

**DOCUMENTI
IAI**

**THE EXTERNAL ECONOMIC AND SECURITY
POLICY OF THE EUROPEAN UNION:
THE IMPACT OF ENLARGEMENT
TO EFTA COUNTRIES**

A study conducted by Istituto Affari Internazionali for European Parliament
October 1994

IAI9417

ISTITUTO AFFARI INTERNAZIONALI

THE EXTERNAL ECONOMIC AND SECURITY POLICY OF THE EUROPEAN UNION: THE IMPACT OF ENLARGEMENT TO EFTA COUNTRIES

TABLE OF CONTENTS

Preface	3
Introduction	5
Part One: The Influence of the EFTA-4 on the Political and Economic Relations between the EU and the CEECs	7
1.1. The Free Trade Agreements between the EFTA countries and the CEECs	7
1.2. The Europe Agreements and the CEECs: a comparison with the EFTA Free Trade Agreements	11
Part Two: The Future for EFTA and the EEA and their Relevance for EU Policy towards the CEECs	15
2.1. The political and economic role of EFTA after EU enlargement to the EFTA-4	15
2.2. The political and economic role of the EEA after EU enlargement to the EFTA-4	19
2.3. Political consequences of the enlarged EU on its policy towards the CEECs	22
2.4. The future external policy of the enlarged EU towards the remaining EEA and EFTA members	24

Part Three: EFTA and the New Security Policy of the EU	28
3.1. The interpretation of neutrality	31
3.2. Attitudes towards WEU	35
3.3. Attitudes towards NATO	38
3.4. EFTA and the future of the CSCE	41
Part Four: Conclusions	48
4.1. The Enlarged EU and Economic Relations with the CEECs	49
4.1.1. Institutional relations of the enlarged Union with the CEECs: towards a more complex model of European integration?	50
4.1.2. EEA and CEFTA in future relations between the EU and the CEECs	51
4.2. EFTA and the New Security Challenges in Europe	52
4.2.1. New responsibilities for the enlarged EU: overcoming the old concept of neutrality	53
4.2.2. Full acceptance of CFSP	55
4.2.3. Attitudes towards WEU, NATO and CSCE	55
4.2.4. Towards a new EU security structure?	
The contribution of the EFTA-4	56
Selected Bibliography	60
Annex	
Table 1: EFTA Countries Trade with Seven CEECs	
Figure 1: The Pattern of Free Trade Agreements with those CEECs with which EFTA has Declarations on cooperation	
Figure 2: The Hub-and-Spoke Pattern of Free Trade Agreements for Industrial Goods	

PREFACE

At the end of June 1994, in accordance with the provisions relating to tenders and the award of contracts, the Istituto Affari Internazionali (IAI) was commissioned by the European Parliament Directorate General for Research to conduct a study on "The External Economic and Security Policy of the European Union: the Impact of Enlargement to EFTA countries".

The aim of this study is to present an economic and political analysis of the impact of the EFTA-4 on the EU group-to-group policy vis-à-vis the Central and Eastern European countries (CEECs); the remaining EFTA and the European Economic Area (EEA); the North Atlantic Treaty Organization (NATO), the Western European Union (WEU) and the Conference on Security and Cooperation in Europe (CSCE).

The study was coordinated by Gianni Bonvicini, Director of the IAI and Patrizia Prode, IAI Research Fellow. We acknowledge the valuable contribution of:

Hanspeter Tschaeni, Director of the EFTA Economic Department, for the economic and political assessment of the EFTA and EU policy towards CEECs and the enlarged EU's policy towards EFTA, EEA and the CEECs;

Paul Luif, Senior Research Fellow at the Austrian Institute for International Affairs, for the analyses of the security implications of the enlarged Union;

Ettore Greco, IAI Senior Research Fellow for the evaluation of the relationship between EFTA and the CSCE.

The IAI hopes that this study may contribute constructively to considerations on the definition of an adequate EP institutional strategy for the external and internal policy of the European Union in the months to come. Indeed, political imagination is a prerequisite for solving difficult practical problems and thinking beyond the established orthodoxy.

Rome, October 1994

INTRODUCTION

The coming enlargement of the European Union to Austria, Finland, Norway and Sweden will change the pattern of cooperation between states and groups of states in Europe. The role and the scope of EFTA, the EEA, the CSCE, the North Atlantic Cooperation Council (NACC), NATO and the WEU must be redefined in order to create a new network of mutually beneficial interaction and cooperation between these institutions/organisations.

The adaptation of these countries to the dynamics of European integration constitutes only a small part of the process of structural change taking place in Europe in connection with EU development. Therefore, the present structure must be revisited in light of prospects for a framework of pan-European cooperation, with the EU as a dynamic core element.

The objective of this study is to assess the impact of the enlargement of the European Union to the EFTA-4 on future relations between the enlarged EU and the following:

- Central and Eastern European Countries (CEECs);
- the future of EFTA and the European Economic Area;
- WEU, NATO and CSCE

The study is divided into four main parts:

In *Part One*, after presenting an assessment of the quality of trade and cooperation agreements concluded between the EFTA countries and the CEECs, on one hand, and between the EU and the CEECs under the Europe Agreements, on the other, we make a comparison between the two approaches and suggest the kind of coordination to be envisaged;

In *Part Two*, the emphasis is on the future political and economic role of EFTA and EEA after the EFTA-4 accession to the EU and we focus on the political consequences of an enlarged EU policy towards the CEECs, the future external policy of the enlarged EU towards the remaining

EEA and EFTA members.

In *Part Three*, we move to the security implications of EU enlargement to the EFTA-4. We start with the attitudes of Austria, Finland, Norway and Sweden towards WEU, NATO and CSCE, and analyze the impact of their participation in the EU foreign and security policy.

In *Part Four* we present the conclusions and sum up some of the basic points of the individual chapters. We also suggest scenarios and proposals for the future in view of the Revision of the Treaty of Maastricht.

PART ONE

THE INFLUENCE OF THE EFTA-4 ON THE POLITICAL AND ECONOMIC RELATIONS BETWEEN THE EU AND THE CEECs

When the EU signed association agreements, the so-called Europe Agreements, in 1991 with Czechoslovakia (later replaced by separate agreements with the Czech Republic and the Slovak Republic), Hungary, and Poland, and in 1992 with Bulgaria and Romania, the EFTA countries signed free trade agreements (FTAs) with several central European countries which have also entered into force.

When comparing the EFTA and the EU approach, it is evident that the respective objectives of the two organizations have influenced the content of their agreements with the CEECs.

The larger spectrum of the Europe Agreements is in keeping with the following: the wider scope of the Rome Treaty and its amendments; the understanding of European integration as a concept encompassing not only trade, but also economic, financial and cultural cooperation; and the objectives of the EU which go beyond classic intergovernmental treaties by using procedural instruments (e.g. legal harmonization). Moreover, the Europe Agreements are a kind of antechamber for potential membership to the EU.

As a classic free trade organization with a more limited scope, EFTA used its own approach based on free trade agreements, elimination of tariffs, technical assistance etc. as a model for its relations with the transforming countries of Central and Eastern Europe.

1.1. The Free Trade Agreements between the EFTA countries and the CEECs

In October 1994, Free Trade Agreements (FTAs) were in force between the EFTA countries and the Visegrad Four, Bulgaria and Romania. (Such agreements were also made with Turkey and Israel--countries which are

not further considered in this paper.) Moreover, the EFTA countries also signed Declarations on Cooperation with the three Baltic states, Albania and Slovenia (similar Declarations had been signed with the Visegrad Four, Bulgaria and Romania as a first step before FTAs negotiations were started). Exploratory talks leading to FTAs negotiations with Slovenia started in early 1994 but were not continued as a result of political difficulties related to the bilateral Italian-Slovenian relationship; bilateral negotiations, however, have begun between Slovenia and Switzerland. Individual EFTA countries (Finland, Norway, Sweden and Switzerland) had concluded bilateral FTAs with the Baltic countries earlier, since a common EFTA approach towards these countries was not worked out quickly enough.

The main purpose of the Declarations on Cooperation is to promote regular contacts in the fields of trade, economic and industrial cooperation, R&D, etc. in order to assist the countries concerned in their transformation process to a market economy and to lay the ground for deeper trade relations (normally in the form of an FTA). On the basis of these Declarations and also after the FTAs were concluded, EFTA experts provided technical assistance to the administrations of the CEECs. In the fields of statistics, technical barriers to trade and customs cooperation, the EFTA countries participated in the respective sectors of the EU PHARE programme. Since 1991 the EFTA countries have committed a total of 5.9 million Swiss francs for such assistance. In addition, either bilaterally or through the Group of 24, they have undertaken additional efforts in this direction.

The FTAs, in line with EFTA tradition, cover trade in industrial goods, processed agricultural products and fish, leaving agricultural products to bilateral agreements and providing a dynamic element through an evolutionary clause which allows the future addition of new sectors, such as services and investments.

The central objective of the FTAs is the elimination of tariffs and other restrictions according to an agreed timetable. This timetable is asymmetric, with the EFTA side in principle eliminating all obstacles at the moment of entry into force, while the partner country is granted a transitional period lasting up to ten years, depending on product sector. These core provisions are supplemented with articles dealing with non-

tariff barriers to trade, to prevent the liberalization achieved through the abolition of tariffs from being thwarted by technical barriers, excessive state aid, restrictive public procurement practices, etc.

The first FTA with a CEEC, the former Czechoslovakia, entered into force in July 1992, while the others were applied only in 1993 (May through November). As a rule, the agreements first entered into force or were applied between the partner country and some EFTA countries, with the others joining after having completed their internal ratification procedures. Due to these delays, other forces affecting the economic performance of the partner countries in their transition process, and the deep recession in the EFTA countries, it is very difficult to assess the impact of the trade liberalization agreements on trade flows between the EFTA countries and the CEECs. Trade figures for the seven CEECs, i.e. the Visegrad Four, Bulgaria, Romania and Albania are outlined below.

Trade figures available for 1992 and 1993 show a net increase in 1992 compared to the previous year of the overall trade flows between the EFTA countries and the CEECs, but a slight decrease in 1993 (1992: 10.9 billion US \$; 1993: 10.5 billion US \$). Thus a trend of significant annual trade growth, which had started in 1990 and marked a dramatic redirection of CEECs trade away from the former socialist camp to the West, was interrupted in 1993. In both years (1992/1993), exports from the EFTA countries towards the partner countries outweighed imports, tilting the balance of trade rather substantially in favour of the EFTA countries (the difference amounted to 1.9 billion US \$ in 1992 and 2.4bn in 1993). Thus the pattern of increasing trade deficits for the CEECs persisted (since 1990 the deficit with the EFTA countries tripled). In 1993 the CEECs provided for 2.07% of EFTA imports (in 1992 2.08%) while exports accounted for 3.06% (in 1992 2.83%).

From the CEECs vantage point, the EFTA countries take an aggregate export share of 10%. These percentages vary significantly from country to country. The main product groups exported from the EFTA countries were manufactured goods (machines, cars, pharmaceuticals, wood-based products), while imports consisted mainly of labour-intensive products, mineral fuels, lubricants and related material, and, only to a lesser degree, agricultural and processed agricultural products.

It should be kept in mind that these figures are aggregate figures for the seven CEECs and that there are significant variations between the individual countries. Some of them might appear to be in contradiction with the fact that tariffs were eliminated by the EFTA countries, while the partner countries did by and large maintain their protection.

Other elements seem to have more than compensated this asymmetry:

- the great need of the countries in transition for advanced Western technology in order to upgrade the domestic economic and industrial infrastructure;
- the great demand for Western-made consumer goods, which are very fashionable in many countries of former East Europe;
- the political signal given to EFTA exporters by the conclusion of an FTA, which might have removed some hesitation on their part to build up an export strategy towards these countries, leading to an overall increase in the volume of exports;
- the saturation of EFTA markets in the sectors where the partner countries are competitive (agriculture, textile, coal and steel, low grade consumer goods).

Also the fact that trade figures for 1993 (the year that several of the FTAs actually entered in force or were applied) slightly dropped in comparison with 1992 seems paradoxical. This, however, should be considered in light of the recession, which was at its peak in 1993 in the Western industrialized countries, including the EFTA countries.

There is reason to believe that changes are likely to occur as the transformation process in the CEECs proceeds. The pronounced need for Western technology should normalize after a while. The infatuation with Western-made consumer goods is already diminishing in some countries as people have realized that a well-known name is not necessarily a guarantee for quality, and as the quality of domestically-produced products is increasing. Most important, the CEECs will without doubt improve their production methods (including in agriculture) and the quality of their goods. Moreover, with better utilization of comparative advantages such as low labour costs and more sophisticated marketing methods, the CEECs should increase their export figures substantially.

In this respect, some argue that overall trade will therefore certainly increase and that the FTAs will substantially contribute to this trend. Richard Baldwin (see Baldwin 1993) predicts that trade between Western and Eastern Europe will grow at two-digit levels during the coming one or two decades, though the present situation is marked by a still relatively low level of trade, at least in terms of its share in the EFTA countries overall trade with the CEECs and the increasing trade deficit in favour of the EFTA countries. Should the trade deficit persist or even continue to grow, then the underlying causes will need to be examined in the context of the administration of the FTAs.

1.2. The Europe Agreements between the EU and the CEECs: a comparison with the EFTA Free Trade Agreements

At the outset of this comparison, it should be recalled that the EFTA countries organized themselves in the form of a free trade area and thus also maintained their external competences in the trade field covered by the Stockholm Convention. This essential feature of EFTA accounts for many of the differences between the FTAs and the Europe Agreements referred to below.

As a first step, the EC concluded Trade and Commercial and Economic Cooperation Agreements with the Visegrad Four, Romania and Bulgaria. Aside from setting the ground for economic and commercial cooperation, the Agreements normalized trade relations with these countries (most-favoured nation--MFN, progressive abolition of quantitative restrictions-- QRs). In addition, the EU extended its generalized system of preferences (GSP) treatment to these countries.

The Europe Agreements consist of a section on trade (free movement of goods) and provisions on political dialogue, approximation of laws, "national treatment" of enterprises and workers, supply of services, economic cooperation (including industrial cooperation, investments, standards, education, energy, environment, transport, etc), financial and cultural cooperation. The trade section and some trade-related aspects entered into force as early as December 1991 for the Visegrad Four and in February/March 1993 for Romania and Bulgaria by way of Interim

Agreements, pending ratification of the Europe Agreements. Sectoral agreements and additional protocols were also concluded with these countries.

The EFTA FTAs cover roughly the same ground as the EU Interim Agreements, i.e. trade and trade-related aspects. There is no equivalent on the EFTA side for a political dialogue (trade-relevant political questions can be addressed in the context of Joint Committee meetings, which as a rule are not held on ministerial level), the approximation of laws, "national treatment" provisions, supply of services, and financial and cultural cooperation. Since these subject matters are not contained in the Stockholm Convention, they were not envisaged for relations with third countries either.

A closer look at the trade sector (goods) and at the degree of liberalization offered nevertheless reveals some differences. Fish and marine products are included in the EFTA FTAs through the so-called *EFTA acquis*, i.e. nearly total liberalization in trade. In most of the Europe agreements, this sector is treated as an evolutionary area. Although agriculture is dealt with bilaterally by the EFTA countries, they were able to offer more liberal terms than the EU for imports of many products from the CEECs, especially from those located further south. The regimes concerning processed agricultural products are virtually identical, the exception being that the EU also agreed to abolish variable levies gradually.

An examination of trade figures between the EU and the CEECs, and a comparison with those of EFTA reveal that overall trade has been much higher (5 times the EFTA figure in 1992), but also that the share of trade with the CEECs in the overall EU trade in 1993 continued to increase in spite of the recession in the West (imports rose from 3.9% to 4.2%, and exports from 4.9% to 5.3%). A trade deficit for the CEECs exists here as well, though it is less dramatic in terms of overall trade than the one between the EFTA countries and their Eastern partners. In terms of commodities, EFTA and EU trade with the CEECs is remarkably similar, the main exception being a larger share of mineral fuels, lubricants and related products in trade between the EFTA countries and the CEECs, while agriculture, raw-material based products and miscellaneous industrial products are more preponderant in EU trade with these

countries.

Concerning the treatment of industrial products, a large degree of parallelism was achieved during the negotiations. Substantial differences exist in the definition and treatment of sensitive products, for which customs duties and QRs are only gradually reduced. While textiles and coal and steel products are in principle considered sensitive products in both sets of agreements, the regimes differ as to the products covered, country concerned (on the EFTA side some countries do not apply any restrictions) and interim trade rules foreseen. Even after the extra steps taken on the EU side, following the Copenhagen Summit in 1993, the EU regime is more restrictive for textiles and possibly for industrial products altogether. As for ECSC steel products, the situation is more balanced. (See OECD 1993)

Further differences exist in handling trade-related aspects (state aids, competition, procurement, intellectual property rights) where the two organizations incorporate their respective *acquis* in the agreement. While the substantive elements of the respective regimes in the EU and in EFTA do not differ very much, the two organizations have chosen other procedural means to enforce their respective *acquis*, which is reflected in the agreements with the CEECs.

In addition to these more significant differences, it must be mentioned that even in the trade field where the substantive rules are to a large extent comparable, a network of parallel but separate free trade zones has been established in Europe which does not allow economic operators to benefit fully from the liberalization granted in individual agreements. Products or parts considered to have "area origin" under one agreement, thus benefitting from the liberalization contained therein, can, as a rule, not be considered as originating material under another agreement, even if one or several countries are contracting parties in both agreements. To some extent this unequal treatment even exists between the various Europe Agreements concluded by the EU (and between the EFTA FTAs) because a product originating in Bulgaria, for example, and undergoing further treatment in Slovakia will not automatically benefit from the abolition of tariffs when exported from Slovakia to Germany (or to Austria in the EFTA case). The same holds true when a product undergoes treatment in countries belonging

to EFTA and the EU and is then exported to a CEEC. This is the case even though the origin rules of all the agreements are to a large degree harmonized.

When considering future coordination of the various agreements between the European states, the above problem must be tackled as a matter of priority. Proposals for technical solutions exist. Following a mandate by EU Heads of State, the EU Commission is about to issue a feasibility study which examines the economic and legal aspects of some sensitive sectors and proposes solutions. A further harmonization of origin rules and documentation and the possibility to cumulate production processes in various countries to achieve origin status under any of the agreements would help economic operators from all countries to reap the full benefits of trade liberalization.

Further steps in coordinating measures taken by the various partners in the European free trade system depend in the short term on the further political development on the EFTA side. Leaving political speculations aside, it can be noted that practically all the subject areas in the Europe Agreements beyond the trade field, form part of the EEA Agreement between the EFTA countries (with the exception of Switzerland and, for the time being, Liechtenstein) and the EU (see Commission in COM(94)-361 final). There is no reason why these areas cannot become part of EFTA-CEECs cooperation as well, although preferably in a triangular arrangement (EU - EFTA - CEEC), in order to avoid the problems mentioned above, which are caused by parallel but separate arrangements. Switzerland would need to be associated with these plans in an appropriate way.

A tremendous potential for improving trade relations lies in the field of approximation of laws, contained in the Europe Agreement. Once this is accomplished by the CEECs, one common body of law will exist throughout the EU, EFTA/EEA (and possibly Switzerland to the extent that this country continues its efforts to autonomously adapt to EEA law) and the CEECs. This will provide tremendous opportunities for economic operators. If competition rules are also harmonized and enforced by independent authorities, the free movement of goods and services as set out in the EEA could be achieved.

Should EFTA membership be reduced, or should it disappear entirely, the above considerations concerning further cooperation are still valid, albeit for a different set of countries and according to other rules.

PART TWO

THE FUTURE FOR EFTA AND THE EEA AND THEIR RELEVANCE FOR EU POLICY TOWARDS THE CEECs

2.1. The political and economic role of EFTA after EU enlargement to the EFTA-4

At present EFTA fulfils the following functions/roles for its member states:

(a) It provides the organizational structure and the substantive basis for trade and trade-related issues of the member states. The main substantive basis is the Stockholm Convention of 1960. Since the entry into force of the EEA on 1 January 1994, the Convention mainly regulates the relations between the EEA members and Switzerland and Liechtenstein. Where the scope of the EEA and the Stockholm Convention are not exactly the same (fish, processed agricultural products, agriculture), the latter also sets the level of trade liberalization for the EEA members of EFTA for the areas and products which are only covered by the Convention.

(b) It provides the administrative structure for the EFTA countries' trade and trade-related ties with third countries. The FTAs and Declarations on Cooperation concluded by EFTA countries have been described in Part One. In addition, the so-called Portugal Fund could be mentioned in this context, through which EFTA countries provide loans at preferential rates to small and medium enterprises in one of their former member states.

(c) It provides a platform for its member states for organizing and jointly administering their trade relations with the EU. Although the legal basis for the preferential trade relations were the bilateral FTAs with the EEC, EFTA has increasingly become (especially since the Luxembourg Declaration of 1984) the centre of coordinated cooperation in an increasing number of subject matters, some of them reaching beyond the trade sector. The first concrete results were the Single Administrative

Document (SAD) and the Transit Conventions of 1988 by which customs documentation and procedures were streamlined. The EEA was the culmination of this development and provided a new legal basis for the relations between the EU and five of the EFTA countries (for Switzerland and Liechtenstein the bilateral FTAs continued to be the point of reference). While the EEA and the institutions set up for implementing that Agreement have become the forum for organizing EFTA countries' relations with the EU, EFTA has maintained its significance as it is one organizational structure through which membership in the EEA can be achieved (the other is the EU).

At the time this study was prepared, only two of the four candidate countries, Austria and Finland, had held a referendum. Since a popular majority in several of the candidate countries is by no means secured, their success in joining the EU and thus the future of EFTA and the EEA can only be hypothesized. The following appear to be the three most likely scenarios:

- Scenario 1:* only Austria and Finland join the EU
- Scenario 2:* Austria, Finland and Sweden join the EU; Norway does not
- Scenario 3:* all four candidate countries join the EU

The second scenario might not be a very realistic one as it is widely assumed that the Norwegians will follow the Swedish lead; nevertheless, it will be considered here because if it were to materialize, it would present some rather delicate questions for the future of EFTA and the EEA.

In order to consider the possible future of EFTA, it is useful to assess its roles and functions in the light of the three scenarios indicated above.

Scenario 1: only Austria and Finland join the EU. Two countries leaving EFTA would not necessarily change its role for the remaining countries with regard to trade and trade-related ties. To the extent that the changing of sides by two countries entails a lowering of the current level of trade liberalization (in the areas of fish, agriculture and processed agricultural products), negotiations have to be started between the remaining EFTA countries and the EU in order to seek remedies for that problem.

In the area of third country relations, if Austria and Finland were to leave EFTA, its attraction as a trading partner for the CEECs would be diminished because Austria alone accounts for more than half of EFTA trade with the CEECs. No changes would need to be applied to the FTAs, however, and among the remaining EFTA countries, the organization would continue to be the forum for administering the FTAs. But jointly intensifying relations with the CEECs or extending them to new partner countries may be problematic because it may accentuate the different interests of the northern and southern EFTA member states. In the past, the focus of the Nordic EFTA countries on the Baltic states, and the attention of Austria and Switzerland to Slovenia or the Mediterranean countries have led to lengthy discussions and difficult compromises. The intensifying relations between the CEECs and the EU under the Europe Agreements and beyond should act as a powerful pull for the EFTA countries to follow in parallel in order to avoid discrimination in the profitable markets of the CEECs.

In spite of its diminished attraction as a trading partner, EFTA may still be an attractive option for some or all of the CEECs in this scenario; EFTA membership under these circumstances might be more seriously considered by the smaller and less-developed CEECs than by Poland, Hungary or the Czech Republic, but even the latter countries might envisage it if membership in the EU were to be further delayed. The possibility of becoming a member in a Western institutional setting of long-standing, of eventually becoming a member in the EEA, and of being capable to re-establish close relations with the other CEECs in the company of other states (thus not appearing to be recreating another COMECON) could be powerful incentives for the CEECs to join EFTA if that organization continued to exist.

The political and economic benefits of an enlarged EFTA for both the CEECs and the EFTA countries have been extensively described and documented by both Baldwin R.(1994a) and Wijkman M.(1994). While their assumption was the continued existence of EFTA, their main arguments should also hold for a somewhat smaller EFTA with today's membership. This is especially true for the benefits the CEECs would gain by extracting themselves from the current "hub-and-spoke" relationship with the EU. Moreover, by joining EFTA, they would

intensify relations among themselves and increase their bargaining power vis-à-vis the EU.

If only Austria and Finland join the EU, the EEA might again be a realistic option for Switzerland, whether or not the CEECs join EFTA (though this would certainly have an impact).

Scenario 2: Austria, Finland and Sweden join the EU; Norway does not. This scenario is the most difficult to assess because it would leave EFTA with two "larger" countries (presumably Switzerland and Norway) which are located far from each other, of whom only one is an EEA member and which do not have an impressive trade record with one another. They might thus realistically examine the question of whether a continued cooperation with each other and jointly with the third country partners under the EFTA umbrella can be justified. Furthermore, it is questionable whether such a tenuous partnership would serve as an incentive for the CEECs to join the organization, thus filling the ranks abandoned by former members. In such a scenario, Switzerland would not be stimulated to reconsider its stance *vis-à-vis* the EEA. One could therefore conclude that this scenario could lead to a break-up of EFTA.

Scenario 3: all four candidate countries join the EU. With four countries leaving EFTA, the Stockholm Convention would be reduced to a bilateral agreement between Iceland and Switzerland/Liechtenstein (the relations between these two countries are governed by their customs treaty). A formal structure for administering such an agreement would then no longer be necessary.

As regards trade relations with third countries, the FTAs between Iceland, Switzerland and Liechtenstein, on the one side, and the CEECs, on the other, could certainly be maintained; in reality, almost all trade would be accounted for by Switzerland. Whether EFTA should be maintained as a joint structure to administer this trade would have to be decided by Switzerland.

Given that the EEA is likely to be bilateralised in such a scenario and might undergo substantial modification, it is not automatically available for a second referendum in Switzerland in its present form. A further enlargement of EFTA to selected CEECs is of course not excluded, but

depends, in addition to the political will of the CEECs to join, on the attitude of Switzerland. Some political circles in that country fear that Switzerland might then be treated by the EU in the same way as the CEECs, in spite of its different economic level and its high degree of integration in Europe. Furthermore, Switzerland would risk having to pay the lion's share of the organizational costs of an enlarged EFTA and might face other demands from these countries without receiving corresponding benefits in the CEEC markets in return. Unless these questions are resolved satisfactorily, it seems unlikely that enlargement to the CEECs will take place in this scenario.

2.2. The political and economic role of the EEA after EU enlargement to the EFTA-4

It is useful to consider the meaning and role of the EEA after the enlargement in light of the same three scenarios posited in the preceding section on the role of EFTA after EU enlargement. Furthermore, it is worth recalling that the content of the EEA Agreement can be divided into the substantive *acquis* and the institutional provisions. Finally, it is important to remember that in order to implement the institutional provisions of the EEA, two additional international agreements were concluded among the EFTA countries (Agreement on a Standing Committee of the EFTA States and the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice; both entered into force at the same time as the EEA). Under these additional Agreements and in order to apply the EEA, the EFTA countries established the EFTA Surveillance Authority (ESA), located in Brussels, and an EFTA Court with seat in Geneva. The former is the equivalent of the EU Commission as regards surveillance of the EEA for the EFTA side; the latter is the last instance for disputes involving EFTA countries and nationals arising under provisions of the EEA and can give preliminary rulings under the EEA. The EFTA Secretariat, which services the activities under the Stockholm Convention, the FTAs with third countries and the Standing Committee brought the total number of staff employed by EFTA countries to about 300 in early 1994. Seen from an EFTA point of view, all three agreements and the institutions created to implement and administer them need to be taken into account when assessing the future of the EEA.

In the event that one Contracting Party leaves the EEA, the Agreement foresees that a diplomatic conference be convened in order to assess the situation and to agree on whatever modifications to the Agreement the remaining Contracting Parties consider necessary (Article 127 EEA). A case in which one country does not withdraw from the EEA but simply changes sides is not explicitly foreseen in Article 127. The provision can be interpreted as also covering such an eventuality, however, and there would be practical need to adjust the Agreement to the new situation. This need has already become apparent given that Austria is leaving the EEA as a member of EFTA. The scenarios examined below suggest the possible future of the EEA.

Scenario 1: only Austria and Finland join the EU. It would seem that with two countries leaving EFTA and the EFTA side under the EEA, the "critical mass" of EFTA countries is still available to maintain the need for and to justify the costs of the relatively cumbersome implementation structure of the EEA on the EFTA side, duly adjusted to the reduced EFTA membership. Possibilities for streamlining the institutional provisions will probably be explored at the diplomatic conference, but unless the two-pillar system is fundamentally changed, three (four if Liechtenstein joins as a full member in 1995) EEA members on the EFTA side will presumably need to provide for an independent surveillance authority and a court to ensure adequate implementation of the full substance of the EEA, covering the four freedoms and flanking and horizontal measures. As already mentioned, the possibilities that Switzerland will reconsider joining the EEA are realistic in this scenario, and a further enlargement of EFTA to some or all CEECs might also provide potential candidates for the EEA. This would increase the need for an adequate surveillance and Court structure and at the same time lighten the financial load of each EFTA member of the EEA.

It can further be assumed that the substance of the EEA will be subject to reexamination and readjustment during the diplomatic conference and thereafter. It should be recalled that five EFTA countries deposited their EU membership applications during the EEA negotiations. These countries thus considered the EEA primarily as a first step towards EU membership. This permitted the EFTA countries to accept institutional arrangements which do not put the EU and EFTA countries exactly on

the same level. If the remaining EFTA countries (and Switzerland if it joins the EEA) find that the EEA will at least be a longer interim arrangement than anticipated during the negotiations, if not an end in itself, they might be inclined to ask for renegotiations of the institutional provisions, especially the rules relating to the decision of new substantive acts which will then be included in the EEA Agreement. The larger the EEA membership if joined by Switzerland and CEECs, the more difficult and tension-producing such proposal could be. Indeed, a dilemma similar to the one currently facing the EU of having to choose between deepening relations and enlarging membership might also develop in the context of the EEA.

Nevertheless, and provided the EU gives the necessary political signals, an enlargement of EFTA is a real possibility in this scenario and the more advanced CEECs could eventually be admitted to the EEA. Through close concertation of activities between the EFTA countries and the EU, the respective parallel agreements with the CEECs could be gradually developed until the point is reached at which they could be admitted to the EEA. Even then the EEA would probably need to provide for the necessary transitional arrangements in order to take the situation in each of the CEECs into account.

Scenario 2: Austria, Finland and Sweden join the EU; Norway does not. As in the context of EFTA, the repercussions of this scenario are not easy to assess in the context of the EEA. It is questionable that the membership of one "large" and one or possibly two small countries (Iceland and Liechtenstein) is sufficient for attaining the "critical mass" on the EFTA side to justify maintaining the current system of a joint surveillance authority and a court. As mentioned above, immediate hope for enlargement is probably unrealistic in this scenario. The answer to these questions and the possible future of the EEA in this scenario cannot be given in the abstract, but must be the result of negotiations between the remaining EEA Contracting Parties. The need to maintain an independent surveillance authority and a court in order to provide for a balance of rights and obligations under the EEA and the justification for maintaining such a structure at the cost of the few remaining EFTA countries will be important aspects to be considered in such negotiations.

Scenario 3: all four candidate countries join the EU. This scenario would mean the end of the EEA as it now stands and its transformation into bilateral agreements between the EU and the remaining EFTA members of the EEA, Iceland and, possibly, Liechtenstein. In the negotiations to that end both substantive questions and the institutional provisions would need to be scrutinized. The entire spectrum of the EEA is not relevant for either of these two small countries. Both have been granted or anticipate substantial exceptions or transitional periods for certain sectors of the EEA. This could be taken into account in the negotiations. Conversely, in a bilateral agreement with possibly a reduced scope, the institutional provisions could also be adjusted to the new realities. It may be possible to delegate certain functions to national surveillance authorities, upgrade the supervisory capacity of the Joint Committees, and create *ad hoc* tribunals to handle disputes or other legal questions.

2.3. Political consequences of an enlarged EU on its policy towards the CEECs

EFTA member states that join the EU have to leave EFTA. With their departure from EFTA, they also and automatically cease to be contracting parties to the EFTA FTAs with the CEECs. No formal act is necessary to render that change effective. No problems should arise on the substantive level either, given that EFTA is a free trade organization in which each country maintains its own foreign trade policy, so special solutions for tariff reductions or quotas for an individual country are explicitly noted in the FTAs and would just cease to be applied.

However, such a move would have consequences on the EU side, because the EFTA countries which join the EU would need to be integrated into the common EU trade policy vis-à-vis third countries, including the CEECs. It will be in the former EFTA countries' interest to see that possible transitional arrangements negotiated with the EU as part of the membership agreement are also introduced, to the extent they are relevant, in the EU's third country agreements. Furthermore, the new EU member country will presumably aim at ensuring that quotas which have been negotiated and distributed internally with the old membership in mind are either renegotiated or at least redistributed

internally. Interests of the CEECs are at stake as well. As pointed out above the EFTA countries were able to grant them more favourable treatment in sectors like agriculture, textiles, fish, and with regard to some industrial products. Since most of these sectors are very important for the trade of the CEECs, these countries will presumably do their utmost to maintain the degree of liberalization granted to them under the EFTA FTAs. From a technical point of view, this is very difficult to implement in a border-free Union. It can be expected that these respective interests will provide for difficult negotiations following the accession of the new members, particularly because the EFTA countries concerned (especially Austria) are important trading partners for the CEECs.

Two countries from the Eastern rim of EFTA (Austria and Finland) will join the EU. Sweden has strong political and economic ties with the Baltic states. These countries, together with Norway, accounted in 1992 and 1993 for 87% of the overall trade between the EFTA countries and the seven CEECs. Austria alone was involved in 57% (1992) and 58% (1993) of EFTA's total trade. Transferred to the EU, these figures would have increased EU trade by more than 20% (Austria alone by 12%) in 1992. In addition, these countries would bring with them the substantial investments (direct and through joint ventures) made by their firms in the CEECs. Austrian capital and firms play a major role in the CEECs economies. In Slovakia, for example, roughly 25% of all foreign investments and 27% of capital input in local firms came from that EFTA country. The Nordic candidate countries have heavily invested in the Baltic countries and in Poland. The EFTA countries therefore bring with them their strong and well-established trade and economic links with the CEECs, thus increasing the trade statistics of the EU with these countries substantially and tying these economies closer into the EU.

Equally important and partially as a reaction to the economic integration just described is the political influence of the new EU members on working toward more open trade, economic and political relations with the CEECs. An orientation towards the East is deeply rooted in countries like Austria (and the Nordic countries vis-à-vis the Baltic states); politicians of these countries will have no choice but to heed that political will. In forming alliances with other EU members advocating a further opening to the East, the candidate countries from the EFTA

could have an additional weight. The north-south split in the EU which is already evident on certain questions might thus be reinforced. In the near future, problems might arise in further market opening measures or in the allocation of money for assistance programmes. But a much more serious question will arise when further steps will be considered toward institutional integration and possibly membership of some or all of the CEECs.

2.4. The future external policy of the enlarged EU towards the remaining EEA and EFTA members

The examination of the scenarios described above demonstrates that a substantial role for EFTA and for the EEA can be realistically expected if only Austria and Finland leave the organization. If more EFTA members take that step, the continued existence of EFTA and the EEA in their present form is questionable, and their capacity for serving as a possible host organization for the CEECs and for other third countries is in doubt. The political landscape in Europe would then be reduced to one powerful organisation, that is, the EU, as the central, dynamic force; this centre would be the primary focus of attention of a number of other countries, which would be linked to the centre and to each other in various configurations as a complementary measure.

Even more significant however is the fact that the only reasonable option for the "satellites" to improve their situation is to strive for becoming members of the central organization.

EFTA provide a case in point for this development. For a long time this organization was viewed with mixed feelings as a potential competitor and threat to the farther-reaching integration model embodied by the EU. When cooperation began in earnest after the Luxembourg Declaration in 1984, it was to a large extent EFTA-driven, with the EU playing the role of the wooed bride who was very much concerned with maintaining her own freedom of manoeuvre. To be sure, the call to start contacts that eventually led to the EEA came from Brussels by President Delors and was interpreted by some as an attempt to discourage the Austrians from pursuing their drive for EU membership. As soon as talks began in earnest, the relationship between the EFTA and the EU

member states, was restored to the normal situation. The EFTA countries were pursuing their ideas to achieve an arrangement between co-equals with regard to decision-making and the surveillance and implementation of the agreement. The EC held up in defence the notion of autonomy, symmetry and parallelism in surveillance and enforcement of the commitments of the Contracting Parties, and non-interference in the internal dynamic process towards further development of the internal market and the political union. The realization, *inter alia*, that a true partnership based on equality was not achievable led several EFTA countries to deposit their EU membership application.

A similar result might occur with the CEECs and other candidate countries as well. The consequences of such a development for the EU would however be radically different.

While it might be relatively easy to adjust to the four new members from EFTA as they are all well-established democracies with mature economies, the mini states in the Mediterranean, the CEECs and possibly other countries would constitute a quite different situation. The result of political passiveness, which might be acceptable in the case of EFTA, would thus have radically different consequences in the case of the other countries mentioned.

The lesson to be drawn from this is that the EU, in its own self-interest and in order to avoid being simply driven by the force of events, has to move from a reactive stand to that of an active agent. That is, it must work towards solutions that allow it to continue its course of integration towards its own political goals while offering its main partners reasonable alternatives for cooperation, which do not turn them into satellites of the EU, nor force them to strive for membership at any price.

Unfortunately, an easy solution involving another alternative for the CEECs and the other interested countries will in all likelihood no longer be available. If, following the political changes in the East in the early 1990s, an attempt had been made by the leading politicians to provide for possibilities for a new order in Europe, EFTA and the EEA could have been included in such a scheme. Today this would only be possible if scenario 1 described in the preceding section became a reality. If this

should be the case, contacts at the highest political level between all the countries concerned should be taken to discuss ways and means of future cooperation in all of Europe and, within that context, also to define the future role of EFTA, the EEA and the EU. The EU should have a special interest in a substantial outcome of such discussions and should take a leading role. Conversely, the other European countries have a right to know how the EU defines its own future in institutional and political terms.

The pan-European discussion and the planned EU intergovernmental conference are therefore very much interlinked.

The situation would be different however if scenario 3 were to materialize. In this case the EU inter-governmental conference would also set the parameters for the future plans of other countries because EU external policy can only be an extension of its internal decision on the fundamental question of its future. Pending the outcome of that conference, it can be presumed that the EU will proceed with parallel actions under the Europe Agreements with the various CEECs. The open formulation of the provisions, the dynamic and evolutionary nature of the Agreements and the interim character of trade relations in the coming ten years allow for enough room for activities.

The Communication from the Commission to the Council (COM(94) 361 final of 27 July 1994) further spells out this strategy and presents specific proposals in a list of main themes. Provided the Heads of Governments endorse this ambitious programme at their Summit in Essen, the administrations of the various countries and the Commission have their work carved out for them over the coming years.

However, it remains to be seen how long the parallelism in the approach towards the CEECs can be maintained in light of the different speeds of their respective transformations. Some of them might indeed develop sufficiently rapidly to jump straight into the EU membership category; others remain either on the level of Europe Agreements or in an "in-between" category, which must be created. Whether this is done through "Association of Association Agreements" (see Baldwin 1994a) or through an entity that resembles an EEA remains to be seen. The Commission seems to be hinting in the direction of the EEA when it

remarks in its Communication to the Council that eventually the approximation of laws foreseen in the Europe Agreements should be supplemented with common competition rules and a "competition authority along the lines of the EFTA Surveillance Authority".

Whether all these plans meet the equally ambitious wishes of the leadership of the CEECs remains to be seen. While the Commission Communication seems to address their need for gradual economic integration with the rest of Europe, it is questionable whether the plans go far enough to meet the CEECs wishes for political anchorage in the West.

PART THREE

EFTA AND THE NEW SECURITY POLICY OF THE EU

The EC/EU membership applications of the EFTA countries were essentially based on economic considerations. Austria applied in July 1989, Sweden in July 1991, Finland in March 1992, Switzerland in May 1992 and Norway in November 1992. After the Swiss population rejected membership of the European Economic Area in December 1992, the Swiss government suspended the application without formally withdrawing it. The high EC share of exports from EFTA countries demanded unrestricted access to the internal market of the EC and full participation in EC decision making. Questions of (military) security played practically no role at all in the deliberations of the EFTA member governments, except that the governments of the neutral EFTA countries did not regard the international status of their countries as an obstacle to EC membership. This was not the opinion of the European Commission (as we will see below); in particular, on several occasions Commission President Jacques Delors expressed his concern that the neutral status of some of the Eftans would constitute an obstacle to the deepening of the foreign and security dimension of the Community.

The considerations of the Austrian government, which applied for EC membership before the fall of the Berlin wall, are significant in this respect. Only after a long debate of the pros and cons of accession did the two big parties in government, the social democratic SPÖ and the conservative ÖVP, agree to make an application. The April 1989 report of the Austrian federal government to the Austrian parliament contained the following statement on the foreign policy and security aspects of the Community:

"The cooperation which includes military aspects actually does not take place in the framework of EPC ... Therefore, the participation of a permanently neutral state in the EPC seems to be without risk from the point of view of neutrality law. However, Austria could under no circumstances partake in an eventual future progress of the EC toward a defence community; the same would be true for

a binding foreign policy of the EC with majority decisions, as far as they would include areas of relevance for neutrality". [trans.] (See Bericht, 17 April 1989).

The letter applying for EC membership was submitted by the Austrian foreign minister some three months later (17 July 1989) in Brussels. Austria made this application on the understanding that

"its internationally recognised status of permanent neutrality, based on the Federal and Constitutional Law of 26 October 1955 will be maintained and that, as a member of the European Communities by virtue of the Treaty of Accession, it will be able to fulfil its legal obligations arising out of its status as a permanently neutral State and to continue its policy of neutrality as a specific contribution toward the maintenance of peace and security in Europe." [trans.] (See Commission Opinion, 1 August 1994).

After the Swedish Social Democratic government had announced its favourable attitude toward EC membership, the Swedish parliament prepared a report on the integration question. On 12 December 1990, this report was approved in the Swedish parliament by a large majority, with only the Greens and the Left Party (former Communists) voting against it. It stated that "Sweden should strive to become a member of the European Community while maintaining its neutrality policy". To prepare the application for membership, the Swedish foreign ministry conducted a comprehensive study on the development of the foreign and security policies in Europe during the spring of 1991. The study concluded that the security concept of the EC countries was not as closely connected with defence and military matters as the Swedish discussions would suppose. In the EC, "security" included questions of disarmament, CSCE, minority conflicts and security aspects of North-South relations.

Therefore application to the EC did not disturb Swedish foreign policy which was largely based on the country's geopolitical position between the two blocs (which was seen as underlying the policy of neutrality); the concept of multilateralism and support for UN peacekeeping operations; and, finally, a more internationalist approach manifested through an extensive foreign aid programme.

Prime Minister Ingvar Carlsson explained the Swedish application in the Swedish parliament on 14 June 1991. Questions concerning EPC got a prominent place in his speech. According to Carlsson, most EC members were still very cautious about adding a defence dimension to the Community. There was no reason to assume that the EC was in the process of turning into a military alliance. Any decision on defence matters would be based on unanimity and there would be a continued readiness to find solutions for states which did not wish to or could not participate in such a cooperation. The government concluded that the EC decision-making structures would assure the possibility of safeguarding fundamental Swedish security interests. Membership of the EC would be compatible with the requirements of the policy of neutrality. Unlike the Austrian application, the official Swedish request for EC membership did not refer to the country's policy of neutrality.

Finland constitutes a case of rapid change in the direction of domestic foreign policy. Until 1989 Finland was not even a member of the Council of Europe. The country had what is usually called "a status quo" foreign policy, referring to its full acceptance of bipolarity and its efforts to contribute to the strengthening of great power stability. The most outstanding expression of that aim was the role that Finland played in the Conference of Security and Cooperation in Europe (CSCE) process, which reached its peak with the signing of the Helsinki Final Act in 1975. The successful management of the *status quo* position was based on the policy of neutrality.

The break up of the Soviet Union and the new treaty with Russia seems to have helped to diminish the relevance of the neutrality question, and has more or less removed the final obstacles to a membership application for Finland. In the decision of the government on EC membership at the end of February 1992 (after the signing of the Maastricht Treaty), the security issue was dealt with in a similar way to Sweden:

"In a changed Europe, where the Cold War division has vanished, the core of Finnish neutrality can be characterised as military non-alignment and an independent defence. The central goal of this policy is to maintain and strengthen stability and security in

Northern Europe...

In the European Community, Finland's point of departure is the maintenance of an independent defence....Membership in the Western European Union is not a precondition for membership in the European Community." (See Government's Decision on Helsinki 27 February 1992).

On 18 March 1992, Finland (like Sweden) applied for EC membership without a neutrality clause.

In Norway, the emphasis in the debate on EU membership has been on economic aspects and the question of national sovereignty. Influential Norwegians still reflect the traditional Norwegian preference for an "Atlantic" security framework by voicing concern that further integration with the EU will have negative consequences for West European-United States security cooperation. In fact Oslo's traditional priority list on foreign policy issues has ranked Atlantic first, then Nordic and finally European cooperation, the latter for a long time limited to economic and cultural affairs. Therefore, a pragmatic, *status quo* approach characterizes official Norwegian arguments regarding EU and security policy. The idea of a European security and cooperation order finds general support, but only as long as it does not seriously call into question the existing security structures.

3.1. The Interpretation of neutrality

As has been seen, in maintaining the compatibility of EC membership with neutrality, the applicant countries stressed the economic aspect of EC integration and reduced the importance of foreign policy cooperation. Membership application was already a step away from the traditional attitudes of the neutrals. Up to the end of the 1980s, neutrality was interpreted in quite a comprehensive way, as an excerpt of a widely quoted speech by Tage Erlander, then Prime Minister of Sweden, shows:

"It has been customary to describe Swedish foreign policy as freedom from alliances in peace time with the aim of neutrality in the event of war. ... For us to be able to satisfy as far as we possibly can our foreign policy interests, we need a certain degree of

freedom of movement both in practice and as laid down by formal agreements. Freedom from alliances is an important and substantial part of this freedom of movement but it must be supplemented by a persistent effort to avoid any commitment, even outside the sphere of military policy, which would make it difficult or impossible for Sweden, in the event of a conflict, to choose a neutral course and which would make the world around us no longer confident that Sweden really wanted to choose such a course. ... The Government came to the conclusion that membership of the European Economic Community set up in accordance with the Treaty of Rome, in its present form, would not be compatible with the Swedish policy of neutrality." (see Documents on Swedish Foreign Policy, 1961).

Soon after the membership applications, the neutral countries were prompted to start rethinking their foreign policy status. One reason for discussing the content of neutrality was related to the negotiations for the Maastricht Treaty and the extension of EPC to a Common Foreign and Security Policy (CFSP) in Title V of the Maastricht Treaty. Another reason was the opinion of the Commission on the applications for membership. As to the latter, the Commission referred to "problems" created by the neutral status which would have to be surmounted during the accession negotiations. A third element which prompted rethinking of neutrality was the end of the Cold War and the diminishing value of neutrality in new security landscape of Europe. The concept of neutrality largely lost its meaning and *raison d'être* in the new emerging security context of Europe, and the Swedish, Austrian and Finnish governments consequently modified their respective policy requirements in negotiations with the Union. But this must be considered as only a first step in the direction of full acceptance of future military engagements in Europe. In fact, irrespective of what governments think, the concept of neutrality is deeply rooted in the feelings of ordinary people. The citizens of the countries concerned feel that it is part of their national identity.

Sweden. After the Swedish general elections in September 1991, the new conservative-led government started to formulate a more restricted interpretation of neutrality. For Prime Minister Carl Bildt, it was obvious that the notion "neutrality policy" did not represent an adequate descri-

ption of Sweden's foreign and security policy. Sweden would for the time being not join any military alliance and would maintain a strong defence. But Sweden wanted to pursue a policy with a clear European identity. It had a great interest in the establishment of a new security structure in Europe.

Soon the Social Democrats started to criticize Prime Minister Bildt for going too far in stressing the European identity. In May 1992, a compromise was found between the main parties (except the Left Party). The Swedish parliament accepted two reports of its foreign policy committee. In one report of 1992, the old expression "Sweden's non-alignment in peacetime aiming at neutrality in times of war" was changed to the following: "Sweden's military non-alignment aiming at our country being able to stay neutral in case of war in the vicinity". The most important changes were the addition of the word "military", the formulation "being able to" and the reference to "war in the vicinity". This was a slight change over the previous Swedish position where the intention was to retain the credibility to stay neutral in all circumstances (and not only to maintain the possibility to stay neutral) in case of war.

In November 1993, Prime Minister Bildt found it hard to see how Sweden could remain neutral if, for example, war were to break out in the Baltic states. He mentioned that Sweden was not neutral during Finland's Winter War in 1939/40. The Social Democratic opposition again saw a departure from the consensus of 1992. In an October 1994 statement of government policy, the new social democratic Prime Minister, Ingvar Carlsson, explicitly repeated the 1992 formula. He stressed Sweden's international responsibility and solidarity. There would be no contradiction between an active European policy and a strong commitment for the poor peoples of the Third World.

Austria. The Austrian government submitted several *aide mémoires* to assure the Twelve. In June 1992, the government stated that "Austria identifies itself fully with the objectives of the Common Foreign and Security Policy of the European Union and Austria will participate in this policy and in its dynamic development actively and in a spirit of solidarity". When CFSP matters were discussed at the membership negotiations, a public statement on Austrian neutrality was issued, but the parties of the Austrian government inserted a definition of neutrality in

the minutes of the cabinet meeting on 9 November 1993. There the government asserted that neutrality does not allow Austria to participate militarily in wars, join military alliances and establish military bases on its territory.

Finland. In 1992 the Finnish government characterized the core of Finnish neutrality simply as "military non-alignment and an independent defence". It is obvious that the real Finnish concern continues to be Russia and the challenge which disorder in Russia poses to the country and to the rest of Europe. The prevailing strategy is to strengthen collective actions, which also improve the European institutional structure and its ability to deal with the challenge of Russia, without adding confrontational elements to relations between Russia and Europe.

In light of these changed interpretations of neutrality, the discussions of this status during the accession negotiations proved to be "non-problematic". At the Ministerial Meeting of the Conference on Accession of 21 December 1993, it was agreed that a Joint Declaration on CFSP would be added to the Final Act of the accession negotiations. In this Declaration the applicants confirm their full acceptance of the rights and obligations pertaining to the Union and its institutional framework (the *acquis communautaire*) as it applies to the present member states. The acceding states declare that they will be ready and able to participate fully and actively in CFSP. They will take on in their entirety and without reservation all the objectives of the Maastricht Treaty. Concerning CFSP, the new member states will make their legal framework compatible with the *acquis*.

The agreement on this declaration was highly welcomed in the applicant countries. The gist of the understanding was that the new members would not have to promise more than the present members are obliged to do in CFSP. In the report by the European Parliament on enlargement and neutrality, the applicant countries' constructive attitude toward CSFP was commended. The explicit assurance that they would not follow Denmark's example and insist on derogations allowing them to opt out of the consideration of security and defence policy questions was welcomed. The applicant countries thus satisfied the "main criteria on which membership of the European Union should be based where the

provisions of Title V of the Union Treaty are concerned".

3.2. Attitudes towards WEU

For the applicant countries, two critical points of the Maastricht Treaty were: Title V, Article J.4, which stipulates that CFSP "shall include all questions related to the security of the Union, including the eventual framing of a common defence policy, which might in time lead to a common defence". According to Article J.4, WEU is "an integral part of the development of the Union" and the EU requests WEU "to elaborate and implement decisions and actions of the Union which have defence implications".

At the time of submitting the membership application, joining WEU was not an option for the neutral countries; on the contrary, the separation of tasks between EU and WEU was an important argument in favour of the compatibility of neutrality with EU membership.

Austria. The situation in the neighbouring former Yugoslavia, in particular the Serb aggression, the plight of Bosnia-Herzegovina and the danger of an escalation and spreading of the violence initiated a change in the attitudes of the Austrian population and its politicians. Both began to feel more insecure and to think that the Austrian armed forces would not be able to defend Austria against armed intervention. In mid-1992, the conservative ÖVP began to maintain that the primary reasons for joining the EC would be security issues. It was admitted that stressing the economic aspects of EC membership had been a mistake and that the ultimate goal of Austria's accession would be the Political Union. Austria was to join WEU and more or less "forget" about neutrality. The Social Democrats started to talk about security aspects of EC membership as well, but still favoured neutrality until an alternative security system would be developed in Europe.

A complete abandonment of neutrality was not proposed by the government. An important reason for this quite cautious approach was the prevailing popularity of neutrality among Austrians. A large (but diminishing) majority of Austrians would rather renounce EU membership than abandon neutrality if EU membership were only

possible if neutrality were abandoned. Before the EU referendum, no party supporting EU membership wanted to provoke too strong an opposition because of quarrels about neutrality.

On 12 June 1994, the Austrians voted overwhelmingly in favour of EU membership. Not unexpectedly, discussions on security questions started among the government parties soon after the referendum. Chancellor Vranitzky from the Social Democrats accepted Austrian membership in NATO's Partnership for Peace (PfP). Defence Minister Fasslabend (ÖVP) demanded, on the other hand, that Austria should join WEU as soon as possible after Austria's accession to the EU in 1995. He introduced a new argument in the discussion with the suggestion that WEU membership and neutrality could be made compatible. According to Article XI of the modified Brussels Treaty, any new member of WEU should "accede to the present Treaty on conditions to be agreed" between the present WEU members and the new member. But practically all participants in the Austrian discussion rejected the idea that one could renounce the military assistance clause of Article V (renunciation of art. V being necessary to make WEU membership compatible with neutrality) through an agreement based on Article XI of the modified Brussels Treaty. Since the Social Democrats still favour neutrality (in its narrow definition) and reject WEU membership, Austria will become an observer in WEU when it joins the European Union in 1995.

Sweden. In Sweden, there has been relatively little discussion on WEU membership (or joining NATO). As an exception, one prominent scholar of Sweden's neutrality who in the past had strongly supported the traditional foreign policy line has now suggested that the government use the occasion and proclaim that it would participate fully in the security cooperation of the EC. This would enhance Sweden's security; neutrality policy has lost its value in this respect. Foreign Minister Margaretha af Ugglas suggested that Swedes start thinking about the advantages and disadvantages of WEU membership, but not even Prime Minister Bildt took up this idea. Before joining the EU, WEU membership was not a matter for intensive discussions in Sweden.

In the same vein, the leader of the social democratic opposition, Ingvar

Carlsson, maintained that "neither membership nor the status of observer in WEU is of topical interest". In the October 1994 policy statement of the new social democratic government, WEU is not mentioned; it is felt that Swedish membership in the European Union is a factor which in itself provides a certain security guarantee even without Swedish membership in the WEU. One can expect that following a positive outcome of the referendum on EU membership (13 November 1994), the debate on WEU will become more intense. Most probably, Sweden will become an observer in WEU if it joins the EU.

Finland. In contrast to Sweden, discussions on the security aspects of EC/EU membership have been very open in Finland. The latter was the first neutral country to establish official contacts with NATO's North Atlantic Cooperation Council. When explaining its decision to apply for EC membership, the Finnish government stated that membership in the WEU was not a precondition for membership in the European Community. Finland's future decisions in this respect "will depend on how the role of the Western European Union in carrying out the foreign and security policy of the European Community is elaborated". Indeed to Finland, NATO appears to be a Cold War institution and participation in it would be problematic from the point of view of neutrality. On the other hand, WEU's real impact on security is doubtful and the organisation's credibility is rather low.

In any case, in August 1993, President Koivisto pointed to the fact that through EU membership Finland will also have ties with the Union's defence cooperation. A month later, Prime Minister Aho from the Centre Party stated that:

"we are fully prepared to participate actively in the shaping and implementation of the common foreign and security policy as outlined in the Maastricht Treaty. We will be open to the various options in the offing.

This is also true when looking at our relationship with the Western European Union, which has been given specific responsibilities in the Maastricht Treaty. We will take appropriate decisions in the light of the development of the defence dimension and, in broader terms, European security structures." (See Aho, 1993).

For the Finnish Defence Minister, Elisabeth Rehn, membership in WEU and even NATO is not excluded in the future. But at first, Finland should become an observer in WEU when joining the European Union. It seems that Finland's 1300 km long border with Russia is an important catalyst for the open discussion of security alternatives.

Norway. As member of NATO, Norway has been granted associate status in WEU. The two options available for Norway if it joins the EU could be either to become a member of WEU or to obtain observer status. Becoming an observer would definitely be a step backwards, since this status would give no voice for Norway in WEU. It seems this is the reason why the social democratic government has made clear statements that Norway will join WEU should the country become member of the European Union. Along this line, on 25 October 1993, in his last Foreign Policy Statement to the *Storting*, Foreign Minister Johan Jorgen Holst outlined his reasons for supporting EU membership:

"full participation in the common foreign and security policy of the future EU is in keeping with Norwegian interests and is one of the mainsprings of our application for membership...in a Europe no longer divided into blocs, it may now be possible to bring the Nordic countries together under one roof in the EU...so that we can take collective responsibility for developments in our own part of the world."

3.3 Attitudes towards NATO

Finland. Finland was the first country to get into a formal relationship with the North Atlantic Cooperation Council (NACC) established by NATO in December 1991. On 5 June 1992, a Finnish delegation was admitted as "observer" at the NACC meeting in Oslo. According to President Koivisto, Finland has got useful information on the development of the military situation in areas adjacent to it by participating as an observer in meetings of the NACC.

The developments in Russia, in particular the strengthening of the nationalist and communist elements, intensified the discussion in

Finland on the security aspects of EU membership. Some thought that WEU membership would not be sufficient and argued for joining NATO. In October 1993, the government saw no urgency in considering NATO membership, but did not exclude accession to NATO in the future. Social Democrats dismissed NATO membership and demanded that adjustment to the coming EU security cooperation should proceed according to Finland's economic and political possibilities.

As early as January 1994, the Finnish government voiced a positive opinion on participation in the PfP. On 9 May 1994, at the same time as Sweden, Finnish Foreign Minister Heikki Haavisto signed the PfP Framework Document. According to Haavisto, Finland supported the objectives of PfP to "expand and intensify political and military cooperation throughout Europe". It was "particularly important to enhance the capacities of the United Nations and the CSCE in the field of peacekeeping and humanitarian operations". Through participation in PfP activities "Finland is not seeking a new defence solution. Finland pursues a policy of military non-alliance and independent defence".

In the Presentation Document the government listed the areas of cooperation which were of interest for Finland:

- cooperation in the field of peacekeeping, primarily providing peacekeeping training;
- cooperation in search and rescue as well as in humanitarian operations;
- visits and educational exchange;
- cooperation in the field of the environment.

Austria and Sweden. Austria and Sweden have no formal relations with NACC, but they participate in the NACC Ad Hoc Group on Cooperation in Peacekeeping.

Sweden. Whereas NACC was basically intended for consultations between NATO and the countries of the former Soviet bloc, the invitation to the PfP was extended to the states participating in NACC and other CSCE countries. PfP was immediately welcomed by the Swedish Foreign Minister, Margaretha af Ugglas. PfP "offers unique opportunities for cooperation between East and West" and it "can be seen as an aspect of the efforts to achieve a peace order based on a system

of collective European security".

On 24 March 1994, the Swedish government decided that Sweden will participate in PfP. The Foreign Policy Committee of the Swedish Parliament accepted the proposition of the government. The opposition Social Democrats supported membership in PfP. But the Committee also stressed the maintenance of Swedish nonalignment according to the formula of May 1992 .

At the signing of the Framework Document for Swedish participation in PfP on 9 May 1994, Foreign Minister af Ugglas saw PfP as particularly attractive for Sweden because it is characterised by openness and because no state is excluded. PfP cooperation can ensure that future peacekeeping operations are both safer and more efficient.

In its Presentation Document, in which each PfP partner indicates the scope and level of its cooperation activities with NATO, Sweden offered the following selection of contributions:

- course on Sweden's total defence concept, including democratic control of armed forces;
- training in military budget processes;
- courses focusing on peacekeeping operations for staff officers, officers at platoon/company level, and civilian police;
- seminar organised by the National Defence Research Establishment on questions of current interest within peacekeeping operations, for example equipment aspects course in leadership and officer ethics;
- exercises for humanitarian operations and search and rescue;
- exercises for dealing with oil pollution at sea (the Baltic Sea);
- exercises in naval cooperation concerning search and rescue;
- Swedish participation in an exercise in peacekeeping operations together with other countries;
- support for building up peacekeeping capacity in other countries, primarily the Baltic states.

The Swedish Presentation Document stressed that PfP constitutes an important contribution to the endeavours to fulfil UN and CSCE objectives. In addition, it was established that, in pursuing its policy of

non-participation in military alliances, Sweden shared the fundamental values of the Partnership. In October 1994, Sweden, Russia, Lithuania and Poland participated in NATO naval exercises in Norway for the first time.

Austria. In Austria, the leader of the right-wing, nationalist Freedom Party (FPÖ), Jörg Haider, started to demand Austria's NATO membership in August 1992. Austria would need membership in a military alliance for its security. On the other hand, Haider became critical of Austrian EC/EU membership. The senior party of the government, the Social Democrats, rejected this demand out of hand. The foreign minister from the Conservative Party, the junior partner in the government, Alois Mock, pleaded for "pragmatic steps". The Austrian government was divided on the in PfP issue - the Social Democrats against, the Conservatives for participation. Only in September 1994 did Chancellor Vranitzky support Austrian participation in PfP as well. It is expected that Austria will join NATO's PfP at the beginning of 1995.

3.4. EFTA and the future of the CSCE

The EFTA countries have never formed a distinct group within the context of the Conference on Security and Cooperation in Europe (CSCE). During the Cold-War era, some of them were part of the neutral and non-aligned (NNA) caucus, whilst the others participated, as NATO members, in the negotiating strategy of the Western group. Norway, in particular, has basically shared NATO's emphasis on the bloc-to-bloc orientation of the CSCE exercise.

The NNA group--to which Austria, Finland and Sweden belonged--was itself far from being homogeneous. Indeed, it was a phenomenon strictly limited to the CSCE context. Furthermore, the individual countries offered largely different interpretations of their neutrality or non-alignment status. However, all of them attached great importance to the CSCE as a cooperation instrument which transcended and, in the future, could help overcome--the bloc division of Europe. They have thus been constantly active in calling for a reinforcement of the procedures and operational capabilities of the CSCE. Austria and Finland, in particular,

in their search for a new security structure in Europe, have manifested a keen interest in the potential of the pan-European process since its very beginning.

Within the CSCE, the NNA countries played an important role as "honest brokers" between the East and the West. Indeed, this mediatory role was somewhat recognized and sometimes openly encouraged by the two blocs, especially when they were sincerely seeking possible compromise solutions. More generally, the NNA action contributed, on several occasions, to the establishment of a climate favourable to compromise.

It must be noted that the development of the CSCE process has stimulated a gradual Europeanization of the foreign and security policies of neutral EFTA countries; in fact, the CSCE had long remained the only institutional context in which they were called upon to develop a truly European approach, and abandon isolationist tendencies. This is particularly true for Finland and Sweden where these tendencies had emerged from time to time. In retrospect, the historically propedeutic importance of the CSCE experience for the neutral EFTA countries appears all the more crucial now, as with accession to the EU, some of them are confronted with the prospect of a far more demanding Europeanization process.

The EFTA countries have also paid increasingly close attention to the Twelve's policy towards the CSCE. In the last few years Austria, in particular, has constantly sought to establish a coordinated approach with the EC before the most important CSCE meetings.

Following the end of the Cold War, the NNA group dissolved, as it had lost relevance for the CSCE process. Indeed, as pointed out above, neutrality itself has progressively become less attractive as a basis for an effective national security policy. In the meantime, the Twelve have acquired growing political weight within the CSCE. As one of the two remaining political caucuses--the other being NATO--the EC proved to be a leading actor of the CSCE institutional process which was set in motion at the 1990 Paris conference and which has since continued to be in a state of flux. In recent times the Twelve have intensified efforts to coordinate their CSCE policies, trying to speak with a single voice in

crucial negotiating sessions. The policy to be pursued within the CSCE had traditionally been placed near the top of the EPC agenda. After the launching of the CFSP it was included among the areas for common action. The Union is also trying to obtain an official statute within the CSCE.

However, it must be noted that in practice the Twelve have often failed to elaborate a sufficiently coherent common strategy on the CSCE issues. This can be partly attributed to the structural weaknesses of the CFSP coordination and decision-making mechanisms. But coalition-building itself has become rather a free game in the CSCE, which often leads to issue-related alliances cutting across the established caucuses. This is certainly not a new trend, but it has recently become accentuated. On several occasions, individual EU countries have chosen to promote or be part of *ad-hoc* coalitions comprising non-EU members, in particular one or more EFTA countries. Though this phenomenon may be judged negatively from the point of view of EU credibility as a single actor, it has contributed to an increasing dialogue with the EFTA countries on the CSCE policies.

In general terms, a credible EU commitment to a strengthening of the pan-European process centred on the CSCE appears to be one of the key conditions for attenuating the problems which the accession of the neutral EFTA countries to the Union could create in the CFSP field. The more consistent and effective this commitment will be, the easier the task of persuading those countries to give their support to a reinforcement of the CFSP mechanisms. As noted above, public opinion in the neutral EFTA countries continues to support the neutrality principle. The Union will have to convince the people of these countries that EU enlargement is connected with a serious effort to promote further development of pan-European cooperation.

Although the debate on the role of the CSCE in the European security system has intensified in view of the decisions which will have to be made at the Budapest Summit (5-6 December 1994), the overall future of the pan-European organization remains a highly controversial matter. There is a large consensus that the operational capabilities of the CSCE should be strengthened. In particular, the need is widely felt for substantial improvement of the enforcement mechanisms to be applied

to the state or states which have violated one of its principles. The fundamental dilemma underlying the current debate on the CSCE is how it should be reformed along these lines without altering its unique character as a cooperative security organization whose action is based on the broadest possible consensus of its member states.

This dilemma is particularly relevant for the EFTA countries, including Norway. In fact, they are in favour of giving more power to the CSCE, but want to maintain its basic cooperative nature. In particular, they have always stressed the need to ensure equality among the member states--which is, indeed, a fundamental principle of the CSCE--providing the smaller states with adequate guarantees safeguards against the risks of the predominance of the most powerful ones.

For this reason, they firmly oppose Russia's proposal to change the CSCE decision-making mechanisms radically by setting up a governing body with limited membership (Executive Committee), modelled on the United Nations' Security Council. The EU has also officially rejected this idea, emphasizing the fact that the CSCE is the only European security organization in which the member states participate on an equal footing. Thus, there is apparently full convergence on this crucial point between the EU and the EFTA countries. However, it must be noted that proposals for establishing a CSCE decision-making body with limited membership were also made by EC countries in the past. Germany, in particular, has long flirted with this idea (former Foreign Minister Genscher was one of its most ardent advocates). Other EU countries could be tempted to play the CSCE card to ensure Russia a greater say in European affairs as compensation for eastward enlargement of the EU and NATO. The participation of the EFTA countries in the CFSP is likely to reinforce the current Union's official policy aimed at preserving a CSCE structure capable of ensuring equality among the member states. The basic orientation of both the EU and the EFTA countries is towards accepting further exceptions from the consensus rule (in particular, the Budapest Review Conference is considering the introduction of the principle of the self-declared, non-interested state which voluntarily renounces the right to participate in decision-making on a given issue).

Russia is also seeking to obtain CSCE coverage of its increasing military activities in the so-called near abroad. Although these activities have a

declared peacekeeping purpose, they are becoming a growing source of concern for many countries as a possible sign of a renewed Russia's expansionistic drive. The Nordic EFTA states, particularly Sweden and Finland, have repeatedly expressed their concern about this trend. They fear that it could sooner or later also affect the Baltic region. At the request of Moscow, the CSCE Rome Council introduced the possibility of third-party involvement in CSCE-sponsored peacekeeping activities but subjected it to very strict conditions. The issue is currently being discussed at the Budapest Conference. The Western countries are strongly reluctant to make further concessions to the Russians on this subject. The EFTA countries are even more resolutely against granting Moscow special rights in the near abroad. One can expect that, as EU members, they will act to prevent the Union's acceptance of Russian claims on the near abroad.

More generally, all the EFTA countries expected to join the EU have paid particular attention to the prospect of peacekeeping operations under the auspices of the CSCE and have valuable experience participating in UN peacekeeping. Indeed, the most effective division of labour to be established in this field between the CSCE and the UN is today a subject of interim discussion. The question is indeed very controversial. In a joint proposal, Germany and the Netherlands have suggested that the CSCE should gradually build up its overall crisis management capabilities, referring a matter to the UN Security Council if its efforts should be frustrated. Given their deep-rooted attachment to the UN, the EFTA countries are likely to favour a shifting of responsibilities for crisis management in Europe from the UN to the CSCE only on the basis of a clearly established cooperation link between the two organizations.

The EFTA countries fully share the idea of reinforced CSCE capabilities in the field of early-warning and crisis prevention. This is indeed the field in which the CSCE has the most promising comparative advantages with respect to the other security institutions. In a recent proposal, jointly presented with Hungary, Austria has called for the establishment of a CSCE Advisor on Issues of Stability and Security (AISS) who would deal with tensions not related to national minority issues that have not yet developed beyond an early warning stage, but that could potentially provoke conflict. The CSCE crisis prevention action has proved to be particularly important for the Baltic region; for

example, the intensive diplomatic efforts of the CSCE High Commissioner on National Minorities were instrumental in preventing exacerbation of the inter-ethnic conflicts in the Baltic republics. Given their interest in strengthening the CSCE non-intergovernmental bodies, the four EFTA countries also support the idea of enlarging the mandate of the Secretary-General of the CSCE.

In general, the EU debate on CSCE reform will certainly benefit from the participation of the four EFTA countries, which have always paid close attention to that subject. The contribution of the four EFTA countries to CSCE diplomacy has always been remarkable. The recent Swedish chairmanship has widely been considered a success. Sweden, Austria and Finland have all hosted CSCE conferences of historic importance. Furthermore, there is today a clear tendency to concentrate the CSCE activities in Vienna; thus, with the accession of Austria to the EU, the main capital of the CSCE will be on the Union's territory.

In the future the EU could be asked by the CSCE to play an operational role, as has already been the case, albeit with not very encouraging results, in the Yugoslav crisis. The effectiveness and credibility of the EU as monitoring and mediating actor under a CSCE mandate would certainly be improved by the participation of the four EFTA countries, as these countries have acquired a special creditworthiness of impartiality. The same holds for possible future responsibilities of the Union under the aegis of the CSCE in the fields of peacekeeping and the verification of arms control agreements. For both these tasks, the EU would act mainly through the WEU, but the new members could participate on a case-by-case basis.

Finally, the strategic importance of the Nordic region for the EU would considerably increase with the entry of Finland, Norway and Sweden into the Union. So far, the major arms control agreements stipulated within the context of the CSCE have had a limited impact on the strategic situation of the area. At the same time, as noted above, a series of developments have exacerbated its security problems. Thus, the Union would probably be asked for a more active policy towards those problems. The most important CSCE instrument for dealing with regional security issues is the Forum for Security Cooperation (FSC), on which many member states are concentrating growing attention. The

nordic EFTA countries, in particular, have manifested a keen interest in a better use of the FSC in view of the establishment in the Baltic area of an arms control and confidence-building measures regime aimed at eliminating regional instabilities and defusing the related tensions. Support for this goal would be a natural choice for the enlarged EU. More generally, the EU, after the accession of the four EFTA countries, would inevitably have to pay closer attention to the CSCE as promoter of stability in the Baltic region.

PART FOUR

CONCLUSIONS

The influence of the EFTA countries on the political and institutional future of the process of European integration was also an issue in the pre-1989 European scenario, when some EFTA members (beginning with Austria) started to consider applying to the EC in the wake of the great success of the Single European Act and its main objective of the 1992 internal market. At that time, doubts were emerging within the Commission and among some governments of the Twelve about the obstacles that the strict neutrality status of some EFTA countries could have presented on the road towards a European defence policy, which was believed to be necessary in order to complete the process towards full political integration of the former Community.

But the geostrategic situation was still the old-fashioned one, with an Europe divided into blocs (albeit less cohesive) and with neutral states outside any form of aligned security institution or policy. Even economic cooperation with Eastern Europe was carefully treated and confined to bilateral policies. Thus, the entry into the Community of some Eftans would have put a stop to the plans of creating a European defence pillar within NATO, without adding a clearly different political meaning to relations with the Eastern countries.

The same question arises again today, but in a drastically new economic, security and even geostrategic environment. In recent years, the political landscape of the European continent has been transformed beyond expectations, involving processes of both integration and fragmentation. New forms of cooperation, association and disassociation have come to life. Though this has taken place mainly in eastern Europe, it has had major repercussions in the EU. In fact, the EU has increasingly become the centre of the attention and subject to strong pressures-- internally with the Maastricht timetable, and externally with continuing requests to open its doors to newcomers from the north and east. In this new context, neutrality has assumed a completely different meaning, losing much of its rigidity in terms of practical applications; this has allowed the EFTA countries to start a process of progressive "Europeanisation"

(Saeter, 1992).

4.1 The Enlarged EU and Economic Relations with the CEECs

A first set of questions regards the impact of the Eftans on the CEECs' prospects for approaching the European Union. Though the Eftans and the CEECs are in very different economic positions, they have the same goal: EU membership.

EFTA countries have a long tradition of economic relations with the CEECs. Particularly in the post-1989 scenario, the Eftans have tried to act as a kind of "antechamber" to the EU for the CEECs. EFTA was able to grant to the CEECs more favourable treatment in sectors like agriculture, textiles, fish, and with regard to some industrial products. Most of these sectors are extremely important for the trade of the CEECs, which will presumably do their utmost to maintain the degree of liberalisation granted to them under the EFTA Free Trade Agreements. It can be expected that their respective interests will provide for difficult negotiations following the accession of the new members, all the more so because the EFTA countries concerned and especially Austria are important trading partners for the CEECs.

Thus, EFTA countries applying to the EU bring with them their strong and well-established trade and economic links with the CEECs, thereby increasing the trade statistics of the EU with these countries substantially and tying their economies closer to EU.

But the orientation of the CEECs is increasingly directed towards the EU. The Europe Agreements have resulted in strengthening trade relations between the EU and CEECs, even in a year of recession like 1993. As indicated in Part 1 of this study, "an examination of trade figures between the EU and the CEECs and their comparison with those of EFTA reveals that overall trade has been much higher (5 times the EFTA figure in 1992) but also the share of trade with the CEECs in the EU's overall trade in 1993 continued to increase in spite of the recession in the West (imports rose from 3.9% to 4.2% and exports from 4.9% to 5.3%)".

4.1.1. Institutional relations of the enlarged Union with the CEECs: towards a more complex model of European integration?

Equally important and partially as result of the economic integration just described, is the political influence that the new EU members will have on working towards more open trade, economic and institutional relations with the CEECs. EFTA countries largely support the CEECs's desire for a political anchor in the West, but favour gradual economic integration. Some scholars (Nutti, 1994) suggest that a possible alternative to the present agreements between the EU and the CEECs (generally considered a "waiting room" until full accession is achieved) could be an "unequal or partial membership". Such discrimination could be seen as unfair and therefore rejected by the CEECs for political reasons. But one could argue that this kind of disadvantage to the CEECs is to be preferred to the disadvantages currently deriving from their current exclusion from the EU.

Clearly, the evolutionary character of the EU and the transition of the CEECs towards a market economy must be taken into account when shaping future relations between the EU and the CEECs. Two possible options may be envisaged:

- the creation of a clear, legal framework and the establishment of a deadline for full accession;
- the periodic revision of relations between the EU and the CEECs according to evolution of their economic relations (that is the current strategy).

The second option, which seems to be more realistic, is based on the assumption that Europe is in a phase of a continuous revision, which makes it difficult to set a precise target for the enlargement to the East at this time. Though the Twelve may agree with the Eftans that the expectations of the East Europeans are high, it must be recognised that West European responses will be hesitant because of the difficulty of defining a clear European identity--a process that will be further complicated by the 1995 enlargement.

Although it seems difficult for West Europeans to divert their attention from their eastern neighbours, it must be expected that some EU

governments will not be ready to tolerate more financial and economic burdens and to add other complex issues to an already contentious discussion about the future development of the Union. The search for an interim solution which could give the CEECs some benefits of membership without further complicating the EU decision-making processes is supported by the fact that the EU passed through the following stages: Customs Union (1958); Common Market (1968); Single Market (1986); Economic Union (1993). This will create a dilemma for those EFTA countries which for historical and geographic reasons have closer economic and social ties with Eastern Europe.

4.1.2. EEA and CEFTA in future relations between the EU and the CEECs

Hungary and Poland have already announced their intention to apply for membership in the EU. A possible interim stage on the road to full membership could be membership in the European Economic Area. As the 1996 IGC approaches, new discussions regarding goals and strategies to pursue in shaping the future of the EU are becoming urgent. This debate will have to take up the present taboo issue of "partial membership", which cannot be confined to involvement in the CFSP, as this is of little practical relevance.

As far as economic relations between the EU and the CEECs are concerned, three scenarios can be envisaged:

- *an association of Association Agreements*. This could be a solution for the regionalisation of the liberalisation of trade and investment granted by the Europe Agreements. Full membership will not be possible for about two decades because of problems in applying EU agriculture policies, structural spending programmes and trade in sensitive products, and the free movement of labour (Baldwin 1994a). A global approach limited to CEECs has been suggested to replace the bilateralism of the "hub and spokes" of the Europe Agreements in order to prevent them from restricting the potential for intra-regional trade among the CEECs, a process which has begun with the Central European Free Trade Area (CEFTA). But the CEFTA is so far not regarded as an effective counterbalance to the negative bilateral effects of the Europe

Agreements. When CEFTA was negotiated, the Eastern countries were very reluctant to cooperate among themselves because such cooperation was reminiscent of the old COMECON and they feared it would reduce their chances for entering the EU individually.

- *EEA membership*. This would be an attempt to counterbalance the present conflicting elements of the Europe Agreements through a multilateral policy coordination. The Commission, in its Communication to the Council (Com94-361 final), seems to be pushing for an introduction of common competition rules and a competition authority along the lines of the EFTA surveillance authority, as in the direction of an EEA.
- *second-tier EU membership*. In such an arrangement, the CEECs would be excluded from the CAP, structural funds, labour mobility, and voting. This has the disadvantage that it would confer a less privileged status than the one offered by the EEA.

4.2. EFTA and the New Security Challenges in Europe

A second set of questions relates to the future relations of an enlarged EU towards the WEU, NATO and the CSCE, and to how the Eftans are going to affect the development and evolution of these institutions. As pointed out at the beginning of this chapter, the Eftans' political security interests have progressively come to prevail over their economic motivations for EU membership. This is essentially the result of the changing character of the European security scenario as a whole.

The members of EFTA began to wonder about their position in this changing Europe particularly as they approached a Union that, for the first time since the failure in the distant European Defence Community of 1954, had officially opened a chapter on defence with the Maastricht Treaty.

Together with the Twelve, the Eftans now share the basic analysis on the evolving security factors affecting the post-Cold War security and defence posture of Europe:

- the growing diversity of risks and challenges for which nations and institutions must be prepared;
- the need to tackle new crises with a comprehensive approach using the full combination of diplomatic, economic and military means;
- the question of the legitimacy of the use of force outside EU territory, not just for peacekeeping purposes;
- the increasing need for economising in view of diminishing resources (which implies a division of labour and transfers of sovereignty);
- the imperative for multinational structures to guard against renationalisation;

The above issues have all been openly discussed in the EFTA countries, both among themselves and with the Twelve. Thus, there is considerable convergence in the viewpoint of the EU and the Eftans, including the neutral ones. In addition, the Eftans bring their own perceptions of security, which will influence the debate on new risks and challenges of the Union. Among these is the need to adopt a cooperative security policy with Russia--a feeling widely shared within the Union (especially by Germany). At the same time, however, the Nordic countries attach a great importance to the protection of the Baltic states (from Russia) and are willing to extend the future security guarantees to them. Finally, the neutral EFTA states could also enrich the security policies of the EU because they traditionally have close personal and diplomatic ties with the CEECs; moreover, all the neutrals have long-standing experience of peacekeeping activities, and they are in the process of revising the concept of intervention in the direction of peace-enforcing.

4.2.1 New responsibilities for the enlarged EU: overcoming the old concept of neutrality

Given the factors listed in the preceding section, there is a mix of endogenous and exogenous EU interests pushing towards a common defence. The most significant of these are listed below:

- the growing role of regionalism in global affairs;
- the progressive US disengagement from Europe;
- the new concept and instruments of comprehensive security;

- the qualitative difference in the meaning of any future EU enlargement with respect to a reinforced foreign and security policy of the Twelve;
- the new role that the concept of integration is bound to play in the future pan-european architecture.

There is not yet a clear or univocal position on these issues from either the established EU members or from the Eftans. For the latter, however, the situation is much more complex, primarily because of their tradition of neutrality. Differences between EU and EFTA countries centre around the means and procedures to be adopted to respond to new challenges and to take on new responsibilities.

First of all, account must be taken of the fact that public opinion in the EFTA countries still supports a traditional national foreign policy and the advantages of playing a "neutral" role. In fact, domestic politics reduce the governments' leeway on security policy. Neutrality (or at least nonalignment) is still popular among the voters. In Finland, only a relative majority agreed with the statement: "neutrality has changed its significance so much recently that it does not make sense to hang on to it" in spring 1992 (46 percent agreed, and 34 percent disagreed); in autumn 1993 the majority was reversed (39 percent agreed and 44 percent disagreed); in autumn 1994 neutrality was again seen less favourable (45 percent agreed and 34 percent disagreed) (Centre for Finnish Policy Studies, 1994).

Tradition among the social democrats in Sweden and Austria, and also among the centre parties (formerly agrarian parties) in the Nordic countries, still supports neutrality. These political groups have a long way to go in abandoning the "going it alone" approach in their national security policy. On some occasions their representatives agree to abandon neutrality when a working system of *collective security* is developed in Europe. But it is doubtful that such a system could ever evolve. What NATO/WEU represent are systems of *collective defence*.

4.2.2. *Full acceptance of CFSP*

Although popular support for the concept of neutrality and the tactical

interest of EFTA governments of not disturbing the referendum campaign provide a formidable obstacle to the clarification of the security attitudes of the new candidates, it must be said that they have fully accepted the provision of Maastricht under Title V. This decision marks a great difference even with Denmark, a well-established member of the Union: Denmark does not participate in the elaboration or implementation of decisions and actions of the European Union which have defence implications, but will not prevent the development of closer cooperation between EU member states in this area.

The acceding EFTA states have not attained Denmark's special status. Many groups which at the beginning of the accession process wanted to avoid involvement in security matters have started to realise that, given the (potential) military conflicts in Eastern and South-Eastern Europe, EU membership will enhance their security. According to the leader of the Finnish Social Democratic Party, EU membership would improve Finland's security by making the political, diplomatic and economic resources of the EU available in any conflict situation. Basically, however, it is through enhanced stability that Finland gains from the growing role of the European Union.

4.2.3. Attitudes towards WEU, NATO and CSCE

The acceding countries (with the probable exception of Norway) will become observers in the WEU after joining the Union. Thus the number of EU countries which are not full members of the WEU will increase, which will make a merger of the WEU and the Union in the coming years less likely and will possibly also affect their close relationship. In addition, discussions in the 1996 IGC conference concerning the CFSP provisions of the Union Treaty could become very complex.

If the WEU wishes to maintain its function as NATO's European pillar, membership in it must entail simultaneous accession to NATO. Furthermore, WEU membership alone cannot really guarantee a country's security; only NATO membership can give full security. Since none of the neutrals wishes to become a full WEU member in the immediate future, these circumstances will not cause severe problems. In Austria and Finland, however, there is a tendency to seek only WEU

membership. This can be understood from a psychological point of view (the step from neutrality to NATO membership would be simply too great) as well as from the perspective of power politics. Russian officials clearly worry about the prospects of NATO membership for Finland, although they welcome Finnish membership in the EU. Membership of the neutral EFTA states in the EU will also add a new factor to the discussions on the WEU-NATO relationship.

The participation of Finland and Sweden in the Partnership for Peace, unlike that of the CEECs, is not intended to lead to NATO membership. Many officials in the neutral countries that are about to join the European Union feel that their countries are not *demandeurs* in (military) security matters. But time and experience may change these attitudes. EU membership will teach many lessons in cooperation; it remains to be seen whether there will be a spillover effect in security matters as well.

In this regard, EFTA and EU participation in the CSCE is a good sign as there is a potential for mutual reinforcement of the security concept in this context. A credible and convinced EU commitment to the strengthening of the pan-European structure around the CSCE could ease certain problems which might derive from the implementation of the CFSP rules. The more consistent and effective this commitment will be, the easier the task of persuading the Eftans to give their support to a reinforcement of the CFSP mechanisms. On the other hand, an EU enlarged to the EFTA countries will gain weight and credibility within the CSCE. In the future, the EU could again be asked by the CSCE to play an operational role, the effectiveness of which will be enhanced by participation of the Eftans as they have a tradition of impartiality.

4.2.4. Towards a new EU security structure? The contribution of the EFTA-4

Two critical dates will determine the future shape of the security and defence policy of the Union: 1996, when the Revision Conference of the Treaty of Maastricht is scheduled, and 1998, when the WEU Treaty expires. The latter will be significant only if the WEU does not become an "integral part of the European Union" by 1996, that is, if the WEU continues to be parallel to (meaning institutionally separate from) the

EU--a scenario which would not fully respect the original spirit of Maastricht, as stated in art. J 4, comma 2 of the Treaty.

In any case, the basic question is how the Revision of Maastricht should be oriented to achieve an effective defence policy for the European Union. Five preconditions may be identified as follows:

- a strong political will to redirect the process of European integration toward defence by putting less emphasis on economic integration (which has traditionally been considered a priority since the establishment of the Community); politics must be brought into the forefront once again. It is very difficult to predict the position of the next members of the Union on this precondition for two main reasons: the first is that there is not full agreement on this point by even the present members of the Union, Denmark being a case in point; the second is that there is not much time before the 1996 deadline, and a complete reversal of the Efta governments in favour of European defence will not be supported by public opinion in those countries. On the positive side, it must be kept in mind that the Eftans have come a long way in moving from their strictly economic motives for EU membership to embracing the larger political and security objectives that come with participation in the EU today.

- a stronger trend towards a progressive communitarisation of the institutional procedures in the defence field through the following: joint actions by majority voting, a greater role for the European Parliament, common budgetary procedures, etc. But the "communitarisation" of European Union policies, both old and new, remains an open question for now. Maastricht represents a clear example of the difficulty of applying the concept of "communitarization" to a variety of different fields of action and common policies, that is, difficulty in the progressive passage from functional integration in the economic field to procedural convergence in the foreign and security policy camps. In fact, Maastricht continues to maintain a different legal approach in the two fields, essentially leaving the CFSP in the realm of the classical intergovernmental approach (albeit with some minor concessions to the communitarian method). The risk is that of creating competitive decision-making processes in the two fields of cooperation and weakening the efficacy of the Community's external role, as has been amply demonstrated in the case of the ex-Yugoslavia.

The Eftans consider full acceptance of the present form of CFSP an ambitious target and it is unrealistic to think that they will be ready to go further, for the reasons that are indicated above. But they will probably bring the Union their pragmatic spirit and sense of discipline, which could reinforce some practical security tools, like joint actions and peacekeeping operations.

- an improvement in the operational capability of a common defence through the creation of a European WEU Command, the full integration and multilateralisation of the Eurocorp, and the establishment of a European Armament Agency. In other words, there is a need for machinery capable of responding effectively to the new security and military engagements. But the present reluctance of the EFTA countries to become full members of WEU will for the time being lead to a two-speed Europe in this field, though some practical operations may be carried on in common (mainly peacekeeping).

- the creation of an international role for the EU in the security field through the WEU, and through the promotion of regional alliances with countries or groups of countries (e.g. the EU and CFSP group-to-group policy.) Alliances could be formed with the Maghreb, Russia, the Gulf Council, Egypt, etc. Essential here is the role of external projection of a common defence policy, aiming to create confidence and cooperation among groups of countries.

EFTA countries could be very cooperative and effective in such activity. Their interest in creating a larger security net is very clear, particularly with regard to the Caucasus, the Baltics and Russia. Thus, we can expect a strong push from the new members of the Union in this direction.

- the transformation of the relationship between Europe and United States should be into a new kind of special partnership both outside and within NATO (a "hard core" of WEU members and the US within NATO, the appointment of a European Permanent Representative for security policy to the White House). In particular the following should be ensured when reforming NATO: a) a high degree of cooperation between Europe and the US, b) a status as the privileged Atlantic interlocutor of Russia and the CIS; c) a logistic infrastructure for common out-of-area operations.

This is in line with the perception of the Eftans that the Euroatlantic

dialogue is an essential part of the future European security scenario. They seem ready to upgrade the political and security dialogue with Washington, provided they are not requested to participate fully in NATO (this does not apply to Norway, as it is already a NATO member). A more balanced dialogue between the Union and NATO is in their view a precondition for the establishment of a pan-European security architecture, which, among other things, may coincide with the interests of the Union.

All of the above call for a reinforcement of the political character of the enlarged European Union. Whether the future EU members from EFTA will be among those which will not accept the practical consequences of such reinforcement is not clear. Their striking move toward the Union and the positive contribution that they will bring to its foreign and security relations must be considered a good starting point for the elaboration of new models of European integration, less conditioned by strong ideological attitudes.

SELECTED BIBLIOGRAPHY

Aho, E. *Finland's European Policy*. Keynote Address by the Prime Minister of Finland at the Wilton Park Conference on "Enlarging the EC: the Impact of EC Policies on New Members and Neighbouring States". Helsinki, 16 September 1993, Press Release of the Ministry for Foreign Affairs

Antola, E. "The Burden of History: Finland as a Status Quo Country", *The International Spectator* IAI No. 3 1994

Baldwin, R. *An Eastern Enlargement of EFTA: Why the East Europeans Should Join and the Eftans Should Want Them*, Center for Economic Policy research, November 1992

Baldwin, R. *Towards an Integrated Europe*, Centre for Economic Policy research, 1994a

Baldwin, R. *The Economic Logic of EFTA Countries Joining the EEA and the EC*, EFTA, Occasional Paper, November 1992

Baldwin, R. *Pan European Trade arrangements beyond the year 2000*, CEPR, London 1994b

Baldwin, R. *The Potential for Trade Between the Countries of EFTA and Central and Eastern Europe*, EFTA, Occasional Paper, June 1993

Barberini, G. Ronzitti, N. *La Nuova Europa della CSCE*, Franco Angeli, 1994

Bericht der Bundesregierung an den Nationalrat und den Bundesrat über die zukünftige Gestaltung der Beziehungen Österreichs zu den Europäischen Gemeinschaften. Wien, 17 April 1989, III-II3 der Beilagen zum Stenographischen Protokoll des Nationalrates, Translation by Paul Luif

Center for Finnish Business and Policy Studies, *Finnish EU Opinion*, Helsinki, Autumn 1994,

Commission of the EC, *The Europe Agreements and Beyond: A Strategy to*

Prepare the Countries of Central and Eastern Europe for Accession, Com (94) 320 final - Communication from the Commission to the Council, Brussels 13.07.94

Commission of the EC, *Follow up to Commission Communication on "The Europe Agreements and Beyond: a Strategy to Prepare the Countries of Central and Eastern Europe for Accession"*, Com(94) 361 final - Communication from the Commission to the Council, Brussels, 27.07.94

Commission of the EC, Directorate general for Economic and Financial Affairs, 1993 - Economic Papers, *EC Enlargement and the EFTA Countries*, by Cristopher Sardelis. - Brussels

Commission Opinion, Brussels: 1 August 1991 (SEC91-1590 final), *Translation of the Austrian Letter of Application for Membership*

Documents on Swedish Foreign Policy 1961, "*Speech by the Swedish Prime Minister at the Congress of the Swedish Steel and Metalworkers' Union*", 22 August 1961

Ems, E. *The Role of EFTA in European Economic Integration*, Geneva, EFTA Occasional Paper No.40 October 1992

European Parliament, *Report of the Committee on Foreign Affairs and Security on Enlargement and Neutrality*. Rapporteur: Mr. Martin Holzfuss, 17 February 1994, PE 206.084/fin.

Ferreira, M.P *A Note on the Impact of Liberalization in the Nordic Countries Trade with Central and Eastern Europe*, Oslo, NUPI Working Paper, July 1994

Gasteyger, C. *Candidates for Integration: the Neutral and Central European Countries Facing the EC*, Geneva, Graduate insitute of international studies Programme for strategic and international security studies, Occasional Papers, 1992

Ghebali, V.Y, *La diplomatie de la detente: la CSCE, d'Helsinki à Vienne (1973-1989)*, Bruxelles, Etablissement Emile Bruylant, 1989

Government's decision Regarding the Communication to Parliament on Finland's Membership in the EC, Helsinki, 27 February 1992.

Guazzone, L. *L'Europa degli anni novanta: la geopolitica del cambiamento* a cura di Laura Guazzone, Milano, F. Angeli, 1991

Gros, D. Ludlow, P. *The European Union and the Future of Europe*, CEPS, Brussels, 1992

Holst, J.J. *European Security: a View from the North*, Oslo, NUPI, 1990

Jopp, M. *The Strategic Implications of European Integration*, Brassey's IISS, Adelphi Papers, July 1994

Keatinge, P. *The Foreign Relations of the Union* in: Patrick Keatinge (ed.), *Political Union*, Dublin: Institute of European Affairs, 1991

Knudsen, O.F. *Baltic Security: Domestic Factors*, Oslo, NUPI, 1993

Knudsen, O.F. *Subregional Security Cooperation in the Baltic Sea: Towards an International Regime on CSCE Principles*, Oslo, NUPI, 1993

Koteva, M. Ferreira, M.P. *Liberalizing East-West Trade, Effects on the Regional Structure of Exports from Central and Eastern Europe*, Oslo, NUPI, January 1994

Lipponen, P. "Finnish Neutrality and EC Membership", in: Sheila Harden (ed.), *Neutral States and the European Community*, London: Brassey's (UK), 1994

Ludlow, P. Berg, J. *The Fourth Enlargement: Public Opinion on Membership in the Nordic Candidate Countries*, Brussels, Centre for European Policy Studies, 1994

Luif, P. *Neutrale in die EG?: die westeuropäische Integration und die neutrale Staaten*, Wien, Braumüller, 1988

Neuhold, H. *The European Neutrals in the 1990s: New Challenges and*

Opportunities, Boulder, Westview Press, 1992 (Austrian Institute for International Affairs series)

Neuhold, H. "Security Challenges and Institutional Responses: an Austrian Perspective", *The International Spectator*, IAI No.3 1994

Nordberg, E. *The Baltic Republics: a Strategic Survey*, Helsinki, War College, 1994

Nuti, D. "The impact of systemic transition on the EC" in S.Martin , *The Construction of Europe - A Festschrift in honour of Emile Noel*, Berlino, de Gruyter, 1994.

OECD, *CEECs and Regional Economic Cooperation. Europe Agreements: a Comparative Analysis*, TD/TC/WP (93)64

Saeter, M. *European Union in the wider European setting*, Oslo, NUPI, 1992

Sæter, M. "Norwegian Integration Policy in a Changing World: The Primacy of Security", in: Brent F. Nelsen (ed.), *Norway and the European Community. The Political Economy of Integration*, Westport, CT _ London: Praeger, 1993

TEPSA, *Enlargement and the CFSP: Political Consequences*, Preliminary report for the European Parliament, October 1993

Wahlback, K. *Nordic and Baltic Security in the 1990s in European Security After the Cold War*, London:Brassey's for the IISS, 1994- Adelphi Papers

Wallace, H. and Wessels, W. *The EC and EFTA in the Wider Western Europe*, Geneva, EFTA, 1989

Wallace, H. *The Wider Western Europe: Reshaping the EC/EFTA Relationship*, London, Pinter, RIIA, 1991

Wijkman,M. *The European Free Trade Area Expanded? The European Community , EFTA and Eastern Europe*, Geneva, EFTA, Occasional, 1992

Wijkman, M. *A Role for EFTA in the Wider Europe?*, Geneva, EFTA, 1994