

Commission opinion on Norway's application for membership (1993)

Caption: In 1993, the European Commission delivers a favourable opinion on the application made by Norway for accession to the European Union and analyses the state of the Norwegian economy in terms of the challenge posed by enlargement.

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General

Relations between the Community and Norway

1. Norway is geographically and historically a European country. Since World War II, Norway has played an active role, politically and economically, both within Europe and on the wider international level. In 1948 she became a member of GATT; was one of the founding members of NATO in 1949; became a member of the Council of Europe in 1950; was one of the founding members of EFTA in 1960.

2. Norway has made two previous requests to join the European Communities (1962 and 1967), together with the United Kingdom, Ireland and the Kingdom of Denmark on which the Commission expressed its opinion in 1967 and 1969.⁽¹⁾ This led to the opening of enlargement negotiations with those four countries in 1970. These were successfully concluded in 1972⁽²⁾. However, in the referendum held in Norway on their results, the outcome was a majority (53.6%) against accession. Consequently Norway did not ratify the Treaty of Accession.

3. Thereafter, the Norwegian Government negotiated Free Trade Agreements (FTAs) with the European Community (together with the remaining member States of EFTA). These FTAs, signed in 1973,⁽³⁾ provided for the progressive abolition, in respect of trade between the parties in industrial goods, of customs duties, quantitative restrictions and all measures of equivalent effect. The FTAs include provisions for rules on State aid and industrial competition, and a number of mutual concessions in the agriculture and fisheries fields. Also a bilateral joint Committee was set up to administer the Agreements.

4. In April 1984, the Ministers of the Community and of the EFTA countries met in Luxembourg and adopted a declaration laying down the guidelines for the continuation, deepening and extension of cooperation, within the framework of, and beyond, the FTAs, with the objective of progressively establishing a dynamic European Economic Area. This declaration was subsequently reinforced by the speech of President Delors to the European Parliament in January 1989, where he invited the EFTA States to reflect on the possibility of a more structured partnership.

The Norwegian Prime Minister Mrs Brundtland played a key role in the positive response given to this initiative by the EFTA Heads of Government during their meeting in March 1989 in Oslo, held under the Norwegian Presidency.

Negotiations culminated in the signature in Oporto, on 2 May 1992, of the Agreement establishing the European Economic Area (EEA).

5. Norway has thus already established a high level of integration with the Community and a significant part of the *acquis communautaire* will be applied on the entry into force of the EEA, covering the four freedoms (free circulation of goods, services, capital and persons), as well as such areas as social policy, environment, company law, consumer protection and competition law.

6. Moves for a further attempt to join the Community had already begun in 1987 with the publication of a government White Paper favouring closer contacts with the Community. The negotiations for the EEA Agreement led to further consideration of Norway's long-term interests, leading the government to the opinion that neither the FTAs nor the EEA would adequately safeguard Norwegian interests in the longer term. The realization that other EFTA countries had applied or were preparing applications for membership plus the impact of the dramatic changes in the European geopolitical landscape led to the renewed Norwegian decision in November 1992 to apply for full membership of the Community.

7. In her speech to the Norwegian Parliament (Storting) on 16 November 1992, Prime Minister Brundtland emphasized that the European Community had developed into the most important organization for cooperation in Europe. She said that '[Norway] is applying for membership of a Community that has

developed its own rules and traditions. We wish to join the other countries in developing them further.

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

She also emphasized the importance of the EC's common foreign and security policy.

The Norwegian economy and the Community

1. The Norwegian economy is one of the most prosperous in Europe. Owing to a comfortable resource situation, notably in energy, Norway has benefited from one of the highest standards of living in Europe, with a GDP per capita over or close to the highest in the Community during the last 20 years. The strong economic performance has also allowed Norway to invest in good infrastructure as well as in a highly skilled labour force. Moreover, the exploration of oil off the Norwegian coast from 1971 onwards, has contributed to developing and maintaining a high level of technology.

As a member of EFTA, Norway has long participated in European cooperation and trade. Norway has for a long time been among the 10 most important trading partners of the Community. In 1991, Norway was the seventh biggest supplier and the eighth biggest market for Community exports. Norway supplies approximately 3.5% of Community imports and is the destination of more than 2% of Community exports. The Community's imports from Norway consist, to a very large extent, of primary products (more than 70%), while Community exports to Norway are dominated by manufactured products. The Community is by far the main trading partner for Norway. In 1991, it accounted for almost 50% of Norwegian imports and 66% of its exports. Among the Community Member States, the UK and Germany are the most important suppliers of the Norwegian market and the most important destinations of Norwegian exports. The Community and EFTA, taken together, account for nearly 70% of Norwegian imports and 81% of its exports.

As of 1 July 1990, Norway changed her regime of capital movements to an essentially free one. According to the EEA Agreement, the remaining barriers, notably in the field of direct investments and real estate investment, will have to be abolished by 1 January 1995. In the monetary field, Norway demonstrated its strong interest to closer cooperation with the Community, when, in October 1990, as the first country outside the Community, she unilaterally pegged the Norwegian krone to the ecu. The ecu link included bilateral swap agreements with the Community's central banks, and lasted until 10 December 1992 when the Norwegian authorities were forced to let the krone float in the aftermath of the turmoil on international exchange markets.

2. The present economic situation in Norway seems to follow a relatively favorable development compared to most Member States of the Community. After a severe recession with negative output in the mainland⁽⁴⁾ economy in 1988 and 1989, economic growth has recovered. In 1992, overall GDP grew by 2.6% whereas the mainland economy grew at a rate of 1.0%. Inflation is currently running below 2.5% and the current account shows a surplus of around 2.3% of GDP.

Despite this economic improvement, some signs of structural weaknesses in the Norwegian economy give reason for concern:

- From 1987 to 1992 unemployment rose from 2.1% to 5.9%, in addition to 2.6% of the labour force benefiting from labour market measures.
- Expansionary policies have contributed to a deterioration in public finances. During the last four years, increased labour market measures, public investments and transfers to local governments have provided a total demand stimulus equal to 7% of mainland GDP. During the same period, public balance shifted from a

surplus of 1.4% of GDP to a deficit of 3.2% of GDP in 1992.

- The total consequences of the financial crisis which emerged in the aftermath of the deregulations of the credit markets and the subsequent explosion of credits are still uncertain. Although the financial position of households and firms has improved recently, additional credit losses in the ailing banking sector are not excluded.
- Investments in the mainland economy declined by 35% from 1986 to 1992. Although to some extent explained by the recession and the overexpansion during the 1980s, the sharp decline continues to give reason for concern.

3. Structurally, the Norwegian economy is characterized by great reliance on natural resources and energy production⁽⁵⁾. This is reflected both in the size and the importance of the petroleum sector and the fact that a large share of the manufacturing industry is energy-intensive.

The heavy reliance on energy-intensive industries is explained by the abundance of relatively cheap hydroelectric power given Norway's many waterfalls. Norway's production of oil and gas equals about half of total Community production.

After the discovery and subsequent exploitation of oil resources in the 1970s, the importance of the petroleum sector has gradually increased, although varying depending on the price of oil. In 1991 it contributed to 16% of GDP, 32% of exports and to 11% of total public revenue. At present, its relative importance in terms of contribution to GDP is above that of manufacturing industry.

Several sectors are benefiting from the expansion in the petroleum sector, the most important being the construction of oil rigs, shipping and a number of service industries.

Developments in other industries in the last two decades reflect the increasing importance of, and revenues from, the petroleum sector. Contrary to most Member States of the Community, manufactured output has remained at its mid-1970s level. Employment in manufacturing has, however, declined, its share of total employment being reduced from 24% in 1974 to 16% in 1991. Resources were shifted to the sheltered sectors: since the mid-1970s only public services and the private service sector have incurred any growth in employment.

About 25% of value-added in manufacturing is provided by energy-intensive production, such as metals, chemicals, pulp and paper. Historically, these industries have benefited from low electricity prices. Electricity prices to Norwegian industries equal 25 to 50% of average Community prices: varying according to use. Exports of electricity, other than surplus electricity, are presently limited to 3% of national production. Both the ongoing deregulation of the domestic electricity market and the removal of the export limitations may increase prices for energy-intensive uses, thus necessitating improved cost and productivity performance.

The specialization of the Norwegian economy is also reflected in the composition of exports and imports and explains the relatively low intra-industry trade with Community Member States. Norway imports a wide range of industrial products, in particular consumer and investment goods. As for exports, more than half of Norwegian exports are dependent upon developments in a handful of relatively unstable world market prices, notably the oil price.

4. The structure of the Norwegian economy does, to some extent, reflect the adaptation to comparative advantages. Petroleum revenues have, however, been used to maintain production and income in declining industries, most notably in agriculture and shipbuilding. Furthermore, real wages have been pushed upwards as high public spending and rapid expansion of public employment have helped to slow the growth of

unemployment. This wage development has helped to inhibit the expansion of the private sector. In addition, productivity in manufacturing has grown at a slower rate than in competitor countries.

The present structure of the Norwegian economy leaves the external balance, public finances and total economy very vulnerable to large swings in the oil price and the world market price of a handful of staple goods. Furthermore, the economy risks being exposed to declining terms of trade in the longer run. These structural imbalances show the limitations of a development which relies too heavily on the economic rents from natural resources. In the medium term, a revitalization of the mainland economy seems necessary to stabilize and preserve the high level of welfare in Norway.

5. In this context, structural policies are essential in order to reduce oil dependency and to create a competitive environment to stimulate growth and employment. While some institutional changes have been undertaken during the last decade, notably deregulation of financial and energy markets and changes in the tax system, considerable room for improvement remains in the areas of competition and subsidization.

When the EEA Agreement is implemented, domestic competition is expected to increase. EEA competition regulations may reduce market distortions, particularly in sectors such as transport, construction and trade. In order to comply with EEA rules the government is also currently preparing new national legislation on competition and will replace the Price Act of 1953 with a new Competition Law. Determined implementation of this law may help to improve efficiency and enhance competition.

However, the level of subsidies which has tended to protect ailing parts of the mainland economy, in both manufacturing and agriculture, is still relatively high compared with other industrialized countries. Direct subsidies including interest subsidies to households and direct support to agriculture amount to about 6% of GDP, which is about four times the OECD average, while subsidies to industries alone equal 3% of GDP.

Norwegian agriculture receives one of the highest amounts of support among OECD countries. Agriculture and related activities like food-processing and food-trade are also effectively sheltered from foreign competition through tariffs and quotas. While this reflects the strong regional policy tradition and the importance of agriculture in remote regions, reduced transfers and enhanced efficiency may prove necessary in the long run.

Furthermore, as the public sector employs about 25% of total employment, public sector efficiency is of major importance. Independent studies have shown that considerable efficiency gains may be realized in the public sector, among others in education, transport and regional policy. Such gains may be used to reduce the overall tax burden or to increase the supply of other public services.

Another important structural issue of major concern is the severe crisis in the financial sector. Following the deregulation of the credit markets in the 1980s, inflationary expectations, lax monetary policies and income tax systems that greatly favoured borrowing contributed to a substantial expansion of credits.

Due to an overoptimistic risk assessment and exceptionally fast credit expansion, extensive credit losses occurred once the economy began to decline.

In order to restore confidence in the financial system, the Norwegian Government has intervened with substantial rescue measures; between 1991 and 1992 the banks received around NKR 20 000 million, equivalent to 3% of GDP in public funds. By these measures, the Norwegian State became the far most important bank owner in the three major commercial banks.

A more efficient use of the resources in the financial sector is also particularly important in order to adjust to the likely increase in foreign competition implied by the EEA Agreement. At present, the conditions of sound competition in the banking industry risk being offset by the government measures as neither foreign banks, nor the domestic smaller healthier banks, so far are able to compete on the same terms as the commercial banks supported by the government.

6. Decisions on public expenditure and revenues are highly centralized. Although 70% of the public sector activity is undertaken by local government, the majority of its activities are regulated by law or by tied transfers from the State. Unlike in Finland and Sweden local government has no freedom to set local taxes. The Parliament decides the income of local government by deciding the level of taxes and transfers.

Individual rights to social security are obtained through annual premiums, where accumulated premiums determine the size of age pensions etc. However, the system as such is a 'pay as you go' system and is thus not self-financed. It is currently running large deficits, financed through the fiscal budget. The Parliament sets the level of individual benefits. Overall, benefits have improved during the last two decades.

A major tax reform was implemented in 1992, broadening the tax base and reducing marginal tax rates. As the new system implies less variation in effective taxation of returns on various kinds of investment, distorting effects of taxation are reduced. However, the marginal tax on wages, including employers' and employees' social security contributions remains high. It differs from 44.5% on low wages to 63.8% on high wages. In northern Norway the marginal tax is 16.3% lower.

Public expenditure increased from 48% of GDP in 1981, to 59% of GDP in 1992, which is about 10% above the Community average. Most of the increase is due to a rise in public consumption and transfers to households. In particular, social security benefits, such as unemployment benefits, rehabilitation benefits and disablement pensions, have grown rapidly over the last years. Public sector employment rose by 2% per year from 1988 to 1992.

During the 1980s, the general government balance showed considerable surpluses, but deteriorated gradually from 1989 on, as fiscal policy turned expansionary to counter the recent recession. In 1992, tax reliefs of nearly 1% of GDP were included in the reform. By 1992, public sector deficit and public debt equalled, respectively, 3.2 and 43.5% of GDP.

Baseline medium-term projections recently undertaken by Norwegian authorities show that public sector finances may deteriorate further in the next five years. The overall tax burden is already among the highest in Europe. In addition, one tenth of public revenue depends on the fairly volatile world market price of oil.

Clearly, the scope for further expansionary policies is certainly limited, and altogether actions to strengthen the financial position may prove fruitful.

During the last five years, the main policy response to the surge in unemployment has been to increase public spending in order to prevent domestic demand from declining as well as to increase employment in the public sector. However, as public deficits have grown, it has become more and more obvious that there are certain limits as to how much further the present strategy can be pursued. Hence, a reorientation of fiscal policies towards a revitalization of the private sector in the mainland economy, e.g. by lowering indirect wage costs and reducing public expenditure, could provide a good foundation for employment growth in the longer run.

7. The objective of the Norwegian monetary policy is to create a foundation for sustained growth through low price and wage inflation. From 1986 to late 1992, exchange-rate stability was the operational target for this policy, which proved successful. Inflation fell from an average of 9.5% in 1980-86 to 4.2% in 1989, and is presently running at 2.3%.

The ecu link in October 1990 continued the aims of the fixed exchange-rate policy with regards to lower inflation, but with a stronger European orientation.

Until August 1992 the Norwegian krone remained very stable towards major currencies. However, in the aftermath of the turmoil on international exchange markets and the subsequent flotation of the Swedish and Finnish currencies, the Norwegian authorities decided to let the krone float on 10 December 1992. This decision was linked to the fragile state of the banking sector and the high debt of the private sector and their capacity to face the very high nominal and real interest rates which have been required for some time. Since

the floating began and until present, the krone has depreciated around 3% against the ecu.

Nevertheless, the reasons for returning to a fixed exchange-rate system remain strong. Given the relatively high imports of consumer goods, domestic consumer prices tend to immediately reflect exchange-rate movements with subsequent adjustments in nominal wages, also reducing real wage flexibility. On the other hand, the structure of exports, concentrated on a few goods where world market prices are highly volatile, complicate the conduct of such a policy, as it implies a higher volatility in terms of trade than in the EC countries. This reinforces the need for greater flexibility in other fields of economic policies and for diversification and reduced dependency on oil.

8. In summary, the accession to the Community of Norway, one of the most prosperous countries in Europe and relative to its population the richest on natural resources, will not create insurmountable problems from an economic point of view. Currently, inflation is lower and the financial position of the public sector is performing better than in most EC countries. In recent years monetary and exchange-rate policies were successful in achieving inflation performances well in line with future EMU requirements. These performances will have to be confirmed following the decisions of the authorities to abandon temporarily the link to the ecu. However, structural weaknesses in the mainland economy give reasons for concern as the macroeconomic equilibrium is now highly dependent on oil resources and therefore oil prices. To some extent, the reduced importance of traditional activities relative to the oil sector reflect expected market mechanisms. But economic policy, in particular insufficient, competition and strong expansion of public expenditure and employment, has also contributed to this development. In order to provide a solid foundation for the economy and employment and to preserve the high standard of living of the Norwegian population in the longer run, measures oriented towards the revitalization of the mainland economy have appeared more and more necessary. The Norwegian authorities have already undertaken steps in this direction, by a comprehensive tax reform and the deregulation of important markets. The implementation of the EEA would be another important step to enhance competition. Fiscal policy could also contribute to this goal. As in other Nordic countries, high public expenditure and fiscal pressures reflect a marked preference of the Norwegian population for social equity and consumption of public goods. The effective costs of the consequent policy in financial terms and in terms of crowding out private initiatives have been partly hidden and partly attenuated by the existence of the oil revenues. The revitalization of the economy necessitates that these costs should be better taken into account. Measures in this direction would also greatly enhance the framework in which monetary cooperation can be re-established with the Community in due time.

Impact of accession

Agriculture and forestry

1. The total agricultural area of Norway is approximately 1 million ha or 3% of the total area. Productive forests cover 7 million ha. The remaining 75% consists of mountains, glaciers, lakes and built-up areas. The share of the total active population employed in agriculture is 5.4% (103 000 persons working on 96 000 farms), which is about the same as the Community average. However, agriculture only accounted for 1.8% of GDP in 1990 (EC: 3%).

2. Geographical location and climatic conditions play a significant part in determining basic agricultural patterns. A large part of Norway has Arctic and sub-Arctic characteristics. Agricultural production is limited by the length of the growing season, which is about 190 days in the southern parts and only 100 days in the northern parts of the country and in mountainous regions in southern Norway. Climatic conditions have a strong influence on yields and increase the risks associated with crop production.

Only 5% of the agricultural area is used for wheat production. The most important crops are grass forage (55%) and feed grains (30%).

3. Norwegian farm structure is characterized by a large number of small farms. The average area of arable land per farm is considerably below the Community average (10 ha compared with 16.6 ha for the EC). 87% of the farms have less than 20 ha arable land. Mountains, fjords, lakes and forests divide the farmland into

scattered, relatively small plots, some of which are very hilly. This limits the potential for structural rationalization. It also results in high costs in agricultural production.

The farm structure is also a result of strong historical and cultural traditions associated with farm ownership in Norway. The farmland cannot be purchased without a special concession. The purchaser must be assessed as suitable and must agree to live and work on the property for at least five years after taking it over.

4. For meat and dairy products Norway is nearly self-sufficient. However, Norway produces no sugar, oilseeds, wine or protein feeds. Wheat production is not possible in most parts of the country. A considerable proportion of the wheat, fruit and vegetables consumed in Norway is imported.

The overall level of self-sufficiency as regards agricultural products, calculated on an energy basis, is about 50%, which is the lowest in Europe.

5. The policy instruments used by Norway are in some respects similar to those used by the Community, although there are also major differences. In Norway, the agricultural marketing cooperatives are responsible for regulating the market, and the farmers themselves incur the costs for surplus production in the form of marketing fees. Border controls are largely based on quantitative restrictions. Both internal producer prices and the level of direct support in Norway considerably exceed corresponding prices and support levels in the Community. The Community would have to verify, in the course of negotiations, compatibility between the support Norway gives and the Community's relevant policies and legislation, including State aid policy. However, the Community shares Norway's objective of maintaining agricultural activities in marginal areas.

The level of support in Norwegian agriculture, as measured by producer subsidy equivalents (PSEs), is relatively high. In 1990, PSE percentages in Norway were higher than in the EC for all major products. The average PSE in Norway was 77%, as compared with 49% in the Community.

6. Current producer prices in Norway are up to twice those in the EC. The costs of input factors are also considerably higher in Norway than in the Community.

The reduction in grain prices would result in a shift in livestock production from rural areas to central areas which are dominated by grain production today.

Norwegian food processing enterprises are small in international terms. A considerable proportion of the industry is located outside towns and urban areas and is based on agricultural production in areas with natural handicaps. Furthermore, the structure of primary production, together with natural conditions, results in high transport, processing and sales costs.

7. Given the small volume of Norwegian production compared to that of the Community, no general effects on Community markets are to be expected. The market for EC producers of sugar, oilseeds, protein feed, wheat, fruit and vegetables would be enlarged through Norwegian accession.

8. For both the Community and Norway, the broad objectives of rural development policy have been to sustain agriculture, to create new activities and to avoid depopulation. In many areas of Norway, agriculture is the main economic activity and thus a key factor in providing employment and encouraging settlement in those areas. Two thirds of agricultural output, mainly livestock production, takes place in areas where there are few alternative means of livelihood. The Norwegian policy of promoting grain production in central parts of the country and the best agricultural areas and livestock production in less favoured areas has been an important instrument of regional policy.

In Norway, structural measures have been closely linked to rural measures. Part of the aim of the economic measures has been to promote redistribution of income between larger and smaller units and between areas of production and regions. Many of the measures introduced therefore have a structural profile, i.e. payments/support to small farms is relatively higher than payments/support to larger farms.

Some of the Norwegian aids can be covered partly by existing schemes under Regulation No 2328/91 on investments, installation aids to young farmers, replacement on the farm and compensatory allowances for less favoured areas.

Non-farming measures could be included into rural development programmes under Objective 5b, for those of Norway's zones that would meet the Community eligibility criteria as they will be proposed in the regulations applicable for the 1994-99 period. Low density of population will need to be taken into account (13 inhabitants per km²) especially for the northern regions.

Community financing does not cover direct income aids to production of the type found in Norway, nor selective support to agricultural transportation, nor regional aids like those existing in northern Norway for production of some produce like potatoes, vegetables and berries.

There is no equivalent in Norway to EC schemes for early retirement and processing and marketing, although some support is given through the cooperatives for marketing agricultural products and improving the quality of production.

As in the Community, Norway has in recent years attached increasing importance to the development of new activities in rural areas. For both, the aim of rural policies has been to create economic alternatives. Many of these measures are similar to those approved in the Community. Disadvantages resulting from Arctic and sub-Arctic conditions, demographic features and high transport costs represent new dimensions which are not covered by present Community legislation.

9. Environmental considerations are an important part of Norwegian agricultural policies. Measures have been implemented to prevent erosion in vulnerable areas and to reduce pollution from such sources as silage, manure and fertilizers. There is also a programme designed to reduce the impact of pesticide use in agriculture. Great importance is also attached to preservation of the cultural landscape and heritage.

Norway has very favourable plant health and veterinary status. Climatic and geographical factors, surveillance and eradication programmes are the most important reasons for this.

10. The varied topography of Norway and the great length of the country in a north-south direction result in wide variations in growing conditions for forests and operating conditions for forestry in Norway. Norway's major coniferous forest areas and the best operating conditions are found in the south-east and in central Norway. Elsewhere in the country birch is the dominant species, with more scattered patches of coniferous forest, and operations are more costly.

11. During this century, particularly after World War II, systematic afforestation has been carried out, especially in coastal areas. Of the total area of Norway, 23% (7 million ha) is classified as productive forest. There are 126 000 forest properties in Norway with at least 2.5 ha of productive forest. Most forest holdings are in individual private ownership, and the average size of all forest holdings is 56 ha.

12. In Norway, reindeer herding is legally recognized and protected as the exclusive right of the Sami people. The industry is small (2 800 persons, 1.2% of national meat consumption) and based on extensive land use. All the reindeer meat is consumed in Norway, and there is no history of export or import.

Fisheries

1. Fisheries have a traditional importance in the Norwegian economy. Despite the fact that this sector has been declining over the last few years, fisheries and aquaculture exports have a positive impact in the Norwegian trade balance, representing 6% of total exports. Since the creation in 1977 of an exclusive economic zone of 200 miles, Norway benefits from extensive fishing waters. Access is granted to fleets from parties with which Norway has concluded fisheries agreements, such as the Community, Sweden, the Faeroe Islands, Iceland, Poland and the Russian Federation.

In addition to her own resources, Norway has access, through fisheries agreements, to the waters of various third parties. At present, 14 agreements concluded by Norway are in force, of which three are with the Community. Agreements with third parties concern the Russian Federation, the Faeroe Islands, Iceland, Greenland, Finland, Sweden, Poland and Canada.

Norwegian accession will increase both the tonnage of the Community fishing fleet (by 17%) and the number of fishermen (by 10%).

Since Norwegian landings reach an annual volume of approximately 2 million tonnes, the Community will reinforce its position in this sector, coming after China and Japan.

2. Norwegian accession will decrease the Community's present structural deficit in fish (more than ECU 6 million) by about 17%.

3. Norway applies in general a very stringent policy of conservation, management and control. The question of discards, not allowed by Norway, should be examined during the negotiations. In order to ensure continuing possibilities for exploitation, the establishment of zones where fisheries activities are forbidden or limited is an instrument of management frequently used in North Norway. The use of this instrument is in conformity with the *acquis communautaire*, as far as conservation of stocks is concerned.

A number of roundfish stocks in the North Sea and in the Kattegat and Skagerrak are already managed jointly with the Community. Some of these are at present in a depleted state.

4. The Norwegian fishing fleet is characterized by a majority of small vessels (less than 12 metres). This is due to the policy of the government to maintain fishing as an economic activity in the rural and distant coastal areas, where no other activity is possible, therefore preventing exodus. It is likely that the Norwegian fleet will increase the existing overcapacity of the Community.

During accession negotiations, particular attention should be given to the specific problems of those regions which are dependent on fisheries and which are situated essentially in the north of the country.

5. In view of the importance of her fleet, of salmonidae farming, and the level of her processing industry, Norway will certainly become one of the major beneficiaries of the structural measures the Community has set up in the fisheries and aquaculture sector.

Furthermore, the necessary restructuring of the Norwegian fleet, and the numerous areas dependent on fisheries, will justify the application of socio-economic flanking measures once the fisheries sector has been fully integrated into the Structural Funds.

6. Norwegian accession would increase the volume of Community aquacultural production by more than a third. Her already significant impact, especially on the salmon market, will be reinforced by the dismantling of customs barriers.

7. Within the EEA Agreement, Norway has undertaken the obligation to align some of the legislation concerning sales organizations on the corresponding EC legislation. The respect of this obligation will have to be verified. Other areas where implementation will be necessary are the withdrawal price system and the reference price system, both not being operated in Norway. The system of price subsidies currently in operation in Norway (general price and specific price subsidies) is not in line with the common fisheries policy (CFP). Particular attention during the negotiations should also be given to transport subsidies.

8. A certain number of problematic areas can be identified in the trade and commercial fields: gradual elimination of Community duties on fisheries products; harmonization of the Norwegian tariff to the Community level *vis-à-vis* third countries; introduction, for the Norwegian sector, of such preferential schemes as GSP and Lomé; reintroducing tariffs *vis-à-vis* other EFTA countries which do not become

members of the Community at the same time as Norway; creation and role of producers' organizations; and the introduction as a whole of the Community price system. Specific attention should be given to the sensitive species such as salmon, herring and mackerel as denned in the EEA Agreement.

9. The major involvement of Norwegian professional organizations in the development, implementation and enforcement of fisheries management legislation, as well as in international fisheries negotiations, will have to be examined during the negotiations.

10. The modalities of reciprocal access to waters and to resources will be one of the most problematic areas. The *acquis communautaire* here includes regulation of access to the 12-mile coastal area, the Shetland box and the principle of relative stability. The level of the reciprocal quotas fixed in bilateral and trilateral agreements (Community/Norway/Sweden in relation to the Skagerrak/Kattegat area) should serve as a basis for the negotiations.

11. The status of the Svalbard (Spitsbergen) archipelago is regulated by the Treaty of Paris, 1920. The question whether Svalbard shall be covered by the treaties establishing the European Community must be addressed. Norway takes the view that the Treaty of Paris applies to the territorial waters only, whilst the Community maintains that it applies to the fishing protection zone as established by Norway. The implications for the CFP will depend on the solutions found to these two problems.

12. Finally, it will be necessary to find a solution to the particular problem posed by fisheries for herring directly aimed at the production offish oil and fish meal practised in Norway but prohibited in the Community.

Environment

1. Norway has already had a comprehensive environmental policy for a number of years, well adapted to the specific conditions of the country, and seeks to integrate environmental considerations into other sectoral policies with the view to achieving sustainable development. The experience Norway has in the field of environment policy and her integrated approach would benefit considerably and further enhance the deepening of Community policy in this sector.

2. By virtue of the EEA Agreement Norway will have to implement a large part of Community legislation in the environmental field, in some cases subject to transitional periods which would have to be examined in the event of accession. However, parts of the EC legislation in this sector, as well as legislation concerning nuclear safety and radiation protection, and nature protection is not covered by the EEA.

3. The underlying principles and objectives of Norway's environmental policy correspond to those applied by the EC. Norway is well advanced in using market-based instruments for environmental purposes, and her experience in the sector is of great interest to the Commission, which is working on developing a similar approach.

4. With regard to the control of pollution emissions, Norway is already making use of the integrated pollution control approach which is being developed at Community level. Given her limited number of industrial plants, Norway has chosen to apply to a large extent the licensing procedure which deals with polluting emissions largely on a case by case basis. Norway furthermore applies the principle of critical-load limits for emission of substances which are not hazardous. This concept has not yet been introduced into Community legislation. However, overall Norway should not have many problems in integrating EC emission standards and guide values, particularly in view of the fact that the individual emission permits in Norway are generally among the most stringent in Europe.

5. Norwegian policy on waste management is already well developed and based on the same principles as those of the Community.

6. Some differences in the field of radiation protection legislation will need to be addressed in more detail.

More information is needed from the Norwegian authorities in this area.

7. In the area of the protection of natural resources, the issue of whaling, in particular, will need to be addressed. On this matter Norway announced, during the 44th annual meeting of the International Whaling Commission which took place in Glasgow on 30 June 1992, the intention of the government to resume research programmes on whales as of 1 July 1992 and commercial whaling as of 1 January 1993 in Norwegian territorial waters: in the Community, it is Regulation No 348/81 and Directive 92/43/EEC which are immediately relevant. It follows that this issue will require to be given very careful consideration during the negotiations.

Energy

1. Norway's status as a major producer and exporter of oil and gas, much of it to the Community, would mean that her accession to the Community, while not changing existing trading patterns, would considerably reduce the Community's dependence on hydrocarbon imports from third countries. Norway is likely to become the leading non-OPEC oil exporter in the world as production and exports fall in the former Soviet Union. This aspect is likely to become of increasing importance in the longer term with the development of Norway's substantial offshore gas reserve, which will be in the main directed to its natural market, the Community.

2. Norway, as a major world producer of energy, takes a considerable interest in international energy developments and is active in supporting increased dialogue between consumers and producers. She has a vital interest in the long-term stability of energy supplies and in an efficient energy market in Europe. Her accession to the Community would reinforce the Community's position in external energy relations, such as the consumer/producer dialogue and the Energy Charter.

3. Under the EEA Agreement Norway will adopt most of the *acquis communautaire* in the energy sector, with the exception of directives concerning emergency response measures. As a major oil producer, Norway has a special agreement with the International Energy Agency that does not require her to build up and maintain oil stocks for use in an emergency. However, under current Community legislation for crisis management⁽⁶⁾ Norway would be required to constitute oil stocks representing 90 days consumption with, however, a reduction of 15% in view of its status as an oil producer. Norway has currently no legal basis to require oil companies to procure and stockpile oil products to meet a peacetime supply crisis. In practice, however, existing commercial stocks at the producing end would probably more than meet this requirement. In the event of membership, Norway would then need to introduce legislation to this effect. It should also be noted that since Norway does not have an onshore gas grid the Transit Directive for gas⁽⁷⁾ is currently not relevant. However, if initiatives to apply the provisions of this Directive to offshore pipelines are confirmed, then the extensive network of Norwegian natural gas pipelines in the North Sea would be covered.

4. Norway's energy system is already well-integrated into the Community's energy system. A very high proportion of her oil, practically all her gas output, as well as a significant proportion of her exportable electricity goes to the Community. In this context Norway has a close interest in the development of the Community's internal energy market. As regards electricity, the policy measures she has recently implemented to deregulate and introduce competition go in certain aspects in the direction of the Commission's recent proposals for this sector. With respect to the oil and gas markets, Norway, on the basis of its current legislation, has a more cautious approach towards initiatives that would open up this sector.

5. A key imperative for Norway is to ensure that the Norwegian State has a majority control in all aspects of petroleum exploration, production and transportation. The Community system fully respects the sovereignty of Member States over their natural resources while requiring that the subsequent rights and responsibilities of Member States are exercised in a way compatible with its objectives and principles.

6. Norway is an active supporter of energy/environmental measures and is likely to be an important advocate of energy/conservation measures at Community and international level, the use of renewables and energy research and development. Norway has already introduced a CO₂ tax on offshore use of petroleum products

and on transport fuels (except international air and sea transport) and would be active in pushing for similar measures elsewhere. However, it should be noted that Norway's industry depends, in the main, on electricity generated from hydroelectric power (tax exempt). Consequently, if the Community introduced a CO2 tax with wide application, Norwegian industry would be in a stronger position *vis-à-vis* its competitors.

Transport

1. The Norwegian transport sector accounted for 7.6% of GDP in 1991 and it employs 113 000 persons. The greater part of trade is carried by water.
2. The merchant fleet under the Norwegian flag consists of 1 376 vessels with a deadweight tonnage of 21 million tonnes and is the world's largest. Since July 1987, Norway has had a dual ship registration system: the traditional Norwegian Ship Register (NOR) and the new Norwegian International Ship Register (NIS). The main difference is that NIS is open not only to ships which satisfy Norwegian nationality conditions, but also to ships owned by foreign nationals and companies. NIS offers numerous advantages to international shipping, including taxation facilities. Norwegian coastal trade is open to NOR registered vessels, but not NIS. State aid can be given to publicly owned commercial ports and industrial wharfs but not fishing ports in order to secure regional development.
3. Norway has concluded road transport agreements, based on quotas, with all EC Member States, which regulate both transport of goods and passengers. A general prohibition of cabotage is included in all of Norway's road transport agreements with other countries and in the relevant national legislation; individual exemptions have been granted in a number of cases. An important point of difference compared to legislation in Member States is weights for heavy vehicles.
4. The Norwegian State Railway company (NSB) is owned by the Norwegian State and is in legal terms part of the national public administration. With regard to access to the network, the Norwegian Government has the right to decide whether a private rail company should be allowed to run on the national rail network. In Norway, there are no special measures in support of combined railroad transport which could be parallel to Community measures. In the context of State aid, a distinction is made between expenses for rail infrastructure and State aid offered to the traffic unit of NSB. The aid takes the form of annual allocations over the fiscal budget.
5. In 1992, Norway, together with Sweden, signed an Agreement with the Community concerning Civil Aviation. In this Agreement, which entered into force in July 1992 and will be valid until it is replaced by the EEA Agreement, Norway has accepted the *acquis communautaire* and has taken the commitment to adopt future Community legislation.

Norway has made great progress in the reduction of aircraft noise impact during the past few decades, and is currently harmonizing its standards with those of the Community.

6. Under the EEA Agreement, the whole of Community legislation in the transport sector will be extended to Norway. No transitional periods will apply for Norway in this sector, which shows that the Community and Norwegian transport policies are evolving in the same direction.

Industry

1. For the majority of the industrial sectors no problems are expected in relation to Norwegian membership. Industry has already operated under conditions of free trade for many years by virtue of the FTAs of 1973. Furthermore, most of the relevant *acquis communautaire* will be adopted by Norway in virtue of the EEA Agreement. Norwegian legislation is already adjusted or is in the state of being adjusted to Community requirements for a large number of specific cases.
2. As regards the maritime construction industry (20% of Norway's exports), Norway has participated since 1989 in the multilateral OECD negotiations on the removal of State aids and other competition-restraining

practices.

3. In the steel sector Norway depends on steel imports and the trade balance is very much in favour of the Community. In the framework of the EEA Agreement, Norway has accepted the Community rules for State aid and has accepted to abandon any export restrictions on scrap metal. Norway's EC membership would also imply regular payments of the production levy provided for in the provisions of the ECSC Treaty.

4. The textiles and clothing industry is rather small but important to the country. Norway is a member of the MFA and has signed a number of bilateral agreements similar to those concluded by the Community.

5. Since 1987 the construction sector (representing about 4% of GDP) has been suffering seriously from the economic recession. Local enterprises are particularly competitive with regard to offshore construction, hydroelectric power stations and wooden houses.

6. The determining factor of Norway's non-ferrous metal sector is the primary aluminum industry (62% of total value-added, 5.9% of GDP, 56% of employment). The largest aluminum producer is 50% State owned, the rest of the firms are privately owned. Nearly 80% of primary aluminum is exported; of which 90% to the Community. Norway ranks third in the world with regard to the production of manganese and fourth for nickel production, both of which are mostly exported to the Community.

7. Other sectors such as the chemical industry, mechanical and electrical engineering, ceramics and glass, cement, and the publishing and printing industry are all very small and no major problems are expected in their integration.

8. During the EEA negotiations, Norway has agreed to accept the vast majority of the *acquis communautaire* in this field, with only a very few transitional periods, generally expiring on 1 January 1995 and in one case on 1 January 1997, including public procurement. There are, however, a number of areas where the situation was left open for review in the EEA: Directive 76/116/EEC (fertilizers), Directive 88/379/EEC (classification, packaging and labelling of dangerous preparations), Directive 76/769/EEC (restrictions on the marketing and use of certain dangerous substances and preparations), Directive 78/631/EEC (classification, packaging and labelling of dangerous preparations, pesticides), and Directive 79/117/EEC (plant protection products containing certain active substances).

9. The foodstuffs sector of the second stage of processing is well developed and competitive in Norway. Participation in international trade is very high (69% of exports, 27% for the EC), nearly 50% of the exports go to the Community, which, on the other hand, is the most important Norwegian supplier (55% of imports). The sector's structure presents a higher degree of concentration than in the Community (beer, sugar, confectionery and chocolate products). The Norwegian price compensation system is based on an external system of variable import levies and export refunds, completed by an internal system of equalization fees in combination with internal payments. Apart from this equalization fee, which does not seem to be compatible with the EC system, differences between the Community and Norway concern basic products affected by agricultural policy measures and the corresponding reference prices, which are normally much higher than those applied by the Community.

Economic and social cohesion

1. Norway stretches further north than any country in Europe. The mainland extends from 58°N to 71°N, a total distance of about 1 750 km, which is greater than the distance between Oslo and Rome. The total land area, excluding the Svalbard archipelago and Jan Mayen island, is about 323 000 km², and the population is approximately 4.2 million. The population density is 13 inhabitants per km², as compared with an average of 145 per km² in the Community.

2. As already mentioned in the section 'The Norwegian economy and the Community', Norway has a GDP per head above the EC average and has traditionally had low unemployment. However, there are substantial differences among regions (counties), mainly between the capital region and the rest of the country. While

the city-county of Oslo has a GDP/head which is more than twice the national average, the other counties remain below the national average, varying from 96% in Rogaland in the south-west to 69% in Finn-mark, the northernmost county of Norway.

3. Norwegian regional policy aims to provide, in peripheral, sparsely populated regions characterized by a difficult climate, the conditions of life necessary to ensure that all areas of the country remain populated. This is particularly the case for all the central and northern border regions. Aid intensities allowed under the Norwegian mechanism are considerably higher than the average rates in the Community. The Community will have to ascertain whether those levels of support, often designed to compensate for high transportation costs inherent in the different economic activities, are compatible with the *acquis communautaire* regarding competition.

4. According to the relevant EC Regulation on the Structural Funds,⁽⁸⁾ the regions concerned by Objective 1 are regions of NUTS⁽⁹⁾ 2 level whose per capita GDP, on the basis of the last three years, is less than 75% of the Community average. The data provided by the Norwegian administration indicate that there are no regions comparable to EC NUTS 2 regions which would qualify for this objective. According to the estimates for the period 1988-90 the poorest such region (four most northern counties) had a per capita GDP (in PPS) of about 79% of the EC average.

According to the above regional regulation, Objective 2 areas belong to level 3 regions which fulfil the following basic criteria: an unemployment rate and a share of industrial employment above the Community average and a fall in industrial employment, or satisfy certain other criteria and provisions also contained in the relevant regulation. Whether areas meet these criteria is determined on the basis of a close examination of detailed and comparable information provided by the Member States concerned. It seems likely that some areas will qualify for Objective 2.

5. Given Norway's economic situation and labour market, as compared to those of the Member States, any aid which might be granted by the European Social Fund under horizontal Objectives 3 and 4, which are at present aimed respectively at fighting long-term unemployment and facilitating the occupational integration of young people, would be limited. Proposals for the redefinition of Objectives 3 and 4 are under consideration by the Council and Parliament

6. Rural areas eligible under Objective 5b (see section on agriculture) are at present selected on the basis of the criteria of Regulation (EEC) No 253/88 (Article 4). The Commission has proposed to attach in the future more importance to the demographic factor (low population density, tendency towards important depopulation). The problems associated with the remoteness of certain Norwegian areas, their low population density and low level of income would suggest their eligibility under Objective 5b.

7. The need of areas depending heavily on fisheries will have to be taken into account in the framework of Objectives 1, 2 or 5b.

8. The Council and the Parliament are examining proposals from the Commission for amendments to the Structural Funds regulations, the adoption of which is due during the course of 1993. The general approach already agreed is to confirm and reinforce the basic principles of the 1988 reform of the Funds, namely, concentration, programming, partnership and additionality. It is proposed to incorporate the structural components of fisheries policy.

Assuming that the criteria and procedures for determining the eligible regions remain broadly the same, it will be the task of the Commission to decide on the basis of the most recent data available, those areas eligible for assistance under Objectives 2 and 5b.

9. National services will be called upon in due course to assure regular provision of regional data consistent with Eurostat definitions and standards, and the Structural Funds regulations.

10. A large part of Norway is composed of Arctic and sub-Arctic regions whose climatic and demographic

features would increase the regional and social diversity of the Community and would need to be taken in account in EC structural policies.

Taxation and overall tax burden

1. The level of the overall tax burden in Norway (burden of taxes and social security contributions as a percentage of GDP) is significantly higher than the Community average. In 1990, according to OECD figures, it was 46.3% as against 39.5% in the Community.

The burden of direct taxation is higher than the Community average (Norway 16.1%, EC 12.4%).

The level of indirect taxes is also higher than in the Community (Norway 16.4%, EC 11.3%).

On the other hand, the burden of social security contributions is slightly lower than the EC average (Norway 12.1%, EC 13.2%).

2. In indirect taxation Norway has, since 1970, operated a value-added type of tax which replaced the former sales tax. The Norwegian VAT system in general can be described as an all-stage, non-cumulative value-added tax of the consumption type. The VAT covers all stages in the chain of production and distribution. In common with the other Nordic countries, Norway operates a relatively high single standard VAT rate of 22%. The rate was previously 20% but was raised on 1 January 1993. In the main the VAT system applied in Norway seems to conform to the VAT system of the Community although certain adjustments would be needed in the event of Norwegian accession. The fundamental point where the Norwegian VAT system differs from the one of the Community is in respect of supplies of services, which are only subject to VAT if they are specifically mentioned in the VAT act.

3. In addition to VAT, an investment tax was introduced at the same time as the VAT system in order to compensate for the loss of revenue caused by the abolition of the retail sales tax. That investment tax covers a large range of goods and services supplied to trade and industry. The conformity of the investment tax to the Community legislation, in particular Article 33 of the sixth Directive, will require further examination.

4. Moreover, Norway applies a large number of excise duties which are characterized by their very high rates, in particular in the energy sector and for alcohol and tobacco products. Nevertheless, from 1 January 1993 the excise duties on spirits were lowered.

The structure of some of Norway's main excise duties differs fundamentally from the harmonized duties now applied throughout the Community, and amendments to national legislation will be required.

5. As regards direct taxation, a comprehensive tax reform took effect on 1 January 1992. The overall objective of the tax reform was to lower the tax rates and at the same time to broaden the tax base. The corporate tax rate was reduced from 50.8 to 28% and most of the, tax credit arrangements have been repealed.

For persons, the highest marginal tax rate on wages was reduced from 57.8 to 48.8% and on personal income from business it was reduced from 62.7 to 51.7%.

The areas of company taxation and direct taxation were not covered by the EEA Agreement and will have to be discussed during the accession negotiations. Norway is expected to be able to introduce the relevant measures. This concerns both the principle of non-discrimination according to Article 7 of the Treaty and the secondary legislation applicable in the field of direct and indirect taxes having a bearing on the performance of enterprises.

Some modification of the Norwegian legislation will anyway be needed. Norway will also have to accept the Member States' convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises.

6. Social security contributions are slightly below the EC average and, in particular, the charges on employers are in line with the EC average (7.7% of GDP).

7. Globally, the tax system in Norway is quite similar to the EC system. Some changes will be needed to align the Norwegian legislation to the *acquis communautaire*, but it should not create major difficulties and transitional periods, if necessary, could be short.

Competition

1. Under the EEA Agreement, Norway will have to respect rules on competition, including State aid and State monopolies, analogous to those of the Community.

2. As regards the rules applicable to enterprises, Norwegian policy on control of restrictive business practices is based on the Act of 26 June 1953 on control of prices, profits and restraints on competition. A committee was set up in 1990 to study the reform of this legislation. As yet no final proposals have been put forward, and the result is expected in 1994. The new rules would apply to all sectors of the economy. The reform envisaged appears to be substantially different from competition rules as applied in the Community. However, although a greater conformity of Norwegian legislation to that of the Community would be welcome, the rule of the Treaties as well as of secondary legislation, would prevail over national legislation in this sector.

3. In general, Norwegian State aid levels are much higher than those of other EFTA countries. Norwegian manufacturing industry obtained up to ECU 656 million in 1992.

Regional State aid represents a significant part of the Norwegian State aid system.

Available data do not permit the identification of zones which could benefit from the derogations foreseen by EEC Treaty Articles 92(3)(a) or 92(3)(c), particularly because the delimitation of the recipient zones has not been provided. However, regional aid⁽¹⁰⁾ may reach a level which is above that which the Commission accepts in regions benefiting from the derogation foreseen in Article 92(3)(c). Among the many questions which still have to be answered are those of the cumulation of aid and the problem of operating aid (transport aid, reduction of fiscal or social charges differentiated on a regional basis).

In the framework of the accession negotiations, particular attention should be paid to the different categories of aid whose compatibility with Community rules has not yet been established, *inter alia* aid to R&D (definition of eligible costs, intensity), aid to public enterprises in the manufacturing sector, aid in the energy sector, aid to SMEs (definition, intensity) and aid to exports, from which exports to the Community should be excluded.

4. The measures the Norwegian Government has adopted to support the banking sector give rise to concern. According to the Norwegian Central Bank (Norges Bank)⁽¹¹⁾ 'the total support from central authorities to the banking sector including government guarantees during 1991-92 will amount to NKR 21.5 billion, corresponding to about 3% of GDF.

This situation, which also characterizes the banking sector of other Nordic candidates for accession, should be examined carefully in terms of competition, not only in the banking sector, but also in the insurance sector. Possible effects of the abovementioned measures on the manufacturing industry should also be examined carefully.

5. State monopolies, within the meaning of Article 37 of the EEC Treaty, exist in Norway. The most obvious one concerns alcohol. The monopoly covers not only wine but all alcoholic beverages containing ethyl alcohol. The Norwegian Government justifies this monopoly on the grounds of public health. In its judgment of 12 March 1987 in Case 178/84, the Court ruled that the obligation to protect public health could not be allowed to obstruct free trade unless there was absolutely no alternative. Reserving retail sale to one

organization, which moreover holds the national production monopoly, is not necessarily the only way to protect health. There exist other forms of regulation (for instance restrictions on advertising, prohibition of sales by unauthorized shops, prohibition to sell to the young, limited business hours of outlets and increased fiscal duties) which would be less detrimental to trade but pursuing the same goal. In any event, protection of public health would not justify the monopoly in relation to alcohol for industrial or pharmaceutical purposes.

The Commission notes in this context that national legislation must be adjusted in conformity with the obligations of Article 16 of the EEA Agreement, which contains in substance similar provisions to Article 37 of the EEC Treaty in respect of State monopolies.

6. As for enterprises benefiting from special or exclusive rights, it will be necessary to examine the current legislative reforms related to the telecommunications sector and the postal service.

7. Once the EEA has entered into force, it will be the task of the EFTA Surveillance Authority (ESA) to ascertain that equal conditions for competition exist throughout the EEA by applying the whole of the *acquis communautaire* in this sector.

The Commission will have to monitor closely the adjustments called for by the EEA and the effectiveness of the ESA in applying the Community legislation upon entry into force of the EEA Agreement.

Other policies

Consumer protection

1. The Norwegian legislation is already largely compatible with the *acquis communautaire* except for certain areas. This applies to the directives on general product safety and cosmetics where Norwegian law falls short of Community law.

In other areas, some differences remain, in particular as regards the directives on unfair terms in contracts concluded with consumers, doorstep canvassing and the agreement on package travel.

Norwegian law will therefore have to be adapted to bring it into line with the requirements of the *acquis communautaire*.

Research and development

2. Given the fruitful cooperation between the EC and Norway in R&D matters through the bilateral Framework Agreement of 1987, and the likelihood of full Norwegian participation in Community R&D, this sector will integrate easily into that of the Community. Moreover, most of the present Norwegian objectives in the sector are similar to those of the Community. Therefore, Norwegian membership of the Community would be mutually beneficial in the R&D sector and would require no transitional measures.

Implications for the budget of the Community

1. The assessment of the effect of Norwegian accession on the Community budget has, as with previous opinions, been carried out on the basis of the approved budget figures for 1992, and on the assumption that Community legislation would be applied immediately and in its entirety to Norway. It therefore does not allow for any transitional periods that may be adopted, nor for the dynamic effect of accession (for example changes in trade flows). The simultaneous accession of one or more other countries might alter the income figures slightly.

Expenditure

EAGGF (Guarantee Section)

2. Additional EAGGF expenditure for Norway should be relatively modest (ECU 188 million), focusing mainly on cereals and dairy products.

Structural measures

It is estimated that Structural Funds expenditure would be of approximately ECU 90 million. Due to the importance of her fleet and her production, Norway should be an important beneficiary of expenditure in the fisheries sector. Expenditure in favour of Norway could represent about 15 to 20% of the fisheries budget for the Community of Twelve, or approximately ECU 115 million.

Other expenditure

An amount of ECU 14 million might be envisaged for expenditure having a social character or training, tourism and culture. An amount of ECU 52 million could be devoted to expenditure on industrial policy, research and development, ECU 40 million for external policies and ECU 22 million for administrative expenditure.

Level and structure of expenditure

The increase in the Community budget expenditure due to Norwegian accession would represent ECU 521 million, i.e. less than 1% of total Community expenditure.

Income

3. The income from Norway would be of the order of ECU 261 million for traditional own resources. Norway's VAT contribution would be ECU 612 million and her GNP contribution would be ECU 211 million. 10% should be deducted from this amount for the reimbursement of levies (ECU 26 million) and ECU 89 million for the loss of customs duties following accession. The total of supplementary income provided by the Norwegian accession would thus be ECU 969 million, representing 1.5% of total Community expenditure.

Customs union

1. Under the Free Trade Agreements (FTAs), customs duties and charges having equivalent effect and also quantitative restrictions on imports and measures having an equivalent effect were abolished a long time ago in trade between Norway and the Community in industrial products originating in Norway or the Community within the meaning of Protocol 3 to the FTAs⁽¹²⁾. A supplementary Protocol to the 1972 FTA was concluded between the Community and the EFTA countries including Norway⁽¹³⁾ with the aim of phasing out quantitative restrictions on exports (except on ECSC products) by 1993. Agriculture is not covered by the FTAs although there are specific agreements on certain agricultural products.

The establishment of the customs union should start from the position created by the application of these Agreements and the Conventions between the EEC and Norway on the simplification of formalities in trade in goods (single administrative document)⁽¹⁴⁾ and on the establishment of a common transit procedure,⁽¹⁵⁾ which have been in force since 1 January 1988. From an information system point of view, Norway is quite advanced in the computerization of customs procedures except in the area of 'tariff quota computerization'. At the end of 1992, approximately 50% of all import and export declarations were handled via its ADP system.

Norway, as an EFTA member, has been invited to sign a convention regarding the Customs Information System (CIS) for information transfer. Norwegian customs authorities have a positive opinion of this

connection with CIS.

2. As a member of the Community, Norway would be bound by the Common Customs Tariff and by the Community common commercial policy towards third countries.
3. In case of accession, Norway will have to apply Articles 22 to 26 of the Customs Code on non-preferential rules of origin for third countries⁽¹⁶⁾.
4. Adopting the Common Customs Tariff will be made easier by the fact that Norwegian tariffs are generally comparable with the Community's, particularly for industrial products. However, tariffs in certain specific sectors may give rise to some difficulties in adjustment. In 1988, the unweighted average of applied tariff rates was 5.7% *ad valorem*. The average tariff rate for industrial products was 5.9% *ad valorem* (6.04% for the Community).

With regard to agricultural products, tariff rates are predominantly specific. Seasonal rates are applied on several types of vegetables and fruit to protect Norwegian production. There are free or low rates for those products during the time of the year when Norwegian produce is not available.

5. The Norwegian Customs Tariff is made up of eight-digit tariff numbers which is based on the Harmonized System, which has been applied by Norway since 1988. Therefore, adopting the Combined Nomenclature should not pose particular difficulties. Technically speaking, the adaptation of the Norwegian Tariff to the Combined Nomenclature and the integrated tariff of the Community (TARIC) will demand close cooperation between the Norwegian administration and the Commission services.
6. Norway's accession will require a change in the definition of the Community's customs territory in customs legislation to include the additional words 'the territory of the Kingdom of Norway'⁽¹⁷⁾.
7. Norway has concluded bilateral agreements with Sweden and Finland setting up a system of administrative cooperation on common borders. On most major routes between those countries there are only joint customs offices, which are responsible for applying customs legislation for both countries. If accession of those countries did not take place at the same time, this could create complications for the application of Community customs legislation at the external border.

Trade and economic relations with third countries

1. The introduction of the common commercial policy would mean the application to Norway's external trade of the relevant basic provisions of the Treaty of Rome (and notably those of Article 113 EEC) as well as of the *acquis communautaire* in this field and in particular:

- (i) The common import regime;
- (ii) The rules concerning dumping or subsidization by countries not members of the Community;
- (iii) The common export regime;
- (iv) The so-called new commercial policy instrument;
- (v) The rules concerning the prevention of imports of counterfeit goods; and
- (vi) The Community's system of generalized tariff preferences towards developing countries.

2. Any instruments or measures currently applied by Norway would have to be modified or repealed so as to

bring Norwegian law into conformity with her obligations under the *acquis communautaire*.

Given Norway's current liberal trade policy for industrial products, none of these is likely to give rise to major difficulties. Norway has an anti-dumping regime based on the GATT anti-dumping Code — the Community has the same. Norway introduced in 1973 a generalized preferences system providing for preferential rates of import duty for goods to which the system applies.

3. Norway would have to take over the existing agreements the Community has established with third countries. In the area of preferential agreements, the most important are those with the remaining members of EFTA, the Europe Agreements with the countries of Central and Eastern Europe, the various Mediterranean Agreements and the Lomé Convention. None of these should give rise to any substantial difficulty for any of the parties involved. In certain cases, the Community itself might need to adapt its existing agreements with certain partners to take account of Norway's accession.

4. The Norwegian trade in textiles would have to be subject to the Community's own regime on imports of textiles. The Community has bilateral agreements with more countries than Norway and restraints apply to a larger number of categories. Moreover the coverage of the various categories does not correspond. On the other hand, Norwegian tariffs in the textile sector are higher than those applied in the Community.

5. Norway would have to repeal her current trade agreements with third countries. In most cases this should cause no problems, as Norway would apply the Community's own agreements with these countries (see above). At present Norway has, together with other EFTA countries, concluded FTAs with Poland, the former Czechoslovakia, Romania, Hungary, Turkey and Israel. Free trade negotiations with Bulgaria are still taking place. In addition, Norway has concluded FTAs with Estonia, Latvia and Lithuania in 1992. These Agreements cover trade in industrial goods, processed agricultural products and fish, and other marine products. Trade in agricultural products has been negotiated bilaterally. The Agreements with Central and East European countries have been negotiated in parallel with the Community's Association Agreements. They are asymmetric in nature.

A particular case that would require close scrutiny however is that of the Baltic States with which Norway is committed to free trade for industrial goods while the Community still has relations based on MFN treatment.

6. Norway would have to cease to be a member of EFTA, her relations with these countries being henceforth ruled by the Community's own Agreements with the EFTA countries. The EEA Agreement would cease to be applicable to bilateral relations between Norway and the Community.

7. Regional cooperation with Russia is already a concern of Norway and her Nordic neighbours, and Norwegian membership of the Community would lead to a re-examination of the Community's role in such cooperation.

8. The implications of Norwegian accession to the union for trade relations with third countries would have to be the subject of a GATT assessment under Article XXIV of the General Agreement.

Development cooperation

1. Norway devoted 1.14% of her 1991 GDP to development cooperation. This is the highest percentage among OECD countries. Norwegian development aid is almost exclusively made of donations. In 1991, of a total of USD 1 200 million, about 55% was devoted to bilateral grants and 38% to multilateral grants, the proportion of bilateral loans being only 0.6% of the total amount.

2. For a long time, Norway has followed a strategy of selective and concentrated aid in specific sectors in some developing countries. Priority is given to environment, rationalization of natural resources, women in development, professional training, measures to reduce debt and measures to encourage democracy and human rights. In 1990, 57% of the total Norwegian bilateral aid went to Africa, 21% to Asia and 9.6% to

Latin America. Norway thus devotes a high degree of resources to her development policy, which has a structure very similar to Community aid.

For this reason Norwegian membership will constitute an asset for the union, particularly in the context of the establishment of a common development policy arising from the Treaty on European Union ⁽¹⁸⁾. Norway would have no difficulty in accepting all the *acquis communautaire* and joining all the international agreements the Community has established in this area. Norway would then participate in new areas of development cooperation.

3. In its cooperation with developing countries in Latin America, Asia and the Mediterranean region, the Community has faced new challenges by using, in addition to the classical tools of food aid, humanitarian assistance and financial and technical cooperation, new economic cooperation instruments. These new instruments are intended to encourage contacts between economic operators and facilitate technology transfer and training. The emphasis lies largely in the areas of science and technology, cooperation on technical norms and standards, trade promotion and promotion of investments. In 1991, for example, economic cooperation accounted for approximately 12% of all funds allocated to Asia and Latin America.

Norway would have to subscribe to these new instruments which will enhance its cooperation with developing countries.

4. As far as relations with the ACP States are concerned, the accession of Norway to the Community would imply her accession to the Lomé Convention, and participation in the EDF.

5. A protocol of accession would have to be concluded in order for Norway to become a contracting party to the Lomé Convention. Indeed, under Article 358 of Lomé IV, the Community is required to inform the ACP States of its decision to enter negotiations in view of the accession of a third country. Regular contacts between the Community and the ACP States are foreseen to take place during accession negotiations. Once these negotiations are concluded, the Community and the ACP States will enter negotiations in order to establish a protocol of accession and adopt any adaptation or transitional measures deemed necessary.

Foreign and security policy

1. From 1905, when she gained her independence from Sweden, Norway pursued a foreign and security policy based primarily on good neighbourly relations with its Nordic partners. Norway's reasons for joining NATO in 1949 reflected her historical experience during World War II and geographical position (common border with the former Soviet Union).

2. Prior to the present decision to apply for membership, the government established a number of working groups to examine various issues in more detail. As regards foreign and security policy the main conclusions, endorsed by the government, were the need for a new European orientation for Norway. Security policy had to be viewed in a wider framework and the Community, which was increasingly seen as the decisive factor in the quest for peace and stability in Europe, was playing the key role in areas including economic and technical assistance, monetary and financial questions, aid policy, environmental policy, and asylum and immigration policy. The report concluded that Norwegian security interests would be better safeguarded within rather than outside the Community.

3. Norway is a member of the UN, CSCE, Council of Europe, OECD and many other international bodies. She has played a prominent role in the support of stricter arms control and disarmament measures, in development assistance and in assistance towards the countries of Central and Eastern Europe (G-24 exercise). In addition she has joined the Baltic Cooperation Council and has launched the Barents Sea Initiative to promote regional cooperation in the Euro-Arctic region. Norway has also participated in many UN peacekeeping operations.

4. An analysis of Norway's foreign and security policies reveals that there is already considerable overlap with European political cooperation (EPC) positions. Norway has stated that it fully subscribes to the Treaty

on European Union, including Title V on a common foreign and security policy (CSFP) and the associated declarations.

Foreign Minister Stoltenberg declared at the Nordic Council meeting on 9 November 1992 that 'the responsibility for European security would increasingly rest with the Europeans themselves - through the EC and WEU, though still as part of an Atlantic partnership ... The EC was the driving force to promote peace and stability in Europe. The problem was not too much cooperation in Europe but too little cooperation.'

5. Norway has accepted that its security can best be protected within a defence alliance. As a member of the Atlantic Alliance, Norway has participated fully in the political consultations and in the integrated military command. It has not, however, accepted the permanent stationing of foreign troops on its territory nor the storage of nuclear weapons.

Norway supports the strengthening of the WEU as the European arm of the Atlantic Alliance in which it recognizes that the European members should shoulder a greater burden and accept increased responsibilities. In November 1992 Norway became an associate member of the WEU.

6. Whilst improving relations with Russia is a priority, Norway recognizes the importance of maintaining a credible defence posture. A recent White Paper outlined proposals to reorganize the Norwegian armed forces to meet the changed security situation.

Since the 19th century, Norway has had a 200-km land border with Russia. There is one outstanding problem with Russia — the long running dispute over the delineation of the continental shelf. Negotiations between Oslo and Moscow are continuing on this matter.

7. The conclusion to be drawn from an analysis of Norwegian foreign and security policy and the statements of the Norwegian authorities is that Norway could fulfil all its obligations under the union's CFSP. Indeed Norway may be expected to make a significant contribution to that policy.

Cooperation in the fields of justice and home affairs

1. Declaring its acceptance of all the provisions of the Treaty on European Union, Norway has implicitly indicated its acceptance of all the provisions concerning cooperation in the fields of justice and home affairs included under Title VI of the Treaty on European Union. These include asylum policy, the movement of nationals of third countries across the external borders of the Community, the immigration policy including conditions of entry, movement and residence of nationals of third countries. Norway is particularly well-informed on all these questions, having followed them closely because of their implications for the workings of the Nordic Passport Union Agreement.

2. Norway would equally be ready to join cooperation in the fight against drug addiction and fraud on an international scale, judicial cooperation in civil and criminal matters, customs cooperation and police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crime. Norway has both the means and the will to cooperate fully in these areas and is already one of the partners regularly consulted in the Trevi framework.

Indigenous population (the Sami people)

1. The Sami are an indigenous people of the Kola peninsula traditionally resident in Norway, Finland, Sweden and Russia. Most of the Sami people are located in Norway, numbering around 50 000 with the largest concentration in the northernmost county of Finnmark: in Sweden and Finland they are located in the region of Lapland.

2. The Sami people are an ancient population, the earliest mention dating back to the Roman historian Tacitus. World War II and its aftermath marked a turning point in their situation and in government policy in their regard. In 1980 the Norwegian Government set up a Sami Rights Commission and a Sami Cultural

Commission. Both Commissions operated on the basis of recognizing the Sami as a separate people, with their own culture and language. Government and Parliament endorsed this, recognizing that international law provided for far-reaching legal protection of indigenous culture. The Sami Act of 1987 set up the Sami Parliament with advisory functions and Article 110A of the Norwegian Constitution, adopted in 1988, recognizes that the State of Norway consists of the territory of not one, but two peoples: Norwegians and Sami.

3. The Sami language is of fundamental importance as a primary means of transmitting the common history and skills of the Sami people from generation to generation. Until recently it has been transmitted only orally, not in writing. Traditional economic activities (fanning, reindeer herding, fishing in fjords and inland waters, hunting, crafts) are also a fundamental part of the Sami identity.

4. The relationship between the State and the Sami people reflects the position developed in the United Nations and other intergovernmental organizations concerning indigenous people. Norway has also ratified the United Nations Convention on Civil and Political Rights (1966) and the ILO Convention No 169 on Indigenous and Tribal Populations in Independent Countries (1989).

5. Sami economic activities are characterized by stronger representation in the primary industries (approximately 30%), the low degree of capital investments involved, and a greater number of migrant workers. Agricultural activities are largely determined by the fact that the Sami settlements are located in Arctic or sub-Arctic areas, where production is mostly limited to meat and milk. Sami fisheries, often combined with other economic activities, have been concentrated in the fjords and coastal waters. As from 1992, the Sami Parliament is represented on the Regulatory Board (advisory board to the Norwegian Government on the distribution of fishing quotas). The Sami reindeer herding industry is the most typical aspect of the Sami way of life, and the Norwegian law grants them exclusive rights to engage in this activity.

The Norwegian Government has employed many instruments in its efforts to strengthen Sami culture and the Sami community.

6. Certain geographical or functional demarcations have been made for the purpose of administering the various special measures established. The most extended demarcation relates to Sami reindeer herding rights (Reindeer Herding Act) which defines the reindeer herding area and draws special attention to their historical use by the Sami people. The functional area for the Sami Development Fund (laid down by Royal Decree) has been defined as the six municipalities in the county of Finnmark (where the Sami constitute the majority of the population) one municipality in the county of Troms and those parts of the county of Nordland with a substantial number of Sami people.

7. The financing of the Sami Parliament and other Sami activities is the responsibility of the State. Total State allocations for specific Sami activities amount to approximately NKR 320 662 million (approximately ECU 38 million), not including general State expenditure on education, health and social welfare, and general industrial and trade development in the Sami area.

8. Cooperation between the governments of Norway, Sweden and Finland on Sami matters has been extended during the past few decades. Government officials meet regularly to identify and resolve Sami matters of common interest. At the most recent Nordic Sami Conference held in Helsinki in June 1992, the Association of Sami People in Russia became a full member of the Nordic Sami Council. The Nordic Sami Council is funded by the Nordic governments through the Nordic Council.

Conclusions

1. The Treaty on European Union ⁽¹⁹⁾ requires that a State which applies for membership must satisfy the three basic conditions of European identity, democratic status and respect for human rights. This is the case for Norway. In addition, the candidate country should be willing to accept and able to implement the Community rules and structure as they would exist subsequent to the entry into force of the Treaty on European Union.

2. In its report 'Europe and the challenge of enlargement', the Commission noted that the accession of those EFTA countries that have applied for membership 'should not pose insuperable problems of an economic nature, and indeed would strengthen the Community in a number of ways'. The present opinion illustrates this in more detail in the specific case of Norway.

3. Free trade in industrial products between Norway and the Community is already well established by virtue of the FTAs of 1973. Norwegian ratification of the EEA Agreement showed her readiness to adopt a substantial part of the *acquis communautaire*.

4. Problems might nevertheless arise in some areas. In the agricultural sector, the taking over of the *acquis communautaire* will present a real challenge. However, the Norwegian Government is at present undertaking reforms which will bring agricultural policy more in line with the CAP.

Norwegian rules concerning regional policy would have to be compatible with Community legislation.

Adaptations would also be necessary in the fisheries sector. Changes would also be required in a number of fields such as State aids and State monopolies, for example regarding the one for alcoholic beverages.

Competition in general would increase in a number of fields.

In all the above cases, the Commission considers that it should be possible to find satisfactory solutions during accession negotiations.

5. Norwegian accession will strengthen the union in a number of ways. For example, in the macroeconomic field it can be noticed that in the last years Norwegian monetary and exchange-rate policies were successful in achieving inflation performances well in line with future EMU requirements. Furthermore, the experience Norway has in the field of environmental policy and her comprehensive and integrated approach would benefit considerably and further enhance the deepening of Community policy in this sector.

6. In the area of foreign and security policy, the Commission notes that Norway is a founding member of NATO and has obtained the status of associated member in the WEU. As a member of the union, Norway should have no difficulties in accepting this policy as it evolves. Norway may be expected to make a significant contribution in this area.

7. As regards the adjustments to the Treaties referred to in Article O of the Treaty on European Union which would have to be made in the case of Norwegian accession, these would obviously have to take into account not only the specific case of Norway but also the fact that a number of other EFTA countries would be joining the union at the same time.

8. On the basis of the above considerations the Commission confirms in respect of Norway the general conclusion which it reached in its report on enlargement as regards applications from EFTA countries, and recommends that negotiations for accession should be opened with Norway as soon as possible.

(1) Opinions of the Commission to the Council concerning the membership applications of the United Kingdom, Ireland, Denmark, and Norway according to Articles 237 of the EEC Treaty, 205 of the EAEC Treaty, and 98 of the ECSC Treaty, COM(67) 750 of 29.9.1967 and COM(69) 1000 of 1.10.1969.

(2) Documents concerning the accession to the European Communities of the Kingdom of Denmark, Ireland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland, Special Edition of the *Official Journal of the European Communities*, 27.3.1972.

(3) Agreement between the European Economic Community and the Kingdom of Norway (OJ L 171, 27.6.1973) and Agreement between the Member States of the European Coal and Steel Community of the one part and the Kingdom of Norway, of the other part (OJ L 348, 27.12.1974).

(4) By 'mainland' the non-oil sector is meant here.

(5) According to Norwegian estimates, the current level of oil production may be maintained until 2000. By 2010, gas production will dominate and the oil reserves are expected to be exhausted by 2030. The price of oil is currently USD 18/barrel. According to

the Norwegian authorities, a decrease in the oil price of 10% will lower export income by 3.2% or 1.4% of GDP.

(6) Directive 68/414/EEC.

(7) Directive 91/926/EEC

(8) Regulation (EEC) No 2052/88 of 24 June 1988, Articles 8 and 9: OJL 185, 15.7.1988.

(9) Nomenclature of territorial units for statistics.

(10) Rana and Sor-Varanger programmes, investment grants scheme, grants for the development of business and industry, regional development scheme, scheme for restructuring in regions dependent on a single industry, etc.

(11) Report to the Economic Committee of EFTA, 10 December 1992.

(12) Last amended by Decision No 2/92 of the EEC-Norway Joint Committee of 25 September 1992, OJ L 304, 20.10.1992.

(13) Supplementary Protocol of 18 July 1989, OJ L 295, 13.10.1989.

(14) OJL 134,22.5.1987.

(15) OJL 226, 13.8.1987.

(16) OJL 302, 19.10.1992.

(17) Council Regulation (EEC) No 2913/92 of 12 October 1992, OJL 302, 19.10.1992.

(18) Through the addition to the EEC Treaty of Title XVII, containing Articles 130u to 130y.

(19) Articles F and O.