between the EEA EFTA States and the new Member States. The EEA Financial Mechanism will also grant assistance to Spain, Portugal and Greece, which were all beneficiaries of the previous funds set up by the EEA EFTA States. The two Mechanisms will make commitments for grant assistance from 1 May 2004 to 30 April 2009.

Commitments

Even though the two Mechanisms are closely co-ordinated, the financial contribution by the EEA EFTA States towards them is separated. The EEA Financial Mechanism will make 600 million euros available for commitments in annual tranches of 120 million euros over the commitment period. This amount is a five-fold increase of the EFTA States' contribution under the EEA Financial Instrument 1999-2003. The Norwegian Financial Mechanism will make available 567 million euros for commitments in annual tranches of 113.4 million euros over the commitment period. Together the two Mechanisms will generate an almost ten-fold increase in today's contribution by the EEA EFTA States towards cohesion within the EEA.

Priority Sectors

In the negotiations leading up to the enlargement of the EEA, the EEA EFTA States, the government of Norway and the European Commission agreed on a list of priority sectors, within which grants will be made available.

Both Mechanisms will provide grants in the following sectors:

a) Protection of the environment, including the human environment, through, inter alia, reduction of pollution and promotion of renewable energy;
b) Promotion of sustainable development through improved resources use and management;
c) Conservation of European cultural heritage, including public transport and urban renewal;
d) Human resources development through, inter alia, promotion of education and training, strengthening of administrative or public service capacities of local government or its institutions as well as the democratic processes, which support it and
e) Health and childcare.
Academic research may also be eligible for funding in so far as it targets one or more of the priority sectors.

In addition to those listed above, the Norwegian Financial Mechanism also gives priority to and grants in the following sectors:

f) Implementation of Schengen acquis, support of National Schengen Action Plans as well as strengthening the judiciary;
g) Environment, i.a., with emphasis on strengthening the administrative capacity to implement relevant acquis and investments in infrastructure and technology with priority given to municipal waste management;
h) Regional development and cross-border co-operation;
i) Assistance on implementation of EU legislation;
j) Regional policy and cross-border activities and
k) Technical assistance relating to the implementation of acquis communautaire.

Types of Project Assistance

The new Financial Instrument is not only larger but also more elaborate than its predecessors, offering several different types of grant assistance. This allows the beneficiary states more flexibility and greater possibilities to adjust the project assistance to their needs. Assistance to potential beneficiaries may be awarded in the form of individual projects, programmes (groups of projects) or as a specific type of grant assistance, namely block grants or seed money facilities. The different types of project assistance are described in the Rules and Procedures of the Financial Mechanisms and in separate guidelines which have been adopted by the EEA Financial Mechanism Committee (hereinafter referred to as the FMC).

All the different types of project assistance would require an intermediary to implement them. The intermediary would normally be the person or entity which applies for grant assistance to the National Focal Point.

Individual Projects

Despite its name, individual projects may be composed of several component projects. Those component projects should constitute an economically indivisible series of works fulfilling a precise technical function and with clearly identifiable aims.

What characterizes the "individual project" is that an application for that type of project assistance must clearly define every aspect of the proposed project, allowing the FMC or the Norwegian Ministry of Foreign Affairs to evaluate each of its components.

Programmes (Groups of Projects)

Programmes or groups of projects are intended to facilitate the implementation of more comprehensive and cost-intensive strategies. A programme is a co-ordinated portfolio of separate projects developed and delivered by a representative partnership and aimed at achieving common spatially/sectorally/thematically defined objectives.

Programmes differ from the individual projects inasmuch as the applications for programmes do not require a detailed description of each of its component projects. What is required, however, is a detailed and comprehensive account of all aspects of the proposed programme: its main objectives, an indication of the project activities that will form the programme and a delivery plan with proposed implementation arrangements. These implementation arrangements include setting up a selection process for component projects, making arrangements to follow up on their implementation and providing for a system for reporting and monitoring.

The implementation arrangements should be co-ordinated by the programme intermediary, who would also act as an accountable body and be responsible for the execution of the approved programme. To assist in those tasks, the intermediary should form a monitoring committee which would form an integral part of the programme set-up. That committee would normally be composed of the partnership set up by the intermediary, representatives of the National Focal Point and a representative of the respective Financial Mechanism.

Block Grants

Block grants are intended to facilitate the implementation of projects where each sub-project or end recipient is too small to be identified a priori or to be administered cost-effectively on an individual basis. Those end recipients may be individuals, organisations or institutions to name a few.

By their very nature, block grants are of a smaller scale than programmes and accordingly their implementation does not require the same arrangements as described above. Their administration would mostly be in the hands of the block grant intermediary, without the assistance of a monitoring committee. The block grant intermediary would amongst other things have the duty to announce the availability of grant assistance, assess applications, select actions, allocate funds to end recipients and monitor the progress of the block grant.

Seed Money

There will be an option of establishing a seed money facility in order to facilitate the preparation of projects to be submitted to the EEA Financial Mechanism and to support the establishment of new partnerships created for the purpose of designing and implementing new projects. The management of the seed money facility may be entrusted to an intermediary in the beneficiary state, the National Focal Point and/or the Financial Mechanism Office.

Project Cycle

Both the beneficiary state and the EFTA States have established contact points that will co-operate in the implementation of the two Mechanisms. The Financial Mechanism Office (hereinafter referred to as the FMO) will act as a contact point for the EFTA States. Each beneficiary state has named a National Focal Point to be responsible for the implementation of the two Mechanisms within its territory.

Companies, local authorities, NGOs, social partners and other stakeholders can send in proposals. These should be submitted to the National Focal Points located in the capitals of the beneficiary states. A list of National Focal Points is included in the Appendix.

National Focal Points

The National Focal Points will select the projects that will be submitted to the two Financial Mechanisms. Potential applicants should therefore submit their enquiries and applications to their National Focal Points. A list of the National Focal Points in the beneficiary states can be found in the Appendix.

The FMO

The FMO will assist the FMC and the Norwegian Ministry of Foreign Affairs in the running of the two Mechanisms. The FMO is intended to handle the day-to-day operations of the two Mechanisms and to be a one-stop shop for all contact between them and the beneficiary states.

The National Focal Points will send selected applications to the FMO, which will then go on to assess the feasibility of the project and provide the relevant decision-making authority, either the FMC or the Norwegian Ministry of Foreign Affairs, with its opinion thereof. The Commission will also have the opportunity to screen the applications. If the applicant applies for assistance from the EEA Financial Mechanism, the decision on granting that assistance will be taken by the FMC, while decisions on the granting of assistance by the Norwegian Financial Mechanism will be taken by the Norwegian Ministry of Foreign Affairs.

Applicable Rules

In order to facilitate the co-ordination of the two funds, their rules and procedures are identical in substance[11]. Since grant assistance will be awarded and administered on the basis of those documents the same procedures will apply, no matter which fund grants the assistance. Additionally, a number of guidelines, explaining the implementation arrangements for the different types of project assistance have been prepared. Those guidelines are applicable to both Mechanisms.

Audits and financial control of projects will be a central responsibility of the beneficiary states. Nevertheless, the EFTA Board of Auditors and the Office of the Norwegian Auditor General as well as the FMC and the Norwegian Ministry of Foreign Affairs will have the possibility to arrange for audits and financial control of any project.

State of Play

A delegation from the two Financial Mechanisms has established dialogue with the beneficiary states. The aim of those discussions is to reach Memoranda of Understanding (MoUs) between the Mechanisms and each beneficiary state that provide a framework for future co-operation. Since the FMO is already operational, applications could be submitted to Focal Points shortly after the MoUs have been signed.

For further information on the funds and the application procedure, consult:
www.secretariat.efta.int

[11] The Financial Mechanism Committee adopted the Rules and Procedures of the EEA Financial Mechansim on 16.06.2004 and the Norwegian Ministry of Foreign Affairs adopted the Rules and Procedures of the Norwegian Financial Mechanism on 02.07.2004

Words from the Director of The Financial Mechanism Office, Stine Lundin Andresen

On 30 August 2004, the Norwegian financial daily, Dagens Næringsliv (DN), published an interview with the Director of EFTA's Financial Mechanism Office, Stine Lundin Andresen. DN has kindly permitted the EFTA Bulletin to reproduce translated excerpts from the interview.

On the role of the Financial Mechanism Office:

- The idea is to be a small effective team whose members draw from each other's experience. I see us as a clearing house for information and a link between donors, recipients and all the other stakeholders.

What is the worst that can happen (concerning EEA EFTA contributions to the new Member States)?

- The biggest challenge is to ensure that we fund good projects, and that they are successful. On paper, things may look really good, but further along the way you may find out that a planned road, for example, was never been built

On using external experts to evaluate projects

- We must try to find the best people, wherever they come from in the world.

On the participation of organisations from the EEA EFTA States in projects

- Nothing is earmarked for organisations from EEA EFTA States, neither for projects nor consulting contracts. But clearly, we hope we can utilise our competences. There is much expertise in many areas to draw from.

Do the recipients have the capacity necessary to receive and utilise the considerable amount of funds?

- It seems they do. They already have some experience and procedures for receiving funds from the EU.

The procedures you are taking over may appear slow – up to five years from the time the previous mechanism was approved to the start of projects. Will things go so slowly this time?

- I really hope it goes quicker than that. We plan to be effective, but we do not have much control over how long it takes for the idea to get from the conception stage until it reaches us.

When will you cut the first ribbon?

- Next spring. If we receive the first application at the beginning of next year, we shall require about three months, and then we shall send the project application for review by the Commission. So in total, we need about four months.

ENLARGEMENT FROM A LOCAL GOVERNMENT PERSPECTIVE

Elita Cakule, Special Executive Officer, KS Europa and International Projects, Norwegian Association of Local and Regional Authorities

One might easily assume that it is primarily national administrations that manage the changes caused by EU and EEA enlargement. Local governments, however, are responsible for implementing much of the legislation that comes with enlargement. It might also be at the local and regional level that one experiences most directly the effect of European policies, especially of those aimed at promoting social cohesion and harmonising conditions in order to support the good functioning of the Internal Market. Elita Cakule is in the unique situation of being a native Latvian and working for the Norwegian Association of Regional and Local Authorities (KS). In this article, she discusses enlargement from a local government perspective, and reveals how local authorities have been co-operating with each other in order to optimise the benefits that enlargement can bring.

Enlargement

- *Change offers opportunities to those who embrace it, but destroys those who deny it*, wrote Latvian national poet Janis Rainis at the end of the 19th century. This eternal truth applies in our times more than ever before.

After years of enormous and often painful preparations, the European Union has expanded from 15 to 25 countries. The average GDP per capita in the ten new Member States is only 46% of that of the EU15. People have spoken of epochmaking events and a historic enlargement, which have inspired more political stability, economic openness and fiscal transparency. However, most people know little about enlargement and the EU, as evidenced by the low turn out for the 2004 European Parliament elections. In the new Member States, this was on average only 26.4%, of which a significant number of votes came from Euro-sceptical parties.

The Need to Inform

This ambivalence in the new Member States appears to demonstrate that the information campaigns carried out before the referenda on accession to the EU were insufficient. It is hard for people to understand exactly what enlargement means for them, beyond the political map of Europe being shaded in a different colour.

In the old EU countries, enlargement has given rise to fears that it might bring in floods of low-paid workers from the new EU Member States, and that it could result in environmental degradation and a slowdown in economic growth. In the new Member States, people are concerned about a brain drain to other European countries, growing social disparities and a possible increase in inflation rates as a result of EU membership.

Local and Regional Challenges in the new EEA Countries

The ambitions and challenges for local governments and newly elected politicians were enormous at the end of the 1980s and at the beginning of the 1990s. The first local democratic elections brought inexperienced politicians into leadership positions in local government. Despite these hurdles, the new leaders had to improve the standards of living within their own municipalities, and solve local government problems concerning transport, waste treatment, water purification, and unemployment, amongst other things.

Many of the new countries are full of internal contrasts and even if only small, they continue to exhibit significant regional differences. Overheated economies of the national capitals, and a lack of balance in regional development, are problems that should not be underestimated. From a positive point of view, the regionalisation that has been carried out in the new Member States also provides possibilities for re-establishing regional identity, a sense of history and belief in the capability to manage their own problems.

Local authorities are under a lot of pressure to provide many high quality services. Consequently, they are co-operating and outsourcing activities and services to the private sector. Local government decisions can therefore have a considerable impact on the development of the private sector in their region. Because of the important role regional authorities play in regional economic development, poor governance can hurt local economies. It is therefore important that local authorities implement sustainable economic policies to the benefit of the regions they serve. To this end, international co-operation offers the opportunity to develop a greater understanding of different models and solutions. There are more than 100 000 local and regional authorities in the enlarged EU/EEA, representing the level of authority closest to the inhabitants. Among all these authorities there are very many examples of good and best practice which can be transferred across national borders to where solutions are needed, provided there is the possibility to adapt the approach to local conditions.

Also, because of the pivotal role local and regional authorities play in implementing EU and EEA legislation, it is important that national authorities consult with the regions before taking decisions affecting them.

Norway's Contribution

Since the beginning of the 1990s, numerous partnerships and projects have been established between municipalities and regions in Norway and in Central and Eastern Europe. The approach and content has indeed varied, as has the frequency of the contacts. One common element within all the activities, however, has been the transfer of competence and knowledge and the exchange of experience. Hopefully, this will benefit future project activities within the EU programmes and the new EEA Financial Mechanisms, by way of building on the relationships that have already been established.

The Norwegian government's *Action Programme for Eastern Europe* was adopted by the National Assembly (Stortinget) in 1992 for a four-year period. Since 1997, the programme has continued under the name of *the Central and Eastern European Co-operation Programme*.

In 2000, the situation of the Central and Eastern European countries had changed. Apart from Russia and the other CIS countries, all the others were candidates for membership of the EU. It was therefore necessary to reorganise the programme as a *programme for co-operation with Russia* and as a *plan of action for the EU candidate countries for the period 2001-2006*.

A survey conducted by the Norwegian Association of Local and Regional Authorities (KS) shows that about 70 (out of 434) Norwegian municipalities and 15 counties (out of 19) have established co-operation contacts with municipalities or regions in six of the ten new EU member countries.

KS has co-ordinated municipal project activities in Latvia, Lithuania, the Czech Republic and Slovakia. A detailed report on the project activities between Norway and the candidate countries is available on www.ks.no. The main areas of co-operation projects have been:

- Democratisation, including the training of councillors
- Organisation of administrative and political structures in municipalities and counties
- Area planning
- Trade and industry co-operation, including conferences
- School exchange programmes
- Healthcare projects
- Children and young adults
- Environmental projects (renovation, water, etc.)
- Cultural exchange
- Network building

Network Building

Civil society and voluntary and non-profit organisations have played, and still play, an important role in the co-operation with local and regional governments. They are the foundation on which municipal co-operation rests and they enable and legitimise exchanges between elected representatives and officials. NGOs and friendship associations are often run by enthusiasts who keep the project going because they themselves are interested in it. They take no account of political changes, since their work is based on personal contacts. Another advantage of network building is that many organisations have a definite purpose and target group, and there is often a corresponding organisation in other countries. They have a common interest, which is of great help in building a lasting relationship.

KS has established close contacts with the *Association of Estonian Cities (AEC)* and the *Union of the Estonian Association of Local Authorities (UEALA)*, *the Association of Towns and Municipalities in Slovakia (ZMOS)* and identified current topics for the exchange of experience and co-operation in the European and international arenas.

Contacts between KS and *the Union of Local and Regional Government of Latvia* (ULRGL) started in the early nineties, but particular capacity building activities only in 2002. KS has assisted in the development of the Union's strategy and vision for the next decade in order to prepare for implementing an administrative territorial reform, as well as a party system in local governments. KS has supported a capacity building programme for municipal executive directors in Latvia in co-operation with the *Association of Executive Directors of Latvian Local and Regional Governments* (AEDLLRG).

Institutional co-operation with *the Association of Local Authorities of Lithuania* (ALAL) started in 2000, and has outlined project activities and provided technical assistance for the project implemented by ALAL and the ALAL Training and Consulting Center (ALAL TCC) in co-operation with KS. The co-operation has led to the establishment of a training centre and internship in the KS Brussels office.

Capacity Building in Service Provision

Capacity building is the key issue when it comes to efficient and democratic implementation of legislation, which takes place at the political level that is closest to people in both the new and the old EU/EEA EFTA States. Cross-border partnerships within the municipal and regional

Norwegian and Latvian co-operation

sectors are an efficient instrument to build on in the existing and up-coming programmes.

Transnational projects involving the countries that recently joined the EU allow local and regional authorities to tackle issues together. This involves recognising that a council's problems are not unique. In working with their counterparts in the EU or EEA EFTA countries, authorities can learn from each other, exchange experience, knowledge, skills and expertise. The benefits derived from technical co-operation and formal and informal links are mutual. Given that local and regional authorities implement around 60-70% of EU law, it is important for them to be given as much help as possible in managing EU membership.

Social and Health Sector

There has clearly been a need in the new Member States to develop functioning institutions in the social and health sector, and to have competent professionals with the proper expertise to run them. This has created a demand for Norway to assist these countries in their efforts. Together with other actors, Norwegian municipalities and counties have been contributing to this process. The goals of the municipal co-operation in this sector are to build the competence of local professional staff, and to contribute to the development of administration where local authorities have administrational responsibility, while also being democratically accountable for their actions. Preventative policies are a major focus of this co-operation, especially in the field of drug and alcohol abuse. Much weight has been put on education and network building.

An overall objective of the co-operation on social policy has been to improve the population's living conditions at the local level. The emphasis has been on the integration of vulnerable groups, such as the elderly, people with special needs, children and young people, into the local society. This local approach has been seen as the best way to promoting "people-to-people" contacts, achieving added value and ensuring visible results. Norwegian experts from the social and health sector were given credit by their co-operation partners for their active and enthusiastic attitude to their work.

Local Economic Development

For the past five years, the accession economies have in most cases been growing at roughly twice the rate of that of the EU. Part of the reason for this is the need to catch up. Without the prospect of enlargement, economic modernisation would have been far slower and less extensive. As income levels converge, this advantage will be lost, but for a decade at least, the economies of these countries will remain the fastest growing in Europe. Their markets will also continue to offer many of the best investment opportunities.

Local and regional authorities are important drivers of economic development, where even small municipalities can play a vital role. There are different ways in which local authorities are economic developers. These authorities organise and co-ordinate local development plans. They create the context within which private initiatives can be taken. They create the preconditions for local economic development through appropriate and flexible licensing procedures, as well as sustainable development. A fair and transparent system for local taxation, a proper dialogue with the private sector and civil society, well-considered urban planning and good governance that is effective, targeted, fair and transparent, can create a business-friendly environment. Local authorities wishing to create a good climate for enterprise will consciously invest in human capital, organise and support sound education and life-long learning. The Norwegian counties of Nordland, Østfold and Aust-Agder, in addition to several municipalities, have carried out a number of seminars on these topics with their co-operation partners.

Regional Co-operation under Interreg Programmes

Norway has participated in Interreg programmes since 1996. Since regional policy is not a part of the EEA Agreement, the government finances Norway's participation separately. Norwegian partners are taking part in seven cross-border programmes and three transnational programmes, including the Baltic Sea, the North Sea and the Northern Periphery areas. In addition, Norwegian partners take part in interregional co-operation that covers the whole of Europe through Interreg III C.

The majority of Norwegian participants in the Interreg programmes are counties and municipalities. The Interreg III A programmes are co-ordinated by the counties situated along Norway's borders with Sweden and Finland. The III B and III C programmes are co-ordinated by a national task force, and national contact points for each programme are divided between regional networks: *the Eastern Norway County Network* (Østlandssamarbeidet) for *the Baltic Sea Programme*; *the Regional Council for Western Norway* (Vestlandsrådet) for the North Sea Programme; *the Executive Committee for Northern Norway* (Landsdelsutvalget) for the Northern Periphery Programme and South Trøndelag County Administration for Interreg III C.

Participation in the Interreg programmes has been a very good tool for strengthening partnership and gaining experience in international co-operation. Over the years, interest in and activity relating to Interreg co-operation have grown substantially throughout Norway. Today there are Norwegian partners in more than 50 transnational and interregional projects and several hundred projects in the border regions.

Financial Mechanism

Norwegian local and regional authorities and enterprises are interested in becoming partners with public authorities and enterprises in the new EU countries and in helping explore the EEA and Norwegian Financial Mechanisms. Several Norwegian local and regional authorities have a wide experience in co-operation with partners in Estonia, Latvia, Lithuania, Poland and other new EU/EEA member countries and wish to develop these contacts further.

As the main suppliers and organisers of public services, local and regional authorities in Norway, by definition, have comprehensive expertise in local and regional matters. With reference to the priorities of the two Mechanisms, this expertise could be of interest to the new EU/EEA member countries in their establishment of priorities and preparation of projects and programmes. KS considers it relevant for the Norwegian government to bear these considerations in mind in the negotiations with each of the benificiary states.

Successfulness of Enlargement

The successfulness of enlargement is going to be determined by the ability to accommodate different cultures and attitudes and to see diversity as a strength, not a weakness. It will depend on the readiness to involve the administrative level that is closest to the inhabitants in the integration process. Success for the new countries lies in what they can do for themselves and not in what Brussels can do for them. It is what the EU membership inspires, not what it provides, that counts.

THE SWISS-EU BILATERAL AGREEMENTS AND ENLARGEMENT: A BUSINESS VIEW

Rudolf Ramsauer,
Chairman of the
Executive Board,
Economiesuisse

Switzerland occupies a special position within EFTA. Despite being a small export-oriented country that is inextricably linked to the EU in economic terms (see Box 1), it is the only EFTA country that does not participate in the European Economic Area (EEA), such participation having been rejected in a referendum in 1992. However, Switzerland's 1972 Free Trade Agreement with the EU was no longer sufficient to deal with increasing economic interdependence. To facilitate access by Swiss businesses to the EU's Internal Market, Switzerland opted for a new strategy based on bilateral sectoral agreements with the EU. After some initial hesitation, the EU supported this approach. In 1999, Switzerland concluded the first set of bilateral agreements (bilaterals I) with the EU. In parallel, the EFTA Convention was updated and became the Vaduz Convention. In essence, it extends the provisions of the bilateral Swiss–EU agreements to the EFTA States, thereby upgrading the relations between the EFTA States to the same level as those between Switzerland and the EU.

Likewise, the EU enlargement on 1 May 2004 reflects the special role of Switzerland within the European context and EFTA. This is because the ten new EU Member States will not only incorporate acquis communautaire in their national legislation but will also become parties to the Swiss-EU bilateral agreements. Norway, Iceland and Liechtenstein, on the other hand, participate in the enlarged Internal Market on the basis of the extension of the EEA to the new EU members.

More than a decade after the rejection of the EEA and a few months after EU/EEA enlargement, this is no time for Swiss business to bemoan a missed opportunity. It is far more important to implement on a daily basis the first bilateral agreements that have been in force since 1 June 2002, evaluate first experiences and continuously sound out, advance and examine the possibilities of the bilateral approach.

Box 1: Economic linkages

The European Union is Switzerland's most important trading partner. In 2003, Switzerland exported goods and services worth 80 billion Swiss francs (60% of the total export volume) and imported goods and services from the EU amounting to 100 billion Swiss francs (80% of imports). About 60% (7 billion Swiss francs) of the country's foreign direct investment went to the EU in 2002. In the same year, Swiss companies employed about 800 000 people in the EU.

Since the beginning of the process of transition and accession to the EU, the new EU Member States have increasingly become interesting trading partners for Switzerland and attractive destinations for Swiss investments. In the past ten years, trade with the ten countries has increased annually by 11%. In 2002, more than 4% of Swiss exports (5.7 billion Swiss francs) and more than 10% of annual capital exports (1.48 billion Swiss francs) went to the new Member States. Many Swiss companies have been active in these markets for a number of years. They employ approximately 60 000 people in these markets. There is, however, no one-sided dependency of the Swiss economy on the EU as Switzerland is one of the most important export markets for the EU, ahead of Japan and Russia. This illustrates the close links between the two economies and the fact that both sides have a great interest in strengthening and extending mutual economic and trade relations.

Bilateral Agreements I and EU Enlargement

On 1 May 2004, eight Central and Eastern European countries (Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic and Hungary) as well as Cyprus and Malta joined the EU. Upon accession, the new EU Members took over the entire acquis communautaire of the European Union. As a result, the existing bilateral Swiss-EU agreements were extended to the new Member States. This concerns in particular the 1972 Free Trade Agreement and the seven bilateral agreements I of 1999. Further obstacles to trade with the new Member States have thereby been eliminated and legal certainty has been strengthened. In the future, common rules and standards will be applied in Eastern Europe, subject to supranational surveillance and legal enforcement.

The new markets are growing fast: between 1998 and 2002, the average real growth rate was 3.6%. The need to catch up and improve living standards will increase demand for goods and services. Governments and businesses require capital goods to improve public infrastructure or meet the industrial requirements of the EU's Internal Market. These factors will promote the sales potential of Swiss businesses in Central and Eastern Europe. Switzerland expects its GDP to increase by 0.2-0.3% as a result of EU enlargement. This translates into an increase in the country's economic performance by around 1-1.5 billion Swiss francs a year as well as job security and new employment opportunities domestically. Not only bigger companies will benefit but also SMEs in export-based sectors.

Box 2: The Fraisa SA Example

Through its sales of precision tools on Eastern European markets, Fraisa SA has created a number of new jobs. Due to above average growth rates in these markets, Fraisa expects to create more jobs in Switzerland. Seven per cent of the company's total turnover today is generated in Hungary, Poland, the Czech Republic, Slovenia and Slovakia. Fraisa's objective is to raise this rate to 15% in the medium-term by further penetrating these existing markets and expanding to the Baltic states. The extension of the bilateral agreements is important for Fraisa because it considerably facilitates exportation.

Extension of the Agreement on the free movement of persons provides Swiss businesses with a substantial potential for recruiting skilled workers. In return, Swiss citizens will find it easier to work and study in Central and Eastern Europe. A negative attitude on Switzerland's part concerning the extension of these agreements to the new Member States could result in the cancellation of all agreements ("guillotine clause"). This would have devastating effects as the seven sectoral agreements (free movement of persons, land transport, air transport, research, agriculture, public procurement and technical barriers to trade) are indispensable for Swiss business.

Free Movement of Persons

With the establishment of the Agreement on the Free Movement of Persons, people can move freely between Switzerland and the EU. The liberalisation process is to be conducted in three stages over a period of twelve years. Once the process has been completed, Swiss and EU citizens will no longer be subjected to restrictions when seeking jobs across borders. The Agreement also covers mutual recognition of diplomas and qualifications.

The simplified procedure for recruiting and hiring foreign workers is the main advantage of the Agreement. The efficiency and flexibility of the labour market will be improved. The advantages are, however, somewhat watered down by the considerable administrative burden related to the co-ordination of social security systems. Experience indicates that, so far, the feared influx of workers from the EU Member States to Switzerland has to a large extent not materialised. The modest flow of labour is likely to exert only a weak level of pressure on wages in the long-term. The feared rise in the level of unemployment should therefore not occur because, in Europe, it is mainly the highly skilled workers who take up employment in Member States other than their own. Switzerland secured the guarantee that the free movement of persons between Switzerland and the new Member States would not become a reality before it does between the EU15 and the new Member States. Switzerland has a safeguard clause in the event of unexpected immigration and flanking measures to protect workers from wage dumping and the weakening of social protection. On the whole, Switzerland as a business location will benefit from improved competitiveness through the Agreement.

Land Transport

Switzerland and the EU have agreed on a common transit policy for road transport in the Alpine region despite differing points of departure and interests. During the negotiation of the agreement, the Swiss delegation was able to persuade the EU of the need to transfer freight traffic from road to rail. To encourage such a transfer, a fiscal incentive in the form of a tax on heavy goods vehicles (HGVs) is applied. Switzerland made concessions by agreeing to open its transport markets, e.g., the introduction of the 40-tonne limit for heavy goods vehicles as from 2005. The main objectives of this Agreement are gradual and mutual market opening in rail and road transport, international promotion of freight transport by rail and the speeding up of customs formalities.

For the Swiss transport sector, the Agreement on Land Transport has a number of economic benefits. Swiss transport companies will be entitled to transport goods from one EU State to another ('cabotage') as from 2005 without having to pass through Switzerland: for example, a Swiss carrier will in future be able to transport freight from Switzerland to Genoa, pick up new freight and continue to Budapest. Railway operators can transport goods across borders and enter into alliances for transportation over longer distances. This entails new freedoms and market openings for Swiss transport operators in the EU. On the whole, free market access to rail and road transport will strengthen Switzerland as a business location.

Air Transport

The Agreement on Air Transport gives Swiss air carriers access to the liberalised air transport market in three stages. Swiss carriers will be able to operate without being discriminated against in the European airspace. By reducing the administrative burden and encouraging market-oriented decisions, Swiss air carriers can expect to make substantial savings. Swiss airport operators will be opened to European companies under the same conditions and vice versa. Because of past and current problems experienced by national air carriers, it is difficult at this juncture to estimate the permanent economic impacts.

Research

Since 1992, Swiss researchers have been participating in EU research programmes without financial support and with only limited rights. Equal access to the most important public European research programmes is guaranteed by the Agreement on Research. Switzerland participates fully in the Sixth Framework Programme with a budget of 1.75 billion euros. As a research centre, Switzerland's unhampered participation in and access to the results of EU research programmes are important. SMEs in particular can benefit from valuable know-how in the EU.

Agriculture

By liberalising trade in agriculture, the Agreement on Agriculture strengthens free trade relations between Switzerland and the EU. The elimination of customs duties and the increase in import quotas are key elements. At the same time, the reduction of specific non-tariff barriers is also being tackled. The harmonisation of technical regulations, mutual non-discrimination and mutual recognition of similar legislation constitute central elements.

The Agreement on Agriculture allows simplified market access in areas where Switzerland has traditionally had offensive export interests such as in cheese, fruit and vegetables. However, so far, only a rather weak utilisation of the duty-free import quotas by Swiss exporters into the EU has been registered. The main reason is the high prices caused by insufficient competitiveness in domestic agriculture and its processing industry. Domestic agriculture clearly faces great challenges. By concentrating on core competencies, however, new market niches could be developed. With additional improvements to production and marketing structures, further penetration of the enlarged Internal Market could be possible.

Public Procurement

The sectoral Agreement on Public Procurement complements the Agreement of the World Trade Organization (WTO) on Government Procurement, signed on 1 January 1996. The WTO Agreement contains provisions on the publication of tender notices and awards of contracts by public bodies in the areas of water, energy and transport. On this basis, Switzerland and the EU agreed to extend the coverage to railway operators, telecommunications, municipalities and private entities operating on the basis of special or exclusive rights. The financial volume of public procurement in this sector at European level amounts to 1 000 billion Swiss francs and to approximately 36 billion Swiss francs in Switzerland. In accordance with the principle of reciprocity, European suppliers are guaranteed access to tenders in Switzerland and vice versa.

Along with the enlargement of the EU came a geographical redistribution of EU financial support in Central and Eastern Europe. Moreover, the assistance programmes for accession preparations in Eastern and Central Europe have been partially transformed into structural and cohesion funds. For many Swiss companies, it is of great economic interest to participate in tenders for public contracts and implementation of structural and cohesion projects. By extending the bilateral Agreement on Public Procurement to the new Members of the Union, Swiss companies can compete for these regional projects – de jure - on an equal footing with their European counterparts.

Through this Agreement, Swiss businesses obtain improved access to those sectors on the EU market that were previously either not covered under the rules of the WTO Agreement or only under difficult conditions. Increased competition in the tendering process in Switzerland will strengthen competition and exert pressure on prices.

Technical Barriers to Trade

The non-recognition of conformity assessment and differing technical product rules constitute considerable barriers to trade. For manufacturers, this results not only in higher costs for development, production and distribution, but also delays in the placing of new products on the market. It harms the competitiveness of companies, and Switzerland's position as a business location is also affected. For most industrial products, mutual recognition of conformity assessment (product approval, testing, certification, etc.) has been regulated. Thus, one assessment alone will suffice for both contracting parties and double testing for placing a product on the market is no longer required since 1 June 2002.

In day-to-day business, simplifications in the areas of certification and norms as well as improvements in the area of standardisation have been observed. Positive effects for the export sector (equal conditions for European competitors) are the result. Through the abolition of double conformity assessment, Swiss manufacturers have saved costs of approximately 0.5-1.0% of the market value. In particular, companies in the machinery, chemicals and pharmaceutical sectors as well as manufacturers of medicinal products and measuring instruments will benefit from this new Agreement (see Box 3).

Box 3: Schurter Group

The company Schurter, a producer of components for the electronics industry, established a subsidiary in the Czech Republic in 1990 and another in Slovakia in 2000. Well over 10% of the Group's turnover is generated in the two countries. Extension of the Agreement on Technical Barriers to Trade to the new EU Member States will facilitate exportation. Schurter plans to further intensify business development and to expand its network of sales outlets in Eastern Europe.

Assessment

The economic assessment of the seven sectoral agreements is clearly positive. Their importance has further increased with EU enlargement. The agreements guarantee Swiss businesses non-discriminatory access to the enlarged Internal Market. The bilateral agreements I are therefore vital. The Swiss federal authorities estimate that the economic benefits amount to around 2% of the country's gross domestic product (approximately 8 billion Swiss francs). This includes price cuts benefiting consumers. Other effects – that are not financially quantifiable – should not be overlooked. Examples include the increased transfer of knowledge and the increased mobility of workers between Switzerland and the EU.

Bilateral Agreements II

On 19 May 2004, the second set of bilateral agreements (bilaterals II) between Switzerland and the EU was concluded (at political level). The difficult negotiations produced a broadly positive result. They will bring about closer co-operation in a number of areas (taxation of savings, fight against fraud, Schengen/Dublin Agreements, statistics, media, the environment, pensions, education, processed agricultural products) with the enlarged European Union while still safeguarding important Swiss interests.

Because of the strong economic linkages between Switzerland and the European Union, further development of a stable business environment - making it easier for market participants to develop their strategies - had become essential. This framework was considerably improved with the establishment of the first set of bilateral agreements, supplemented in certain areas by the second set. The new Agreement on the taxation of savings preserves Switzerland's banking secrecy laws including in the country's relations with the EU. The abolition of tax at source on payments of dividends, interest and royalties between affiliated companies is of importance for international companies and strengthens Switzerland's position as a business centre. The Agreement on Processed Agricultural Products will bring about market opening and substantial trade facilitation between Switzerland and the EU. This will benefit the food industry in particular. Switzerland's accession to the Agreements on Schengen and Dublin will promote cross-border co-operation in the fields of justice, police and asylum and will facilitate the free movement of persons. The latter will have a positive impact on tourism and business tourism from overseas countries. The unlimited opt-out clause means that banking secrecy will not be affected even in the event of further extension of mutual legal assistance on direct taxes by the EU. The Agreement on Customs Fraud allows for co-operation in the fight against smuggling and offences related to indirect taxes.

Assessment of the Bilateral Approach

Switzerland and its economy are to a high degree dependent on stable international co-operation. At the European level, EFTA membership is one pillar of co-operation. In addition, the promotion of close and good relations with the EU is crucial in view of the importance of the EU. The geographical position of the country and the highly intensive - literally cluster-like - economic ties alone call for a closer relationship. The available data illustrate the close links between Swiss and EU companies, which have reached a dimension that in some areas surpasses that of relations within the EU. As experience with the bilateral agreements I and the second set of newly concluded agreements shows, bilateralism in the form of agreements covering certain economic and political areas is a practicable and sensible approach. It should be further developed wherever it is of mutual interest and wherever it makes sense to do so. The areas of electricity markets, Galileo and Europol are examples where future negotiations with the EU could be envisaged. The Swiss business sector generally supports such efforts.

POLITICAL OUTLOOK: THE EEA EFTA STATES' RELATIONS WITH THE NEW NEIGHBOURS

Speeches delivered by the Foreign Ministers of Iceland, Liechtenstein and Norway to the European Parliament, 17 March 2004

Halldór Ásgrímsson, Icelandic Minister for Foreign Affairs*

The European Economic Area (EEA) and the European Neighbourhood Policy

Ms Mann,
Mr Brok,
Distinguished Members of the European Parliament,

On the road from the European Communities of 6 to the European Union of 25, the prospect of membership has been one of the EU's main policy tools in dealing with its neighbours. Through this policy tool, the European Union - and before that the European Communities - has played a fundamental role in shaping the Europe of today. It is clear that the prospect of membership will continue to be a powerful incentive for neighbours for some years to come. However, it is equally clear that the EU is nearing the point where it will need a new approach of inclusiveness towards its neighbours.

A European Neighbourhood Policy is therefore timely and much rests on its success. Despite the wide geographical coverage, there are

* Prime Minister since 15 September 2004

several neighbours of the EU, which are, and will continue to be, dealt with separately. Being a little self-centred, I would first like to mention the EEA EFTA countries. Through the EEA Agreement, we are already a part of the European family and in most aspects deeply integrated participants in the Internal Market.

Closer political and economic links with the new neighbours will benefit the whole of Europe. Iceland shares the overall objective of the new European Neighbourhood Policy to project stability, prosperity and sustainable development to the whole of Europe.

The EEA EFTA States are not only full participants in the Internal Market but also integrated partners in the field of research and development and close allies in the CFSP and ESDP. It is therefore clear that many of the proposed fields of enhanced co-operation with the new neighbours may affect us directly.

The EU has decided to build the European Neighbourhood Policy upon already existing relations with the countries in question. This is in our view a sensible approach.

Allow me however to share with you some thoughts, arising from Iceland's experience as a long time next door neighbour to the European Union.

First of all, it is of utmost importance not to raise hopes in these countries too high unless the EU, and the rest of us, has indeed solid commitments and developed aims underpinned with actions. All of us are acutely aware of the aspirations of many of the new neighbourhood countries. Therefore, a way must be found that satisfies the wish and need of these countries to feel a part of the European integration process but that at the same time acknowledges and respects their special circumstances. A learning process is necessary and for that a model for the way ahead is needed. May I offer an idea of a model that might serve this purpose: the EFTA model. I am referring to EFTA in its early days, laying the foundation of the EFTA countries' integration into European structures, either through membership of the European Union or of the EEA Agreement. Do not misunderstand me. I am not suggesting that EFTA be a forum for the new neighbourhood countries now. For that, today's EFTA is not suited, as the integration of the EFTA States has gone too far. I am referring to it simply is a useful model or tool.

In looking ahead for our new neighbours, we need to remind ourselves of the first steps of both the European Union - then the Coal and Steel Community - and of EFTA. However modest these steps may seem today, they were difficult for countries, such as Iceland, that was reluctantly adapting to a changing international environment and coming to terms with modernisation. EFTA served us well in educating us and providing us with the necessary tools to implement and understand the idea of free trade and the need for harmonisation. It took us more than twenty years to realise and implement the reforms necessary for the huge leap into the Internal Market in 1994. From experience, we know that the necessary long term reforms are difficult, often claiming sacrifices not fully understood or accepted by all at the time. If such a model as EFTA were to be applied, the initiative would have to of course come from the countries in question. In my view, there could be added value in more co-operation between the new neighbours in all aspects of furthering economic integration with the European Union.

It is clear that Iceland, like other EFTA States, has an interest in the EU's policy towards its neighbours. One of the main building blocks of the European Neighbourhood Policy is the set of existing agreements with the countries in question on trade facilitation. We have always followed these developments closely since they affect us directly. An example of this is the free trade agreements the EU and subsequently EFTA signed with the countries of Central and Eastern Europe - then neighbours, soon to become members. Through these activities, the EFTA States have been able to complement similar efforts by the EU and thereby participated in the reshaping of the European economy.

The EFTA Ministers decided already in 1995 that these efforts could be extended beyond the immediate confines of Europe. At that time, the incentive was the Barcelona Process. We already have in place free trade agreements with some of the Mediterranean states and are in the process of negotiating others. On the eastern front, we have already signed a declaration on co-operation with Ukraine. EFTA is also running a technical assistance programme focusing on joint EFTA-EU programmes and trade policy projects, as well as on the EFTA scholarship programme. I foresee that we will continue all of these efforts and thereby continue to be an active, albeit small, partner of the EU in providing support and incentives for economic development in the whole of the "Wider Europe" area.

Furthermore, through Iceland's and Norway's work with the other Nordic countries in the Nordic Council, in close co-operation with prospective members, the Baltic states, we have been directly involved and participated in projects in the new neighbourhood of the EU. The same is true for the work and projects undertaken under the auspices of the Council of the Baltic Sea States, the Barents-Euro-Arctic Council and the Arctic Council, which we now chair. The work in these fora adds value, I hope, to the work underway through the channels of the European Union. It underlines the fact that we all have a role to play as well as vested interests in furthering positive progress in these areas.

Political, humanitarian and security matters are important as well. Our focus on these matters has mainly been through the international organisations active in the area. We can fully agree with the EU that there is interdependency between progress in these matters and economic progression. The EU can and should be a major actor in the area. I would however urge the Union to avoid duplicating efforts already underway. We already have various well established tools to monitor progress in particular fields, both under the auspices of the Council of Europe and of the OSCE. I underline the need for the EU to make use of these existing structures rather than inventing and implementing new ones.

Action plans, in the framework of the European Neighbourhood Policy, for individual countries are currently being worked on by the Commission and the countries in question. Much will depend on the formulation of these action plans and the way they will be received. The action plans and the strategy paper of the Commission that is expected in May will determine the immediate future of the Policy and we look forward to seeing those.

Distinguished Parliamentarians, the importance of facilitating economic, political and humanitarian development in the countries falling within the scope of the new European Neighbourhood Policy can hardly be overstated. Those of us Europeans who have been blessed with progress and stability in the past decades have obligations and responsibilities towards our neighbours. History has taught us that one of the best ways to safeguard our own democracy, prosperity and stability is to try to project these fragile privileges to the greatest extent possible to our immediate neighbours.

Ernst Walch, Liechtenstein Minister for Foreign Affairs

Mr Chairman,
Madam Chairwoman,
Honourable Members of the European Parliament,
Dear Colleagues,

First of all I would like to thank you for the invitation to the EFTA Ministers to address the Committee on Foreign Affairs and to discuss with you the EU policy towards neighbouring countries or, as one also says, more restrictively, the "wider Europe" policy. We appreciate this opportunity to explain our positions in these matters and to better know the views of the members of this august institution. I would specifically like to thank Ms Erika Mann, Chairperson of the EEA Joint Parliamentary Committee, who took the initiative for today's meeting at the last session of this Joint Committee.

Let me first give you my assessment of the EEA and Liechtenstein's relations with the EU.

We see the EEA as a well-functioning and comprehensive association agreement. It so far has been flexible enough to adapt to important changes we have seen since its signature in 1992, e.g., the Treaties of Maastricht and Amsterdam, the change of side of 3 EFTA States that have become EU Members, the current EU and EEA enlargement. Liechtenstein sees the EEA Agreement as the main legal basis for shaping its relations with the EU, politically and economically. It provides for us to participate widely in the Internal Market while allowing us to maintain our customs and monetary union with Switzerland. Not least for our relatively big export industry, the EEA has become a regulatory framework of capital importance. Global competition and new rising markets, however, make us look beyond the borders of Europe and make us clear supporters of policies that make the European Internal Market more competitive.

Beyond its economic aspects, we see the EEA as an appropriate tool for participating in the efforts of European integration and contributing, with our modest means, to a peaceful continent with a better life for all its inhabitants. We ask ourselves, if in the longer term EU membership would be viable for our size and our co-operation capacity. Moreover, we also see the EEA as a solution or a central stepping stone for our future relationship with the EU.

Certainly, we do not think that the EEA must be the only form of association with the EU and we are open to broaden our co-operation. So we have expressed our interest in being associated with the Schengen and Dublin co-operation in one way or another in parallel with our association with Switzerland.

In view of our good relations with the EU, not least in the context of the EEA, Liechtenstein agreed to negotiate a treaty on the taxation of savings that was an explicit wish of the EU. I am hopeful that these negotiations can be concluded soon.

The Internal Market, participation in EU programmes and other flanking policies and justice and home affairs are certainly domains which a small country like Liechtenstein, in the centre of Europe, can best participate in and contribute to. A sad topical issue I would like to mention in this context is the fight against terrorism. Liechtenstein has installed a sophisticated system to trace criminal money in view of its quite important financial position. To be linked with European efforts in this combat will therefore stay a political priority.

Common foreign and security policy cannot be a field of co-operation to the same degree of intensity for us. Limitations of capacity and institutional frameworks, do, however, not hinder our government from following with interest EU policy towards neighbouring countries, not least to the south and to the east. Like the other EEA EFTA countries, we not only contribute financially to social cohesion within the EEA but have also developed a range of trade agreements with the majority of the countries targeted by this neighbourhood policy. We contribute through other channels like bilateral aid and multilateral programmes, be it through the OSCE or other institutions.

We are certainly prepared to work more closely with the EU in this field, not only through material aid. I think the experience of the EEA EFTA States in the context of the EEA Agreement can be used in relations with the others. But it is the EU and not least you in the EP that will have to decide on the right policies towards your neighbours. We then can contribute according to our possibilities and general foreign policy.

I am therefore highly keen to hear, Mr Chairman, Madam Chairwoman and the members of the Committee, how you see EU relations with third countries in your neighbourhood, including the EFTA States. I am at your disposal to answer questions and participate in the discussion.

Thank you, Mr Chairman
Thank you, Madam Chairwoman

Jan Petersen, Norwegian Foreign Minister

The Wider Europe Initiative and Future EU-EFTA Relations within the EEA Framework

Members of the European Parliament,
Ladies and Gentlemen,

EU and EEA enlargement and the parallel NATO enlargement are historic contributions towards a peaceful, stable, just, prosperous and united Europe.

The need for European unity in defence of peace and humanity was acutely demonstrated last week when the ugly face of terrorism again revealed itself, this time in Madrid. These were attacks on us all. In the democratic battle against terrorism it must be one for all, all for one.

Together we must continue to fight terrorism with determination and resolve. As a member of the wider European family we want to participate and contribute as Europe now closes ranks against terrorism.

As a Schengen partner, Norway is closely associated with important aspects of EU co-operation in the field of justice and home affairs. We have an association agreement with Europol, and are in the process of concluding agreements with Eurojust and in relation to the European Arrest Warrant. However, an even closer and broader dialogue with the EU on issues such as intelligence and terrorism would increase the effectiveness of our contribution.

The EU's new security strategy corresponds largely with Norwegian policy. The approach outlined in the strategy is a broad-based one, with an emphasis on prevention through the combined use of the EU's many resources. It aims at strengthening multilateral co-operation to combat terrorism and other security threats. It also emphasises Europe's responsibility for contributing to security and stability in neighbouring countries.

Norway shares the objectives of the new European Neighbourhood Policy. We are just as determined as the EU itself to prevent new dividing lines from arising in Europe after the enlargement and to promote democratic and economic reforms and development in the EU neighbourhood. We want to see more democracy, more respect for human rights and the rule of law, and more political, economic and institutional reforms all over Europe. We are just as affected by shortcomings in this regard as any EU State.

Through the new financial mechanisms in the enlarged EEA, Norway will contribute substantially to reducing economic and social disparities in Europe. Close to 235 million euros – of which Norway will be contributing more than 95 per cent - will flow annually from the EEA EFTA countries mainly to the new Member States. This is a tenfold increase in our present contribution. In relation to its population, Norway will be one of the countries in Europe that provide most support to the new Member States.

As a supporter of the objectives of the European Neighbourhood Policy, we want to assist in its implementation. Hence, we are prepared to discuss with the new Member States and the European Commission whether the new EEA Financial Mechanism can supplement the Neighbourhood programmes, especially in cross-border co-operation. I also believe we have some valuable experience to share in this connection, in particular from the Barents Euro-Arctic co-operation with Russia.

When the Soviet Union collapsed, there was concern that this could mean increased political and military insecurity in the north, and even the breakdown of the Russian social security system and an influx of illegal immigrants to Norway and other neighbouring countries. On the other hand, the disappearance of the Soviet Union also meant new opportunities for trade and investment, cultural contact and cross-border co-operation. The Barents Euro-Arctic co-operation between the five Nordic countries, Russia and the European Commission became the main vehicle for tackling the challenges and opportunities offered by Russia's new situation in a multilateral context.

The Barents Council, which involves co-operation at central government level, and the Barents Regional Council, which involves co-operation at county level, have now been in existence for 11 years. A stabilising network of contacts and co-operation has been established, offering Russia a platform for a new type of co-operation with its neighbours. After an initial trial and error period, a relatively well functioning policy dialogue and co-operation on concrete matters have developed.

In the economic field, co-operation has fallen short of original expectations in important areas such as energy, forestry, mining and transport. But the improvements in the Russian economy, legal system and tax regime will eventually generate more progress in these and other fields.

The strength of the Barents co-operation lies in the direct interaction between regional authorities, 13 of them in Norway, Sweden, Finland and Russia, and the co-ordination between central government policies and regional policies. There is an important additional layer of people-to-people co-operation, involving non-governmental organisations, individuals and associations of various kinds that have found common ground for contact and co-operation. Some of this people-to-people co-operation still needs support from public funds. However, we believe that this is a worthwhile investment, especially as regards the co-operation involving Russian youth, young entrepreneurs and other Russian citizens who are not part of an entrenched and obsolete power system.

Let me give a few practical examples of co-operation in the Barents region:

A joint cultural co-operation programme has been developed by the regional authorities in the four countries, with the aim of promoting the cultural qualities and identity of the region. A regional programme on youth issues has also been established with a view to getting young people to stay in the region, offering them interesting education and employment opportunities, etc.

Common environmental action programmes have been developed, for instance to attack the problem of water quality, promote cleaner production and eliminate environmental "hot spots". Local "Agenda 21" objectives have been formulated in a cross-border context.

The Russian part of the Barents region, in particular the Kola Peninsula, has the world's largest concentration of nuclear installations. These represent a threat to the vulnerable environment of the High North. There is also a real danger that nuclear material from these installations fall into the hands of terrorists.

Norway has worked closely with Russia in the field of nuclear safety since 1995. We have made good progress together, but the magnitude of the problem requires broad international involvement for years to come. I am encouraged by recent initiatives taken by the G8, within the European Union and by individual countries in this field. This gives hope that the problems may be overcome during the next 10 years. Norway remains committed to a strong role in this joint international effort.

Interregional co-operation on emergency and rescue services co-operation is being developed. In many border regions the closest ambulance or fire truck may be across the border in a neighbouring country. We are developing a legal framework and procedures that will make it possible to make better use of national and local resources in a regional context.

Successful co-operation has been established between prison authorities on health, human rights issues and general improvements in prison conditions. Concrete, practical co-operation has also been established between law enforcement agencies, for example on trafficking. Education and research are also among the priorities, including the promotion of mutual recognition of diplomas in a regional context and other measures to increase student and teacher mobility in order to meet the objectives of the Bologna Process.

Most striking is perhaps the new principle of joint central-regional chairmanships of the working groups of the Barents co-operation. We already have one in the area of health co-operation where Finland and the Russian republic of Karelia jointly chair the working group. The main areas of co-operation include measures to combat the spread of tuberculosis, HIV/AIDS and lifestyle-related diseases. We believe that this joint chairmanship is the first example of such integrated co-operation with Russia. This is a way of fusing together the transnational and interregional aspects of co-operation.

The Barents co-operation is a partner in the Northern Dimension policies as well. Unfortunately, the Russians have been less than enthusiastic about some aspects of the new Northern Dimension Action Plan, including what they consider to be inadequate funding. This shows that it will always be important to develop the best possible dialogue when presenting new policy initiatives and to involve the partners step-by-step in the process.

The Barents co-operation has contributed to stability and political and economic progress in the region. Norway has gained considerable experience from regional cross-border co-operation in the North and, in my opinion, we have achieved a great deal. I therefore believe our experience and the Barents model of transnational and interregional co-operation in general could be useful in the further development of the European Neighbourhood Policy.

Thank you for your attention.

APPENDIX

Facts and Figures on EFTA and Enlargement

Gross Domestic Product (GDP) in the 10 new EU Member States

Figure 1

	GDP at market prices 2003 (million euros)	GDP per capita 2003	GDP per capita in PPS 2003 EU 25=100
Cyprus	11 324.1	17 650	83
Czech Republic	75 680.6	14 320	69
Estonia	8 042.1	10 010	46
Hungary	73 235.4	12 330	61
Latvia	9 868.1	8 810	39
Lithuania	16 142.9	9 190	46
Malta	4 267.3	15 880	73
Poland	185 175.5	9 630	46
Slovakia	28 822.4	10 900	51
Slovenia	24 488.0	16 050	77
EU (15 countries)	9 301 825.9	23 110	109.6
EU (25 countries)	9 738 872.2	20 970	100

GDP in the EFTA States

Figure 2

	GDP at market prices 2003 (million euros)	GDP per capita 2003	GDP per capita in PPS 2003 EU 25=100
Iceland	9 252.1	25 180	116
Liechtenstein	n.a.	n.a.	n.a.
Norway	195 380.5	31 510	149
Switzerland	282 974.8	27 020	129

EU Population: 2003

Figure 3

New EU Member States	(in 1 000)
Cyprus	715.1
Czech Republic	10 203.3
Estonia	1 356.0
Hungary	10 142.4
Latvia	2 331.5
Lithuania	3 462.6
Malta	397.3
Poland	38 218.5
Slovakia	5 379.2
Slovenia	1 995.0
Total	74 200.9
EU 15	380 359.0
EU 25	454 552.3

Source: Eurostat (1.1.2003)

EFTA Population: 2003

Figure 4

EFTA States	(in 1 000)
Iceland	288.5
Liechtenstein	33.9
Norway	4 552.3
Total EEA EFTA States	4 874.7
Switzerland	7 317.9
Total EFTA States	12 192.5

Source: Eurostat (1.1.2003)

Economic Growth in the new EU Member States

Figure 5

New EU Member States	2001	2002	2003
Cyprus	4	2	2
Czech Republic	3.1	2	2.9
Estonia	6.4	7.2	5.1
Hungary	3.8	3.5	2.9
Latvia	8	6.4	7.5
Lithuania	6.4	6.8	9
Malta	-1.2	1.7	0.4
Poland	1	1.4	3.8
Slovakia	3.8	4.4	4.2
Slovenia	2.7	3.4	2.3
EU (15 countries)	1.7	1	0.8
EU (25 countries)	1.7	1.1	0.9

Source: Eurostat

Economic Growth in the EFTA States

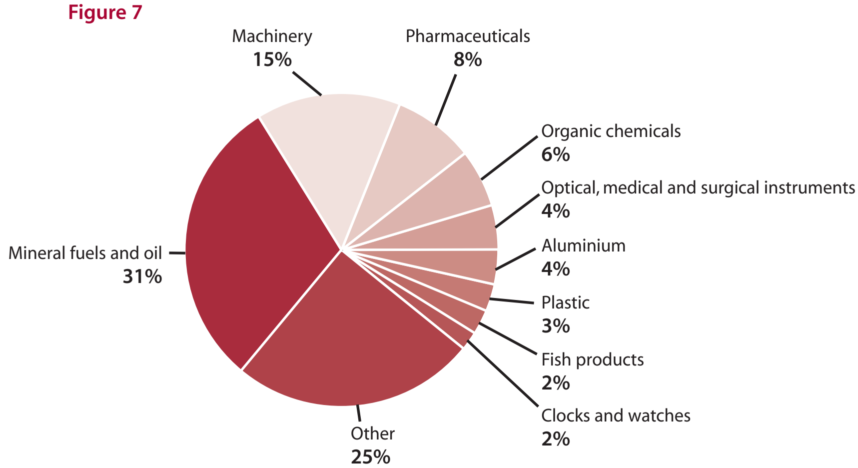
Figure 6

EFTA States	2001	2002	2003
Iceland	2.7	-0.5	4
Liechtenstein	n.a.	n.a.	n.a.
Norway	2.7	1.4	0.4
Switzerland	1	-0.5	-2.2

Source: Eurostat

Composition of EFTA exports to the EU 25 in 2003 (main commodities)

Figure 7

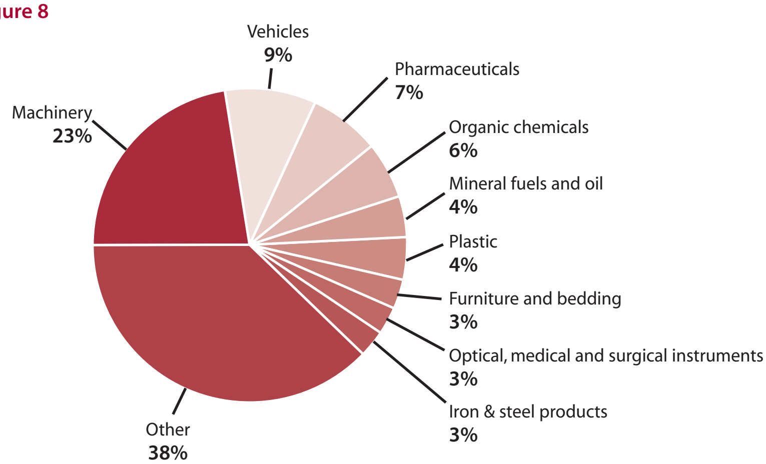


(in % of total exports to the EU 25 (103.9 billion Euro))

Source: World Trade Atlas

Composition of EFTA imports from the EU 25 in 2003 (main commodities)

Figure 8

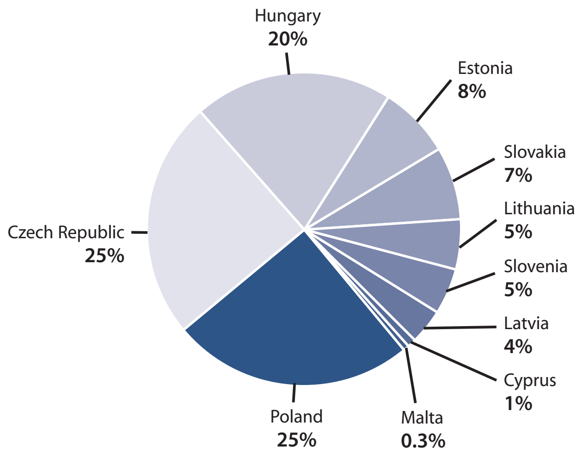


(in % of total imports from the EU 25 (95.9 billion Euro))

Source: World Trade Atlas

EFTA imports from the 10 new EU States in 2003

Figure 9

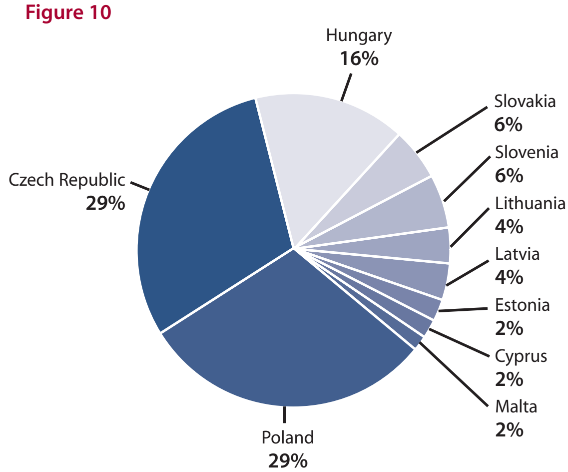


(in % of total imports from the 10 new EU Members (3.3 billion Euro))

Source: World Trade Atlas

EFTA exports to the 10 new EU States in 2003

Figure 10



(in % of total exports to the 10 new EU Members (3.8 billion Euro))

Source: World Trade Atlas

FINANCIAL MECHANISM:

National Focal Points

	Capital – Beneficiary State	Focal Point
1	Athens Greece	**Ministry of Economy and Finance** Constitution Square, GR – 10180 Athens Ministry of the Economy and Finance Secretary-General for Investments and Development Mr Konstantinos Moussouroulis Head of Unit A: Horizontal and Special Issues Mr Konstantinos Koukolias
2	Bratislava Slovakia	**Office of the Government of the Slovak Republic** Section for European Affairs Nám. Slobody 1 - 813 70 Bratislava Mr Ladislav Setnicky Director-General tel: +421 2 5729 5501 fax: +421 2 5443 4730
3	Budapest Hungary	**National Development Office** 1133 Budapest, polzsonyi ut 56, tel: +36 12374400 http://www.nfh.hu
4	Lisbon Portugal	**Ministry of Housing** Secretary of State for Housing: Dr Luís Castro Henriques e-mail: luisch@mopth.gov.pt adr: Palácio de Penafiel Rua S. Mamede ao Caldas, 21 1149-050 Lisboa tel: +351 21 881 5100 Instituto Nacional da Habitação: Dr Pedro do Ó Ramos e-mail: poramos@inh.pt Direcção Geral do Desenvolvimento Regional: Dr Fernando José Coelho Moniz e-mail: fernando.moniz@dgdr.pt adr: Rua S. Julião, 63 1149-030 Lisboa tel: +351 21 881 4090

	Capital – Beneficiary State	Focal Point
5	Ljubljana Slovenia	**Government Office for European Affairs** Šubičeva 11 SI-1000 Ljubljana Dr Rado Genorio Deputy Director tel: +386 1 478 24 05 fax: +386 1 478 23 10 e-mail: rado.genorio@gov.si
6	Madrid Spain	**Ministerio de Economía y Hacienda** P°. De Castellana, 162 28046 Madrid Mr José Antonio Zamora Rodriquez Director-General tel: +91 583 51 42 fax: +91 583 00 38
7	Nikosia Cyprus	**Planning Bureau*** Corner of Apellis and Pavlos Nirvanas Str. 1409 Nicosia Mr Georges Georghiou Senior Planning Officer tel: +357 22 406 872 fax: +357 22 666 810 e-mail: george.georghiou@planning.gov.cv * administratively under the Director of the Ministry of Finance

	Capital – Beneficiary State	Focal Point
8	Prague Czech Republic	**Ministry of Finance of the Czech Republic** Centre for Foreign Assistance Letenská 15 118 10 Praha 1 Ms Jana Hendrichová Director tel: +420 2 5704 4559 fax +420 2 57 04 4550, e-mail: jana.hendrichova@mfcr.cz Ms Jitka Cenková Responsible for Financial Mechanism Programmes tel: +420 2 5704 4591 fax: +420 2 5704 4550 e-mail: jitka.cenkova@mfcr.cz Contact at the Permanent Representation, Brussels Mr Petr Jeník, Second Secretary tel: +32 (0)2 213 01 72 fax: +32 (0)2 513 71 54 e-mail: petr_jenik@mzv.cz
9	Riga Latvia	**Ministry of Finance** Deputy State Secretary Mr Gints Freimanis tel: +371 7 095585 e-mail: gints.freimanis@fm.gov.lv Other contacts: Mr Andris Kuznieks, Director of Deparment of the EU Funds tel: +371 7 095695 e-mail: andris.kuznieks@fm.gov.lv Mr Krisjanis Veitners, Deputy Director/Head of Programming Unit, Department of the EU Funds tel: +371 095536 e-mail: krisjanis.veitneris@fm.gov.lv
10	Tallinn Estonia	**State Chancellery of the Republic of Estonia** European Union Secretariat Web: http://www.eib.ee/pages.php/02 Head of the Secretariat Mr Gert Antsu tel: 693 5201 e-mail: gert.antsu@riigikantselei.ee Deputy Head of the Secretariat (General and External Affairs) Ms Mailis Pukonen tel: +372 693 5225 e-mail: mailis.pukonen@riigikantselei.ee Office address: Tõnismägi 2, 10122 Tallinn ESTONIA Postal address: Rahukohtu 3, 15161 Tallinn ESTONIA tel: (+372) 693 5200, (+372) 693 5201 fax: (+372) 693 5202

	Capital – Beneficiary State	Focal Point
11	Valetta Malta	**The Planning and Priorities Co-ordination Directorate** Office of the Prime Minister Auberge de Castille Valetta CMR 02 Dr Daniela Gauci Programme Manager tel: +356 22 99 68 80 fax: +356 21 25 50 28
12	Vilnius Lithuania	**Ministry of Finance** J. Tumo-Vaiźganto 8ˆ/2 01512 Vilnius Mr Rolandas Kriščiūnas Director of EU Management Department tel: +370 5 2390 242 e-mail: r.krisciunas@finmin.lt Mr Vaidotas Navikas Head of EU Assistance Co-ordination Division EU Programme Management Department tel: +370 5 2390 283 fax: +370 5 2791481 e-mail: v.navikas@finmin.lt
13	Warsaw Poland	**Ministry of Economy and Labour** Department of Structural Policy Coordination Plac Trzech Krzyzy 3/5 00-507 Warsaw State Secretary Krystyna Gurbiel Piotr Zuber acting Director tel: +48 22 661 91 48 e-mail: piozub@mg.gov.pl Anna Gmyrek acting Deputy Director tel: +48 22 661 91 19 e-mail: anna.gmyrek@mg.gov.pl