The ”Norwegian Model” of Association to the European Union
- A Comparative Study of Important Consequences

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Author:
Heidi Hjelseth Hansen ________________________________

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Supervisor: Finn Østrup

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Executive Summary

In this thesis the difference between being a highly integrated outsider to the EU as in the case of Norway, is compared to being a EU Member State as in the case of Denmark, Sweden and the United Kingdom. The focus are mainly on the power these countries have to influence the EU legislation that is affecting them, their annual financial contributions to the EU and other benefits and challenges in terms of trade and foreign direct investments.

It was found that Norway is highly integrated with the EU through a number of agreements, in particularly through the EEA Agreement and the Schengen Association. The main differences between Norway's agreements with the EU and these countries' EU-memberships are that Norway is not a part of the EU common commercial policy, the EU customs union, the common agricultural policy or the common fisheries policy. Norway is not a part of the EMU either, but neither are any of the countries in comparison. Moreover, the EU Member States in this analysis have differentiated memberships due to voluntarily opt-outs from EU-policies. Denmark and the United Kingdom in particular have a number of opt-outs that makes them less integrated with the Union and which affects their power to influence. In the thesis it was found that Norway is experiencing a democratic deficit and consequently has major challenges compared to these Member States in regards to the power to influence EU legislation. However, it is not that easy for individual Member countries to have a significant influence either. Larger EU countries such at the United Kingdom often have more power to influence legislation in the Union, but also find it difficult at times when their interest diverges from other members. Smaller EU members such as Denmark and Sweden use different strategies in order to strengthen their power to influence legislation, such as building alliances or using most of their resources on niche policy areas.

In terms of financial contributions, it was found that Norway has an advantage of being an outsider to the EU. The country contributes with a much smaller annual amount to the EU compared to these Member States. The EU countries contribute to the EU budget by a percentage mainly based on each Member States GNI (around 1%), whereas Norway contributes with financial mechanisms, payments for program and agency-collaborations and EEA/EFTA institutions among other things. If Norway was to become a part of the EU, the country would have to pay directly into the EU budget, and their contribution would be significantly higher due to the country's high GNI.

In regards to trade of goods and services it was found that trading with Norway can be considered more cumbersome, because of the differences in Norway's trade policies compared to the EU's policies.

Norwegian exporters and foreign companies exporting to Norway have to go through custom procedures such as import and export declarations, including rules of origin for all exported goods and payments of VAT. These procedures are eliminated between EU Member States. Furthermore, Norway has higher average tariffs on imported goods and services compared to the EU average. They also have a more restrictive FDI policy compared to these EU countries. On the other hand, this does not seem to affect their trade and investments with other EU countries in a negative way. The analysis found that Norway is highly integrated with trade of goods and services and FDI with EU countries. Norway's share of export to EU countries was larger than Sweden, Denmark and the United Kingdom's shares of intra export of goods in 2013. Also when excluding oil and gas from the export, the share of Norwegian export going to EU countries still exceeded Sweden and the United Kingdom's shares of intra export that year. However, Norway's share of imports from EU countries was not as high compared to these countries' intra imports. Only the United Kingdom's share of intra imports was smaller than Norway's share in 2013. In terms of trade of services on the other hand, Norway's share of trade with EU countries was greater than Denmark and the United Kingdoms' shares of intra trade in 2013. Clearly, Norway is highly integrated in terms of trading goods and services with EU countries. However, some studies have indicated that Norway's total export could have been higher if the country had been a member of the EU. Moreover, it was further found that Norway's total inward FDI stock represents a higher share of investments from EU countries compared to Denmark and the United Kingdom's stocks. Furthermore, Norway's outward FDI stock represents more investments from EU countries compared to all of these EU countries outward stocks. This implies that Norway is highly integrated in regards to investments with EU countries. However, Norway's total FDI stocks are quite low in percentage of the country's GDP compared to these Member States', with the exception of Denmark's inward stock that is smaller. But since Norway joined the EEA, they have liberalized their investment policy, and have experienced a higher growth rate of inward and outward FDI than most of these EU countries in recent years. Additionally, the country's recent FDI flows have been much more stable and strong during the economic and financial turmoil.

But even as Norway is well integrated in the EU and has great benefits with this association form in terms of trade and foreign direct investments, it is not likely that other countries will adapt the "Norwegian Model" any time soon. The model's success is largely based on Norway's resources, geography and history with the EU. Additionally, not many countries would accept the strong democratic deficit the country is experiencing due to this form of association to the EU.

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List of Abbreviations and Explanations

EEA- European Economic Area

EFTA- European Free Trade Area

Opt-outs- EU countries choice of opting out (not being a part) of selected EU policies

Intra trade- Internal trade between EU countries

Extra Trade- EU countries trade with third countries

FTAs- Free Trade Agreements

JCD- Joint Committee Decision

EPG- European Political Group

MEPs - Members of the European Parliament

MFN- Most Favored Nation

BITs- Bilateral Investment Treaties

1. Preface

In recent reports, Norway is considered both outside and inside the European Union, and in the words of the Council of the European Union; EU relations with Norway are "*very good and close*" (EEA Review Committee, 2012 and Hillion, 2011). Through a number of agreements, Norway is a part of a free trade area with the European Union, and shares equal access to the Internal Market of the EU (Lang, 2013). EU relations with Norway are driven by a fundamental interest of creating an environment as similar as possible to the Union, through export of its norms, laws and regulations (Hillion, 2011). The successful export of these EU *acquis* to non-member EU states such as Norway implies that the distinction between "insiders" and "outsiders" being increasingly blurred. This tendency is accentuated by the differentiated membership in the Union, whereby Member States are unequally integrated with various EU policies. Such differentiation stems to a large extent from individual Member States voluntary opt-outs from specific fields of the *acquis*. Moreover, the differentiated EU membership is further entrenched by the "enhanced cooperation", where Member States choose to precede a deeper integration in a defined area. The combination of differentiated EU membership and strong norm projection towards non-EU Member States means that in some cases certain "outsiders" are more integrated with the EU than some of the "insiders". According to a recent report by experts submitted to the Foreign Ministry, Norway can be considered one of them (Europautredningen, 2012).

1.1 Problem Specification

The objective of this thesis is to find out what the actual differences are between being a fully member of the European Union versus a non-Member State with a highly integrated relationship to the Union in some selected areas. For that reason, Norway is compared to the EU-Member States: Sweden, Denmark and the United Kingdom. Primarily, the thesis investigates Norway's power to influence EU *acquis* in comparison to these EU-Member States, how these differentiated EU-relations affect financial contributions to the EU, as well as the countries' trade and investment flows such as the share of the countries' trade and investments that goes to other EU countries. Hence, the research intends to find out whether not being a part of the EU has advantages or disadvantages in terms of influence, financial contributions, trade of goods and services and foreign direct investments. The research question is the following:

> **What does EU-membership versus highly integrated non-EU membership actually mean and in particular what are the consequences in regards to influence, trade of goods and services and foreign direct investments?**

This research question requires several steps of analysis and the thesis is therefore divided into different chapters covering different aspects of the EU relation in order for a structured and comprehensive analysis to be undertaken.

1.2 Structure

The thesis is divided into seven chapters and these chapters cover different areas of the EU relation. Chapter two “Integration and Influence in the European Union” covers Norway’s history and relation to the Union, the country’s main current agreement with the EU and discusses how Norway can influence EU legislation in these agreements. This chapter also discusses the differentiated EU-memberships of Sweden, Denmark and the United Kingdom, and how these EU-countries can influence EU legislation. A comparison of these countries’ integration and influence concludes chapter two. The main purpose of this chapter is to investigate how the different countries association and integration to the EU varies and how this affects their power to influence EU-legislation. Chapter three, four and five are more directed to some of the economic consequences of the association forms. Chapter three “Financial contributions to the EU” investigates the financial contributions these countries’ pay to the European Union. Norway’s financial contributions are compared to the EU-countries payment to the EU-budget. Chapter four “Trade of Goods and Services” investigates the countries’ trade of goods and services, including the trade policies for the EU and Norway, the countries’ trade flows of goods and services by trading partners and commodities/services, and investigates the share of the countries’ trade that goes to EU-countries. The main objective of this chapter is to find whether EU-membership has a significant impact on overall trade and trading partners. Chapter five “Foreign Direct Investment” investigates the countries’ FDI policies, FDI stocks and FDI flows. The chapter also examine how much of the countries’ inward and outward FDI that goes to EU countries. The main objective of this chapter is to find whether EU-membership significantly affect investments and investment partners. Chapter six, “The Norwegian Model-A Model for Others?”, discusses whether the agreements that Norway has with the European Union today is a fit for other countries and whether or not it is likely that third-countries or EU-Member States will adopt this model in the near future. Finally, chapter seven “Conclusion” discusses the main findings throughout the thesis.

1.3 Delimitations

In order to answer the research question as accurate and satisfactory as possible, a number of delimitations have been set. The thesis delimits from discussing the Economic and Monetary Union (EMU), and will therefore not include much discussion of fiscal policies, the European Central Bank or currencies and exchange rates. Furthermore, as Norway has a number of agreements with the EU, only the most relevant and important agreements will be taken into consideration and will be viewed using a holistic approach when comparing it to EU membership. Moreover, in terms of trade and investments, the thesis is delimited to focus on trade of goods and services and foreign direct investments. Other economic factors such as immigration politics, wage-levels, unemployment rates or productivity growth rates, etc. are not discussed due to the scope of the thesis. Moreover, because of the complexity of the European Union in general and the limited space of the thesis, the focus is mainly on Norway and it's integration into the EU in regards to influence, financial contributions, trade and investments, in comparison to the three selected Member States with differentiated memberships. These countries are chosen for different reasons.

Sweden is interesting for comparison because it is Norway's neighboring country and has almost the same geographical distance to the central markets of the EU. Furthermore, Sweden joined the EU in 1995; one year after the EEA Agreement came into place, as Norway joined the EEA. Sweden is currently not a part of the Eurozone, and therefore not fully integrated in the Union in all aspects. Therefore it is interesting to compare these countries advantages and disadvantages of the different agreements in the selected areas.

Denmark is interesting in comparison because the country is also close to Norway with similar distance to the EU central market. Furthermore, Denmark joined the EU (at that time called European Community) in 1973, as the first Nordic country to join the Union. Denmark has a number of opt-outs from EU policies, which has consequences on their influence in several policy-areas. It is therefore interesting to see whether this early entrance and current membership have advantages or disadvantages for Denmark in comparison to Norway's association form in the defined areas.

Lastly, the *United Kingdom* is chosen because it is the EU-Member State with most opt-outs from EU-policies and can be considered most detached from the core of EU integration (Ondarza, 2013). It is also interesting to analyze the UK's EU membership in comparison to Norway's association to the EU because there have been much debates recently about whether the UK should stay a member or not. This debate have risen up on the political agenda followed by the prime minister David Cameron's speech in January 2013, where he considered arguments in support of an EU exit and "the appeal of going alone" or looking for alternatives (House of Commons, 2013). Proposed options have ranged from a continued close relationship with the EU but without formal membership, such as through remaining members of the Single Market or customs union; much like Norway's agreements, or to a completely detached model based on a possible free trade agreement with the EU; more like Switzerland's agreements, or even an option based on just UK membership of the World Trade Organization (CBI, 2013). Therefore, the UK's membership is also very interesting to analyze in comparison to Norway's association, to see what the consequences are and to compare their integration in the EU. Hence, all of these countries have a differentiated membership to the European Union, which makes it interesting to compare them to Norway's integrated outsider-relation to the EU to see what the differences really are and to analyze the consequences in regards to influence, financial contributions, trade and foreign direct investments.

1.4 Methodology

As the main objective of the thesis is to analyze the consequences of being a EU-member versus an integrated outsider to the EU, a f*ew-country comparative study* is applied as the research methodology. This type of study fits best to solve the research question because the selected countries can be analyzed in depth, and richer, multidimensional, less abstract concepts can be employed. Furthermore, the few country comparative study makes it possible to pay attention to complex relationships, including relationships of multiple and conjectural causation, within each country and over time (Lor, 2011). A critical question in this type of study is which countries to select, and the countries selected in this thesis are carefully selected for the purpose of the study, as explained under delimitations.

The research design can therefore be considered a multiple case study where the purpose of the research can be considered primarily descriptive but also to some extent explanatory in its nature (Harvard, 2015). It is descriptive as it looks for similarities and contrasts between the different agreements and association forms to the EU, and explanatory as it intend to measure and explain the consequences of the countries relationships to the EU, in particular in terms of financial contributions, trade flows and investments.

The thesis is empirical rather than theoretical as it relates to "reality" and to politics and legislation, and therefore both literature and data was required to fulfill the research. Consequently, the thesis is based on secondary data and literature, which is collected by others through both qualitative and quantitative research methods. The secondary date used in the thesis is mainly legislation, trade/investment statistics, research reports and governmental reports and newspaper articles. The quantitative secondary data is for example data on trade and FDI statistics, while the qualitative secondary data are different reports based on interviews and expert opinions.

Advantages of using secondary data are mainly the accessibility and timesaving aspects. Moreover, as this thesis is largely dependent on looking into legislation and regulations, secondary data was required.

The choice of using secondary data based on both qualitative and quantitative methods was made in order to strengthen the different aspects of the thesis. It is a complex research question that requires expert knowledge and opinions, which would be difficult to collect as primary data. In the discussion of the countries power to influence, secondary data based on interviews are included, as one cannot properly investigate this only by collecting statistics. There are of course disadvantages of using secondary data, such as the lack of control over the data quality (Saunders, 2011). However, in general the depth of the analysis makes for a high level of internal validity as much of the research is based on legislation, regulations and trade and investment statistics. In addition are the trade and investment statistical data collected from the same resources in most cases, so that the measurements for the different countries are the same and to ensure that they are comparable. On the other hand, the external validity is low, as the findings cannot be applied to develop broad generalizations explaining the phenomena (Lor, 2011). This means that for example the findings of Norway as an integrated outsider cannot be applied to other non-EU Member States as a generalization, and the same is true for the selected EU-Member States due to differentiated relations and other differences between the countries. The reliability of the thesis is strong in most cases, as other researchers could have analyzed the same "phenomenon" and reached the same conclusions. However, in some areas such as different countries influence and power, the reliability can be considered lower, as much of the studies covering these areas are based on expert opinions or interviews in which can be colored and subjective. However, the collection of the data is carefully selected and is considered reliable and of high quality, as it is mainly legislation and sources such as governmental reports and trade statistics.

In regards to the overall research approach it can be considered a weakness that it does not build on a theoretical framework, but rather uses theories when it is appropriate in order to strengthen the empirical findings. However, as the research question requires several steps of analysis, there was not one overreaching theoretical framework that could span over the whole analysis. Therefore, different approaches and theories are used in order to answer the research question most accurately. Hence, in terms of philosophy of science, the thesis has a pragmatic approach and thus the explanations are aimed at understanding our complex reality in a practical way, as the key to the pragmatic method is a commitment to end-causes and outcomes of practice. Stemming from this is a commitment to useful knowledge always focused on practice, which means that the pragmatic method allows to choose pragmatically which theories to pursue among the many plausible ones (McKaughan, 2008). This can also be seen as an advantage, as the most proper theories are applied to support the empirical findings in the different parts of the thesis. Hence, theory is used in a practical way in order to back up and support the empirical findings and to explain historical events and how agreements have been reached. The thesis includes theories on why Norwegian voted "no" to EU membership and includes a lot of history in parts explaining how the different agreements between Norway and the EU was reached. This is taken into account because it is important to understand that the "Norwegian Model" was not a planned and structured arrangement, but is a result of historic events and internal and external factors in which resulted in the current agreements. Furthermore, theories on international trade and FDI are included in order to emphasize on the importance of trade and investment for a country to grow economically.

2. Integration and influence in the European Union

In this chapter Norway's integration and power to influence EU legislation is compared to the selected EU countries' integration and power to influence EU legislation. The chapter contains explanations to why Norway is not a EU member, as well as a review of Norway's most important current agreements with the EU. Norway's agreements are compared to the selected EU countries' differentiated EU-memberships to find the advantages and disadvantages of the agreements in relation to integration in the EU and in relation to the power to influence EU legislation. First a short introduction to the EU follows.

2.1 Introducing the European Union and the Member States

Table 2.1: EU Member States (year of entry)
1957: Belgium, France, Germany, Italy, Luxembourg, The Netherlands
1973: Denmark, Ireland, United Kingdom
1981: Greece
1986: Spain, Portugal
1995: Austria, Finland, Sweden
2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia
2007: Bulgaria, Romania
2013: Croatia
Source: (European Union, 2015a)

The European Union is a unique economic and political partnership between 28 European countries to this date (see table 2.1 for member countries and year of entry). The Union was created in the aftermath of the Second World War, where the first steps were to foster economic cooperation. Stated at the European Union's homepage, *"the idea was that countries who trade with one another become economically interdependent and so more likely to avoid conflict"* (European Union, 2015b). The result was the European Economic Community (EEC) created in 1957. At that time, the economic cooperation was initially between Belgium, France, Germany, Italy, Luxemburg and the Netherlands. Since then, a huge Single Market has been created and continues to develop. The Union has evolved into an organization spanning policy areas and a name-change from the European Economic Community to the European Union (EU) in 1993 reflects this evolvement. According to the EU's homepage, the EU is based on the rule of law, and everything that it does is founded on treaties, voluntarily and democratically agreed by all member countries (European Union, 2015b). Today the EU policies include common cooperation and legislation in various areas ranging from agriculture, fisheries and food, to business activities such as free movement of persons, goods, services and capital, to common financial and tax policies and areas of cooperation in security, justice and home affairs, just to mention some (European Commission, 2015i). However, as Norway is not a Member State, agreements and cooperation-areas differ from that of the EU-Member States.

2.2 Norway's history in relation to the European Union

Ever since the European Economic Community was established the question of membership has been a recurrent one in Norwegian politics (Bjørklund, 1997). Norway has applied for membership a number of times. However, membership lobby has not emanated primarily from the domestic terrain, but Norwegian politicians have been forced to act owing to the steps taken by influential neighboring countries (Narud and Strøm, 2007). According to Narud and Strøm, the United Kingdom has turned the Norwegian campaign for EU membership "on" three times: in 1961, 1967 and 1970. The first and second time Norway applied for membership (1962 and 1967) the application was set aside after the French President de Gaulle said no to British membership. The third time Norway applied for membership (1970) the application led to the negotiation of a treaty between Norway and the EC, which was further put to a referendum in 1972. After a harsh campaign the treaty were rejected by the majority of the Norwegian voters, by 53.5 percent with 79% turnout (Narud and Strøm, 2007). In the ensuing 20 years the question about Norwegian membership was a non-issue until Sweden turned the Norwegian campaign "on" again, just as the United Kingdom had done earlier (Bjørklund, 1997). When the Swedes applied for membership in 1991, followed by the Finns a year later, the Norwegian government once again felt the pressure to follow in the same footsteps as its neighbors (Bjørklund, 1997). Therefore, in 1994, Norway applied again. History repeated itself and the Norwegian majority voted no to EU membership. The results were almost identical to the vote in 1972, now with a majority of 52.2 percent, with 89% turnout (Archer, 2005). Hence, when Sweden, Finland and Austria joined the EU on January 1st 1995, Norway chose a different path, sticking with its current agreements (Narud and Strøm, 2007).

2.2.1 Theories on why Norwegians voted "no"

There are a number of different explanations and theories to why Norwegians voted no to membership both times. Furthermore, even though the outcome of the votes in 1972 and 1994 were similar, the economic environment and society in Norway had changed from the first to the second time of the referendums. This section will start out by some brief cultural and interest explanations to why Norwegians opposed membership. The second part will be more specific and point to events and the economic environment to discuss the outcome in both 1972 to 1994.

2.2.1.1 Cultural Explanations and Interest Explanations

The results of the votes can be viewed as a reflection of the Norwegian society formed by the history of Norway. First of all, the country gained independence in 1905, after 400 years of rule under Denmark, followed by 90 years in a union with Sweden. “Union” was therefore a word that could be associated with a negative sound in Norway. Furthermore, the battle to break free from Sweden had been associated with the fight for democratic rights and parliamentary government. Hence, opposing membership could be an extension of the fight for both independence and democracy (Bjørklund, 1997). Moreover, Norway’s geographical location with its long coastline facing westward towards the United Kingdom and the United States affects both trade and security policy. Traditionally, Norwegians have had a stronger Atlantic, rather than a continental European orientation. Another factor is that Norwegians are considered most closely tied to their Nordic neighbors, especially the Scandinavian countries, in comparison to the rest of the European countries. The fact that none of the Scandinavian countries were members of the European Union (EEC) in 1972 could therefore be another explanation of why Norwegians voted “no” at that time (Bjørklund, 1997).

There are also explanations concerning interest that can help to justify why Norwegians voted “no”. One example is the Norwegian farmers, which saw EU as a threat to the benefits they had achieved and therefore opposed membership. Despite the farmer being rather few, they provided an important economic foundation for the opposition both in 1972 and 1994. Fishermen were also opposing membership, as they wanted to protect the fishing resources from the fleets of EU countries (Bjørklund, 1997). In addition to the underlying cultural and interest explanations to the outcome, there are a number of other factors that played an important role to the outcome such as campaign and tactics and the changing environment.

2.2.1.2 Campaigns and tactics

The political-campaigns in 1972 and 1994 can be another explanation to the outcomes. In 1972 the “yes” side had only managed to start campaigning once the negotiations about membership had finished in January 1972, whereas the vote was held in September the same year. Moreover, it was the Labor government and the Conservatives that ran the campaign, which was not used to campaigning together politically. The relatively low turnout (79%) suggested that a number of Labor voters decided not to vote, because they did not want to vote against their own party (Archer, 2005). Additionally, outside events did not help them. For instance, a few days before the vote in 1972, the energy director of the EC Commission, Ferdinand Spaak, announced ideas for a common energy policy implying that Norway’s burgeoning offshore oil and gas discoveries could become a “Community resource”. The outcry in Norway showed that the feeling was that the EC was about to grab Norway’s oil, as it would do its fish. A “Community resource “ would imply that Norway could loose control over these resources as the EC could take important decisions regarding a common energy policy with “oil sharing” if Norway joined the EC. The EC announced that major problems relating to supplies of energy would become difficult in the next 10-15 years because of radical changes in supply chains. The EC Commission also announced that whatever oil might be discovered should be a Community resource, and should therefore benefit the Community. This embodied: (1) provisions for speeding up and securing widespread adoption of the granting of prospecting licenses in areas of interest to the Community (2) improvement of conditions for the granting of concessions in the context of harmonization at Community level (3) adaptation of the taxation system in order to ensure neutrality or even advantages by comparison with tax laws in exporting countries, and (4) abolition of the obligation to maintain emergency stocks (EC Commission, 1972). However, Norway had already decided that they wanted the oil resources to be controlled by the nation. In 1971 a white paper listing ten points to ensure that “natural resources in the Norwegian continental shelf are exploited in a way that benefits the whole society” was produced. The first point ran as follows: “*national governance and control must be secured for all activities on the Norwegian continental shelf*”. Moreover, the Norwegian government decided to take an active part in the development of oil and gas to ensure that as great a proportion of the benefits as possible went to all of Norway’s people (Ryggvik, 2010).

In 1994, the “yes” campaign also started late. The opponents of membership had started to construct their organization in 1989 when the first hints of renewed consideration of membership were coming from the Conservatives and the leadership of the Labor party. But it was difficult for the proponents, because they had to wait until the end of membership negotiations before being able to sell their package to the voters. Moreover, Archer argues that the “yes” campaign in 1994 was too nebulous and failed to unite around one decisive theme. At one stage the Norwegian Prime Minister at the time, Gro Harlem Brundtland, wanted to use security as a major reason for membership. However, as Norway was a member of NATO the population considered that issue dealt with already (Archer, 2005). However, there was no indication of an innate majority in favor of membership at any time in the years and months before the vote in 1994, so blaming the result of the vote on the government does not have much credibility (Archer, 2005).

2.2.1.3 Changing environment

It is important to understand that Norway experienced an extensive change from 1972 to 1994, both internationally and internally. It became a more post-industrial society and rich on oil, and the oil was increasingly affecting the basis of economic life. Until the early 1980s, Norway experienced a tremendous outburst of public spending and investment. Money was in particular being invested in developing the offshore oil and gas activity, especially after the oil price increases in 1973/1974 (Archer, 2005). Furthermore, during the period between the referendums, Norway became less dependent on the primary products of agriculture, forestry and fisheries, and the tertiary service sector continued to grow. Norway had also become more urbanized and the population profile started to age. By the end of the period before the second referendum, Norway resembled much of the rest of the Western Europe in socio-economic terms, with the main difference that *it was richer*. The exploitation of offshore oil had dominated Norway's economic situation during this period and therefore the country had managed to ride many of the economic storms suffered by other West-European states. It had also allowed Norway to maintain its standard of living and welfare state (Archer, 2005).

Other changes had also occurred. When voting in 1994, the EC had become the EU and the member countries had increased significantly. But at this time, Norway already participated in the Single Market through the EEA and the Schengen Agreement. Therefore the terms were different the second time of the vote, as Norway already had a close association to the Union at this time. Furthermore, in the first referendum, the interest groups that thought they would suffer from membership (agriculture and fisheries) were able to capture an important part of the national discourse. This was less necessary in the second referendum, as a sufficient section of the population at this time could be persuaded to vote "no" for the sake of their own interest such as their standard of living, their welfare benefits and their public service jobs (Archer, 2005). In other words, Norway could afford to say "no" to EU membership in 1994. Not only was the country in good economic shape, it had also developed and was developing a network of close relations with the EU in the key policy areas about which Norway had concerns (Archer, 2001). More about the turnout of the votes in 1994 and 1972 is found in Appendix 1. Moreover, although the referendum results were very similar in 1972 and 1994, the outcome was different. The Labor government had not made an issue of resignation after the referendum if the majority voted "no", as they had done in 1972. Furthermore, as Norway was already a member of the EEA it did not have to negotiate a supplementary treaty with the expanded EU. According to Archer, the choice in 1994 was more about the appropriate relationship Norway should have to the EU rather than that of turning the Norwegian world upside down as it appeared in 1972. Nevertheless, Norway was left as part of the depleted EFTA side of the EEA; as Sweden, Finland and Austria had joined the EU, and the Swiss people made their own agreement with the EU. Thus, Norway was left to face the expanded EU in the context of EEA, with only Iceland and Liechtenstein at its side (Archer, 2005).

As seen in this section, there are a number of explanations to why Norway is not a part of the European Union. The results were affected not only by external elements, but also by a mixture of interests and identity (Archer, 2005). Some of the main reasons why Norwegians voted no was because they were afraid of losing control of natural resources (fisheries, waterfalls, oil, gas and agriculture) as well as losing an international voice and position. However, even though Norway is not a Member State it has increasingly adapted itself to the new realities of the European Union (Narud and Strøm, 2007). The next section will elaborate on the most important agreements Norway has with the Union today.

2.3 Norway's Relationship with the European Union today

Norway has a close relationship with the EU today without being a Member State. Although there is not one overreaching agreement, there are a number of individual agreements integrating Norway to the Union, which is often referred to as more of a distinctive "Norwegian Model" of association. These agreements are the result of several historical events, including steps that the Norwegian Government has taken to adapt to developments in the EU (Europautredningen, 2012). Norway is a part of the European Free Trade Association, the European Economic Area and a member of the Schengen Agreement. It also enjoys cooperation with the EU in relation to immigration and police cooperation, and collaborates with the EU over defense and security policies, and fisheries and agriculture. Norway also participates in a number of EU programmes and agencies (Lang, 2013). According to the Norwegian Ministry of Foreign Affairs treaty register, Norway currently has 74 agreements with the EU, if excluding individual agreements between beneficiary states and financial mechanisms. If these are included, they have a total of 128 agreements with the EU today (Europautredningen, 2012). Due to the scope of this thesis, this section will only cover Norway's most important agreements and cooperation with the EU, namely the EFTA, EEA and the Schengen Agreement.

2.3.1 The European Free Trade Association

The European Free Trade Association (EFTA) is an intergovernmental organization set up to promote free trade and economic integration to the benefits of its Member States (EFTA, 2015a). It is a trade union where each member country has its own national trade policies and their own tariffs to other countries, unlike the EU that is a customs and monetary union with common external borders and tariffs. The EFTA countries therefore have full sovereignty over their national trade policies, but have chosen to cooperate to negotiate and sign free trade agreements (Regjeringen, 2015b).

The EFTA was founded in 1960 at the Stockholm Convention by the following seven countries: Norway, Denmark, Sweden, Portugal, Austria, Switzerland and the United Kingdom (EFTA, 2015a). It was established as an economic counterbalance to the more politically driven European Economic Community, where the EFTA-members were countries that sought the benefits of trade but at the time did not want membership to the EEC (EU). Finland joined in 1961, Iceland in 1970 and Lichtenstein in 1973. However, since then the EU has absorbed six of the EFTA members and Norway, Iceland, Lichtenstein and Switzerland are the four current members (Lang, 2013).

When the EFTA was established, the member countries first lowered tariffs between themselves, and then signed bilateral free trade agreements (FTAs) with the EEC from 1973 onwards (Lang, 2013). Since the beginning of the 1990s, EFTA has actively perused trade relations with third countries in and beyond Europe. The first partners were the Central and Eastern European countries, followed by the countries in the Mediterranean area. In recent years, the EFTA's network of free trade agreements has reached across the Atlantic as well as into Asia (EFTA, 2015a). Hence, in addition to promoting free trade among its members, the organization works towards establishing FTAs and joint cooperation with potential partner countries around the world. The FTAs includes free trade in industrial goods, fish and other marine products, agricultural products etc. The agreements also liberalize trade in services, investments and public procurement. Some of the agreements also include rules on competition in order to avoid adverse effects in the case of restraints of competition. Furthermore, these agreements provide the protection of intellectual property rights and contain provisions for the avoidance and settlement of disputes between parties (Lang, 2013).

All EFTA states are free to sign bilateral agreements with other countries separately, but the general pattern is that countries have preferred to negotiate as part of the EFTA (CBI, 2013). As of today, Norway has signed 27 free trade agreements with a number of different countries. Out of these, 25 of the contracts were made through the EFTA cooperation. The Norwegian Government states that the main reason that Norway has chosen to negotiate through the EFTA cooperation is because the EFTA overall emerges as a larger market and a more interesting trading partner. Resource considerations also make it advantageous for Norway to negotiate through the EFTA (Regjeringen, 2015b).

The EFTA trade agreements are similar to that of the EU, which reflects a previous EFTA policy of "*following the EU – one step behind*". After 1998 however, EFTA began a more independent free trade strategy and has since concluded FTAs with Canada and Singapore ten years ahead of the EU and with South Korea five years before the EU (CBI, 2013). Moreover, research and interviews conducted by CBI (Confederation of British Industry) indicate that the quality of the EFTA trade agreements varies compared to that of the EU. Sometimes the EFTA is able to get an agreement as good as or better than the EU because of the particularities of their economies, while at other times, especially when they follow EU negotiations, EFTA's agreements are often weaker. The pattern seems to reflect the characteristics of the countries within EFTA. Sometimes they get better deals because their economies are not seen as a threat to the third country's industry, but at other times EFTA has less to offer than the EU, particularly when it comes to market size, which is an important factor for many developing economies (CBI, 2013).

2.3.2 The European Economic Area Agreement

The European Economic Area Agreement (EEA-Agreement) can be seen at the most important agreement comprising most of the collaboration and establishing the main forms of association between Norway and the EU (Narud and Strøm, 2007). Signed in 1992 and operational from 1994, this agreement extends the EU legislation covering the four freedoms: the free movement of goods, services, persons and capital, throughout the EEA states (EFTA, 2015c). The agreement also covers most areas of the economy including energy, financial services, state aid, competition rules, public procurement, transport, telecoms, company law, professional qualifications, health and safety etc. Additionally, the agreement covers cooperation in other areas such as research and development, education, social policy, the environment, consumer protection, tourism and culture (CBI, 2013).

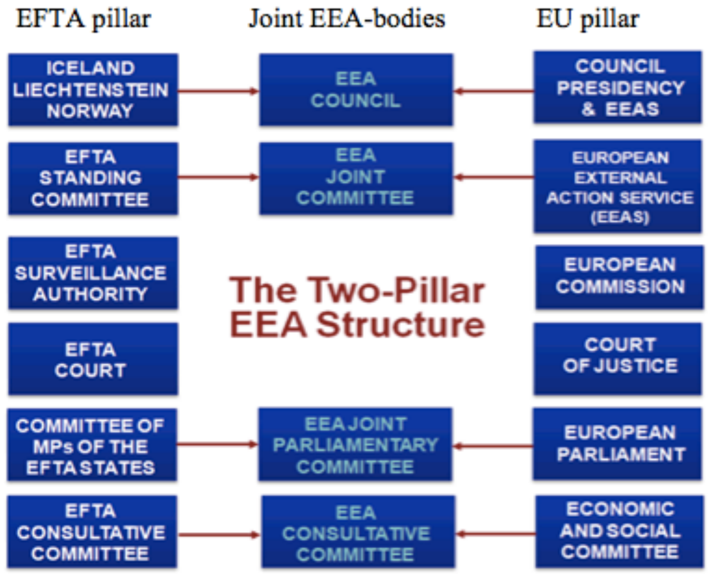
Norway, Iceland and Lichtenstein are a part of the EEA Agreement, without being EU Member States. This means that companies and economic operators in the EU countries, as well as the three EEA/EFTA countries have equal access to the "Internal Market". Therefore the 28 EU-Member States as well as the three EEA/EFTA States are often referred to as a "Single Market". The EEA Agreement guarantees equal rights and obligations within the Single Market for all members (EFTA, 2015c).

The objective of the EEA Agreement is to create a homogenous European Economic Area. All relevant EU legislation in the field of the Single Market is integrated into the EEA Agreement so that it applies throughout the whole EEA ensuring uniform application of law relating to the Single Market (EFTA, 2015d). Article 128 in the EEA Agreement states that "*when a State becomes a member of the European Union, it shall also apply to become a party of the EEA Agreement";* thus leading to an enlargement of the EEA (EFTA, 2015d).

It is important to notice that the EEA Agreement does not cover all of the EU policies. It does not cover common agriculture (CAP) and fisheries policies (CFP), the customs union, common trade policy, common foreign and security policy, justice and home affairs (but the EEA/EFTA States are part of the Schengen area), direct and indirect taxation and the economic and monetary union (EFTA, 2015d). Although it does not cover agriculture or fisheries, some market access is allowed. Article 19 in the EEA Agreement states that Norway and the EU are committed to gradually liberalize their trade in agricultural products, and bilateral tariff quotas and tariff-free quotas are established between Norway and the EU for certain agricultural products such as cheese, meats, fruit, vegetables and flowers, among others (EU Delegation, 2015).

2.3.2.1 Institutional Aspects - EEA structure

Figure 2.3 The Two-Pillar EEA Structure



The management and administration of the EEA is shared between the EU and the EEA/EFTA States in a two-pillar structure. As seen from figure 2.3, the left pillar shows the EFTA States and their institutions, while the right pillar shows the EU side. The joint EEA bodies are in the middle. Substantive decisions relating to the EEA Agreement is a joint venture and taken by the joint EEA bodies, that consist of representatives from both the EU side and the EEA/EFTA States (EFTA, 2015d). But even though the structure is called the two-pillar structure, the two pillars are of very different sizes in reality. It should rather have been illustrated as an EFTA-toothpick on one side and a massive EU pillar on the other. Moreover, the EEA/EFTA States do not have any legislative competences in the joint EEA bodies and are therefore unable, constitutionally, to accept decisions made by the EU institutions directly. Hence, the EFTA institutions have neither the same formal position as the EU institutions, and have no separate legislative authority. The system develops mainly in the EU pillar, and the task of the institutions in the EFTA pillar is to adapt to the EU, and make the same kind of supervision and control as in the EU (Europautredningen, 2012). In the EEA/EFTA pillar all decisions are taken by consensus, as opposed to the EU pillar where decisions related to EEA legislation are normally taken by majority vote. The structure also encompasses supervision and judicial control. As the EU pillar has The European Commission and the Court of Justice of the European

Union, a surveillance authority and an EFTA court were established to ensure monitoring of implementation and application of EEA law in the EEA/EFTA states (EFTA, 2015d). Read more about the joint EEA bodies and the EEA/EFTA States own institutional bodies in Appendix 2.

2.3.2.2 EU Committees, Programmes and Agencies

In addition to the committees and joint bodies in the two-pillar EEA structure, Norway and the other EEA/EFTA States have access to a number of other committees, programmes and agencies. They have access to Commission Committees such as export groups (Article 99 EEA), comitology Committees (Article 100 EEA), programme committees (Article 81 EEA) and other committees in specific areas. In total, the EEA/EFTA States have the right to participate in several hundred committees and a large number of EU programmes and agencies (EFTA, 2015d).

The programmes and related activities are established for the purpose of strengthening the cooperation in areas not covered by the Internal Market as well as to support further development of the four freedoms. The programs cover areas such as research, education, culture and social policy. The agencies purpose is to carry out technical, scientific, or administrative tasks relating to the Internal Market and the EU programmes (The Norwegian Mission to the EU, 2015). The EU programmes are voluntary and if the EEA/EFTA States wish to participate in a program they have to send a request to the EU under Article 79 of the EEA Agreement. So far, Norway, the EEA/EFTA and the EU have wanted to incorporate almost all major relevant programmes into the EEA Agreement (Europautreningen, 2012). As of 2014, Norway participated in 26 EU agencies in various areas such as education, health, safety, innovation and technology. Moreover, during the period of 2014-2020 Norway will participate in 12 EU programmes, covering many of the same areas (The Norwegian Mission to the EU, 2015). But even though Norway and the other EEA/EFTA States have their own institutional bodies and joint bodies with the EU through the EEA Agreement, and they participate in a number of commissions, agencies and programmes, the power that they have to influence laws and regulations are limited. The next section discusses how Norway can influence EU legislation as an EEA/EFTA member.

2.3.2.3 Norway's Influence as an EEA/EFTA Member

A central feature of the EEA Agreement is its dynamic aspect, which means that the common rules of the EEA Agreement are updated continuously with new EU legislation (EFTA, 2015d). As a member of the EEA it is required that Norway adopt EU laws and standards related to the Single Market, due to the principle of uniform development. Norway does not have much influence when it comes to decision-making through. The country only has indirect influence and right to be consulted on the European legislation that is affecting them. This is known as a “democratic deficit” (Lang, 2013).

The EEA Agreement does not grant the EEA/EFTA States formal access to the decision making process within the EU institutions. However, Norway (and the EEA/EFTA States) can participate in shaping a decision at the early stages of preparing a legislative proposal, since the EEA Agreement provides for input from the EEA/EFTA states at various stages of the preparation of EEA-relevant legislation (EFTA, 2015d). This means that they indirectly can influence the legislation in different ways. In Appendix 3, the process of how EU legislation is incorporated into the EEA Agreement is discussed.

First of all, representatives from the EEA/EFTA States have, as previously noticed, the right to participate in expert groups and committees of the European Commission. Hence, this gives them the right to participate extensively in the preparatory work of the Commission and they should be consulted in the same manner as EU experts (EFTA, 2015d). The Commission may seek advice from EEA/EFTA experts by phone or by correspondence or in meetings. Moreover, the experts may also be associated with the preparatory work through regular committee meetings. Secondly, Norway and the other EEA/EFTA States have the right to submit comments on upcoming legislation. A typical EEA/EFTA comment provides a brief commentary and suggestions regarding Commission initiatives such as green papers or legislative proposals. The comments are endorsed by the Standing Committee and officially noted by the EEA Joint Committee after they have been sent to the relevant services in the Commission, the European Parliament or the Council (EFTA, 2015d). However, even though the EEA/EFTA States use these opportunities to contribute to the legislative process, they can neither sit nor vote in the European Parliament or the European Council (EFTA, 2015d). Occasionally though, the constitution of one or more of the EEA/EFTA States requires the approval of the national parliament in order for a joint committee decision to be binding due to the content of the JCD (EFTA, 2015d).

When incorporating EU legislation into the EEA-Agreement the EEA/EFTA States’ experts have to evaluate whether it is relevant and should be incorporated into the EEA. At this point, the EEA/EFTA states must formally consent to a new piece of EU legislation that will enter the EEA, and it formally gives Norway and the other EEA/EFTA countries the right to a “veto” or “right of reservation”. Article 93 of the EEA Agreement states that the EEA Joint Committee “*shall take decisions by agreement*”. Because agreement must be reached, there will be a deadlock situation if one party dissents. Article 93 applies for all decisions made by the EEA Joint Committee, included the amendment procedure in Article 102. This means that formally the EEA/EFTA countries can refuse to add a new legal act through the EEA Joint Committee. This is often called “exclusion of the court”. This will impact all of the three EEA/EFTA States, thus they operate under one voice. However, they cannot prevent the EU to impose regulations, but simply choose not to vote for a proposal. Thus, it is more a “reservation” rather than a “veto”. Notification of reservation triggers a negotiation process. If the reservation right is used, the EEA/EFTA states are obliged to enter into negotiation to find a suitable solution for all parties, including investigating all other possibilities for the agreement to be satisfactory. The investigation will last for no longer than six months after the reservation right has been used. According to Article 102, the EEA Joint Committee shall first examine the possibilities to maintain a good functioning of the agreement and if the parties do not agree there will be a suspension. The practical consequences of a suspension will then be discussed in the EEA Joint Committee. Most likely would a refusal to take on an act lead to the particular part of the EEA Agreement to be out of force, and not terminate the whole EEA Agreement (Europautredningen, 2012).

This “reservation” can be seen as the most direct means The Norwegian Parliament (Stortinget) has for influencing EU legislation. According to Narud and Strøm, the Article was introduced to accommodate constitutional requirements in the EEA/EFTA states, and reflects that formally the agreement is only an ordinary international treaty. Moreover, under Article 26 of the Norwegian Constitution, the Norwegian Parliament must accept new international obligations of particular importance before they can be ratified (Narud and Strøm, 2007). However, in general there has been strong parliamentary support for major EU instruments in Norway (Lang, 2013). In the period 1992-2011, the Storting voted on a total of 287 such EU matters, 265 of which were unanimously agreed to; and most of the remaining 22 were agreed to by a broad majority (EEA Review Committee, 2012). There have been some controversial EU/EEA matters over the years, but there have been few disputes with the EU given the extent of Norway’s adaptation to the EU, and these disputes have not damaged the overall relations (EEA Review Committee, 2012).

Of the more than 6000 new EU legislative acts that have been incorporated into the EEA Agreement, the use of Norway’s right to enter a reservation has only been proposed in connection to 17 of these acts, and so far the reservation have not been used in practice (EEA Review Committee, 2012). Norway announced that they intended to use the reservation right against the Third Postal Directive in 2011. This was the first time in EEA history that an EFTA state announced plans to exercise a reservation. The EU was not satisfied and a spokeswoman for the EU’s High Representative for Foreign Affairs, Maja Kocijancic, stated that the EU were threatening to impose sanctions against Norway and to exclude Norway from certain parts of the Internal Market. However, in 2013 Norway’s new government revised the Norwegian position on this issue and decided to lift the reservation made by the previous government in 2011 (Regjeringen, 2015e). There have also been a few other cases before where the reservation right has been considered used, particularly in areas of food and gas as it has been of major concern for Norway (Narud and Strøm, 2007). But in the end, Norway has never committed to the decision to use the reservation against the EU.

The reason why Norway has not used the reservation in the EEA cooperation before, in spite some conflicts that have troubled Norwegian Members of Parliament and Members of Government, may be because this reservation is costly to use in reality. If Norway were to use the reservation it could put itself on a collision course with several of its major trading partners. Furthermore, as mentioned earlier, national Parliaments are only consulted after a decision has been made in the EEA Committee, meaning that the consensus has already been reached between the national governments. Moreover, a national veto would have the effect of blocking the decision for the whole EEA, which would give the EU the right to take countermeasures (Narud and Strøm, 2007).

Overall, the Norwegian Government feels that is has become increasingly difficult to influence EU legislation and protect Norwegian interests and clearly Norway has very little influence on the EU laws and policies it adopts (Lang, 2013). As of today, Norway has incorporated approximately three quarters of all EU legislative acts into Norwegian domestic law. This means that EU laws affects a significant portion of its domestic legislation, specifically it affects around 170 out of 600 Norwegian statutes and about 1000 Norwegian regulations (EEA Review Committee, 2012).

2.3.3 The Schengen Agreement

As the free movement of persons is a fundamental right guaranteed to the members of the EU, the Schengen cooperation enhances this freedom by enabling citizens to cross internal borders without being subject to border checks (European Commission, 2015c). Hence, border and passport controls have been removed between the Schengen members, and there are no checks at internal borders. External borders however, are better controlled (Lang, 2013).

Originally, the concept of free movement was to enable the European working population to freely travel and settle in any EU State, but it fell short of abolishing border controls within the Union. In Schengen (a small village in Luxemburg) in 1985, there was a signing of the gradual abolition of checks at common borders between individual governments. Some years later, in 1990, there was a signing of the Convention implementing that agreement. Finally, the implementation of the Schengen Agreement started in 1995, initially involving seven EU-States (European Commission, 2015c). Born as an intergovernmental initiative, the Schengen Agreement has now been incorporated into the EU legal framework since May 1999 followed by the Treaty of Amsterdam of 1997. Today, the Schengen Area encompasses 26 European countries. It includes all of the EU-states except from Bulgaria, Croatia, Cyprus, Romania, Ireland and the United Kingdom. However, Bulgaria and Romania are currently in the process of joining. The reason why some of the EU countries are not part of the Schengen Area is because they do not yet fulfill the required conditions for the application of the Schengen *acquis* or, as the United Kingdom and Ireland, maintain opts-outs as they do not wish to eliminate border controls (European Union, 2015d). All of the EFTA states; Norway, Iceland, Lichtenstein and Switzerland are also a part of the Schengen-area, without being EU members (European Commission, 2015c).

In accordance with Article 140 of the Schengen Convention, full membership in Schengen was restricted to EU Member States. However, because Norway and Iceland were a part of the Nordic Passport Union, the Schengen Executive Committee had to address the question of accepting non-Member States in Schengen as a consequence of the accession of Finland and Sweden to the European Union (Martenczuk, Thiel, 2008). In order to enable Denmark, Finland and Sweden to become parties to the Schengen Convention without prejudice to the Nordic Passport Union, the Schengen Executive Committee adopted two decisions. One granted observers status to Denmark, Finland and Sweden. The other invited Norway and Iceland to attend as observers, and from 1 May 1996, they attended all Schengen meetings with a view to concluding a Cooperation Agreement. Denmark, Finland and Sweden finally signed the Schengen Convention in December 1996, and at the same time Norway and Iceland were given associate memberships (Martenczuk, Thiel, 2008).

The Cooperation Agreement granted specific participation rights to Norway and Iceland. While not being EU members, these two countries accepted the Convention as well as the full Schengen *acquis* thus agreeing to all Schengen obligations. The only difference between Schengen Member States and Norway and Iceland was that the latter were formally not allowed to vote (Martenczuk, Thiel, 2008). They were, however, fully involved in the decision-shaping process. Accordingly, they had to accept all subsequent decisions emanating from the Schengen process, or otherwise they would have been expelled from Schengen co-operation. In substance, Norway and Iceland were involved in all measures proposed on the basis of the Schengen Agreement, and since every measure was by definition Schengen related, they participated in all working parties and in all of the debates. However, this does not include the actual decision taking in Schengen, which can be seen as a downside of the Schengen association for the associated countries. But this position was in line with the political objectives of Norway to fully participate in all Schengen developments. It must be underlined that no other association agreement was granted similarly decision-shaping rights to third States at this time, even the European Economic Area (Martenczuk, Thiel, 2008).

After the Schengen Agreement was incorporated into the EU framework in 1999, the cooperation between Schengen and Norway and Iceland required a special solution. To allow the two non-EU states to continue participating, a new agreement had to be concluded, and therefore Article 6 of the Schengen Protocol required the Council to conclude two agreements with Norway and Iceland so as to allow their continued participation. Under the Association Agreement that was signed between Norway, Iceland and the EU on 18 May 1999, these two countries continue to participate in the drafting of new legal instruments building on the Schengen *acquis.* Even though these acts are adopted by the EU Member States alone, they apply to Norway and Iceland as well (Martenczuk, Thiel, 2008). The main features of the new Association Agreement (1999 Schengen Association) based on the first indent of Article 6 of the Schengen Protocol, can be summarized as follows: procedurally, Norway and Iceland have the same position as they had during the Schengen days. However, instead of being observers in Council bodies, they became members of the Mixed Committee. This reflects that outside observers are not allowed to participate in Council meetings, with the exception of candidate countries for EU accession during the interim period between the signature of the act of accession and its entry into force (Martenczuk, Thiel, 2008). However, in recent years the other EFTA-countries have been accepted into Schengen as well. In 2008, Switzerland was subsequently allowed to participate in the same manner as Norway and Iceland, and in 2011, Liechtenstein was allowed to join as well.

2.3.3.1 Norway's Influence in Schengen

The Mixed Committee allows Norway to be fully involved in the decision-shaping process of Schengen relevant EU measures, but actual decision taking will take place in the Council bodies. They can also make draft proposals; these proposals must, however, be taken over and formally introduced by the Commission or one of the Member States in accordance with the provisions of the EU or the EU Treaty (Martenczuk, Thiel, 2008). This means that Norway is involved in decisions relating to Schengen-relevant text but does not have a right to vote when formal decisions are made (Hillion, 2011). Moreover, the (1999) Schengen Association Agreement not only provides for the formal decision-shaping procedure in the Mixed Committee as set out before, but also states that the Mixed Committee shall be informed about relevant topics which, although not regarded as Schengen development, are still of importance for Norway. This second procedure does not, however, provide for anything more than that Norway are informed about these topics, without providing for any involvement of Norway in the decision-shaping process related to these issues (Martenczuk, Thiel, 2008). As with the EEA, the EU-

Norway Schengen Agreement purports to establish an "association" which extends the application of EU standards beyond its borders. But, unlike the EEA, there is no joint decision-making body to implement Schengen measures in Norway. Rather, Norway is "*bound to carry out the Council's decisions and measures in the areas that is covered by the agreement*" (Hillion, 2011). When the EU adopts new Schengen-related acts, these shall therefore be adopted by Norway and the other associated states by procedures set out in Article 8. Formally, Norway under Article 8 (2) "*Can decide independently whether to accept their contents*", however there is no "*right of reservation*" or room for exceptions or negotiations. If Norway does not accept a new act, the agreement: "*shall be considered terminated*" according to the guillotine clause in Article 8 (3). This means that if Norway refuses to accept and implement the content of the Schengen relevant measures adopted by the Council, the agreement can be terminated automatically. So far this has not been brought to a head in Norwegian political debate. In some cases, it has been discussed with the EU whether some new acts are "Schengen-related" or not. The main pattern has been that Norway wants a broad understanding of its scope, while the EU has been more restrictive (Europautredningen, 2012).

Since the Schengen Agreement was incorporated into the EU framework in 1999 (Schengen Association Agreement) the agreement has added approximately 158 new acts, without any reservations from Norway or the other EFTA States (Europautredningen, 2012).

2.4 Benefits and Challenges of the "Norwegian Model" in terms of influence

Clearly Norway has a strong and integrated relationship to the EU through multiple agreements, and can be considered one of the most integrated non-EU Member States (Hillion, 2011). As a member of the EEA and Schengen, Norway get to be a part of a number of committees, programmes and agencies, and can be a part of shaping decisions at an early stage. Being a part of the Schengen also guarantees Norway to be informed about relevant measures and strengthens Norway's integration with the EU.

But a major challenge for Norway is clearly the lack of any formal sway over decisions made in Brussels. Norway has no Commissioners, no members in the European Parliament, no votes in the Council and has no vote in most expert groups and agencies widely used to prepare legislation. This makes Norwegian influence very limited when it comes to decision-making, and they have the best chance of influencing decisions at the early stages of a proposal. The fact that Norway in practice is bound to adopt EU policies and rules on a broad range of issues without being a member and without voting rights is a democratic deficit. It is also the biggest problem with Norway's position in regards to the EU (EEA Review Committee, 2012). Moreover, this form of association dampens political engagement and debate in Norway and makes it difficult to monitor the Government and hold it accountable in its European policy (EEA Review Committee, 2012). Because the Norwegian Government is not formally represented at EU level, it is often left out of the information loop, and therefore risks missing out on early stage discussions while the Commission consults EU Member States. While Norway might be involved by the Commission in discussions on sectors it considers of crucial national significance, it is more often excluded. Overall, Norway's association to the EU limits the country's ability to influence at EU level (Europautredningen, 2012).

It is also important to understand the asymmetric distribution of power and dependency between the EU and Norway. According to the EEA Review Committee, Norway and the other EEA/EFTA States find it increasingly difficult to negotiate with the EU. First of all, the EU is a much larger counterpart and the EEA Agreement is far more important for the EEA/EFTA countries than for the EU. The number of countries on the EFTA-side compared to the EU-side has gone from 7:12 at the beginning of the 1990s, to the current ratio of 3:28. The population on the EFTA side in comparison to the EU has gone from an original 1:10 relationship to closer to 1:100 today (EU population of about 506 million, EFTA population about 5.4 million). Moreover, in terms of trade and direct investments, Norway is highly dependent on the EU as most of Norway's value creation derives from this relationship. The EU on the other hand, is not that dependent on Norway, only to some extent in areas such as import of oil and gas from Norway as will be discussed later. Overall, Norway's economy is highly dependent on EU and the Norwegian economy as a whole has far greater benefits of the EEA Agreement than EU has from this agreement (Europautreningen, 2012). This highly asymmetric distribution of power within the EEA suggests that in reality the EU has the power to make decisions, while Norway has little to say. Of course there is always a possibility for all parties to terminate the EEA Agreement, under Article 127.

Another challenge with Norway's current form of association with the EU is that it depends on external circumstances that are largely beyond Norway's control. The EEA Agreement will at all times depend on developments in the EU, and although both the EU as a whole and the individual EU Member States seem to be satisfied with it, a number of developments are creating new problems and challenges for Norway's form of association. The EU has announced that it will review its experience of the EEA, and its relations with third party countries are also being discussed in more general terms. For example when Iceland applied for EU membership (dropped application in 2013), there were discussions on whether the whole EEA Agreement would have to be renegotiated. Hence, the agreement is largely affected by external circumstances that can affect Norway's position and interests, and the EEA Agreement in general can therefore be considered vulnerable and to some extent unstable. The vulnerability of Norway's form of association with the EU applies in particular to the framework: the institutions, procedures, etc. (EEA Review Committee, 2012).

Despite this democratic deficit and challenges however, Norway's relation with the EU and the current arrangements do work well in practice. According to a recent report by the EEA Review Committee, the current arrangements are mostly supported and accepted by the main political parties in Norway, and though they would like to have more influence, it does not seem that any major changes are likely (Lang, 2013). The EEA Review Committee states that even though Norway have had to adapt to the new EU/EEA rules there have been relatively few conflicts, and many of them were resolved in a way that has made it possible to continue to pursue Norwegian policy aims. In other cases, it has been necessary to make some changes in order to harmonize Norwegian law with EU/EEA law. But on the whole, "*the Norwegian social model has been safeguarded and further developed throughout this period [the past 20 years] within the framework of the EU agreements in a way that has won the support of a broad majority of the Storting*" (EEA Review Committee, 2012).

The next part will investigate how integrated Sweden, Denmark and the United Kingdom is with different EU policies, and how these EU-Member States can influence EU-legislation.

2.5 EU Membership

The EU activities and common policies cover a wide range of areas as mentioned in the introduction. These are within agriculture, fisheries and food, and in business activities such as free movement of goods and services and market access and competition policies. The EU also has a climate action, policies on culture and education, energy policies, a common social security policy, citizen's right policies, cooperation on justice and home affairs (such as Schengen) etc. They also have policies covering the economy, finance and taxes of the Member States. Due to the scope of this thesis, it is not possible to go into detail about all of these policies and it is nor the purpose. The main point is to show that EU-memberships differ, which is causing some EU-members to be more and some to be less integrated with the Union and the consequences of this in regards to influence in the Union.

2.5.1 Differentiated EU-Membership

In general, the law of the European Union is valid in all of the EU Member States. However, occasionally Member States negotiate certain opt-outs from legislation or treaties, meaning that they do not have to participate in certain policy areas (EU glossary, 2015). The obvious negative side to Member States opting out from policy areas are the fact that they are breaking the unity of the integration process among Member States and are creating a "*Europe á la carte*", where they can pick and choose what policy areas to participate in and what to stay out of. Such a policy tool stands in contrast to the most sacred principle of the European integration process, the entire body of EU law, which obliges all Member States and binds them together within the EU. Clearly opt-outs fracture this unity, and decrease the level of integration from "common to all Member States" to common "only to most of them" (Sion, 2004) Hence, the consequences of these opt-outs are that not all Member States implement all of the EU policies and are therefore not fully integrated in the EU. This also means that they to not have the right to influence legislation covering the policy areas that they are not a part of directly. Denmark and the United Kingdom are the "champions" of opting out of EU policies.

The United Kingdom is the country with the highest overall number of opt-outs and special clauses, and the country that can be considered most detached from the core of EU integration (Ondarza, 2013). Their current opt-outs are within the scope to four main areas. They hold opt-outs from the EMU (Eurozone), the Schengen Cooperation, Justice and Home Affair policies and hold opt-outs on Charter of Fundamental Human Rights (Ondarza, 2013). The opt-outs from joining the Eurozone mean that they have not adopted the euro as their currency (European Commission, 2015h). In recent years, this opt-out has extended to all forms of closer economic integration surrounding the Eurozone. However, they can join in the future if they wish. The consequences of the opt-outs are that they do not formally take part when the Council adopts measures in the policy areas of the EMU, Schengen and justice and home affairs. Overall, these are quite substantial policy opt-outs. In particular if considering the high profile topics debated within the EU the last couple of years (the European debt crisis, migration issues, closer economic coordination) the United Kingdom is an outsider to the majority of them (Ondarza, 2013).

Denmark had four opt-outs from the 1992 Maastricht Treaty. These included opt-outs in Defense policy (CSDP) within the Common Foreign and Security Policy, the Economic and Monetary Union (Eurozone), Justice and Home Affairs, and an opt-out on citizenship rules. However, the Amsterdam Treaty canceled out the latter in 1999. The opt-outs mean that it is considerably harder for Denmark to influence EU policies within the opt-out areas (DIIS, 2008). The Danish opt-outs' greatest significance for Denmark is in relation to political influence on the development of the EU's EMU policy. Denmark does not participate in the Eurogroup (meetings with the finance ministers in the Eurozone), which is presently the forum where agreement is reached on many questions of broader economic relevance that also affect Denmark. Nor does Denmark participate in the European Central Bank's Governing Council, which sets the Euro area's interest rate and therefore also the Danish interest rate. Hence, by holding an opt-out from the EMU, Denmark does not participate in several important forums, which affects Danish interests (DIIS, 2008).

As a consequence of Denmark's opt-out from Justice and Home Affairs they participate completely in intergovernmental cooperation involving the police and criminal law but does not participate in decisions involving border control, immigration, asylum and civil law, which all involve supranational areas of cooperation. Basically, Denmark is not bound by joint EU rules in these areas, which on the one hand provides Denmark in some cases with the possibility to carry out a more independent policy. On the other hand, this opt-out means a loss of influence, since Denmark does not have the right to vote in the areas of supranational cooperation and has a significantly reduced opportunity to influence development of EU policy in these areas. The lack of the right to vote also applies to Schengen (DIIS, 2008). Moreover, Denmark is the only Member State that has been granted an opt-out in the area of security and defense policy. Hence, Denmark does not participate in the EU's foreign and security policy when the relevant activities carry defense implications. As a consequence of the defense opt-out, Denmark does not participate in drafting, implementing and financing decisions that affect the area of defense. Hence, Denmark does not participate in forum in the areas of defense such as the European Defense Agency (DIIS, 2008).

Sweden does not hold any opt-outs. However, they do not use the euro as their currency and are therefore not yet a part of the Eurozone. Sweden does not have an opt-out from the Eurozone thought, and is obligated under the 1994 Treaty of Accession to join the Eurozone once it meets the necessary conditions set out in the Treaty of Maastricht. However, one of the requirements for adapting the euro is membership of ERM II (Exchange Rate Mechanism II) for two years, and Sweden has chosen not to join this mechanism (European Commission, 2015h). Thus, Sweden has chosen to remain outside and thereby intentionally avoided the fulfillment of the adaptation requirements. The EU has accepted that Sweden is staying outside the Eurozone on its own decision, according to the EU commissioner for economic affairs, Olli Rehn (European Parliament, 2010).

As seen from this section, the fact that EU-Member States hold opt-outs from implementing EU policies means that their membership are differentiated, and the consequence is that some Member States are more integrated in the EU than others. Following is a discussion of how these different Member States can influence EU legislation.

2.5.2 Member States' power to influence EU-legislation

In addition to the lack of influencing policy areas that EU-Member States have voluntarily opt-outs from, there are other factors that affect their power to influence legislation. Factors such as population sizes and negotiation strategies are important when it comes to the power the different EU-Member States have to influence EU legislation and regulation.

There are three main institutions that are involved in the EU legislation process, namely the European Parliament, the Council of the European Union and the European Commission. *The European Parliament* represents the EU's citizens and every 5 years EU voters elect the members of the Parliament (MEPs), often representing different political parties in a country. *The Council of the European Union* represents the governments of the individual member countries, and the Presidency of the Council is shared by the Member States on a rotating basis. Finally, *the European Commission* represents the interests of the Union as a whole. Together, these institutions produce the policies and laws that apply in the EU through the "ordinary legislative procedure" (European Union, 2015e).

In principle, the Commission proposes new laws, and the Parliament and Council adopts them. This means that the directly elected European Parliament Members have to approve EU legislation together with the Council. The Commission draft and implement the EU legislation and ensures that the laws are properly applied (European Union, 2015e). The Parliament and the Council together also adopts the EU annual budget. Moreover, under the Lisbon Treaty, the range of policies covered by the new "ordinary legislative procedure" increased, which gave the Parliament more power to influence the content of laws in various areas (European Union, 2015f). As a result, the Parliament can today approve, amend and reject laws in an increasing number of new policy areas, including agriculture, justice and home affairs. It also has a veto over international agreements such as the proposed Transatlantic Trade and Investment Partnership with the USA (European Parliament, 2015). But the majority of laws are subject to "ordinary legislative procedure" which works on the principle that consent from both the Council and the Parliament are required before a law may be adopted. The ordinary legislative procedure gives the same weight to the European Parliament and the Council of the European Union on a wide range of areas, for example economic governance, immigration, energy, transport, the environment and consumer protection. Hence the European Parliament and the Council of the European Union jointly adopts the vast majority of laws (European Parliament, 2015c). In order for a law to pass by the Council within the ordinary legislative procedure, it usually needs double majority, meaning at least 55% of the countries have to vote in favor (with the current 28 members this means 15 countries) and this should represent at least 65% of the total EU population. In order to block a law in the Council it is required that four or more countries are against the proposed law, representing at least 35% of the total EU population. Some exceptions on sensitive topics like foreign policy and taxation require unanimous vote (European Union, 2015g). In the Parliament a simple majority is required for a law to pass, meaning that 50% or more in favor is required.

An important note is that when negotiating and voting in the EU, different representatives often negotiate and vote according to their European Political Group (EPG) and not on a basis of nationality. But in some cases representatives tend to vote in accordance to the national party over the EPG regardless of political party, often in cases where the issue is highly salient at national level and there exist a pre-established "national position" or if the issue is of special importance to the national party. This is especially in issues such as agriculture, environmental-, and economic issues (Nissen, 2014).

2.5.2.1 Influence in the Council of the European Union

In the Council, one national minister from each EU country is represented when they adopt laws and coordinate policies (European Union, 2015g). But as at least 15 countries and at least 65 percent of the total EU population are required to vote in favor for a law to pass, there are some advantages for the countries with larger population. Furthermore, recent research shows that the larger Member States dominate the legislation process in the Council. A study by Naurin and Lindahl (2008) shows that when governments are asked which countries they most often work with they often refer to Germany, France and the United Kingdom. Hence, the result of this study indicates that the largest Member States dominate the cooperation pattern in the Council negotiations. On the other hand, a recent study also shows that the smaller Member States have other opportunities, exceeding their formal power, to influence the legislation process in the Council. Studies suggest that countries like Denmark and Sweden have much more influence than should be expected relative to their formal power. Three main factors in particular enable small countries to achieve a relatively greater impact than their formal sizes in Council negotiation. These are factors such as the Council precedencies, the consensus culture in the Council and activity and engagement in negotiations (Miles et. al, 2013).

First of all, the presidency of the Council rotates among the Member States every six months. This rotating presidency of the Council of Ministers is often an opportunity for smaller countries to set the agenda for a while, and negotiate compromises that favor their own interests. Statistical analyses have shown that countries holding the presidency are able to put their stamp upon laws adopted by the EU (Miles et. al, 2013). Denmark had their last presidency in 2012, and Sweden in 2009. According to the

Ministry of Food, Agriculture and Fisheries of Denmark, the last Danish Presidency in 2012 achieved its ambitions largely due to their precedency. Sweden also achieved their objectives when they took over the Presidency of the Council of the European Union during the second half of 2009, according to a report from the Council of the European Union (Swedish Government, 2009).

The second factor that gives smaller Member States some advantages to influence is the characteristic of the culture in the Council. The culture of resolution in the Council of Ministers is characterized by a norm for consensus when negotiating. The norm is that great efforts are often made to ensure that countries agree on legislation with unanimity. Often negotiations in the Council continue long after a majority is found to ensure that all Member States' specific interests are met. Hence, this norm also secures that smaller countries' views are often heard in negotiations (Miles et. al, 2013).

A third factor is the activity and engagement in the Council of negotiations. Recent research indicates that small countries are often very active in Council negotiations, and are often better prepared with well-coordinated and detailed bargaining positions. This seems to be helping smaller Member States to gain influence beyond their formal bargaining power (Miles et. al, 2013). Studies of cooperation patterns in the Council have shown that although the three largest countries are most central in negotiations, small states like Denmark and Sweden are the second most central actors. Smaller countries often form alliances with like-minded countries in an attempt to form positive bastions in selected policy areas. The general pattern is that northern Member States more often communicate and vote together with other northern Member States. This implies that the Nordic countries are more likely to vote together than with southern members and vice versa (Miles et. al, 2013).

2.5.2.2 Influence in the European Parliament

In the European Parliament the number of representatives from the different countries vary. The number of members in the European Parliament (MEPs) for each country is roughly proportional to the countries' population. As a result, countries with larger population get to have more representatives in the Parliament, which in turn leads to a greater influence as decisions are taken by vote. But no country can have fewer than 6 or more than 96 MEPs, and the total number cannot exceed 751 (750 plus the President) (European Union, 2015f). However, some large countries get less MEP in relation to population sizes in comparison to smaller countries. For example for the UK and France the number of voters per MEP approaches close to a million, while for smaller nations such as Luxembourg, the number can be as few as 100,000 (population per MEP) (Business for Britain, 2014). Currently, the United Kingdom has 73 seats in the European Parliament, Sweden has 20 seats and Denmark only has

13 seats (Business for Britain, 2014). For a complete list of all the EU countries number of representatives and influence (population per MEP), see Appendix 4.

As the United Kingdom has 73 members in the current Parliament (only Germany and France have more, Italy has the same amount) they have a lot of power to influence in theory, as they have more votes and more resources than most of the other EU states in the Parliament. However, with every stage of the EU expansion, the UK's influence has suffered a decline. In 1979 they had 20% of the seats in the European Parliament, today it has only a bit less than 10% (European Parliament, 2015b). Furthermore, the UK is often unable to defend their interest. Over the last European Parliamentary term (2009-2014), a majority of British MEPs (across UK party lines) opposed 576 motions out of a total 1936 that were put before the Parliament. Of those 576 motions, 485 were nonetheless approved by the rest of the Parliament despite the opposition of a majority of British MEPs. This is a failure rate of 84 percent (Business for Britain, 2014). This "failure rate" is defined as the number of times a majority of British MEPs opposed a motion deemed to be against British interests, but were unsuccessful in preventing it being passed. It is difficult for British MEPs to block laws because their share of the seats is simply too small to have a significant effect on the outcome of the overall vote (Business for Britain, 2014). Hence, British MEPs are often outvoted and unable to stop legislation passing into European and British law. Even when trying to build alliances, the United Kingdom tends to have interests that diverge from those of the rest of the Member States (Business for Britain, 2014).

But in comparison to smaller Member States such as Sweden and Denmark, the UK has a much larger chance of influence legislation by having many more MEPs and more resources. However, despite the advantages enjoyed by larger Member States, there is evidence that small Member States can exert influence on legislative decision-making by adopting one or a number of negotiating techniques also in the Parliament. By forming alliances either with larger Member States or with smaller states in their region who have similar interests, a Member State can achieve more than if it was acting alone. Working closely with the European Commission and lobbying interests or pursuing Community wide policies can also help increase a smaller Member State's influence. Furthermore, small states can overcome weaknesses resulting from limited resources by building niche expertise in key policy fields, and gaining a reputation for policy leadership, scientific and technical knowledge (Miles, 2013).

Denmark has for example targeted their limited resources at specific priorities such as wind energy and climate change mitigation, which has worked well for them. Moreover, the Swedish Parliament Members are using alliances as tactics in order to get an influence in the legislation process. According to Göran von Sydow, a researcher at the Swedish Institute for European Policy Studies, the Swedish representatives in the Parliament has affected legislation in the EU with the use of this strategy. But this success has a price and often in exchange for the political support members must pay back by voting with the alliances on other issues, even though they might not agree (Melin, 2014). Denmark has also used alliances for a long time in order to defend their autonomy and influence over "national policies". For a long time during the 1970s and 1980s, they closely linked with other intergovernmental-minded countries like France and the United Kingdom. After the accession of Sweden and Finland however, they soon found new allies that shares many of their preferences and priorities. This suggests that Denmark also have tried to form alliances with like-minded countries as an attempt to form positive bastions in selected policy areas (Miles, 2013). Hence, negotiation strategies, building alliances and setting up strategic priorities are important for smaller Member States in order to gain more influence. Evidently, both Denmark and Sweden are using these strategies in order to gain more influence.

2.5.3 Main findings of Member States' influence

The power that the EU-countries' have to influence EU-legislation is clearly not equally distributed, and there are several factors that play a role in how much influence each Member State has. The bigger member countries with larger population such as the United Kingdom often have a better chance of influencing both in the European Parliament and in the Council of the European Union. This is mainly because these countries have more seats in the Parliament, more resources and because these countries in general often dominate the legislation process in the Council. On the other hand, smaller Member States often use other strategies in order to gain more influence, such as building alliances, using their limited resources at specific priorities and preparing better for negotiations. These tactics seem to be working well for some smaller states like Denmark and Sweden. Furthermore, the differentiated memberships also affect influence. The United Kingdom and Denmark both have several voluntarily opt-outs, and in these policy areas they do not have much power to influence legislation as they have lost the right to vote in these areas. Sweden on the other hand does not hold any opt-outs and can be a part of decision-making on a larger portion of EU policies. Overall, the influence of the different EU Member States varies, and in theory it is the larger countries that have most of the power to influence, whereas the smaller Member States must use different alternative strategies in order to be able to influence decisions. However, as seen from the UK example, even larger Member States can have difficulties on influencing legislations when their interests diverge from of the rest of the Member States.

2.6 Norway's integration and power to influence in comparison to the selected Member States

If comparing Norway's agreements with the EU to the differentiated EU memberships of Sweden, Denmark and the United Kingdom, one can argue that Norway is almost as integrated with the EU as these countries are in most areas. Norway's integration is largely due to the EEA Agreement that covers most of the EU policies, but also because of Norway's Schengen Association and other agreements. The main difference between these countries integration is that Norway is not a part of the common agriculture and fisheries policies, the customs union, the common trade policy and the direct and indirect taxation. The EEA Agreement does not cover other policy areas such as: common foreign and security policy, justice and home affairs and the economic and monetary union either. But as seen, neither of these EU countries are a part of EMU (Eurozone), and Norway has chosen to align its policies on justice and immigration through the Schengen and Dublin convention, and has also chosen to align their foreign and security policies with the EU (Buchan, 2012). Furthermore, both Denmark and the UK have opt-outs from common justice and home affairs policies, and these two countries also have opt-outs from other areas as well: Denmark from the EU Defense Policy and the UK from the Schengen Agreement and Charter of Fundamental Rights. Hence, Norway enjoys cooperation with the EU in most of the policy areas that the EU members are a part of and the country is clearly well integrated with the Union.

The most obvious disadvantage of Norway's association to the EU is in terms of power to influence laws and regulations, as previously noticed. However, as seen it is not that easy for the EU-countries to have a significant power to influence either. Had Norway been a part of the EU, they would have been one of the small states like Sweden and Denmark, and would therefore have to use "small states" strategies in order to gain influence in the legislation process in the EU. Overall, the differentiated EU memberships causes some countries to be more integrated than others, and the power that the countries have to influence policies and legislation is not equally distributed. Nevertheless the EU-Member-States clearly have a better chance than Norway as an outsider to influence legislation in the EU.

The next chapters (three, four and five) of the thesis will disregard Norway's influence and democratic deficit relative to the Member States, and rather analyze some of the financial consequences of these differentiated association forms. This economic assessment investigates benefits and challenges of being an outsider versus and insider to the EU in terms of financial contributions to the EU, and in terms of trade and foreign direct investments.

3. Financial Contributions to the EU

In this chapter Norway's financial contributions to the EU will be investigated, followed by the EU Member States' contribution to the EU budget. The intention is not to make a cost/benefit analysis, but rather to get an overview over how much Norway contribute financially to the EU compared to the selected EU Member States. In reality it is not possible to compare payments between those of a EU Member State and those of a non-Member State because they all contribute differently in relation to different factors such as GDP or GNI. Moreover, Norway and the other EEA/EFTA States do not contribute directly to the EU budget as the EU-member countries do. Regardless of this, it is possible to calculate individual countries approximate "total" contribution without considering benefits or degree of integration. Due to the scope of this thesis and the complexity of the financial contributions, it is not possible to include all of the payments that are done in reality. But the main financial contributions that cover the most significant amount will be discussed and compared to the Member States' contributions.

3.1 Norway's Financial Contributions

Norway's main financial contributions to the EU include:

- Financial Mechanisms (The EEA Grants and Norway Grants)
- Payments in regards to program collaboration and agencies
- Payments regarding the operation of the EFTA and EEA institutions

Norway also contributes with loans to the IMF, but due to the scope of this paper; monetary loans will not be a part of this financial analysis (Hauge, 2015).

3.1.1 Financial Mechanisms: EEA Grants and Norway Grants

Ever since the EEA Agreement was signed, Norway and the other EEA/EFTA countries have made financial contributions to the EU in return for access to the Internal Market (Lang, 2013). Formally, there is still no obligation for Norway and the other EEA/EFTA States to contribute financially to the EU under the EEA Agreement. In reality through, the financial contributions have become an integrated and increasingly institutionalized part of the EEA, which is now managed by a separate international body with over fifty employees. Hence, even though the agreement does not have a membership fee, it is expected that these countries contribute financially (Europautreningen, 2012). The contributions began when the agreement was signed, and it was suggested that the EEA/EFTA States should participate in a time-limited scheme that would last for five years, from the period 1994-1998. Since then, the EU has constantly emphasized that a similar arrangement should be part of the EEA Agreement, and EEA articles 115-117 lays the foundation for this financing mechanism. It stands today as a more or less permanent element of the agreement. The funding is targeted on areas where there are clear needs in the beneficiary countries and that are in line with national priorities and wider European goals, and is called the "EEA Grants" and "Norway Grants" (EEA Grants, 2015). The objective of the funding is to reduce the social and economic disparities within the EEA (Lang, 2013). These grants are not determined by any fixed formula, but the size of the contributions is a result of negotiations between the EEA/EFTA countries and the EU. The "EEA Grants" and "Norway Grants" are the largest financial contribution that Norway pays to the EU today. The Grants have been negotiated and renewed five times and at each round of negotiation the amounts have increased. In the negotiations the EU has emphasized that Norway and the EEA/EFTA countries are benefiting greatly from European integration, and often highlighted the benefits of having access to the Internal Market. The EU has also highlighted the major differences between rich and poor in Europe and the importance for Norway and the other EEA/EFTA countries to show solidarity with Central and Eastern Europe and not emerging as a freeloader (Europautredningen, 2012). The financial contributions are listed in EEA Protocol 38 A and B of Article 9. Protocol 38B of the EEA Financial Mechanism (2009-2014) states: *"Iceland, Liechtenstein and Norway ("the EFTA States") shall contribute to the reduction of economic and social disparities in the European Economic Area and to the strengthening of their relations with the Beneficiary States, through financial contributions in the priority sectors listed in Article 3".*

The three EEA/EFTA States jointly finance the "EEA Grants" and the countries contribute according to their size and economic wealth. Norway also has it's own grant simply called "Norway Grants" which is financed by Norway alone. The "Norway Grants" was a result of disagreements in the EEA/EFTA States regarding the increased amount of financial contributions (in the EEA Grants) over the years, mainly caused by the enlarged EU/EEA. Therefore the Grants were divided into two different Grants in 2004, which caused Norway to take over a greater potion of the contributions to secure agreements and avoid disputes both with the EU and within EEA/EFTA. Norway finance "Norway Grants" 100% and pays about 95% of the separate EEA Grants as well (Europautredningen, 2012). More specifically, for the period from 2009-2014 the "EEA Grants" by the three EEA/EFTA states contributed with approximately 993 million euros to the EEA. Norway provided 95.8%, Iceland 3% and Lichtenstein 1.2% of this grant. The "Norway Grants" alone amounted to approximately 804 million euros in the same period. Hence, the "EEA Grants" and "Norway Grants" together was almost 1.8 billion euros from 2009-2014 (EEA Grants, 2015).

Table 3.1A below show the financial contributions for these Grants by Norway separately and for all of the EFTA-states together.

Table 3.1A EEA Grants and Norway Grants in million euros

EEA and Norway Grants (million euro)	1994-1998		1999-2003		2004-2009		2007-2009		2009-2014	
	Norway	EFTA	Norway	EFTA	Norway	EFTA	Norway	EFTA	Norway	EFTA
Amount	112,25	119,25	113,6	119,6	1134	600	136	72	1755	993
Total amount	119,25		119,6		1167		140		1797	
Beneficiary States	5		4		13		2		15	

The table shows the sizes of the EEA Grants and Norway Grants in million euros for different periods. It shows that Norway has been the main contributor to these Grants in all of these periods.

(Source: Numbers from Europautredningen, 2012, EFTA and Storting propositions)

The funding to the EU by Norway and the other EEA/EFTA States increases significantly over the years, and Norway has always been the main contributor, as can be seen from the table. From the period 1994-1998 and 1999-2003 it is pretty straight forward as only EEA Grants existed and Norway clearly had the largest share out of the total EFTA contributions. Since 2004, Norway has also had the separate Norway Grants in addition to the shared EEA Grants, therefore the EFTA contributions no longer add up to the total amount in the table. However, as can be seen, Norway's contributions are significantly high in comparison to the other countries' contributions. For example in the period from 2009-2014 Norway paid 95.8% of the 993 million euros to EEA Grants and 804 million euros in Norway Grants, which is equal to 1755 million euros in total. As Norway paid 1755 million euros, and the total amount of both of these Grants were 1797 million euros, this constitutes that Norway paid 97.6% of the total contributions in this period (total amount in table 3.1A).

When the EEA/EFTA States and EU negotiates the size of the financial contributions, it is the EU that seems to be "winning" the negotiations and Norway does not have much to say other than to go along with the increasing amounts they are asking for. In addition, Norway does not have the power to influence which beneficiary states that receives the contributions (Europautredningen, 2012). Norway has received little support from the Nordic countries in the negotiations on the financial mechanisms. In 2003 the former Swedish Prime Minister, Göran Persson, stated that it was *"extremely strange that Europe's richest country that wants access to the internal market is not obligated to pay as much as Sweden, Denmark and Finland with a poorer economy"*. It is also highlighted in other reports that the Nordic countries do not mind that the EEA Agreement "costs a little" (Europautredningen, 2012).

3.1.2 Contributions to EU programmes and agencies

The EU programmes are financed in the Commission's part of the EU budget. But since Norway and the other EEA/EFTA States do not contribute directly to the EU budget, EEA/EFTA participation in a programme requires a yearly financial contribution to the relevant part of the Commission's budget (Almås, et al., 2010) Hence, Norway contributes financially with annual payments to EU programmes and agencies that they are a part of. The financial contribution from the EEA/EFTA states is laid down in Article 82 and Protocol 32 of the EEA Agreement. The contribution is established by using a "proportionality factor" which is calculated annually and based on the most recent GDP statistics for the EEA/EFTA States relative to the GDP of the whole EEA (The Norwegian Mission to the EU, 2015). Since the beginning of the EEA Agreement this factor has increased steadily, as seen in table 3.1B below. The EEA/EFTA financial contribution is the equivalent of this percentage multiplied by the amount of the relevant EU budget for the programme in question. The (GDP) proportionality factor for the EEA/EFTA countries was 3.03 percent in 2014. This means that the total EEA/EFTA commitment contributions amounted to 3.03% of the overall EU programme budget in 2014. Out of this, Norway accounted for 97 % of the total EEA/EFTA contributions (The Norwegian Mission to the EU, 2015). Roughly speaking, one can say that for every 100-euros Member States contributed to a EU program or agency that Norway participated in that year, Norway paid approximately 2.93 euros (97% of 3.03) (Regjeringen, 2015c). The proportionality factor has an increasing trend, seen in table 3.1.B below.

Table 3.1.B

Cost distribution in percentage of EU-programmes budget

Selected years	**1995**	**2000**	**2005**	**2009**	**2010**	**2014**
Distribution from EFTA/EEA-States	1,57 %	1,83 %	2,11 %	2,40 %	2,52 %	3,03 %

The table shows the GDP-proportional factor over the years, which is the percentage of which the EEA/EFTA countries must pay to participate in a programme. The percentage is multiplied by the total amount of the relevant programme-budget.

(Source: numbers from Europautredningen 2012 and the Norwegian Mission to the EU, 2015)

It should be notated that as the EEA/EFTA contribution to a programme is added on to the initial EU budget for that programme, it increases the amount available for project applications (Almås, et. al. 2010). This means that there will normally be economically advantageous to include Norway (and the EEA/EFTA states), which has undoubtedly helped ease Norwegian participation. Therefore Norway has in practice been permitted to participate in all EU programs, both within and outside the programmes covered by the EEA Agreement (Europautredningen, 2012).

Within the programs Norwegian actors can apply for funding of projects on an equal footing to the EU States' participants. Hence, a large proportion of the payments to the programs will therefore return to Norway; not back to the State Treasury, but to the organizations and businesses that have qualified for the funding. According to a recent report though, the Norwegian return rate have generally been slightly below the payments (Europautredningen, 2012). On the other hand, what Norway gets in return in funds is just one part of the contribution; there is also a multiplication effect of the Norwegian participation in the programs. For instance, SINTEF, which is one of the major beneficiaries of EU funds in Norway, said that they through program participation access and participates in projects that are worth about 20 times the value of what they receive directly. Moreover, the knowledge and economic repercussions are often far greater than the direct funding and includes important network, increased contract research, access to new markets etc. (Europautredningen, 2012).

In 2013, Norway's contribution to EEA programmes and agencies was about 296 million euros (Regjeringen, 2015c). In addition, Norway participates in INTERREG, which is a EU program for regional cooperation outside of the EEA Agreement, and contributes with about 25 million euros to this annually. Hence, Norway contributed with a total of approximately 321 million euros to EU programs and agencies in 2013 (Europautredningen, 2012). In 2014, Norway contributed with 306 million euros to EU programmes, which constitutes 97% of the total EFTA/EEA contribution. Throughout the programme period 2014-2020, the Norwegian contribution will according to the Norwegian Mission continue to increase substantially in parallel with the development of the EU programme budget to about 550 million euros in 2020 (The Norwegian Mission to the EU, 2015). Appendix 5 shows a comparison of Norway's contribution to EU programmes and agencies compared to Sweden, Denmark and United Kingdom's payments to EU programmes and agencies in 2013.

3.1.3 Other Expenditures for Norway

Another expenditure for Norway is the costs of operate and manage EEA/EFTA institutions. In 2010, the total administrative costs in regards to EEA/EFTA institutions were approximately 24 million euros for Norway. This expenditure has increased significantly since the EEA Agreement were signed, primarily because Norway had to take over most of the expenses for EFTA since Sweden, Finland and Austria joined the EU in 1995 (Europautredningen, 2012).

Norway's participation in the EU's judicial cooperation also entails expenses. First of all, Norway contributes to the administrative costs of the Schengen bodies. Norway pays an annual contribution to the Schengen cooperation, but the exact contribution by Norway alone is not public and changes annually. The overall contribution to the Schengen Agreement was 453.000 euros in 1999. Furthermore, there are separate contributions to the various bodies managing Schengen tasks, including Schengen Information System I (SIS I) with 1.5 million (2009), SIS II and Visa Information System (VIS) with 586.000 euros (2009) and fingerprint registry Eurodac with 30.000 euros (2008). Under Schengen is also the EU's border agency, Frontex, where the Norwegian contribution was 1.87 million euros in 2010 (Europautredningen, 2012).

Norway also has expenses relating to sending national experts to the Commission. Norway currently has 52 national experts at the Commission, whereas 30 of the national experts are related to program cooperation (EFTA, 2015f). Costs related to the national experts are primarily covered by Norway, but with some variation. The Commission compensates 89.000 euros annually for each of the national experts associated with the program cooperation, whereas for the other national experts, Norway has to pay everything. Therefore the (net) costs for national expert associated with program cooperation are lower. According to a Difi-study, Minister's reported that the average costs for one expert was about 125.000 euros per person annually (Europautredningen, 2012). Hence, the total gross-payment for Norway for the national experts is approximately 6.5 million euros annually, and the net-payment is about 3.83 million euros (52*125.000 euros – 30*89.000 euros = 3.83 million euros).

Norway also has expenses in relation to Norway's Mission to the EU. The Mission's task is to represent the Norwegian government in all EU-related areas that affect Norway. It has 55 employees, and the total expenses relating to the Mission is approximately 3.75 million euros annually (Regjeringen, 2015d).

Additionally, Norway has to pay into the separate EFTA budget, however as the EU countries are not a part of the EFTA these expenses are not calculated into the total expenses in regards to the EU. However, it is important to notice that it is not possible to become a party of the EEA Agreement without being a member of either the EU or the EFTA, which means that if other countries would want to leave the EU in favor of the EEA, they would have to become a member of the EFTA first (House of Commons, 2013). Norway contributed with approximately 11.8 million euros to the EFTA budget in 2014, a share of 40.95% of the total EFTA budget (EFTA, 2015e).

3.1.4 Total Expenses for Norway Regarding Agreements with the EU

Table 3.1C below shows an overview over the gross and net payments resulting from the main agreements Norway has with the EU. It is only an estimate and does not cover all of the costs that they have in reality, but captures the largest and most important expenses. The government has never presented a complete overview of the total expenses (Europautredningen, 2012). It is divided into gross and net payments because as seen from the programme cooperation, Norway gets funding's in return when participating in different programmes, and also get compensations for national experts.

Table 3.1C: Estimates of costs for Norway in relation to agreements with the EU

Estimate over costs related to Norway's Agreements with the EU (million euros), 2013		
	Gross	Net
EEA and Norway Grants	351,0	351,0
Programmes and Agencies	296,0	74,0
EFTA/EEA institutions	24,0	24,0
INTERREG	25,0	0,0
National Experts	6,5	3,8
Norway's Mission to the EU	3,8	3,8
Other (5%)	35,3	22,8
Total (million euros)	742	479

There are some uncertainties associated with these figures however. First of all, the expenses do not include a complete list of all areas of cooperation Norway has to the EU. Secondly, there might be currency fluctuations. Thirdly, as mentioned, there are uncertainties in the return Norway gets from programme cooperation, but in this estimate it is assumed that three-quarters goes back to Norway. Fourthly, the estimated value of Norway's share of EEA and Norway Grants are calculated by taken Norway's contribution from 2009-2014 and divided by five years. In reality, they might contribute more some years and less some other years over this period, but to be able to put an estimate for an annual payment, this is the method used. Finally, the expenses relating to programmes may vary from year to year. Moreover, because a lot of the expenses Norway has in the reality are not included, an extra post of expenses named "Other expenses" has been added. This post is set to 5% of the overall costs. In this post expenses related to other programmes and agencies, the Schengen cooperation and other bilateral agreements with the EU are accounted for. Moreover, this post also take into account that some of the numbers used in the estimates are from earlier years, as more recent numbers are not public. As discussed earlier, costs relating to programme participation and other costs relating to EU cooperation have increased annually, therefore this post is included to make the estimates more accurate.

As seen from table 3.1C Norway's gross expenditure was approximately 742 million euros in 2013. This means that Norway paid about 148 euros per capita (population of 5 million). Over half of this is due to the financial mechanism: EEA Grants and Norway Grants, and about 40 percent is due to programme cooperation. Expenses related to the operating of the EEA/EFTA institutions account for less than four percent. The other posts are less significant in terms of amount. Moreover, when accounting for what Norway gets' in return in funding and compensations, the net expenditures were approximately 479 million euros. The following section will compare Norway's contribution to the contributions of Sweden, Denmark and the United Kingdom.

3.2 Norway's Financial Contribution to the EU in comparison to the selected Member States

Norway can be considered a net contributor to many of the EU countries, even though they do not pay directly into the EU budget like the EU members do, as previously noted. Therefore it is possible, to a certain degree, to compare the Norwegian contribution to the EU-states contributions, with some modification. The EU states' net contributions also include areas of cooperation which Norway is not a part of, such as agricultural policies, fishery policies etc. Therefore, the point of this comparison is not to see how the funds are allocated, but rather to compare the sizes of the different governments' net contributions in the overall collaboration (Europautredningen, 2012).

The direct contributions by EU Member States are the single most important source of income to the EU budget. In 2013, the contributions from Member States represented approximately 74% of the EU budget's income (European Commission, 2015f). The countries contribute by a percentage mainly based on each Member States' Gross National Income (GNI), which is usually around 1% (Regjeringen, 2015c). For more information about the EU budget sources of income, see Appendix 6. In 2013, the EU budget added up to approximately 150 billion euros. Approximately 8.7 billion euros was spent on administration cost alone, which is a little less than 6% of the overall budget (Chan, 2014). Sweden, Denmark and the United Kingdom contributes significantly to the EU budget due to their relatively high GNI compared to other Member States. As seen from table 3.2 below, Sweden, Denmark and the United Kingdom pay more into the EU than they receive directly (which is also true for Norway).

Table 3.2: Total Contribution and Spending to the EU, 2013

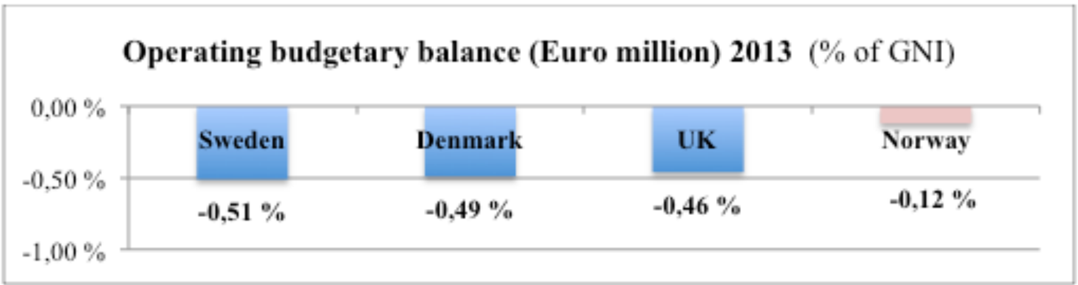
	Sweden	Denmark	United Kingdom	*Norway*
Contributions to EU, euro million	4 211	2 899	17 068	*742*
Total received from EU, euro million	1 661	1 434	6 308	*262*
Operating budgetary balance	-2 220	-1 277	-8 641	*-480*
Operating budgetary balance (% GNI)	-0,51 %	-0,49 %	-0,46 %	*-0,12 %*
€ per person, received from EU	173	255	98	*52*
€ per person, contributed to EU	439	516	266	*148*
€ Net payment per capita	-266	-261	-168	*-96*

(Source: Numbers from European Commission, 2015e, EU-budget. Numbers for Norway calculated. Most recent data used: for Sweden, Denmark and UK numbers from 2013, and estimates for Norway for 2013)

The operating budgetary balances shows that the United Kingdom was the biggest net contributor out of these countries, which paid approximately 8.6 billion euros more than it received. This made the UK the second largest net contributor to the EU in 2013. Only Germany paid more on a net basis (Chan, 2014). Sweden paid approximately 2.2 billion euros more than it received, whereas Denmark's net contribution was 1.27 billion euros and Norway's net contribution was approximately 0.48 billion euros. Moreover, in total contributions, Sweden paid approximately 4.2 billion euros, Denmark 2.9 billion euros, UK 17 billion euros and Norway approximately 0.74 billion euros. Comparing these financial contributions in absolute terms, it clearly shows that these EU-states' contributions to the EU budget are extremely high compared to Norway's overall contribution. If comparing the net contributions per capita, Sweden paid the most per capita (€ 266), followed by Denmark (€ 261) and the United Kingdom (€ 168). Again, Norway's contribution is smallest with an approximate payment of € 96 per capita. See Appendix 7 for the methodology for the calculations of the operating budgetary balance for the Member States and Appendix 8 for a detailed EU-budget for the selected countries.

As illustrated in figure 3.2 below the operating budgetary balances for Sweden, Denmark and the United Kingdom are negative. Sweden's budgetary balance (% of GNI) was -0.51%, Denmark's -0.49%, and the United Kingdom's -0.46%. If considering Norway's net contribution to the EU, the country's net balance was approximately -0.12% of GNI. This means that these countries pay more to the EU than they receive from the EU (in percentage of their gross national income).

Figure 3.2. Operating budgetary balance (Million Euros) 2013 (% of GNI)



*(Numbers from European Commission 2015f, calculated as Operating budgetary balance / (GNI*1000), %)*

As Norway is a country with a high GDP and GNI like these member countries, Norway's gross payments to the EU would have been significantly higher if the country had been a member of the EU. The net balance would however depend on the extent Norway would have utilized the funding's and support in the various programmes. But they would probably be a significant net contributor and be a part of the group of countries like the countries above, that contributes significantly to other EU states financially (Europautredningen, 2012). One can somewhat simplified say that the richest countries in the EU pay more than they get back in funding's (are net contributors), while the less wealthy countries get more back than what they pay into the EU (net-receivers) (Regjeringen, 2015c).

3.3 Main findings from the Financial Contributions

The conclusions that can be drawn from this chapter is that Norway contributes less financially to the EU than the wealthy EU-countries such as Sweden, Denmark and United Kingdom does. Hence, Norway would have had to pay significantly more to the European Union if they became a member compared to what they pay today with the current agreements. Therefore one can in terms of overall financial contributions conclude that it is a benefit for Norway to be an outsider to the EU if only isolating the cost of annual contributions. However, the cost financially is not all that is of importance. The next chapter looks into trade of goods and services and the following chapter looks into foreign direct investments, to see if this association to the EU gives Norway any benefits or challenges.

4. Trade of Goods and Services

International trade is important because it helps to spread new ideas and technologies resulting in more research and innovation, which leads to improvements in the products and services that people and companies use. Experience in EU countries shows that a 1 % increase in the openness of the economy results in a 0.6 % rise in labor productivity the following year. Other benefits from trade include lower prices and greater choice for consumers, as imported food, consumer goods and components for products become cheaper as a result of competitive advantages (European Commission, 2014). Moreover, an efficient services sector is considered crucial for trade and economic growth and for dynamic and resilient economies. Services provide vital support to the economy and industry as a whole, for example through finance, logistics and communications. Increased trade in services and the widespread availability of services can boost economic growth by improving the performance of other industries, since services can provide key intermediate inputs, especially in an increasingly interlinked, globalized world (Eurostat, 2015b).

Due to the importance of international trade, this chapter investigates the countries' international trade of goods and services. The objective is to analyze whether Norway's association to the EU makes them less integrated with the EU in terms of trade, as well as other benefits or challenges of being an outsider to the EU in terms of trade. It is important to notice that there are several factors that affects trade, such as trade policies, resources, geographic location, distribution networks, economy, history, culture, size of a country and integration in global production chains etc. Therefore an isolation of the direct consequences of being a Member-State or not is not possible (OECD, 2015b). But by comparing these countries' trade policies, trade volumes and trading partners it can still give an indication of how integrated the countries are with trading with EU countries and some advantages and disadvantages of the different association forms. Therefore this chapter investigates, inter alia, the similarities and differences between the EU trade policy and the Norwegian trade policy, the countries' total trade (in % of GDP), the countries' main trading partners and committees, as well as the share of the countries' trade that goes to EU countries. The analysis of the countries' trade concludes with the main findings, the benefits of the "Norwegian Model" in terms of trade and a brief discussion of whether Norway's export would have benefited more from EU membership than EEA membership.

4.1 Trade policies for the EU and Norway

Trade policies are one of the many factors affecting a country's international trade (OECD, 2015b). Therefore this section will investigate the EU's trade policy followed by Norway's trade policy in order to see where the policies are similar and where they differ. Thereby a short comparison of these follows.

4.1.1 Trade Policy in the European Union

The European Union has a trade policy with the objectives of making trade easier and cheaper between its Member States as well as between EU-states and third countries. The EU guarantees the free movement of goods, persons, capital and services as well as non-discrimination and equal competition to all of its Member States, and has also developed different measures in order to make trade between EU countries and third countries more efficient.

The EU has built its trade policy on three main areas of activities. First of all, the EU wants to have an active role in the multilateral negotiations conducted under the auspices of the World Trade Organization (WTO). The EU is firmly convinced that the multilateral system as set up by the WTO would take advantage of the participation of new countries that would commit to adhere to the WTO rules. In that regard, the European Union is actively participating in all accession negotiations (WTO, 2013). Secondly, the EU seeks deeper bilateral trade relations with individual countries and regions with the application of unilateral measures. The EU is constantly negotiating FTA with different third countries and has just concluded negotiations with Korea, Peru, Colombia and countries in Central America. The EU's commission also seeks to expand and conclude bilateral negotiations with ASEAN countries (European Commission, 2010). Thirdly, the EU wants a strategy to target and remove specific barriers in key export markets (European Commission, 2014).

In order to fulfill the objectives of the Union's trade policy (e.g. making trade easier and cheaper with uniform measures), the EU has developed a *common customs union* for its Member States. Some of the most important measures of the customs unions are: the elimination of all customs duties and restrictions among the Member States, the application of a common customs tariff throughout the EU to third countries, and a common commercial policy (European Commission, 2014).

Since the completion of the Internal Market, goods can circulate freely between Member States and harmonization of procedures in the EU have made it possible for the EU to eliminate routine checks at internal borders. This means that tariffs and other trade barriers have been removed between the Member States, and the customs services of the Member States have lost their responsibility for collecting VAT, excise duties and statistical data (European Union, 2015h). This has consequently made trading internally easier and cheaper. In general, the EU-members' tax policies are developed at a national level. Provided that they respect EU rules, EU Member States are therefore free to choose the tax systems that they consider most appropriate. However, harmonization of tax rules has been necessary in some areas to ensure the proper functioning of the Internal Market. This applies in particular to indirect taxation such as VAT and excise duties, and common rules have been introduced to ensure that taxes are not imposed on goods and services at borders between Member States (Regjeringen, 2015f). Harmonization relate primarily to systems and procedures and less to rates (Europautredningen, 2012). EU Member States are required to adopt a value added tax that complies with the EU VAT code, with the aim of harmonizing VAT within the EU VAT area. The EU VAT Code specifies that VAT rates must be within a certain range. Different rates apply in different EU Member States, ranging from 15 to 27%. The standard VAT rate in Denmark and Sweden are 25%, whereas the standard rate in the United Kingdom is 20% (European Commission, 2015l). The coordinated administration of VAT within the EU VAT area is an important part of the Single Market and cross-border VAT is declared in the same way as domestic VAT, which facilitates the elimination of border controls between Member States, saving costs and reducing delays. It also simplifies administrative work for freight forwarders. Read more about VAT payments inside and outside the EU in Appendix 9. In addition to the harmonization of the VAT procedures, the EU has harmonized rules for excise duties to ensure that excise duties for certain products are applied in the same way and to the same products throughout the Single Market. The harmonization of the excise duties also ensures that Member States apply (at least) a minimum rate of excise duties, on for example alcohol and tobacco. However, Member States are free to apply excise duty rates above these minima, according to their own national needs (European Commission, 2015n).

The application of a common customs tariff and common custom rules throughout the EU to third countries means that the EU countries applies a common customs tariff to the import of goods across the external borders of the EU. The tariff is common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. The rates depend on the economic sensitivity of products. Through the tariff, the EU applies the principle that domestic producers should be able to compete fairly and equally on the Internal Market with manufacturers exporting from other countries (European Commission, 2015k). The EU binds 100% of tariff in lines of the WTO at a trade-weighted average bound at the most favored nation (MFN) tariff of 2.8%. The EU maintains a higher level of tariff protection on agricultural goods, for which the trade weighted average MFN applied tariff, is 9.9%, and just over 11% of EU agricultural imports are covered by special safeguards. Among the most supported and protected sectors are beef, sheep, goats, poultry, dairy, rice, barley, various fruits and vegetables, rice sugar, wine and tobacco (European Parliament, 2014).

The EU's common commercial policy implies uniform conduct of trade relations with third countries (European Union, 2015j). The European Commission is responsible for the common commercial policy in the EU, and they negotiate policies on behalf of the member countries. This means that no individual member government can contemplate a bilateral trade agreement with a non-EU partner. This division of responsibility is based on EU Treaties. The aims of the free trade agreements are among other things to open new markets for goods and services, increase protection and opportunities for investment, make trade cheaper by cutting customs duties and red tape and to speed up trade by making customs clearance easier (European Commission, 2014).

The EU also has a common agricultural policy (CAP), which aims are to ensure reasonable prices for Europe's consumers and fair incomes for farmers. The CAP is one of the most important EU policies, and agricultural expenditure accounts for some 45% of the Community budget. Additionally, The EU has a Common fisheries policy (CFP), with the same objectives as the CAP (European Union, 2015i). Overall, trade agreements of the EU are open with respect to industrial goods and defensive on agricultural goods. The trend in the EU trade agreements appears to be a consolidation of 100% tariff liberalization for industrial products and perhaps a trend towards greater liberalization in agricultural tariffs (European Parliament, 2014).

4.1.2 Trade Policy in Norway

The Norwegian Government's trade policy is designed to promote and sustain economic growth within the limits set by the environment. It is the objective of the Government that the beneficial effects of economic growth and trade be translated into increased welfare, full employment, an equitable distribution of income and improved social standards. The Norwegian Government attaches great importance to pursuing a policy of sustainable development at home as well as globally. Trade policy and environmental policy must be mutually supportive (WTO, 2015). Norway's foreign trade is regulated by a number of agreements and regulations, including the EEA Agreement, the free trade agreements through the EFTA and the membership in the WTO.

The EEA Agreement guarantees the free movement of goods, persons, capital and services as well as non-discrimination and equal competition rules throughout the EEA, in the same manners as for the EU Member States, as previously noted. Therefore manufactured products (and oil/gas) can be traded freely with the EU because EEA members submit to the directives connected with the Single Market. Hence, identical rules and regulations for goods and services apply, and tariffs on industrial goods are eliminated between Norway and the EU, which makes trading of industrial goods cheaper. However, the EEA does *not* cover EU policies such as the customs union, direct and indirect taxation, the common commercial policy, the common agriculture policy or the common fisheries policies (EFTA, 2015d). Because Norway is not a part of the customs union, they do not have a common customs tariff as the EU Member States have to countries outside the EU. Hence, multilateral trade policy to non-EEA countries remains the responsibility of Norway, and Norway sets their own tariffs on goods when trading with non-EU countries (WTO, 2012). The EFTA countries have an average MFN tariffs ranging between 7.8 and 8.6%. This indicates that individual EFTA countries maintain higher average tariffs than the EU. The EFTA countries trade weighted averages is around 3.5% overall, but between 30 and 40% for agriculture and 1-2% for industrial products. Norway binds their agricultural line at an average of greater than 109% in order to protect the country's agriculture (European Parliament, 2014). This is significantly higher than the EU tariffs on agricultural goods. Moreover, because the EEA is a free trade area and not a customs union, Norwegian exporters and foreign companies exporting to Norway have to go through custom procedures such as import and export declarations, payments of VAT and include rules of origin for all goods exports. Rules of origin is applied to avoid distortion of trade within the free trade area due to differences in individual countries tariffs and custom duties to third countries (Europautredningen, 2012). Furthermore, the EEA Agreement does not contain provisions on coordination of direct and indirect taxes. Therefore Norway is not required to harmonize its value added tax law with EC VAT law. However, the Norwegian VAT Act is largely based on the same principles as the EC VAT Directive 2006/112. But fiscal frontiers still exist between Norway and the European Union, and transactions between the two are still treated as traditional import and export supplies with the associated customs formalities and paperwork (PwC, 2012). The standard rate of VAT is in Norway is 25%. Norway is not required to follow EU regulations on excise duties on for example alcohol and tobacco either. Despite Norway's entry into the EEA, there have been little if any easing of the excise duty rates for alcoholic beverages (Karlsson, et al, 2014). Read more about the Norwegian tax system with some comparisons to the selected countries' tax systems in Appendix 10.

Furthermore, as Norway is not a part of the EU common commercial policy, the country is free to sign free trade agreements independently or through the EFTA as discussed before. Norway often signs FTAs covering trade in industrial products, fish and marine products as well as processed agricultural products with third countries. Norway is not part of the CAP or CFP as noted before.

4.1.3 Main similarities and differences between the EU's trade policy and Norway's trade policy

If comparing the EU's trade policy to Norway's trade policy the policies are similar in a lot of areas as they both cooperate with the WTO and because of the EEA Agreement. The customs legislation in Norway have in common with the EU customs union that both are largely determined by multilateral agreements, in particular the WTO Agreement and certain instruments of the UN system. The substance of the EU customs legislation and the Norwegian customs legislation is therefore largely coincide. This does not include tariff-rates and the protection levels however, where there are significant differences between Norway and the EU (Europautredningen, 2012). The EU customs union has eliminated custom duties and restrictions between its Members and routine checks and customs formalities are abolished at internal borders. But as Norway is not a part of the EU customs union, Norwegian exporters and foreign companies exporting to Norway have to go through custom procedures such as import/export declarations, including rules of origin for all goods exports, and payments of VAT. This makes trading with Norway more burdensome and inefficient than intra trade. Moreover, as Norway is not a part of the EU customs union, they are not a part of the common external tariff on goods from countries outside the EU either. Norway has higher average tariffs imposed to goods from third countries in comparison to the EU average. Another major difference between their trade policies is that Norway has more flexibility to set their own agenda when it comes to trade with third countries. Norway is not a part of the EU common commercial policy, but has chosen to be a part of EFTA instead. Therefore Norway can sign bilateral free trade agreements independently, as well as in cooperation with the EFTA. The EU states however, cannot sign FTAs independently. It is the European Commission that negotiates FTAs with third countries for all of its members. Lastly, Norway is not a part of the CAP or the CPF common policies and therefore retains the flexibility to pursue their own agenda on fisheries and agriculture.

4.2 Total export and imports of goods and services (% of GDP)

The countries' total trade of goods and services (in % of GDP) from 2013 can be seen in table 4.2 below. It shows that Norway imported less than these countries and exported less than these countries with the exception of the United Kingdom in 2013.

Table 4.2. Total Trade of Goods and Services (% of GDP), 2013

	Norway	Sweden	Denmark	United Kingdom
Import	28.2 %	38.9 %	48.5 %	31.7 %
Export	38.9%	43.8%	54.3%	29.8%

(Source: World Bank and OECD Accounts, 2015a+b).

One of the many factors causing Norway's import to be less than the EU countries' may be explained by Norway's trade policy with the higher average tariffs on imported goods compared to the EU countries. The tariffs are used to restrict trade as this tax makes the goods and services more expensive to customers. Another factor that might have an affect on Norway's export and imports are the policies such as custom procedures, which makes trading with Norway more cumbersome than intra EU-trade as noted before. Moreover, Norway has a distinctive industry structure with resources such as oil, gas and fish, which may also explain the relatively lower export (% GDP) for Norway compared to its Nordic neighbors. See Appendix 11 for a figure of the countries' total trade of goods and services and trade balances, including a discussion of the countries' BOP. See Appendix 12 for graphs showing the development in the countries exports and imports in percentage of GDP from 1990-2013. However, these figures do not say much about integration into the EU, and were included for the purpose of getting an insight to how much these countries trade relative to their GDP. The analysis will continue by investigating these countries' main trading partners and commodities/services in order to find, inter alia, whether these countries' main trading partners are EU countries or not.

4.3 Trade of Goods by Trading Partners and Commodities

Norway's main import partners of goods were Sweden (13.54%), Germany (12.39%) and China (9.25%) and their imports were mostly industrial machinery, motor vehicles and parts and electrical machinery in 2012. Their main export partners were the United Kingdom (26.5%), the Netherlands (12.25%) and Germany (11.97%). Norway's main export commodities were oil and mineral fuels, seafood and industrial machinery (UN Comtrade, 2015). The country's trade of goods is largely dominated by EU countries, which will be discussed in more detail later.

Sweden's main import partners were Germany (17.28%), Norway (9.09%) and Denmark (8.46%) in 2012. The country mainly imported oil and mineral fuels, industrial machinery and electrical machinery.

They exported most to Norway (10.16%), Germany (9.56%) and the United Kingdom (7.56%). Sweden's main export commodities were industrial machinery, electrical machinery and motor vehicles and parts (UN Comtrade, 2015). Sweden's trade of goods is also dominated by EU-countries.

Denmark imported most from Germany (20.67%), Sweden (13.41%) and the Netherlands (7.33%) in 2012. Their main import commodities were industrial machinery, oil and mineral fuels, and electrical machinery. They exported most to Germany (14.14%), Sweden (12.7%) and the United Kingdom (9.12%). Denmark's main exports were within industrial machinery, oil and mineral fuels and items nesoi (which mean that these goods are not elsewhere specified). However these goods include mainly meat and meat products and dairy products (UN Comtrade, 2015). Hence, like it's Nordic neighbors, Denmark's main trading partners of goods are also EU-countries.

The United Kingdom's main import partners of goods were Germany (12.06%), the United States (8.9%) and China (8.16%) in 2012. They imported mostly oil and mineral fuels, Items nesoi (not specified), and industrial machinery. The "items nesoi" for the UK is largely foodstuffs and manufactured goods. The UK exported most to the United States (13.34%), Germany (10.82%) and the Netherlands (7.87%), where their main export commodities were industrial machinery, oil and mineral fuels and motor vehicles and parts (UN Comtrade, 2015). Unlike these three Nordic countries, the United Kingdom has a larger share of their total trade of goods with countries outside the EU.

In Appendix 13 a much more detailed table showing the countries main import and export partners (as a percentage of all trade in goods) and commodities is found.

4.4 Norway's Trade with the EU

The EU is Norway's major export and import partner and it is mainly the EEA Agreement that governs Norway's trade relation with the EU. However, ever since the early 1980s (before the EEA) approximately 70-80 percent of Norwegian trade has been linked to EU countries (European Commission, 2015a). This is mainly because of Norway's geography, history and trade agreements with the EU.

Exports Almost all of Norwegian export of oil and gas is going to EU-countries today. Out of the total exports from Norway to the EU last year, 68.8% consisted of exports of primary products, mainly oil and gas (European Commission, 2015g). In 1989, these exports accounted for just over half of the registered export of goods to the EU. Hence, oil and gas contributes to an increasingly share of Norwegian exports to the EU (European Commission, 2015a). But also if excluding oil and gas from the export, EU is still by far the largest export market of goods and services for Norway. Norway's other traditional economic activities are within shipping, fisheries and fish farming. The country is also a very important exporter of metals such as ferroalloys and aluminum, and the EU's main source of primary aluminum trades from Norway (European Commission, 2015a). If disregarding exports of oil and gas, Norway's total share of exports to the EU (% of total exports) has been above 60 percent. The proportion increased some at the end of the 1980s and has gradually fallen from over 70 percent to closer to 60 percent (Europautredningen, 2012). In 2013, this share was 62% (SSB, 2013). The gradual reduction in the EU's importance for Norwegian exports is particularly characterized by the growth in newly industrialized countries of Southeast Asia, as well as a high, but somewhat later growth in China. However, Norway has had a significant absolute growth in exports to the EU within almost all product groups, both within products requiring higher and lower degrees of processing (Europautredningen, 2012). In addition, services account for a growing share of Norway's exports to the EU (European Commission 2015b).

Imports Norway's share of imports from the EU has been relatively constant at around 65 percent of total imports since the 1980s. The portion was approximately 65 percent in 2013 also. It is manufactured products that dominate imports from the EU to Norway. It is somewhat surprising that the portion is still that high due to Norway's increased imports from China in recent years. The value of merchandise imports from the EU to Norway has increased by 250 percent since 1992, while the value of imports from China have grown by as much as 1600 percent. But on the other hand, imports from China were just a small portion to begin with, so this significant increase has only to a limited extent affected to the total figures (9.25 % of total imports from China in 2012) (Europautreningnen, 2012).

EU's trade with Norway

If considering the EU's main trading partners however, Norway is not that significant as a trading partner for the EU. Norway is the EU's fifth most important partner for trade in goods, after China, Russia, USA and Switzerland, and is the seventh export market for the EU, after USA, China, Switzerland, Russia, Turkey and Japan (European Commission, 2015a). Hence, while trade with the EU captures about 75 percent of the total Norwegian foreign trade, Norway only captures about 4.5 percent of the EU's foreign trade. Therefore it is clear that Norway is more dependent on trade with the EU than the other way around. However, some traded goods such as oil and gas are important import commodities for the EU from Norway (Europautredningen, 2012).

4.5 Norway's Share of Trade with the EU Compared to Intra EU-Trade

The analysis that follow compares the portions of the countries' total exports and imports that goes to other EU countries. The main objective is to investigate whether or not Norway trades less with EU countries in comparison these Member States partly because of their association to the EU.

4.5.1 Trade of Goods

4.5.1.1. Exports

The value of Norway's total export of goods was 912 046 million NOK in 2013, and from that total, 746 092 million NOK was exported to EU countries (SSB, 2015b). This means that approximately 82% of Norway's total export was to EU countries that year. If excluding oil, natural gas and condensates from the total export, approximately 62% of Norway's exports were to EU countries the same year. Norway's total export excluding oil, gas and condensates amounted to 371 361 million NOK, whereas the EU exports that year excluding these goods amounted to 229 770 million NOK (SSB, 2015b).

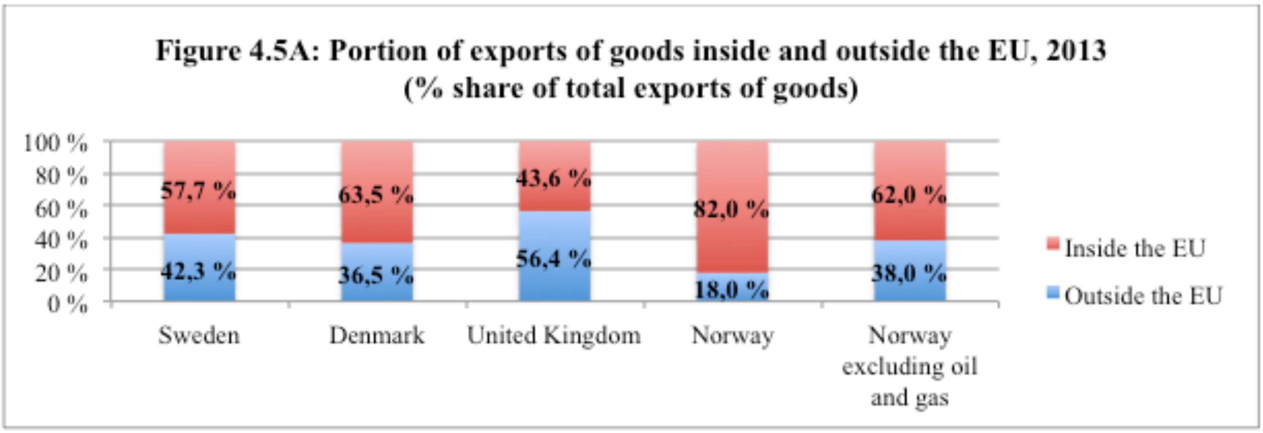
The value of Denmark's export of goods to other EU Member States was 52,6 million euros in 2013. The value of the country's extra export of goods amounted to 30,337 million euros. Hence, the value of Denmark's total export was about 82,9 million euros, and the country's share of intra export of goods was approximately 63.5 % that year (Eurostat, 2015f).

The value of the Sweden's total export of goods was about 126,28 million euros in 2013. The value of the exports that was to EU countries was 72,9 million euros, and the value of the export of goods to countries outside the EU amounted to 53,380 million euros (Eurostat, 2015f). Hence, Sweden's share of intra EU exports was approximately 57.7% in 2013 (Eurostat, 2015f).

The export figures for the United Kingdom for 2013 shows that the country exported more to third countries than to EU-countries. The value of the UK's total export of goods was about 408,137 million euros. The value of the country's export of goods to EU-countries was 178 million euros, and the value of the country's export of goods to third countries was 230,137 million euros. The UK's share of intra export was therefore approximately 43.6% in 2013 (Eurostat, 2015f).

Figure 4.5.A below illustrates these EU-countries portion of intra/extra exports of goods, as well as Norway's share of exports of goods inside and outside the EU for 2013.

Figure 4.5.A Portion of exported goods inside/outside the EU (% share of total exports) 2013



The figure shows that Norway's portion of exports to the EU is higher than these EU-members portion of exports to EU-countries. If excluding oil and gas however, Denmark's share of intra exports is slightly higher.

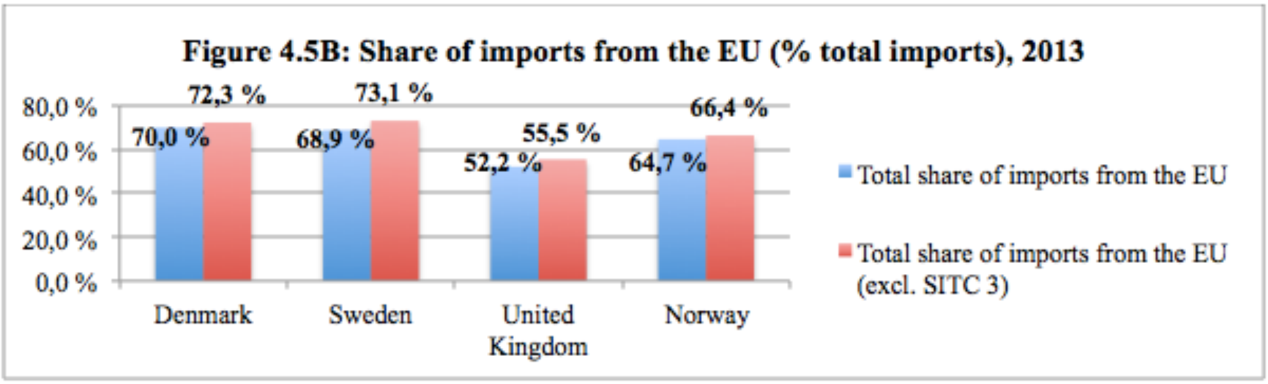
(Source: Numbers for Denmark, Sweden, UK from Eurostat, 2015f. Numbers for Norway from, SSB 2015b)

As seen from the figure, Norway's share of exports to the EU in percentage of the country's total exports (82%) was higher than Sweden (57.7%), Denmark (63.5%) and the United Kingdom's (43.6%) shares of intra-exports in 2013 (Eurostat, 2013a). If comparing Norway's share of export to EU countries (as a % share of total exports of goods) to intra EU export for all of the EU-Member States, only seven EU countries exported more to other EU-countries in 2013. These were Slovakia, Czech Republic, Luxemburg, Hungary, Netherlands, Slovenia and Poland (Eurostat, 2013a). Also if excluding oil and gas, Norway is still one of the countries that trade most with other EU states in terms of the country's overall export (Europautreningen, 2012). As seen from the figure above, if excluding oil, gas and condensates from Norway's exports, the share of Norway's exports to the EU was approximately 62 percent in 2013. This percentage is lower than Denmark's share of intra export, but still higher than Sweden and the United Kingdom's shares of intra-export in 2013.

4.5.1.2 Imports

Norway's share of import from EU-countries was approximately 65% in 2013. This share is smaller than Sweden (68.9%) and Denmark's (70%) shares of imports from EU countries, as can be seen from figure 4.5B below. However, Norway's share of import from EU countries was larger than the United Kingdom's (52.2%) share of intra import. If excluding SITC 3 (crude oil, refined petroleum products, coal, gas and electric current) from the imports, Denmark's share of EU import was 72.3%, Sweden's 73.1% and the United Kingdom's 55.5% in 2013 (Eurostat, 2015). If excluding SITC 3 from Norway's share of import from the EU, the share was 66.4%. This is still higher than the United Kingdom's share. See Appendix 14 for the values of the countries' imports.

Figure 4.5.B Share of imports from the EU (% total imports) 2013



The figure shows that Norway's portion of EU-import in percentage of their total import is higher than the UK's portion of intra-import but smaller than Denmark- and Sweden's share of intra-imports.

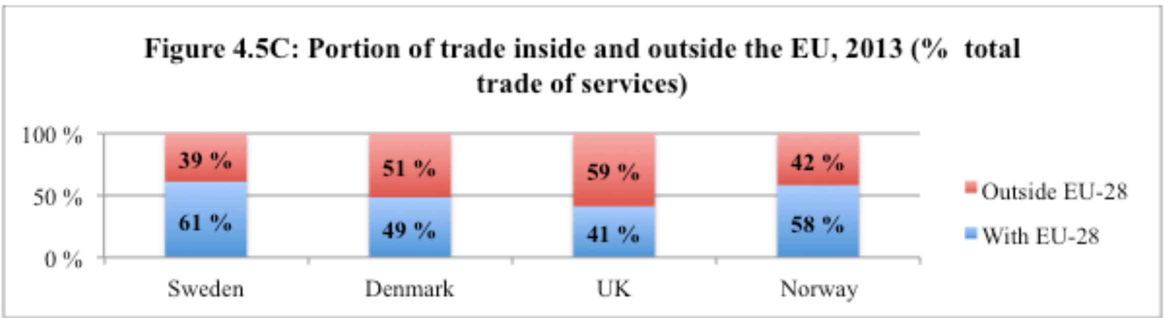
(Source: Numbers for Denmark, Sweden, UK from Eurostat, 2015f. Numbers for Norway from, SSB 2015b)

These figures show that Norway is highly integrated in the EU in terms of trade of goods, as most of the country's exports and imports are traded with EU-countries. This is in particularly clear in Norway's share of export to the EU. However, these figures also indicate that oil and gas exports contribute to a significant portion of the country's export to the EU. Without oil and gas, the portion of Norway's export to the EU is more equal to the shares of the other Nordic countries' intra-exports. Norway's share of imports with EU countries is not as high as the export share, but still higher than the UK's share.

4.5.2 Trade of Services

Norway's share of trade of services with EU-countries in percentage of all traded services was approximately 58% in 2013. Services account for a growing share of Norway's trade with the EU.

Figure 4.5.C Portion of trade inside and outside the EU (% of total trade in services)



The figure shows that Norway's share of trade of services with EU countries was higher than Denmark- and the UK's shares of intra-trade in services, but smaller than Sweden's intra trade in services.

(Source: Numbers for Denmark, Sweden, UK from Eurostat, 2015c. Numbers for Norway from European Commission, 2015b)

As seen in figure 4.5.C above, Norway's portion of trade of services with EU-countries was larger than both Denmark (49%) and the United Kingdom's (41%) portion of intra trade in services. Sweden on the other hand traded 61% of their total trade in services with EU countries, which is slightly more than Norway's share. The UK was EU's largest exporter of extra trade in services in 2013 (Eurostat, 2015b).

Table 4.5 below shows the total values of service transactions for these countries in 2013. If comparing these, Sweden, Denmark and United Kingdom traded more in services both internally in the EU and outside the EU in absolute values compared to Norway. This is largely because Norway trades more in goods (in particular oil and gas) than in services (Eurostat, 2015c).

Table 4.5: Trade of services 2013 (billion euros)

	Intra (inside EU)	Extra (outside EU)
Sweden	61.8	39.3
Denmark	46.9	49.7
UK	149	212.7
Norway	39.6	28.3

(Source: Numbers from Eurostat, 2015c).

4.6 Main Findings from Trade of Goods and Services

Norway's total export of goods and services was less than Sweden and Denmark's exports, but higher than the United Kingdom's total export in percentage of the countries' GDP in 2013. Norway's total import of goods and services was less than all of these countries (% of GDP). One of the factors causing the low import and relatively low export may be due to Norway's trade policy. As seen, Norway has higher average tariffs on imported goods and services than the EU average. But Norway also has a distinctive industry structure with resources such as oil, gas and fish, and it can be difficult to imagine that they could have exported more of this than what they have actually done in line with the country's trade policy of sustainable growth. In addition, Norwegian exporters and foreign companies exporting to Norway have to go through custom procedures such as import/export declarations, including rules of origin for all goods exports, and payments of VAT. These procedures are eliminated between EU Member States. Hence, trading with Norway can be considered more troublesome than trading intra EU trade, which can also affect Norway's imports and export in a negative way. However, even as trade with Norway can be considered more cumbersome than intra trade, Norway's trade with EU countries does not seem to "suffer" from this. Compared with other EU/EEA countries, Norway is strongly integrated in trade with EU countries. As seen, Norway is one of the countries with the highest portion of its trade linked to other EU countries (Europautredningen, 2012). Norway's share of exports to the EU is larger than these EU-members' portion of intra-exports of goods; and if excluding oil and gas, Norway still has an export portion of 62% going to the EU of the country's overall trade of goods. This portion is still higher than Sweden and the United Kingdom's portion of intra-exports of goods. Norway's share of imports from the EU is not that significantly high however. This share was approximately 65%, which is a somewhat smaller share than Sweden and Denmark's portion of intra-imports. But it is still a high share, and much higher than the UK's share of intra-imports of goods. If excluding oil and gas from the countries' imports, the countries' portion of imports from the EU increases. The analysis also found that Norway's portion of trade of services with EU countries was higher than Denmark and the United Kingdoms' intra trade of services in 2013.

Overall, Norway is highly integrated in trading with the EU and from these figures the country does not seem to have any disadvantages in terms of trade regarding EEA membership instead of EU membership when it comes to trade with EU countries. However, a brief discussion on whether Norway's export could have been higher if they were a part of the EU follows.

4.7 Would Norway's export have been higher if they were a part of the EU?

A study by Baier et al. studied the effect of a number of regional agreements, including both the EU and the EEA. They found that EU membership resulted in an increase in the countries' trade over a period of 10-15 years of 127-146 percent. By comparison gave EEA an export increase of no more than 35 percent over the same period. However, since the EFTA countries that are a member of the EEA are few and have a distinctive industry structure (fish, oil and finance), there are no reason to take these results too literally. But it still indicates something about the magnitude and the different effects of the various agreements (Europautredningen, 2012). Very simplified the analysis from Baier et al. could suggest that Norway's growth in exports to the EU since 1994 could have been 3-4 times higher, if the trade impact had been as strong as between EU countries. However this includes oil and gas, and it can be difficult to imagine that Norway could have exported more of this than what they actually have done. But if oil and gas are excluded the estimates from Baier et al. implies that Norway's export growth in the EEA has been less than half of the one seen between EU countries (Europautredningen, 2012). Hence, the study indicates that Norway's export growth could have been higher if they were a part of the EU instead of the EEA. However, there are no ways to measure this for certain.

4.8 Benefits and Challenges of the "Norwegian Model" in terms of Trade

There are several benefits for Norway as an integrated outsider of the EU in terms of trade. For Norway and Norwegian businesses the EEA Agreement has given access to the Single Market while retaining flexibility to pursue their own agenda on fisheries, agriculture and trade. As Norway is not a part of the CAP and CFP, it gives Norway the opportunity to protect its primary industries in agriculture and fisheries by adjusting policies to meet national priorities on fish stock preservation and regional policy. Norway would be outcompeted by other European countries in agriculture if they joined the EU, due to competitive advantages for other countries (Smedshaug, 2013). The Norwegian agricultural policy is based on the key objectives of food security and scattered settlement. Norway wants food security to its population if there is an emergency in the future, such as ecological/environmental crisis, or war actions elsewhere in the world that puts much of the best farmland out of operation. The country wants to be able provide food for the entire population in a worse case scenario (Rickertsen, 1991). The Norwegian agricultural policy also wants the population to be scattered. One of the main reasons for underlining that the settlement pattern is important is because it increases the ability for the country to quickly increase production in a given situation. As Norway has these objectives for its agricultural policy, they have a benefit of being outside the EU, as the country can largely regulate their agricultural policy and set higher tariffs on imports in order to protect the countries production. However, due to harsh natural conditions, Norwegian agriculture has been dependent on state subsidies (Rickertsen, 1991). However, customs protection of agricultural goods is an important part of Norwegian agricultural policy and the import protection contributes to ensuring that Norwegian agricultural goods are sold at prices stipulated in the Agricultural Agreement. The customs duty rates for agricultural goods are highly variable, depending on the need for protection (Royal Ministry of Finance, 2014). In regards to fisheries policy, Norway has benefits of not being a part of the CFP because Norway has a large fisheries administration to enforce the regulation system in comparison to the Member States of the EU. Hence it is easier for Norway to regulate and introduce necessary measures to deal with changes, e.g. the closing off certain areas if catches contain large amount of small fish or by-catch leading to discards (Vestrom, 2011). Another important point that distinguishes the Norwegian fisheries policy from the EU is the use of transferable quotas. Transferable quotas makes the Norwegian fleet able to restructuring the fishing fleet to consisting of fewer boats that can be better utilized and are capable of handling the natural fluctuations of fish stocks in the Norwegian Sea, the North Sea and the Barents Sea, in comparison with the EU fishing fleet (Vestrom, 2011). As fishing is extremely important to the Norwegian economy (second largest industry in Norway after oil), it is important for Norway to be outside the EU's fisheries policies. The EEA is therefore a better alternative for Norway regarding flexibility in these policies (Euronews, 2015).

Norwegian companies can in theory operate in the EU the same way as other companies from EU-countries, by being a part of EEA. Access to the Single Market has benefited the Norwegian economy and businesses. Another important benefit for Norway of being outside the EU and its trade policy is that it leaves Norway with a degree of flexibility to conclude trade deals with third countries bilaterally and through the EFTA, as discussed earlier (CBI, 2013).

But although the EEA Agreement has secured market access and provided flexibility in certain economic areas, there are several economic challenges of being an outsider to the EU. As Norway is not a part of the EU customs union, Norwegian exporters and foreign companies exporting to Norway have to go through custom procedures such as import and export declarations, including rules of origin for all goods exports, and payments of VAT, as previously noticed. A report published in 2013 by the Swedish Chamber of Commerce on trade between Norway and Sweden concluded that businesses see trading between the two countries as cumbersome despite the perception that it should be simple within the EEA. Moreover, although a member of the Single Market in theory, the lack of knowledge about the EEA across the EU means that trade barriers exist in practice. Norwegian businesses have shared that they have difficulties with custom officials at border crossings across Europe causing severe delays and lost profits (CBI, 2013). Another less fortunate implication of being an outsider is that rules are implemented later in Norway than in the EU because the rules have to be agreed within the EEA structure after they have been approved at EU level, as discussed earlier. The EEA is supposed to implement rules simultaneously with the EU (within a period of six months) but this is rarely the case. For example, EU rules on energy efficiency in buildings took nearly a decade to implement in Norway (CBI, 2013). This creates a competitive disadvantage for Norwegian firms because they operate in a more uncertain regulatory framework than their European competitors. It can also harm inward investment in some circumstances, for instance where long term targets or rules on subsidies and state aid are set much earlier in the EU. According to interviews conducted by CBI in 2013, some Norwegian businesses pointed out that this happened with the implementation of the Renewable Energy Directive, where Norwegian delay led investors to invest elsewhere, often in the United Kingdom (CBI, 2013).

Furthermore, Norway's trade flexibility is to some extent reduced as most negotiations concluded by EFTA follow in the EU's footsteps and major countries have been unwilling to negotiate with EFTA before they get an agreement with the EU. However, as discussed earlier, the quality of EFTA's trade agreements varies compared to that of the EU. Sometimes EFTA is able to get an agreement as good as or better than the EU because of the particularities of their economies, while at other times, especially when they follow EU negotiations, EFTA's agreements are often weaker. Sometimes EFTA countries get better deals because their economies are not seen as a threat to the third country's industry, but at other times EFTA has less to offer than the EU, particularly when it comes to market size, which is an important factor for many developing economies (CBI, 2013). Similarly, although the primary industries in agriculture and fisheries policy have benefited from the exemptions in the EEA Agreement, it has stunted growth in related industries. For instance, most of Norway's fish processing industry has relocated within the EU.

5. Foreign Direct Investment

Foreign direct investment (FDI) is a category of cross-border investments in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Ownership of 10 percent or more of the voting power in an enterprise in one economy by an investor in another economy is evidence of such a relationship (OECD, 2015). FDI is often considered highly important for a country. Inward FDI is generally expected to have positive direct and indirect effects on the recipient economy. First of all, foreign enterprises directly increase the capital stock and create employment; secondly, they may bring new technologies, skills and human capital that can spill over to domestic firms and workers. For this reasons, governments often provide substantial financial support to attract FDI. Likewise, outward FDI is also seen as an important engine of economic growth. For example, multinational enterprises (MNEs) are larger, and often more productive with better knowledge, technologies and managerial skills. MNE's might also gain competitive advantages by expanding into new markets, through the learning effects of internationalization, by reducing production costs and by gaining access to natural resources, advanced technologies or know-how. While the positive effects of outward FDI are generally assumed to predominate, there are concerns about its possible drawbacks, particularly the adverse effects on the domestic labor market (European Commission, 2012). Nevertheless, FDI is in general considered to be an important source of economic growth, which is the reason why it is interesting to analyze how Norway's FDI stocks and flows are in comparison to the selected Member States.

The objective of analyzing the FDI for the countries is to find the benefits and challenges these countries are experiencing, which to some degree can be consequences of their relation to the EU. In order to look into this the chapter is divided into different sections. First the investments policies of the EU and Norway are discussed to see how open or restrictive they are to FDI. Thereby the countries' FDI stocks are compared. Following is the countries' main investment partners and sectors investigated, including a comparison of how much of these countries' FDI that are going to and from EU countries. After this, the countries' recent FDI flows (1994-2013) are analyzed. Lastly, this chapter finishes with the main findings and the benefits and challenges of the "Norwegian Model" in terms of FDI.

5.1 Foreign Investment Policies

Investment decisions are driven primarily by market considerations, i.e. expected gains from investments. Yet, these decisions are deeply affected by the economic, political and legal environment of any given economy. Investors thrive in a stable, sound and predictable environment, and FDI regulation is a critical determinant of a country's attractiveness to foreign investors (European Commission, 2010). Furthermore, unlike geography, FDI regulations are something over which governments have control (OECD, 2015c). Therefore a review of the investment policies of the different countries follow as it has direct consequences on the attraction of investments. For further theories on host country determinants of FDI, see Appendix 15.

5.1.1 Foreign Investment Policies in the European Union

Until recently, the Union and the Member States have separately built around the common objective of providing investors with legal certainty and a stable, predictable, fair and properly regulated environment in which to conduct their business. While Member States have focused on the promotion and protection of all forms of investment and signed Bilateral Investment Treaties (BITs) independently, the Commission has elaborated a liberalization agenda focused on market access for direct investment (European Commission, 2010). However, since the Treaty of Lisbon that entered into force in 2009, investment became a part of the *EU's common commercial policy* (Article 207). As a consequence, the European Commission may now legislate on investment. The European Commission outlined its approach for the EU's future investment policy in its Communication "Towards a comprehensive European international investment policy" in 2010. This policy contributes to the objectives of smart, sustainable and inclusive growth, set out in the Europe 2020 Strategy (European Commission, 2015j). According to the European Commission, an international investment policy geared towards supporting the competitiveness of European enterprises will be best served by cooperation and by negotiations at the level of the Union (European Commission, 2010). They state that "*As in all areas of European policy-making, the thrust of the Union' action should be to deliver better results as a Union than the results that have been or could have been obtained by Member States individually*" (European Commission, 2010).

While investment protection and liberalization become key instruments of a common international investment policy, there will remain significant scope for Member States to pursue and implement investment promotion policies that complement and fit well alongside the common policy. In general, a common policy will require more, rather than less, cooperation and coordination among the Union and the Member States (European Commission, 2010).

There are two main aspects of the EU's investment policy. These are: increasing market access and supporting legal certainty and transparency. The EU is negotiating investment rules in the context of free trade agreements with third countries and also in stand-alone investment agreements. The European comprehensive investment policy will be introduced progressively. This means that almost 1200 Bilateral Investment Treaties (BITs) of Member States that currently offer investment protection to many European investors will be preserved until they are replaced by EU agreements. Regulation NO 1219/2012 grants legal security to the existing BITs between the Member States and third countries until they are replaced by EU-wide investment deals. It also allows for the Commission to authorize Member States to open formal negotiations with a third country to amend or conclude a BIT under certain conditions (European Commission, 2015j). Overall, this means that the EU is gaining more influence over the Member States investment climate. The European Commission is convinced that this policy will boost investments in the EU-countries. As this strategy is relatively new however, the FDI flows may not have been affected by this policy yet, as such a policy takes time to implement. As for now, Sweden, Denmark and the United Kingdom's individual BITs are still in force. Sweden currently has BITs in force with 66 countries, Denmark has BITs in force with 48 countries and the United Kingdom currently has BITs in force with 95 countries (UNCTAD, 2015a+b+c). Rights and obligations under these treaties vary, but most include provisions for repatriation of capital, dispute settlement, and guidelines for nationalization by the host country (WTO, 2012). Hence, in terms of investment treaties it seems like the United Kingdom has an advantage as it has much more treaties with third countries compared to Sweden and in particularly Denmark.

On the other hand, if considering the overall regulatory restrictiveness of FDI for the United Kingdom compared to Sweden and Denmark, it looks like the UK has a disadvantage. The OECD has developed a "FDI regulatory restrictiveness index" which takes four main types of restrictions on FDI into account, namely: foreign equity limitations, screening and approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions. The index covers 22 sectors (OECD, 2015c). In this index, Sweden's score is 0.02, Denmark's 0.03 and the United Kingdom's 0.06. The OECD countries average is 0.07. Hence, all of these countries are below the OECD average, which indicate that they are less restrictive than the average OECD countries in terms of regulations on FDI. This score also indicate that FDI regulations in Sweden are less restrictive than in Denmark and in particular in the United Kingdom that has the highest score out of these. However, this FDI index is not a full measure of a country's investment climate, as a range of other factors come into play as discussed before. But it does give an indication of the regulatory restrictiveness in the different countries.

5.1.2 Foreign Investment Regime in Norway

There is no single law governing foreign investment in Norway. The relevant legislation is contained across a number of statutes. The authorities note that Norway's foreign investment policy is formulated for certain activities as part of broader policies applied in specific sectors (WTO, 2012).

Since Norway joined the EEA, they are secured access to the EU countries' capital markets at the same terms as the Members States and vice versa. Furthermore, Norway's signing of the EEA Treaty has led to important liberalization measures that foster the country's integration in Europe. New legislation was enacted that established a uniform notification and screening system for indented investments by foreigners and Norwegian nationals (OECD, 1995). Hence, since the EEA free trade accord came into force it requires the country to apply principles of national treatment. This has liberalized Norway's investment regime in certain areas where foreign investment was prohibited or restricted in the past (US Department of State, 2014). However, as previously noted, Norway is not a part of the EU common commercial policy, so the new common investment policy does not include Norway.

The country's investment regime is generally based on the equal treatment principle. With certain exceptions, Norway's foreign investment regime is therefore considered open and offers national treatment to foreign investors. However, Norway maintains restrictions on FDI in certain activities related to audiovisual services, air transport, fisheries, and maritime transport. Under the EEA Agreement, these restrictions should not apply to citizens of another EEA State; notable exceptions are the restrictions on investment in the fisheries fleet, which also apply to EEA Member States. Moreover, Norwegians and foreign nationals alike are subject to restrictions in the acquisition of real estate, particularly properties that contain forests, mines, and waterfalls (WTO, 2012). FDI for foreign investors and private nationals is also restricted by the *de jure* State monopolies in certain postal services, certain railway services, and in the retail sale of alcoholic beverages. Additionally, national and foreign private participation is limited in sectors where the State holds significant shares in large companies, such as telecommunication, electricity, financial services, and petroleum and gas extraction (WTO, 2012).

Norway currently has Bilateral Investment Treaties in force with 14 countries (UNCTAD, 2015d). In comparison to Sweden (66 BITs), Denmark (48 BITs) and the United Kingdom (95 BITs) the number of bilateral investment treaties is significantly low, and with the EU's new investment policy Norway might have to liberalize its investment policy even more in the future. Moreover, according to the

OECD "FDI regulatory restrictiveness index", Norway's score is 0.09, which is a bit higher than the OECD average of 0.07 (OECD, 2015c). It is also higher than Sweden (0.02), Denmark (0.03) and the United Kingdom's (0.06) scores. This indicates that Norway's regulatory restrictiveness towards FDI is higher than for these EU-countries.

5.2 Total FDI Stocks

FDI stocks measure the total level of direct investment at a given point in time, usually the end of a quarter or of a year. In this section the total stocks are from the end of year 2013. The *outward FDI stock* is the value of the resident investors' equity in and net loans to enterprises in foreign economies. The *inward FDI stock* is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy (OECD, 2015). There are different ways of comparing countries FDI stocks. In this section the countries' stocks of FDI are compared in terms of absolute values and in percentage of the countries' GDP. The reason for using different measures is because of the differences in the countries sizes, populations and economies. Because FDI stocks and flows are measured in USD and as a percentage of GDP, these are the measurements used.

5.2.1 FDI Stocks in Absolute Values

Table 5.2A below shows the total FDI stocks both inward and outward in absolute terms for the selected countries in 2013.

Table 5.2A: FDI stocks in absolute values 2013, million USD

Foreign Direct Investment, 2013	Sweden	Denmark	United Kingdom	Norway
FDI inward Stock (million USD)	389 169,2	89 992,1	1 634 581,5	217 836,3
FDI outward Stock (million USD)	419 443,2	195 632,5	1 579 540,5	241 503,9

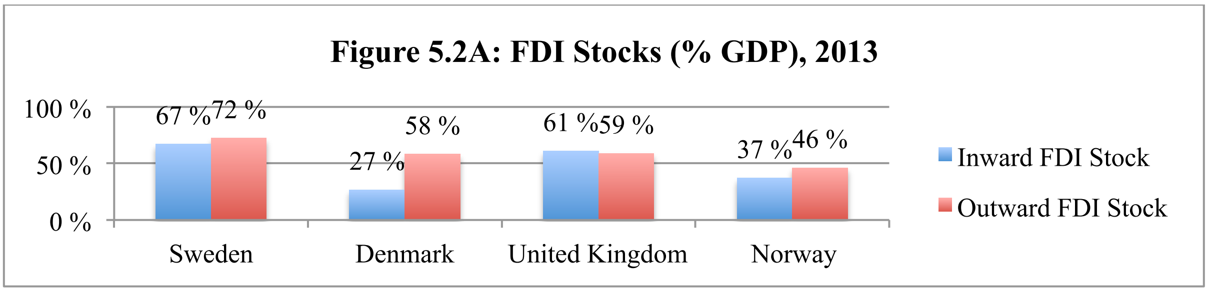
(Source: numbers from UNCTAD, 2015e)

The total values of the countries' stocks shows that the United Kingdom clearly had the largest stock of both outward and inward FDI, followed by Sweden. However, Norway's stocks of inward and outward FDI were higher than Denmark's stock of inward and outward FDI. This means that the United Kingdom in particular has much higher values of investments in enterprises in foreign economies than Sweden, Denmark and Norway have. The United Kingdom is also attractive to foreign countries as a country to invest in, as their inward stock is also much higher than Sweden, Denmark and Norway's stocks. Out of the three Nordic countries in this analysis, Sweden clearly has the largest stocks of both inward and outward FDI in absolute terms. Hence, they have a much higher value of investments abroad than Denmark and Norway, and foreign countries have also invested much more in enterprises in Sweden compared to Denmark and Norway. The absolute value of the stocks also shows that all of these Nordic countries have a higher outward FDI stock than inward FDI stock. This means that these countries have invested more abroad, in total accumulated value, than foreigners have invested in their country. This is mainly because these countries are capital rich. The United Kingdom had a higher inward stock than outward stock in 2013. See Appendix 16 for the countries' FDI stocks per capita.

5.2.2 FDI Stocks in percentage of GDP

Another measure to use when comparing FDI stocks is to compare the countries' stocks in percentage of their gross domestic product in order to take the different sizes of the countries economies into account. This is illustrated in figure 5.2A below.

Figure 5.2A: FDI Stocks in percentage of GDP, 2013



The figure shows that Norway's outward FDI stock (% of GDP) is smaller than all of these countries', and that Norway's inward FDI stock (% of GDP) is smaller than these countries' with the exemption of Denmark.

(Source: numbers from UNCTAD, 2015e)

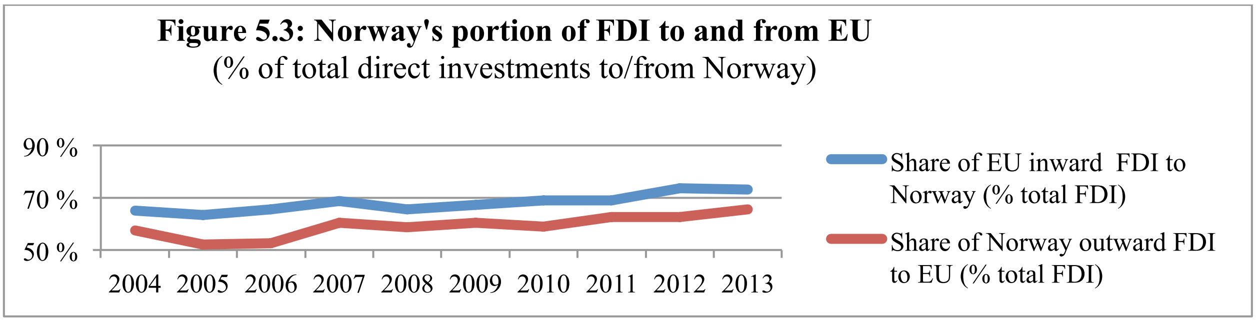
If comparing the FDI stocks as a percentage of the countries' GDP, Norway's inward stock is significantly lower than Sweden and the United Kingdom's inward stock, but higher than Denmark's inward stock. Norway's outward stock is considerable lower than all of these EU members outward stock. As seen from figure 5.2A above, Sweden has the highest outward FDI stock in percentage of GDP out of these countries (72% of GDP) followed by the UK (59% of GDP), and Denmark (58% of GDP). Norway on the other hand had a relatively low outward stock in percentage of the country's GDP of 46%. If considering the countries' inward stocks in percentage of GDP, Norway's stock was 37% of GDP, way less than Sweden (67%) and the UK's (61%) inward FDI stocks in 2013. Denmark's inward FDI stock on the other hand, represented only 27% of the country's GDP, which is lower than Norway's. These figures indicate that in relation to their economy, Norway's outward FDI stock is very low compared to these EU Member States. Norway's inward stock is also significantly low compared to Sweden and the UK's inward stock (% of GDP). The investment policies in Norway can be one explanation to this, as the investment climate in Norway have been restrictive in the past, and still is considered more restrictive compared to these countries' policies. The relatively few BITs can be another factor explaining the lower stocks for Norway. However, there are a lot of different factors playing a role in the investments as well. Norway has a strong currency, a small domestic market and a unique industry structure, which may also explain why the country's inward investment stock is significantly lower than Sweden and the United Kingdom's inward stocks. Furthermore, taxes are harmful for economic growth, in particular corporate taxes (OECD, 2008). Norway has a higher corporate tax rate (27%) compared to Denmark (23.5%), Sweden (22%) and the UK (20%) (Trading Economics, 2015). Foreigners may seek to invest in countries with lower taxes and as the corporate tax in Norway is high, this can be another factor explaining why the country's inward stock is quite low.

5.3 Main Investment Partners and Sectors

5.3.1 Norway

The total share of Norway's inward FDI has for a long time been dominated by investments from EU countries. The total direct investments between Norway and EU countries have been growing significantly since 1994 when the EEA Agreement came into force. Foreign investors, primarily from the EU, have increased their holdings in virtually all industries in Norway ever since the millennium. This demonstrates the important effects of the Internal Market, and that it does not just integrate Norway in terms of trade, but also when it comes to cross-border integration in different industries with direct investments (Europautredningen, 2012). In Appendix 17 a figure showing the growth in FDI between Norway and the EU from 1994-2008 is found. As seen from figure 5.3 below, since 2004 over 63% percent of all foreign direct investments into Norway have been by EU-countries. In 2013, EU's share was 73 percent (SSB, 2015).

Figure 5.3: Norway's portion of inward and outward FDI by EU-countries, (2004-2013)



The figure shows that Norway's inward and outward stock of FDI is dominated by EU-countries, and that the EU's share of FDI both inward and outward (in % of total FDI) has an increasing trend.

(Source: Number from SSB, Statistics Norway)

Sweden is the country that has invested most into Norway, with a share of 21.8% out of the total inward FDI stock in 2013. The Netherlands has the second largest share of investments into Norway (12.6%),

followed by the United States (7.5%), and the United Kingdom (7.3%). Other main investing countries into Norway are Denmark (6%), France (6%), Germany (5.9%), Italy (5.5%) and Luxembourg (5%) (SSB, 2015). The main invested sectors in Norway are oil extraction and mining (approximately 50 percent), wholesale, retail, hotels and catering (approximately 7 percent), banking, finance and insurance (approximately 6 percent) and other business activities (approximately 5.5 percent) (Santander, 2015). Looking at Norwegian investments abroad, the same investment pattern in regards to EU countries is found. Clearly the major shares of Norwegian's investments abroad are made to EU countries, and this portion has been increasing for years. Since 2007, Norway's portion of outward FDI to EU countries has been around 60 percent. In 2013, approximately 66 percent of Norway's outward FDI were placed in EU-countries (SSB, 2015). Norway's outward FDI shows that they have invested most into Belgium (14.24%), USA (13.10%), the Netherlands (12.59%), and Sweden (11.51%). But they have also investment much in Singapore (7.46%), Spain (6.53%), Denmark (5.83%), France (4.03%) and the United Kingdom (3.39%). The largest foreign direct investment assets in Norway are found in petroleum, chemicals, metal production and maritime transportation (Statistics Norway, 2015).
Due to lack of available data it is not possible exempt oil and gas in the analysis of the share of the FDI stocks that are investments by EU countries. The fact that two-thirds of the investments that Norwegian firms invest abroad are invested in EU countries indicates that significant portions of the value creation in Norwegian companies happen in EU countries. Clearly, EU countries are Norway's main partners in terms of inward and outward FDI, and Norway seems to be well integrated in terms of FDI with the EU.

5.3.2 Sweden

EU countries also dominate Sweden's inward and outward FDI. Approximately 75% of Sweden's inward FDI-stock was from other EU countries in 2013 (Statistics Sweden, 2013). The Netherlands (18%), Luxembourg (16%), the United Kingdom (11.5%), Finland (10%) and USA (9.2%) are the countries that have invested most into Sweden. But Denmark (6.8%), Germany (6%), Norway (5.5%) and Switzerland (3.2%) are also some of the main investing countries into enterprises in Sweden. The largest foreign direct investment assets in Sweden are found in petroleum, chemicals, pharmaceutical products, rubber and plastic products and in the financial and insurance sectors (Statistics Sweden, 2013). Sweden's direct investments abroad are found in the United States (13%), the Netherlands (11%) and Finland (10%). But they have also invested much into Denmark (6.8%), Norway (6.5%) and Luxembourg (6.3%). Approximately 65% of Sweden's outward FDI-stock was investments into other EU countries in 2013 (Statistics Sweden, 2013). Swedish residents mainly invest into financial and insurance sectors and in metal and machinery products (Statistics Sweden, 2013).

5.3.3 Denmark

Like Norway and Sweden, EU countries dominate Denmark's inward and outward FDI. In 2013, approximately 72% of Denmark's inward FDI-stock was from EU countries (Danmarks Nationalbank, 2015). The direct investments to Denmark are mainly from Sweden (27.3%), The Netherlands (17.2%), Luxembourg (12.9%) and Japan (10%). But Norway (6.7%), the UK (5.5%), Germany (5.3%) and USA (4.6%) have also invested much into enterprises in Denmark. The sectors that are most invested into in Denmark are investment holding companies and in credit institutions (Danmarks Nationalbank, 2015b). Danish residents investments abroad shows that approximately 60% of Danish outward FDI was to EU countries (Danmarks Nationalbank, 2015). The largest portions of investments are to Sweden (20.4%), the UK (10.4%), the Netherlands (8.6%), Germany (7.8%) and USA (6.4%). But Singapore (5.5%), Switzerland (5.5%) and Norway (4.2%) also have a fair portion of Danish outward FDI. Danish investments abroad are mainly within the food, beverages and tobacco industries, but also in the trade and transportation industry (mainly the maritime industry) (Danmarks Nationalbank, 2015b).

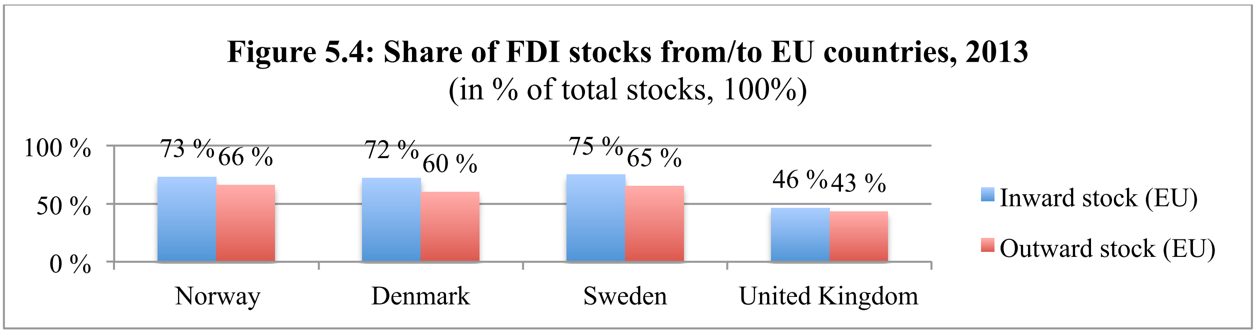
5.3.4 United Kingdom

Unlike these three Nordic countries, the United Kingdom has a larger portion of inward and outward FDI to third countries. In 2013, about 46.4% of the United Kingdom's inward FDI-stock was from EU countries. USA (26.9%), the Netherlands (15.4%), France (8%) and Germany (6%) have the largest shares of investments into the UK. Luxembourg (5.6%), Spain (5.5%), Japan (4.2%) and Switzerland (3.7%) have also invested much into enterprises in the United Kingdom (Office for National Statistics, 2015). The main invested sectors in the UK are within financial services, scientific and technical services and mining. As for UK residents, they invest most into enterprises in USA (23.3%), the Netherlands (11.8%), Luxembourg (9.3%) and France (5.2%). But also into China (5%) where Hong Kong stands for 4.5% of this portion, Australia (4.3%), the Irish Republic (4.2%) and Spain (3.4%). The total portion of UK outward FDI to EU countries in 2013 was approximately 43.2% of their total outward FDI stock. Residents from the UK invest most into financial services (70%), food products, beverages and tobacco products, information and communication and other manufacturing (Office for National Statistics, 2015).

5.4 Comparison of the share of the countries' FDI going to and from EU countries

As seen in figure 5.4 below, Norway's total share of FDI is dominated by EU-countries. Norway's portion of inward FDI by EU-countries is similar to the portions of inward FDI by EU-countries for Sweden and Denmark. Most of Norway's outward FDI also goes to EU-countries, and this portion is higher than these EU members' portion of intra outward FDI. This shows that Norway clearly is integrated with EU countries in regards to foreign direct investments. On the other hand, it also means that Norway do not receive much investments from third countries.

Figure 5.4: Share of FDI stocks by EU countries, 2013



The figure shows that Norway's share of inward FDI from EU countries is very high, with about the same level as Sweden and Denmark's intra inward FDI. Norway's portion of outward FDI to EU-countries is greater than all these EU-members' portion of outward FDI to EU-countries.

(Source: numbers from Statistics Norway, Statistics Sweden, Danmarks Nationalbank and Office for National Statistics)

As EU countries represented 73% of Norway's inward FDI stock in 2013, it means that only 27% was FDI from third countries. In a recent official report by the EEA review committee discussing Norway's relation to the EU it is argued that as Norway is not a part of the EU they are missing out on investments from third countries. The reason is that often third countries choose to invest in EU countries in order to access the Internal Market (as the investment climate is well regulated and known by third countries). But as the EEA is not that known, Norway is most likely missing out on much inward investment from third countries (Europautreningen, 2012). However, if looking at Denmark and Sweden's inward stocks they are not that different from Norway's regarding investments received by third countries. Denmark's share of total inward FDI by EU countries was 72% and Sweden's 75%, which means that Denmark's share of total inward FDI from third countries was 28%, and Sweden's 25%. The United Kingdom on the other hand has more inward and outward investments to and from third countries than EU countries.

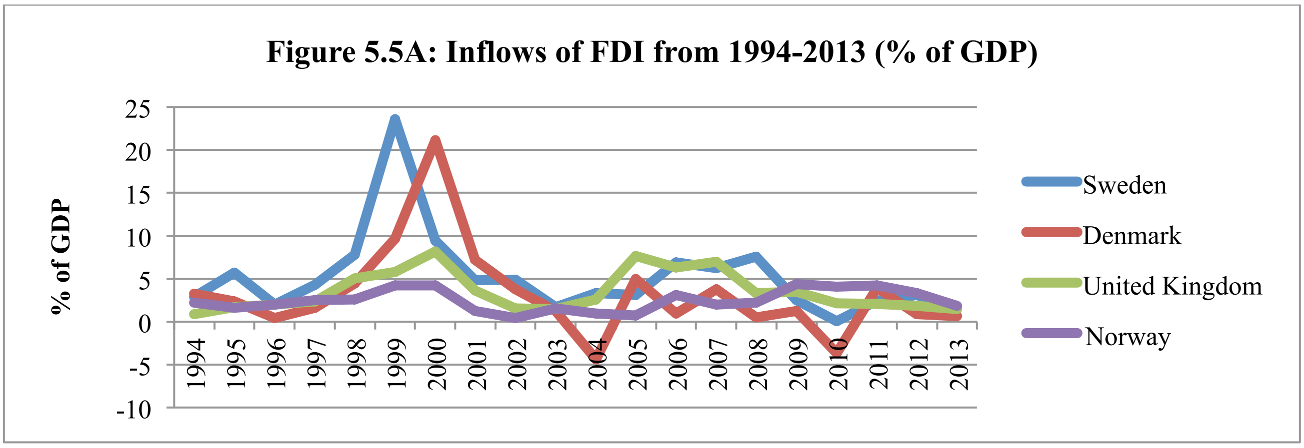
5.5 FDI Flows - Recent trends

FDI flows record the value of cross-border transactions related to direct investments during a given period of time, usually a quarter or a year. In this section FDI flows are recorded annually from 1994-2013 and separately for year 2013. The *outward flows* represent transactions that increase the investments that investors in the reporting economy have in enterprises in a foreign economy, such as through purchases of equity or reinvestment of earnings, less any transactions that decrease the investment that investors in the reporting economy have in enterprises in a foreign economy, such as sales of equity or borrowing by the resident investor from the foreign enterprise. *Inward flows* represent transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy less transactions that decrease the investment of foreign investors in resident enterprises (OECD, 2015).

5.5.1 FDI inflows (% of GDP)

The annual FDI inflows (% of GDP) from 1994-2013 are illustrated in figure 5.5A below. Norway's inflows have been quite stable in comparison to the EU-countries annual inflows, which have been more volatile. However, Norway's total inflows have been quite low in the past compared to these countries' inflows. Since 2009 however, FDI inflows to Norway have been higher than all of these EU states inflows in percentage of the countries' GDP. Clearly the financial crises have had large consequences for the inward FDI to these EU countries.

Figure 5.5A: FDI inflows from 1994-2013 (% of GDP)



The figure shows that Norway's inflows of FDI have been quite low in the past in comparison to these EU-countries inflows, but also more stable. It also shows that since 2009, Norway's inflows have been higher than the others inflows.

(Source: numbers from UNCTAD, 2015f)

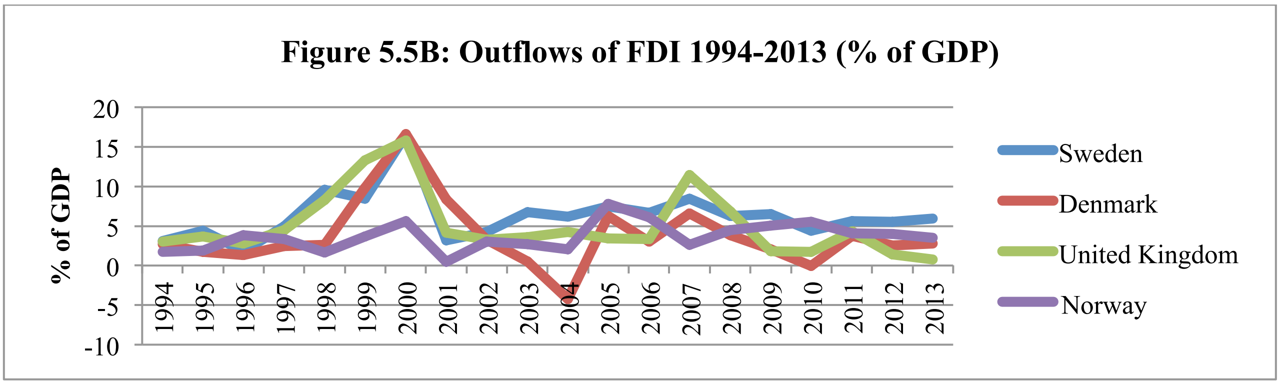
The financial and economic turmoil have had an overall large impact on the EU FDI flows. The EU's inward FDI flows declined substantially from 45% in 2001 to 23% in 2010, with the worst decline in the global recession of 2008/2009 (European Commission, 2012). But the EU's FDI flows are slowly recovering. In 2013, EU-28 inward flows were 12 % above EU-27 flows in 2012 (Eurostat, 2015e).

Until recently, one of the features of EU inward FDI was that intra-EU flows were much larger than flows from non-EU countries, which means that EU countries invested more in other EU countries than non-EU countries did. There was a FDI boom in the years of 2005-2007 for most of the EU countries (lasted until 2008 for the UK), but a massive downturn in FDI after this period. This downturn affected both extra-EU and intra-EU inflows, but the contraction was stronger in the intra-EU inflows. As a consequence, the share of extra-EU FDI in total EU inward flows (which until 2006 was less than a third) continued to increase after 2008. In 2010 the share of FDI inflows stemming from non-EU investors stood at 40%. This is clearly linked to the depth of the recession in the EU and the relatively good performance of most emerging economies (European Commission, 2012). Moreover, the severe drop in intra-EU FDI flows seems to be linked to a reduced capability of European firms to invest abroad. Indeed, FDI from outside the EU is not that affected by the contraction, such as Norway's FDI. Furthermore, the declining share of intra-EU FDI may also reflect the natural adjustment towards long-run conditions after the exceptional increase in intra EU-FDI flows caused by EU enlargement in 2004 and 2007 and strong economic growth during that period (European Commission, 2012).

5.5.2 FDI outflows (% of GDP)

FDI outflows from 1994-2013 shows a similar pattern as the inflows, namely that Norway's FDI outflows (% of GDP) have been quite low in comparison to these EU-Member States in the past, in particularly from 1997-2002. Only in years 2005 and 2010 Norway's outward FDI flows (% of GDP) were above all of these EU-members' outflows in percentage of the countries' GDP. But, when these EU-members' FDI outflows dropped significantly in 2008, Norway's outflow increased, and for the past two years, Norway's outflow (in % of GDP) has been higher than Denmark and the UK's outflows.

Figure 5.5B: FDI outflows from 1994-2013 (% of GDP)



The figure shows that Norway's outflow of FDI have been quite low in the past, but when the EU-countries outflow decreased in 2008, Norway's outflow increased, and for the two past years Norway's outflow has been higher than Denmark and the UK's outflow.

(Source: numbers from UNCTAD)

As seen from figure 5.5B above, the United Kingdom's outflows fell significantly during the euro crises, and their FDI outflow today is very low compared to earlier years. In light of the financial and economic turmoil, the overall EU outward investment flows dropped significantly and have been accompanied by a shift of FDI outflows to non-EU emerging markets, less affected by the European crisis (European Commission, 2012). But the FDI outflows, as the inflows, are slowly recovering in the EU. In 2013, EU outward flows were 34 % higher than EU flows in the previous year (Eurostat, 2015e).

These figures of FDI flows show that Norway's economy was clearly not as badly hit by the global financial crisis, at least compared to the EU-Member States. This shows a clear benefit of not being a EU-member in terms of the euro-crisis. Even though Sweden, Denmark and the United Kingdom are not a part of the euro-area, the crisis still affected their economy and investment flows significantly compared to Norway's economy and investment flows. From the period 1994-2012, the average growth rate of inward FDI to Norway has been higher than both Denmark and the United Kingdom's average growth rates, but lower than Sweden's. In regards to the outward FDI average growth rate for the same period, Norway and Denmark have had similar averages but Norway's average growth rate has been slightly stronger, whereas Sweden and the UK's averages are lower. Appendix 18 illustrates the countries FDI stocks from the period from 1994-2012.

If considering the FDI flows in 2013 exclusively (table 5.5 below), Norway had a higher FDI inflow than both Sweden and Denmark in absolute values, and a higher inward flow than all of these EU-states in percentage of the countries' GDP. Norway's FDI outflow was also higher than Denmark's, but lower than Sweden and the United Kingdom's outward flows in absolute values, but higher than all of these countries with the exception of Sweden in percentage of the countries' GDP.

Table 5.5 Foreign Direct Investment Flows, 2013

Foreign Direct Investment, 2013	United Kingdom	Sweden	Denmark	Norway
FDI Inward Flow (million USD)	37 101	8 150	2 083	9 330
FDI Inward Flow (% of GDP)	1,46	1,46	0,63	1,83
FDI Outward Flow (million USD)	19 440	33 281	9 170	17 913
FDI Outward Flow (% of GDP)	0,77	5,96	2,78	3,51

(Source: numbers from UNCTAD)

5.6 Main Findings from FDI

The investment policies of the different countries vary, but the EU has now made investments a part of the EU common commercial policy. The EU will therefore make investment regulation between the member countries more similar by eliminating the member countries' bilateral investment treaties and replace them with new treaties negotiated by the EU on behalf on the member countries. Currently, Sweden, Denmark and the United Kingdom's independent BITs are still in force. The UK has 95 bilateral investment treaties with different countries, which is significantly more than the rest of the countries in comparison. The UK is also the country with the largest inward and outward FDI stock in absolute values. Sweden has 66 BITs in force, and has the second largest inward and outward FDI stocks in absolute values. Denmark currently has 48 BITs in force, but has lower inward and outward stocks in absolute value than Norway with 14 BITs. The comparison of the FDI stocks as a percentage of the countries GDP however showed that Norway's outward stock is significantly small compared to these Member States, and that the country's inward stock also is significantly small compared to Sweden and the UK's inward stocks. Norway's FDI regulations can be considered more restrictive than the others' according to the OECD's "FDI regulatory restrictiveness index". The investment policy of Norway can therefore be one explanation to why the country's FDI stocks are small compared to the others if considering in percentage of the country's GDP. However, since Norway joined the EEA, they have liberalized their FDI restrictions and the growth rate of FDI inflow have been higher than Denmark and the UK's average growth rates in the period 1994-2012.

The analysis also found that Norway is highly integrated in regards to investment to and from EU countries as 73% of the country's total inward FDI is from EU members and 66% of the country's outward FDI was to EU countries. Norway's portion of inward FDI by EU countries is higher than Denmark and the UK's portion of intra inward FDI, and only 1% smaller than Sweden's. Norway's share of outward FDI to EU countries are larger than all of these Member States share of intra outward FDI. These figures give a clear indication of Norway being highly integrated with the EU in terms of FDI. Another finding was detected in the analysis of the countries recent FDI flows (1994-2013). It was found that Norway's inflows and outflows have been very stable compared to the EU Member States' during this period. This is particularly evident in the years during and after the financial turmoil and euro-crisis, where the Member States' flows where significantly affected. Norway's flows were still quite stable during this crisis as the Norwegian economy was not that badly hit. The FDI flows from 2013 shows that Norway's inward flow (% of GDP) is higher than these countries' flows, and that the country's outward FDI flows (% GDP) was higher than Denmark and the UK's flows.

5.7 Benefits and challenges of the "Norwegian Model" in terms of FDI

There are many benefits of Norway's association to the EU in terms of FDI. First of all, the flows have been more stable over time and Norway's FDI flows were not that affected by the euro-crisis. Moreover, Norway has had strong FDI inflows in the recent years, in particularly after they liberalized their investment policies after joining the EEA. Norway's inward FDI stock have grown from 16 282 million USD in 1994 to 192 409 million USD in 2013 (Numbers from UNCTAD). The country's average FDI inward growth rate between these years has been higher than both Denmark and the UK's average growth rates. Norway's average growth rate of outward FDI in this period has also been stronger than these countries' growth rates, however only slightly stronger than Denmark's average growth rate. This shows that even though Norway's stocks of FDI are somewhat small compared to these countries (with the exception of Denmark's inward stock), they have experienced a strong growth in the recent years. Moreover, Norway is clearly well integrated in regards to FDI with EU-countries. However, this can also be considered a challenge, because it means that the country does not get that much investment from third countries. It has been argued that many third countries choose to invest into EU, as it is a well-known Internal Market with stable investment policies. However the EEA Agreement is not that known to third countries and might also signal greater uncertainty about the EEA Agreements stability (Europautreningen, 2012). Another disadvantage of Norway's association to the EU is in regards to the bilateral investment treaties. Norway has way less investment treaties with third countries compared to these EU countries, which might signal that it can be more difficult to negotiate investment treaties with third countries when not a part of the EU. Furthermore, as the EU's 2020 Strategy will liberalize investments to a greater extent, and the EU will be in charge of negotiating BITs for their Members, Norway might have a disadvantage if they don't liberalize their investment policies in pace with the EU.

5.8 Would EU Membership be better for Norway in regards to FDI?

Compared with developments in the intra-EU investment growth, investments between Norway and the EU were moderate for a long period. In the period from 1999 to 2006 investment across national borders within the EU more than quadrupled, while investments between the EU and Norway only slightly doubled. Therefore it is a reason to speculate whether Norway's investment growth in that period could have been stronger if they had been a part of the EU. The greater uncertainty about the EEA Agreement compared to the EU may be an explanation to the lower investment growth between EU countries and Norway in that period (Europautreningnen, 2012). However, Norway is a small peripheral part of the Internal Market with high costs, a strong currency, a small domestic market and a unique industry structure, which may also explain why EU-Member States invested less into Norway in the past. However, as noted before, after the FDI boom for the EU countries in 2006-2007 caused by the enlargement of the EU, there was a massive downturn in EU FDI and the contraction was stronger in intra-EU flows. As a consequence, the share of inward FDI flows to EU countries from third countries, which until 2006 was less than a third, continued to increase after 2008. In 2010 the share of FDI inflows stemming from non-EU investors stood at 40% (European Commission, 2012). Hence, these figures indicate that Norway's inward FDI from EU countries might have been higher before the recession in the EU if they had been a part of the EU (in particular in the period from 1999-2006). On the other hand, Norway has experienced a high growth rate of inward FDI in the recent years (in particularly since 2009), and the Norwegian economy have not been that affected by the financial and economic turmoil. Therefore Norway might have benefitted from staying out of the EU in recent years. However, it is impossible to say for sure how the FDI flows would have been in reality.

6. The "Norwegian Model": A Model for Others?

Norway's form of association to the EU has turned out surprisingly stable while the EU at times has experienced major changes and considerable ups and downs. But the "Norwegian Model" has not yet served as a model for other countries. Some of the reasons why follows.

Non-EU members The EFTA and EEA Agreement have not yet served as a fit model for third countries seeking association to the EU. First of all, EEA membership presupposes membership in either the EFTA or the EU, and so far the EFTA-States have not wanted to expand the EFTA. Additionally, no country has formally applied for membership. Secondly, there are few third countries viewing the EEA as an attractive affiliation to the EU. Most of the countries that have wanted a closer relationship to the EU have desired membership in the EU. The EEA Agreement has not worked as a "pit-stop" on the way to EU-membership, but is instead increasingly considered a permanent arrangement that could risk functioning as a sidling. Many third countries assume that there are major weaknesses in the democratic system of these agreements (Europautredningen, 2012). Thirdly, the EEA is primarily suitable for states that are not concerned about receiving financial transfers through the EU. As seen, the EEA/EFTA countries are net contributors to the EU and have shielded themselves from participation in agricultural policy and structural funds. Most of the other countries outside the EU that wants EU-memberships, wants memberships because they have an interest in sharing the financial transfers that occur trough the Structural Funds and the common agricultural policy. Fourthly, the EEA/EFTA agreement presupposes a considerable national administrative capacity and ability to make commitments and follow up on these in the same way as within the EU. The commitments are extensive, and it is particularly difficult to implement them properly without being part of the EU system. According to the EEA Review Committee, the countries currently seeking new forms of association with the EU often seem to lack this kind of political and administrative infrastructure that has made it possible for the EFTA-states to implement their obligations under the EEA Agreement. Additionally, it can be argued that the EEA Agreement is best suited for small states, which are used to having to adapt to others, and who do not have their own ambitions, in particular to influence developments in Europe (Europautredningen, 2012).

EU-members In addition is the possibility that some countries wish to exit the EU in favor of a similar model as Norway. But according to the EEA Review Committee, this just seems to be a thought that lives among a few extremists from skeptical right-side parties (Europautredningen, 2012). The EU countries differ greatly from Norway in terms of sizes, economies, populations and resources, with different comparative advantages and priorities vis-à-vis the EU. Therefore it is not likely that some Member States would benefit by leaving the EU in favor of the EEA and other agreements like Norway's model. Therefore it is unlikely that some EU-countries will exit the EU in order to get similar agreements like Norway today. As seen throughout the thesis, the agreements are results of history and political compromises and it would be difficult to negotiate similar agreements today. The compromise options offered to countries like Norway were offered in part as the beginning of a process of closer integration to the EU, but if EU Members would leave the EU in favor of the EFTA and EEA today they would be travelling in the opposite direction. Hence, they would probably have no chance of re-joining, and would unquestionably carry the risk of isolation and irrelevance (Hirst, 2015). Moreover, the vulnerability of the EEA Agreement is another factor making the "Norwegian Model" less fit for other EU-countries, as the model is highly affected by external circumstances beyond Norway's control.

Although alternatives for UK's EU-membership have been heavily debated, a similar agreement like Norway is not likely. First of all there is no guarantee that the UK would be accepted into the EFTA, because the association requires unanimous agreement of all the current EFTA members, and the integration of a member of UK's size might be regarded by these states as a disruptive and not wholly welcome prospect (Hirst, 2015). However, if they got accepted into the EFTA, it means that the UK would have to negotiate its own bilateral agreements mirroring the EFTA States' agreements. Given the differences between the small and fairly specialized EFTA States and the UK (a much more complex and diverse economy), each negotiation would most likely take around 3-5 years depending on the depth of the agreement (CBI, 2013). This would not be preferable for the UK. Moreover, the UK joining the EEA in favor of the EU is not a model that would be suitable for the more complex British economy in general. Leaving the EU would make the UK a less compelling destination for companies based overseas, even if it retained access to the Single Market through membership of the EEA. As the EEA Agreement provides for a free trade area covering EEA-members, it does not extend to the EU Customs

Union, as noted before. The customs procedures and borders that have been abolished between EU states are still in place for EEA states. The past success of the UK in attracting multinational companies to set up headquarters or manufacturing plants in the country has been due in large part to the commitment of successive governments to providing a "business-friendly" environment, characterized by low taxes and light regulation (Hirst, 2015). If exiting the EU in favor of EEA, the UK's trade and investment procedures would then be more like Norway's procedures, which can be considered less "business friendly" in particular regarding the ease of doing business. Moreover, studies have suggested that many of the large global economies such as the US, Japan, China and India view the UK as their gateway to the EU. Obstructing this gateway with such regulatory obstacles to free trade would see a general drift of business investment away from the UK and towards the continent. Without fully unrestricted access to the EU's markets, and with additional costs, these business interests would probably look elsewhere for an unadulterated link to the world's largest Single Market. Additionally, outside of the customs union, EEA businesses must complete additional customs and VAT forms when goods are shipped into and out of the EU, as previously noted. Such obstacles would likely lead to the setting up of smaller subsidiaries in EU Member States. There are also other drawbacks with the Norwegian model if it were to be applied to the UK, such as having exports subject to bureaucratic "Rules of Origin", which can involve the EU imposing tariffs on goods exported to Europe that contain components from outside the EU (Persson, 2013). Moreover, the "democratic deficit" Norway is experiencing in terms of influence is not something that the UK would have accepted. It would result in the UK having no votes in the Council of Ministers, No MEPs, no judges at the ECJ, no European Commissioner and therefore little influence over laws that are affecting them. Furthermore, as the UK is home to approximately 36 percent of Europe's wholesale financial market, it would have no votes on huge swathes of regulation governing that market. This is not likely to be accepted. Even the current Prime Minister of Norway, Erna Solberg, has acknowledged that such a model is not appropriate for the UK, who would not tolerate a submissive position of this kind (Hirst, 2015). For a country already adverse to its perceived lack of clout in European decision-making, the prospect of merely "shaping" legislation while still paying billions of pounds to EU projects and remaining bound by virtually all EU regulations would be intolerable. Legislative independence, political autonomy, border control and economic prosperity – none of these objectives, the most common reasons given in support of a UK exit from the EU by Eurosceptics, would be solved by the "Norwegian Model" (Hirst, 2015).

Countries like Denmark and Sweden are not likely to exit the EU in favor of a similar agreement as Norway either. Even as Denmark and the United Kingdom are the countries that can be considered most Eurosceptic and with most opt-outs, Denmark has no intention of leaving the EU. Nicolai Wammen, Minister for European Affairs, said that Denmark wants to be as close to the core of the EU as possible because (he believes) this serves Danish interest best (Jacobsen, 2013). It is not likely that Sweden will exit the EU any time soon either. Sweden's Foreign Minister Carl Bildt recently stressed the importance of EU integration and said that Europe needs to stick together and speak with one voice. He stated "*We can only promote our values and protect our interests if we work together"* (The Local, 2013).

While Norway's economy may be thriving outside of the EU, it is more the result of shrewd government management of the country's vast oil and gas resources than it is about lack of European integration, argued by Hirst (Hirst, 2015). Norway's prudent investment of the income from its oil and gas reserves has rewarded the country with what many consider to be the world's largest sovereign wealth fund. Norwegian prosperity is more internally self-sufficient and largely nationalized in comparison to most EU countries. Being based on natural resources it is also to some extent less dependent on global links (Hirst, 2015). These are only some of the reasons why it is not likely that other countries will adopt the "Norwegian Model" of association to the EU any time soon.

7. Conclusion

Norway is highly integrated in the EU through a number of agreements, in particularly through the EEA Agreement. Along almost all forms of international interactions, EU-countries are Norway's most significant partners. In many ways, Norway is more integrated in the EU than some of the actual EU members are. Norway has access to the Single Market at the same terms as the Member States, and the free movement of goods, services, human and capital applies to Norway too. This gives the country great benefits in terms of trade and investments. However, some major differences exist between Norway's EU-agreements compared to the differentiated EU-memberships in this analysis.

It was found that Norway is experiencing a "democratic deficit" with lack of any formal sway over decisions taken in Brussels. Norway has no Commissioners, no members in the European Parliament, no votes in the Council, and has no vote in most expert groups and agencies widely used to prepare legislation. This makes Norwegian influence very limited when it comes to decision-making, and they have the best chance of influencing decisions at the early stages of a proposal. This form of association also dampens political engagement and debate in Norway and makes it difficult to monitor the Government and hold it accountable in its European policy. The EU members on the other hand have representatives in the EU institutions that make new legislations, such as representatives in the European Parliament and in the Council of the European Union. However, the power to influence is not equally distributed between the Member States. The analysis found that larger EU countries such as the United Kingdom have more power to influence in theory. This is mainly because the EU's ordinary legislative procedure gives advantages for larger countries. Smaller Member States such as Sweden and Denmark have to use other strategies such as building alliances and using most of their resources on specific niche areas of interest in order to have a significant influence. However, as seen from the UK example, large countries can have difficulties influencing too, when their interest diverges from the other Member States. Moreover, the voluntarily opt-outs from EU policies makes the EU-states' memberships differentiated which also affects their power to influence. Member countries loose the power to influence legislation in the policy areas they have opted out from, as they cannot vote in these areas. Denmark and the United Kingdom have a lot of opt-outs and have therefore lost the power to influence in several policy areas. The opt-outs also make the countries' less integrated in the Union. But overall, the EU members clearly have a benefit in the power to influence EU legislation compared to Norway, because they have representatives and voting rights in most areas. Consequently Norway has a disadvantage due to their association form to the EU in terms of power to influence. Additionally, there is a clear asymmetric distribution of power and dependency between the EU and Norway in general. The EU is a much larger counterpart than the EEA/EFTA, and Norway is much more dependent on the EU than the other way around, which also reduces Norway's power when negotiating with the EU.

In the analysis it was further found differences in terms of financial contributions to the EU. Norway contributes to financial mechanisms, programmes and agencies they are a part of and with payments in regards to the operation of the EFTA and EEA institutions among other things. The EU Members on the other hand, pay directly into the EU budget with a percentage based on the independent countries' GNI. It was found that Norway's gross and net contribution to the EU is significantly lower than Sweden, Denmark and the United Kingdom's contribution to the EU budget. If Norway had been a part of the EU, they would also have been net contributors to the EU, due to the high GDP and GNI in Norway.

In terms of trade of goods and services, it was found that Norway has different trade policies than the EU. Norway is not a part of the EU common commercial policy, and can therefore sign bilateral free trade agreements independently or through the EFTA. The EU Member States on the other hand, cannot negotiate independent FTAs; rather The European Commission negotiates FTAs on behalves of the Member countries. There are pros and cons to both, sometimes the EFTA or Norway independently negotiate better FTAs than the EU because of the particularities of their economies, whereas other times the EU negotiates better FTAs than the EFTA or Norway. Moreover, the EEA Agreement does not cover the EU customs union, the CAP, the CFP, or indirect and direct taxations either. As an outsider to the EU customs union, Norwegian exporters and foreign companies exporting to Norway therefore have to go through a lot of custom procedures. The EU on the other hand, has eliminated custom duties and restrictions between its members and routine checks at internal borders and customs formalities are abolished. Therefore one can argue that trading with Norway can be considered more cumbersome than intra EU trade. In addition, as Norway is not a part of the customs union, they are not a part of the common external tariff on goods from countries outside the EU either. Norway has higher tariffs imposed to goods from third countries compared to the EU average, which can affect their imports negatively. Furthermore, as Norway is not a part of the CAP and CFP, Norway has the opportunity to protect its primary industries in agriculture and fisheries by adjusting policies to meet national priorities.

The analysis of the trade flows of goods and services from 2013 showed that Norway's export in percentage of GDP was lower than Sweden and Denmark's export, but higher than the United Kingdom's. Norway's total import in percentage of GDP was lower than all of these countries' imports. This may indicate that Norway's trade policy puts a damper to trade compared to the EU's trade policy that makes trade efficient and cheaper. Moreover, the study from Baier et. al suggest that Norway's growth in exports to the EU since 1994 could have been 3-4 times higher, if the trade impact had been as strong as between EU countries. However this includes oil and gas, and it can be difficult to imagine that Norway could have exported more of this than what they actually have done. But if oil and gas are excluded the estimates from Baier et al. implies that Norway's export growth in the EEA has been less than half of the one seen between EU countries. On the other hand, the analysis of the countries' trade flows showed that Norway is one of the countries with the highest portion of its trade linked to other EU countries. Norway's share of exports to the EU was larger than these EU-members' portion of intra-exports of goods. Also if excluding oil and gas, Norway's share of export to the EU was still higher than Sweden and the United Kingdom's shares of intra-exports of goods in 2013. Norway's share of imports from the EU was also higher than the United Kingdom's share of intra-imports that year. It was also found that Norway's portion of trade of services with EU countries was higher than Denmark and the United Kingdom's intra trade of services in 2013. Hence, Norway is highly integrated in trading with the EU and it does not look like Norway has a disadvantage of being an outsider to the EU in terms of trade with EU countries.

The FDI policies for these EU-countries and Norway also differ. Until recently, EU Member States promoted and protected all forms of investment forms independently, but since 2009 investment became a part of EU's common commercial policy, which means that the EU may now legislate on investment for its members. Norway's FDI policy is not governed by one single policy but is formulated for certain activities as part of broader policies applied in specific sectors. Norway can be considered more restrictive towards FDI than these member countries. The analysis found that Norway's stocks of inward and outward FDI is quite low in percentage of the country's GDP compared to the others', with the exception of Denmark's inward stock that is lower than Norway's. However, since joining the EEA, Norway has liberalized their FDI policies in which have had positive effects. Since 1994, the country's average growth rate of inward FDI has been higher than Denmark and the United Kingdoms' average growth rates. Norway's average growth rate of outward FDI since 1994 has been stronger than all of these countries' average growth rates. Moreover, Norway's flows of FDI have been more stable over time, and when the EU countries experiences major downturn in investments after the economic turmoil, Norway's FDI was stronger as their economy was not as badly hit by the contraction. It was also found that Norway is highly integrated in regards to FDI with EU countries. The country's overall inward FDI stock represents more investments from EU countries than Denmark and the United Kingdom's stocks do and the outward FDI stock represents more investments from EU-countries than all of these EU countries' outward stocks do.

Overall, the "Norwegian Model" of association to the EU gives Norway some important challenges in terms of influence and negotiation-power compared to these EU Member States. But this association form also gives the country great benefits in terms of trade and foreign direct investments, and the country is highly integrated with the EU in these areas. Despite the democratic deficit however, Norway's relation with the EU and the current arrangements do work well in practice, and it is unlikely that Norway will pursue any major change of direction in its relations with the EU in the near future. The "Norwegian Model" does not seem to be a fit for many other countries however. Norway's "success" has been largely a result of the government management of the country's vast oil and gas resources than about lack of European integration. Furthermore, most countries who wants a closer relationship to the EU wants EU-membership as they often have an interest in sharing the financial transfers that occur trough the Structural Funds and the common agricultural policy. Member countries are not likely to follow this model either as most countries would not accept the democratic deficit that Norway is experiencing. Moreover, the model is a result of political compromises and history, and was offered as the beginning of a process of closer integration to the EU. But if EU member countries would leave the EU today in favor of EFTA and EEA they would be travelling in the opposite direction, which could have negative consequences. Therefore it is not likely that other countries will adopt this form of association to the EU any time soon, although this model is working well for Norway.

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13. Appendices

Appendix 1: EU Opponents and proponents in 1994 and 1972

The voting results of the 1994 referendum showed that the urban administrative centre and south-east of Norway tended to vote in favor for membership, while the rural peripheral west and north tended to vote against. In general the left was more opposed to the EU and the right was more in favor (Archer, 2005). Moreover, two important changes from 1972 could be noted in the figures. First of all, the gender difference between voting for and against membership in the 1972 figures had been very small. But in 1994 there was a much clearer distinction where the majority of women (57%) voted against membership, whereas the majority of men voted for membership (52%). Secondly, in 1972 there was some indication that employees in the private sector had been more opposed to membership than those in the public sector. But by 1994 the private sector's employees had become supporters of membership, while those in the public sector opposed it. Furthermore, the working population in the public sector had grown in numbers since 1972 (Archer, 2005).

Appendix 2: Table of joint EU bodies and EEA/EFTA Institutional bodies

(Explaining whom the different committees consist of, as well as its main purposes)

Joint Bodies:	Consists of:	Purpose:
The EEA Joint Committee	European Commission (EU side), ambassadors from the three EFTA/EEA states and an observer from the EFTA Surveillance Authority	Meets regularly and is responsible for the ongoing management of the EEA agreement and for decisions concerning the incorporation of EU legislation into the EEA agreement
The EEA Council	Members of the Council of the European Union, members of the European Commission and Foreign Ministers of the EEA/EFTA states	Meets twice a year and provides political impetus for the development of the EEA agreement and the guidelines for the EEA joint Committee
The Joint Parliamentary Committee	Members of the European Parliament, members of the national parliaments of the EEA/EFTA states	Contributes through dialogue and debate to a better understanding of the fields covered by the EEA agreement
The EEA Consultative Committee	The Economic and Social Committee of the EU, members of the EFTA Consultative Committee	Forum for cooperation and consultation between the social partners in the EEA/EFTA states and those in the EU

(Source: EFTA, 2015d).

EEA/EFTA Institutional bodies in the Two Pillar EEA-Structure:

 The Standing Committee of the EFTA States consists of ambassadors of Norway, Iceland and Lichtenstein and observers from Switzerland and ESA. It is a forum in which the EEA/EFTA states consult each other and arrive at a common position before meeting with the EU in the EEA Joint Committee. The Committee has five sub-committees consisting of representatives of the foreign ministers or prime ministers office of the EEA/EFTA states. Under these there are also several working groups consisting of experts in different fields from the national administrations of the EEA/EFTA states. They are responsible for processing all EU legislation to be incorporated into the EEA agreement (EFTA, 2015d).

 The EFTA Surveillance Authority (ESA) ensures that the EEA/EFTA states fulfill their obligations under the EEA agreement. ESA has in addition power in relation to competition, state aid and public procurement (EFTA, 2015d).

 The EFTA Court, deals with infringement actions brought against an EEA/EFTA state with regard to the implementation, application or interpretation of EEA law. It also gives advisory opinions to courts in the EEA/EFTA states on the interpretation of the EEA rules and it competent for the settlement of disputes between two or more EEA/EFTA states. Furthermore, the EFTA court hears appeals concerning decisions taken by ESA (EFTA, 2015d).

Appendix 3: The process of incorporating EU legislation into the EEA-Agreement

Incorporation of EU legislation to the EEA Agreement

Once new EU legislation has been passed, the EEA Joint Committee works to extend these laws to non-EU members of the EEA (Narud and Strøm, 2007). But in order for the EU acts to be applicable in the EEA they have to be incorporated into the EEA Agreement, more specifically into one of its Annexes or Protocols. These amendments to the EEA Agreement are done by means of Joint Committee Decisions (JCDs), which constitute international agreements and are adopted according to procedures foreseen in the EEA Agreement (EFTA, 2015d). The procedure follow these steps: (1) After a EU act has been adopted, the EFTA experts in the EEA/EFTA States analyze whether the act is relevant and whether any adaptations are required before incorporating it into the EEA Agreement. An act is considered EEA relevant when its content concerns an area covered by the EEA agreement. (2) Once the EFTA Secretariat has received feedback from all three EEA/EFTA States, it drafts a joint committee decision. (3) When this draft has been cleared both by the EFTA expert and by the relevant sub-committee, it is handed over to the EEAS (European External Action Service), which initiates an inter-service consultation in the Commission. (4) When the Commission has agreed on the draft, it is sent to the Council of the European Union for adaptation if this is needed; otherwise the Commission adopts the position. (5) Then finally, the EFTA Secretariat and the EEAS consult on the timing of adaptation in the EEA Joint Committee, and when all Contracting Parties are in agreement the EEA Joint Committee adopts the joint committee decision (EFTA, 2015d).

Appendix 4: Influence in the European Parliament (Population per MEP)

Members of European Parliament (MEPs) for the different EU countries in 2014, including influence (population per representative in the Parliament):

Country	Population[31]	MEPs[32]	Influence (Population per MEP)
Malta	425,400	6	70,900
Luxembourg	549,700	6	91,617
Cyprus	858,000	6	143,000
Estonia	1,315,800	6	219,300
Latvia	2,001,500	8	250,187
Slovenia	2,061,100	8	257,637
Lithuania	2,943,500	11	267591
Croatia	4,246,700	11	386,064
Slovakia	5,415,900	13	416,608
Ireland	4,604,000	11	418,545
Finland	5,451,300	13	419,331
Bulgaria	7,245,700	17	426,218
Denmark	5,627,200	13	432,862
Hungary	9,879,000	21	470,429
Austria	8,507,800	18	472,656
Sweden	9,644,900	20	482,245
EU Average	**18,122,029**	**27**	**486,102**
Portugal	10,427,300	21	496,538
Czech Rep	10,512,400	21	500,590
Greece	10,992,600	21	523,457
Belgium	11,204,000	21	533,524
Romania	19,942,600	32	623,206
Netherlands	16,829,300	26	647,281
Poland	38,495,700	51	754,818
Italy	60,782,700	73	832,640
Germany	80,780,000	96	841,458
Spain	46,507,800	54	861,256
United Kingdom	**64,308,300**	**73**	**880,936**
France	65,856,600	74	889,954

(Source: Business for Britain, 2014).

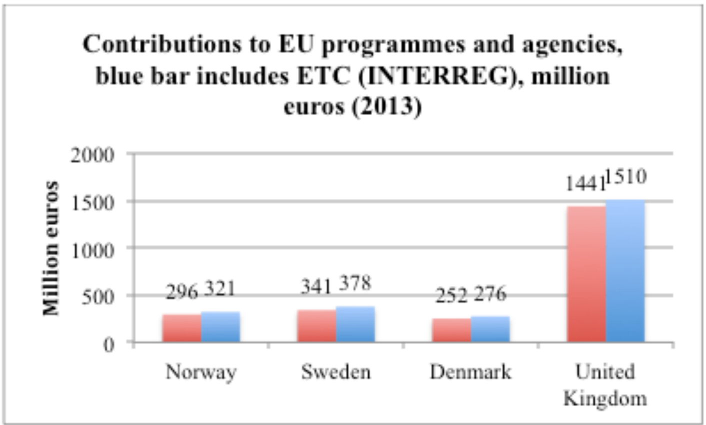
Appendix 5: A comparison of Norway, Sweden, Denmark and the United Kingdom's contributions to EU programmes and agencies

It is challenging to compare the Norwegian contributions to EU programmes and agencies to the contributions of Member States. This is mainly because EU Member States pay into the EU budget, whereas Norway only pays to the relevant budgets for the selected programmes and agencies that they participate in.

As Norway is not a part of all of the available programmes and agencies, the comparison of contributions should therefore only be used to get an overview. The financial contributions are measured by including all of the payments Norway conducted to the programmes in 2013 compared to the contribution Sweden, Denmark and the UK had for a selection of the most important programmes and agencies the same year (the largest and most important contributions).

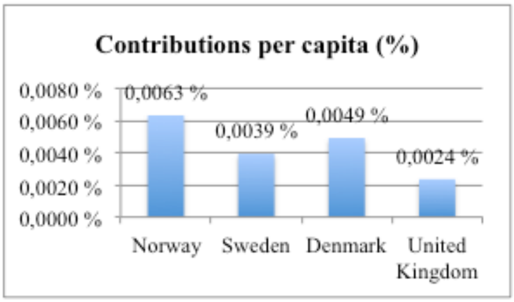
Norway contributed with approximately 296 million euros to EU programmes and agencies in 2013. In addition, Norway participates in INTERREG, which is a EU program (outside of the EEA agreement) for regional cooperation, and contributes with about 25 million euros to this annually. Hence, Norway contributed with a total of approximately 321 million euros to EU programs and agencies in 2013 with the inclusion of INTERREG (Europautredningen, 2012).

According to numbers from the European Commissions Budget for 2013, Sweden contributed with approximately 341 million euros to the most significant programmes and agencies. If INTERREG is included, they contributed with about 378 million euros in total that year. Denmark contributed a little less to these same programmes and agencies with approximately 252 million euros in 2013. If INTERREG is included, they had a total contribution of 276 million euros. The financial contribution from the UK to the same programmes and agencies that year is considerably higher: with a contribution of approximately 1441 million euros and 1510 million euros if INTERREG is included.



(Source: Numbers for Sweden, Denmark and UK from European Commission budget homepage, numbers for Norway from Regjeringen, 2015c).

As seen from the graph above Norway contributes more financially than Denmark even though Norway participates is less programmes and agencies. This is also true if comparing contribution per capita. Compared to Sweden and the United Kingdom, Norway pays less in total euros, but more if considering per capita. In the graph below (contributions per capita) INTERREG is also included. Moreover, though the UK contributions are significantly higher than the three Nordic countries, they actually contribute less than all of them if considering per capita.



(Source: Population data from World Bank, population is from 2013 because the financial contributions are also from 2013).

(Source: Population data from World Bank, population is from 2013 because the financial contributions are also from 2013).

The following programmes and agencies are included in the analysis of Sweden, Denmark and the United Kingdom's financial contributions:

<u>Red Bar</u>: Seventh Research framework Programme (FP7), Decommissioning (Direct research), Ten, Galileo, Marco Polo, Lifelong Learning Programme, Competitiveness and innovation framework programme (CIP), CIP Entreprenurship and Innovation, CIP ICT policy support, CIP intelligent energy, Social policy agenda, Customs 2013 and Fiscals 2013, Nuclear decommissioning, European Global Adjustment Funds, Energy projects to aid economic recovery, (DAG) Decentralized agencies and other actions and programmes.

<u>Blue bar</u>: In the blue bar the contribution for INTERREG is also included (Numbers from EFTA Budget homepage).

The following programmes and agencies are included in the analysis of Norway (ranged in order of decreasing budgets): (Norway participated in these in 2013) (EFTA, 2013).

<u>Red Bar</u>**:** Seventh Research Framework Programme (FP7), Competitiveness and Innovation Programme, Lifelong Learning Programme, Galileo Programme, Youth in Action, MEDIA Programme, Erasmus Mundus II (Actions 1 and 3), Employment and Social Solidarity (PROGRESS), Culture Programme, European Statistical Programme, Programme of Community Action in the Field of Health, European Institute of Innovation and Technology, Intermodal Transport (Marco Polo II), Civil Protection Financial Instrument, Implementation and Development of the Internal Market, Consumer Programme, European Employment Service (EURES), Fight Against Violence (Daphne III), Interoperable Delivery of European eGovernment,

Services to Public Administrations, Businesses and Citizens (IDABC), Safer Internet Plus Programme, MEDIA Mundus Programme, Drugs Prevention and Information Programme, Modernisation of EU Enterprise and Trade Statistics (MEETS), Marco Polo Programme.

Blue bar: In the blue bar the contribution for INTERREG is also included.
Agencies: European Agency for Safety and Health at Work, European Aviation Safety Agency, European Centre for Disease Prevention and Control, European Centre for the Development of Vocational Training, European Chemicals Agency, European Environment Agency, European Food Safety Authority, European GNSS Agency, European Maritime Safety Agency, European Medicines Agency, European Network and Information Security Agency, European Railway Agency, European Foundation for the Improvement of Living and working conditions (EFTA, 2013).

Appendix 6: EU budget sources of income

The direct contributions by EU Member States are the single most important source of income to the EU budget. In 2013, the contributions from Member States represented approximately 74% of the EU budget's income (European Commission, 2015f). The countries contribute by a percentage mainly based on each Member States Gross National Income (GNI), which is usually around 1% (Regjeringen, 2015c). Two other important sources of income are customs duties on imports from outside the EU and sugar levies and a small part of the value added tax (VAT) levied in the EU (usually around 0.3%). Other less significant sources of revenue include taxes on EU staff salaries, fines on companies for breaching competition laws and bank interest, etc. Furthermore, there is no direct EU tax. EU countries remain in control of their taxes (European Commission, 2015f).

Appendix 7: Methodology of calculations of the operating budgetary balance of the Member States

The operating budgetary balance of the Member States are calculated by taking the difference between total received from the EU (hence administration costs are excluded) allocated to each Member State, and the adjusted national contributions to the EU of each Member State. The national contributions to the EU are adjusted to equal total EU operating expenditures, so that the operating budgetary balances sum up to zero. Traditional own resources (i.e. customs duties and sugar levies) are not included in the calculation of net balances. This is because traditional own resources result directly from the application of common policies (such as the common agricultural policy and the Customs union), and is therefore considered pure EU revenue. Moreover, the economic agent bearing the burden of the customs duty imposed is not always a resident of the Member States collecting the duty (European Commission, 2015d).

Appendix 8: EU budget 2013 (Complete list of expenditures and revenues for Denmark, Sweden and the United Kingdom)

2013 (EUR million)		Denmark	Sweden	United Kingdom
1	SUSTAINABLE GROWTH	323,77838	630,712961	2106,937012
1.1	Competitiveness for growth and employment	252,180536	341,511392	1441,640495
1.1.1	Seventh Research framework programme	163,922471	241,243818	1114,020821
1.1.2	Decommissioning (Direct research)	0	0	1,11951728
1.1.3	Ten	28,4484073	50,92312	32,51421479
1.1.4	Galileo	0,05145823	0,03274615	38,85075904
1.1.5	Marco Polo	0	0,4805982	0
1.1.6	Lifelong Learning	24,021377	30,9540385	120,6219385
1.1.7	Competitiveness and innovation framework programme (CIP)	8,3158776	9,49715957	36,84083292
1.1.71	CIP Entrepreneurship and innovation	4,11430289	4,1616108	17,85028576
1.1.72	CIP ICT policy support	3,50901581	2,96167874	11,4163509
1.1.73	CIP Intelligent energy	0,6925589	2,37387003	7,57419626
1.1.8	Social policy agenda	1,36702228	0,5732844	8,15218249
1.1.9	Customs 2013 and Fiscalis 2013	0,34579773	0,48	0,16528035
1.1.10	Nuclear decommissioning	0	0	0,100189
1.1.11	European Global Adjustment Funds	1,3717748	5,45500907	0
1.1.12	Energy projects to aid economic recovery	0,8044633	0	27,18007936
1.1.DAG	Decentralised agencies	0	0	49,19279968
1.1.OTH	Other actions and programmes	23,5318873	1,87161871	12,88188069
1.2	Cohesion for growth and employment	71,597843	289,201568	665,2965163
1.2.1	Structural funds	71,2963639	288,745838	664,5028142
1.2.11	Convergence objective	0	0	353,6751678
1.2.12	Regional competitiveness and employment objective	46,669932	250,52391	238,9664146
1.2.13	European territorial cooperation objective	24,121476	37,5929974	69,96090354
1.2.14	Technical assistance	0,5049559	0,62893103	1,90032827
1.2.2	Cohesion Fund	0,1052355	0	0,422823
1.2.DAG	Decentralised agencies	0	0	0
1.2.OTH	Other actions and programmes	0,19624361	0,45573009	0,37087918
2	PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES	1046,71716	906,701189	3958,20685
2.0.1	Market related expenditure and direct aids	934,946761	695,34229	3168,934924
2.0.11	Agriculture markets	931,280715	694,262324	3123,874248
	Direct Aid	924,066066	682,010708	3084,215204
	Export refunds	0,50545031	0,00005894	0,22247097
	Storage	0,28421907	1,09390305	0,27602366
	Other	6,42498014	11,1576537	39,16054907
2.0.12	Fisheries market	0,36259275	0,02557375	0,17622886
2.0.13	Animal and plant health	3,30345276	1,0543926	44,88444788
2.0.2	Rural development	61,0734246	180,993971	751,9089897
2.0.3	European fisheries fund	2,12729284	10,167185	13,44124699
2.0.4	Fisheries governance and international agreements	6,57724553	8,23398651	8,18905147
2.0.5	Life+	5,19270744	10,8190674	14,43990504
2.0.DAG	Decentralised agencies	36,799725	0	0
2.0.OTH	Other actions and programmes	0	1,14468914	1,292732
3	CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE	14,5016936	91,8621152	115,0887556
3.1	Freedom, security and justice	2,46114319	22,1539997	82,01017244
3.1.1	Solidarity and management of migration flows	0,85889724	20,3936892	49,92285292
3.1.2	Security and safeguarding liberties	0,91798133	1,01744599	9,51217216
3.1.3	Fundamental rights and justice	0,45281916	0,32624621	13,08542738
3.1.DAG	Decentralised agencies	0	0	8,45064
3.1.OTH	Other actions and programmes	0,23144546	0,41661822	1,03907998
3.2	Citizenship	12,0405504	69,7081156	33,0785832
3.2.1	Public health and consumer protection programme	1,71417573	0,80300063	6,23245579
3.2.2	Culture 2007-2013	0,45706498	2,19118214	4,41928081
3.2.3	Youth in action	3,32069714	3,18955234	11,66065879
3.2.4	Media 2007	4,69408458	2,68166223	7,12263313
3.2.5	Europe for Citizens	0,07477715	0,36324427	0,69016414
3.2.6	Civil protection Financial instrument	0,353782	0,77	0,13911802
3.2.7	Communication actions	0,6393131	1,39447397	2,29026871
3.2.8	European Solidarity Fund	0	0	0
3.2.DAG	Decentralised agencies	0	58,315	0
3.2.OTH	Other actions and programmes	0,78665573	0	0,52400381
4	THE EU AS A GLOBAL PARTNER	0	0	0
4.0.1	Instrument for Preaccession (IPA)	0	0	0
	Other actions and programmes	0	0	0
5	ADMINISTRATION	49,7615417	31,7270585	128,0562134
6	COMPENSATIONS	0	0	0
TOTAL EXPENDITURE		**1434,75877**	**1661,00332**	**6308,28883**
VAT-based own resource		290,400092	198,635145	2527,300056
GNI-based own resource		2153,02868	3664,31706	16229,97434
UK correction		149,615615	46,9829551	-4329,459767
Lump Sum Reduction Granted for NL & SE		16,8734214	-142,91371	123,6486153
JHA adjustment for DK, IE and UK		-3,9150122	1,86967316	-41,91455412
TOTAL national contribution		**2606,00279**	**3768,89111**	**14509,54869**
Traditional own resources (TOR) (75%)		293,347896	442,588158	2558,824469
Agricultural duties (100%)		0	0	0
Sugar levies (100%)		6,82703443	-1,2699018	13,92518227
Customs duties (100%)		384,303494	591,387446	3397,840776
Amounts (25%) retained as TOR collection costs		-97,782632	-147,52939	-852,9414897
TOTAL own resources		**2899,35069**	**4211,47927**	**17068,37315**
Gross National Income (GNI), EUR billion		**258,758606**	**431,715396**	**1876,29101**
Operating budgetary balance (EUR million)		**-1277,1028**	**-2220,7446**	**-8641,650758**
Operating budgetary balance (% GNI)		**-0,0049355**	**-0,005144**	**-0,004605709**

Appendix 9: EU VAT

The European Union value added tax (EU VAT) is a VAT on goods and services within the EU. The EU's institutions do not collect the tax, but EU Member States are required to adopt a VAT that complies with the EU VAT code. The aim of the EU VAT directive (Council Directive 2006/112/EC of 2006 on the common system of value added tax) is to harmonize VAT within the EU VAT area, and specifies that VAT rates must be within a certain range. Different rates of VAT apply in different EU Member States, ranging from 15 to 27%. The standard VAT rate in Denmark and Sweden is 25%, whereas the standard VAT rate in the UK is 20% (European Commission, 2015l). The coordinated administration of VAT within the EU VAT area is an important part of the single market. Cross-border VAT is declared in the same way as domestic VAT, which facilitates the elimination of border controls between member states, saving costs and reducing delays. It also simplifies administrative work for freight forwarders.

Below is a short explanation to VAT collection between EU countries and from EU countries to third countries. There are several important exceptions to these basic rules however:

From EU country to other countries in the EU

Goods: EU residents that sell goods to a business in another EU country do not charge VAT if the customer has a valid VAT number. They may still deduct the VAT they have paid on their related expenses (goods/services bought in specifically to make those sales). If the customer does not have a valid VAT number, they must normally charge VAT on the sale at the rate applicable in their own country. EU residents selling goods to another EU country need to register there and charge VAT at the rate applicable in that country (unless the total value of the sales to that country in the year falls below the limit set by the country (EUR 35 000 or EUR 100 000). EU residents buying and receiving goods for business purposes from another EU country must account for the VAT on the transaction as if they had sold the goods themselves, at the applicable rate in their own country. Normally, they will later be able to deduct this amount (European Commission, 2015m).

Services: EU residents selling services to businesses in another EU country do not normally charge their customers VAT. The customers will pay VAT on the services received at the applicable rate in their country (using the reverse charge procedure). They may still deduct the VAT they have paid on their related expenses (goods/services bought in specifically to supply that service). EU residents selling to consumers in other EU countries must normally charge their customers VAT at the rate that applies in the sellers country, except for telecommunications, broadcasting and electronic services, which are always taxed in the country where the customer belongs (where a private person has a permanent address or usually resides or where a non-taxable person is established). EU residents buying and receiving services for business purposes from another EU country must account for the VAT on the transaction as if they had sold the services themselves, at the applicable rate in their own country (using the reverse charge procedure, a system of self-assessment). Normally, they will later be able to deduct this amount (European Commission, 2015m).

EU to third countries

Goods: EU residents that sell goods to customers outside the EU, do not charge VAT, but may deduct the VAT they have paid on related expenses (goods/services bought in specifically to make those sales). EU residents that buy goods for the purposes of their business from a supplier based outside the EU must generally pay VAT at the point of import (and may deduct this in their next VAT return if they make taxed sales) (European Commission, 2015m).

Services: EU residents that provide services to customers outside the EU normally do not charge VAT (but if the service is used in another EU country, that country can decide to levy the VAT); though they may still deduct the VAT they have paid on their related expenses (goods/services bought in specifically to make those sales). EU residents receiving services for the purposes of their business from a supplier based outside the EU must generally pay VAT at the rate that applies in their country, as if they had supplied the service themselves (using the reverse charge procedure, a system of self-assessment). Normally, they will later be able to deduct this amount (European Commission, 2015m).

Appendix 10: The Norwegian tax system with some comparisons to the selected EU countries

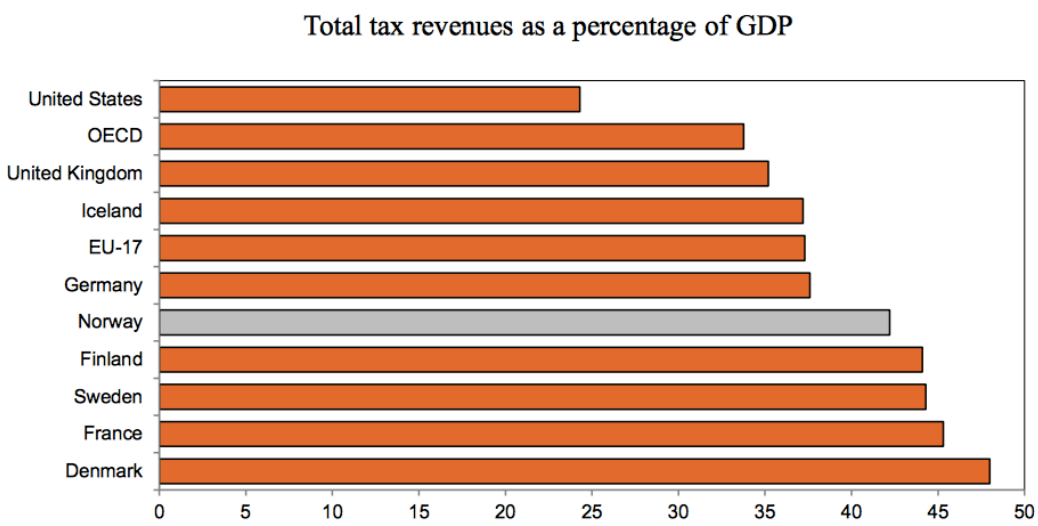
The tax system funds public welfare and serves as a redistributive tool. Taxes should be structured to promote high output and efficient resource allocation. The tax system should not impose unnecessarily high administrative costs on taxpayers and authorities. Taxes also have a counter-cyclical effect. The tax system contributes to automatic stabilization of the economy as tax revenues increase during good times and decline during challenging times. The main sources of tax revenues in Norway are tax on ordinary income; value added tax, employers' social security contributions and petroleum tax (Royal Ministry of Finance, 2014).

The various taxes can be classified as either direct taxes or indirect taxes: *Direct taxes* include, inter alia, income tax from individuals and enterprises, net wealth tax and recurrent tax on immovable property. The direct taxes account for 72 percent of overall tax revenues in Norway (2014). Out of these, 47 percent is in the form of income tax from individuals, including employee's social security contributions and surtax, whilst 27 percent is in the form of income tax from enterprises, including the petroleum industry. Tax revenues from mainland enterprises account for 8 percent of tax revenues from Mainland Norway (Royal Ministry of Finance, 2014).

Indirect taxes include value added tax (VAT), excise duties and customs duties, and account for 28 percent of overall tax revenues in Norway. Value added tax is the main source of revenues from indirect taxes, accounting for 20 percent of overall tax revenues, whilst excise duties accounts for 8 percent. Customs duties are now a minor component of public revenues.

If comparing the tax revenues of Norway to Sweden, Denmark and the United Kingdom's as a percentage of their gross domestic product (GDP) it shows that Norway and the other Scandinavian countries have a relatively high overall tax level. This reflects, among other things, comprehensive public welfare schemes. Norway has a highly unusual industrial structure, characterized by considerable production in the petroleum sector. For purposes of international comparisons, the tax level in the mainland economy is the most relevant parameter for Norway. Although a major part of the revenues from the petroleum activities accrue to the State, the overall tax level for the economy, as a whole, is nonetheless somewhat lower than in the mainland economy. The reason for this is that the revenues from SDFI accrue directly to the State, and hence are not subject to taxation (Royal Ministry of Finance, 2014).

Since 1985, tax revenues in Norway have amounted to between 41 and 45 percent of GDP. In Sweden, the tax to GDP ratio has ranged from 45 to 53 percent, whilst it has been between 41 and 51 percent in Denmark, and from 22 to 25 percent in the United Kingdom. Over the same period, the average OECD tax revenue share has varied between 30 and 36 pct. of GDP (Royal Ministry of Finance, 2014).



(Source: ECD Revenue Statistics and Taxation Trends in the European Union)

Value added tax (VAT)

The standard rate of value added tax in Norway is 25 percent. Denmark and Sweden also apply a standard rate of 25 percent, while the UK's standard rate of VAT is 20 percent. The rates in the Scandinavian countries are high by way of international comparison. In Norway, value added tax revenues as a proportion of GDP, are higher than the OECD average, but somewhat lower than in Denmark and Sweden (Royal Ministry of Finance, 2014).

Although the current value added tax is, as a main rule, a general tax on consumption, it is subject to various exemptions and reduced rates. In Norway, foodstuffs are subject to a reduced rate of 15 percent, whilst a number of services are subject to a reduced rate of 8 percent. Certain goods are exempted by way of so-called zero-rating, which implies full deductibility of value added tax on goods and service inputs, whilst no value added tax is charged on sales. A number of services fall outside the scope of the value added tax system, including, among other things, financial services, health services and teaching. Businesses outside the value added tax system are granted no deductions in respect of any value added tax on goods and services procured by them (Royal Ministry of Finance, 2014).

Excise duties

Excise duties are intended to fund government expenditure, but are also used as instruments for the pricing of the social costs of using products that are environmentally harmful or hazardous to health. Excise duties on specific products will, in contrast to general taxes on consumption, shift consumption away from taxed products. Hence, excise duties are suitable policy instruments for reducing the social costs associated with the use of products that are environmentally harmful or hazardous to health. Some excise duties are solely intended to raise central government revenues (Royal Ministry of Finance, 2014).

<u>Environmental taxes</u>

Norway's first environmentally motivated tax was the tax on the sulphur contents of mineral oil, which was introduced in 1970. The use of environmental taxes did not become more widespread until the late 1980s/early 1990s. Environmental taxes have subsequently been introduced in a number of areas. When environmental taxes work as intended, they contribute to a reduction in environmentally harmful activity. This will reduce government revenues (Royal Ministry of Finance, 2014). There may be various reasons why environmental taxes or cap-and-trade systems are not designed in a cost-effective manner. The reason is often a desire to protect particular groups or industries. Norway has some exemptions and special treatment in the tax system to support specific groups, industries or activities that makes the tax system less efficient and more administratively complex and challenging (Royal Ministry of Finance, 2014).

Taxes reflecting health considerations and social considerations

The consumption of goods other than environmental goods may also impose costs on society that are not reflected in their market prices. This is exemplified by the consumption of alcoholic beverages and tobacco products. The taxes on alcoholic beverages and tobacco products raise revenues for central government, but also mean that the prices of these products include, to a greater extent, the costs imposed on society when consuming them (Royal Ministry of Finance, 2014).

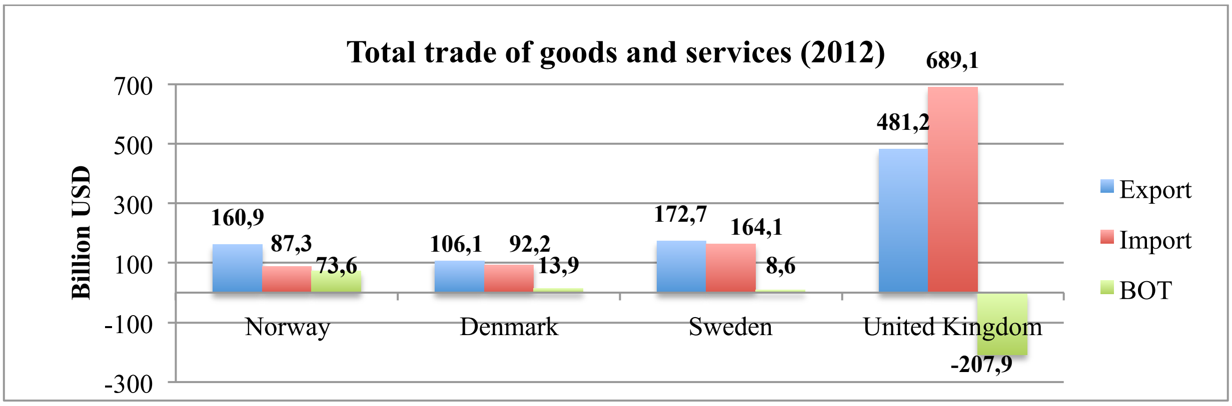
Customs duties

Norway is currently one of the countries in the world with the lowest customs barriers for manufactured goods. Certain clothes and textiles are the only manufactured goods subject to customs duties (Royal Ministry of Finance, 2014). Customs protection of agricultural goods is an important part of Norwegian agricultural policy. Import protection contributes to, inter alia, ensuring that Norwegian agricultural goods are sold at prices stipulated in the Agricultural Agreement. Customs protection is an important aspect of the overall support given to Norwegian agriculture. The customs duty rates for agricultural goods are highly variable, depending on the need for protection (Royal Ministry of Finance, 2014).

Maximum customs duty rates are laid down in international agreements. Norway has committed to reducing customs duty rates through several rounds of GATT/WTO negotiations, most recently under the WTO 1994 Agreement. Apart from a certain reduction in customs duties on manufactured goods, the WTO Agreement entailed commitments with regard to market access, domestic subsidies and export subsidies for agricultural goods. Like other industrialized countries, Norway grants preferential customs treatment to developing countries under the GSP (Generalized System of Preferences) scheme. The scheme involves individual industrialized countries granting developing countries improved market access for their goods. GSP is a unilateral scheme, and can in principle be revoked or amended.

Appendix 11: Total Trade of Goods and Services and Trade Balance (2012)

From looking at the figure below it is clear that Norway's total import of goods and services were lower than all of the countries in comparison in 2012. The figure also shows that Norway's total export of goods and services also were lower than all of these countries with the exception of Denmark in absolute values in 2012 (UN Trade Statistics, 2015).



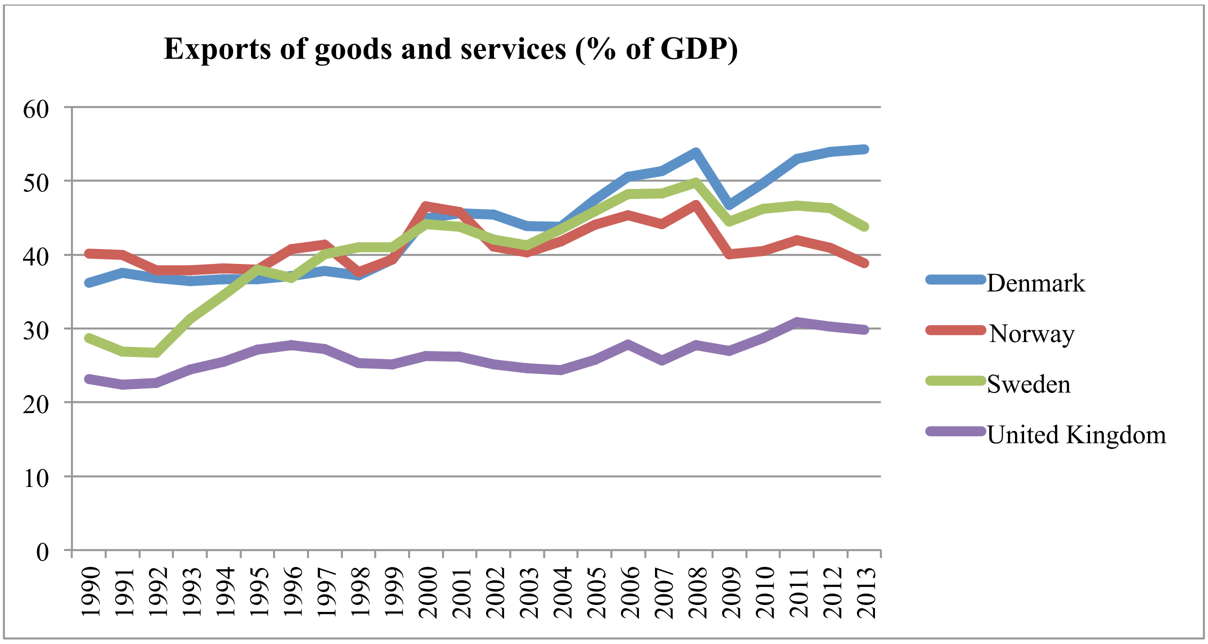
(Source: UN Trade Statistics, 2015).

Balance of Trade

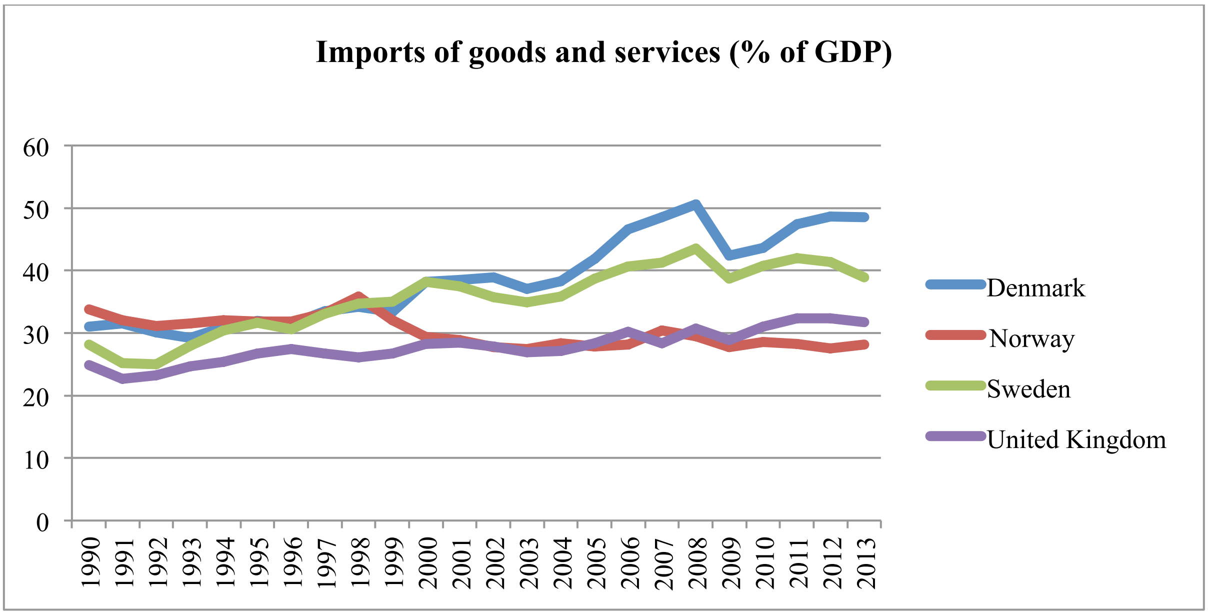
The difference between a country's exports and imports is the balance of trade (BOT) for a country. Generally, it is considered favorable to have a trade balance with a surplus, namely that the exports exceed the imports, because it is considered as making a profit as a country. Often a trade surplus creates higher income with more capital for the residents. This again can turn into a higher standard of living, because businesses sustain a competitive advantage. It will also often reduce the unemployment rate in the country, which will generate more income for the residents. In special circumstances however, a trade deficit can be more favorable, depending on where the country is in its business cycle (Amadeo, 2015). Following is a comparison of Norway, Denmark, Sweden and the United Kingdom's trade balance.

Norway exported goods and services for approximately 123.9 billion euros ($160.9 billion) and imported for about 67.2 billion euros ($87.3 billion) in 2012. This means that Norway had a trade surplus of approximately 56.7 billion euros ($73.6 billion) that year. Denmark and Sweden also had surpluses on their trade balance. Denmark exported for 81.7 billion euros ($106.1 billion) and imported for approximately 71 billion euros ($92.2 billion). Hence, Denmark had a trade balance surplus equal to about 10.6 billion euros ($13.9 billion). Sweden's balance of trade at this time was about 6.6 billion euros ($8.6 billion) as they exported for approximately 133 billion euros ($172.7 billion) and imported for 126.3 billion euros ($164.1 billion). The United Kingdom on the other hand, had a significantly high trade balance deficit of about -160 billion euros ($-207.9 billion) that year. They exported for about 307.5 billion euros ($481.2 billion) and imported for approximately 530.5 billion euros ($689.1 billion) (UN Trade Statistics, 2015).

Appendix 12: Total Trade of Goods and Services (% GDP) 1990-2013



(Source: numbers from the World Bank)



(Source: numbers from the World Bank)

Appendix 13: Table of Norway, Sweden, Denmark and the United Kingdom's main import and export partners and commodities

Country	Norway	Sweden	Denmark	United Kingdom
Main import partners	Sweden 13.54%, Germany 12.39%, China 9.25%, Denmark, United Kingdom 6.13%, United States 5.41%, Netherlands 3.91%, France 3.24%, Poland 3.03%, Canada 2.87%, Other 34.02%	Germany 17.28%, Norway 9.09%, Denmark 8.46%, Netherlands 7.10%, United Kingdom 6.59%, Russia 5.42%, Finland 5.10%, France 4.21%, China 4.03%, Belgium 3.78%, Other 28.94%	Germany 20.67%, Sweden 13.41%, Netherlands 7.33%, China 7%, United Kingdom 5.57%, Norway 5.33%, Italy 3.56%, Poland 3.18%, Belgium 3.01%, France 2.96%, Other 27.97%	Germany 12.06%, United States 8.90%, China 8.16%, Netherlands 6.93%, France 5.48%, Norway 4.81%, Belgium 4.11%, Switzerland 4%, Italy 3.24%, Ireland 2.83%, Other 39.48%
Import commodities	Industrial Machinery 14.25%, Motor Vehicles & Parts 10.42%, Electrical Machinery 9.07%, Oil & Mineral Fuels 6.24%, Iron & Steel Articles 4.76%, Furniture 3.51%, Plastics 2.90%, Precision Instruments 2.78%, Nickel 2.65%, Ships & Boats 2.55%, Other 40.86%	Oil & Mineral Fuels 16.16%, Industrial Machinery 12.54%, Electrical Machinery 11.98%, Motor Vehicles & Parts 8.91%, Plastics 3.28%, Items nesoi 3%, Iron & Steel 2.91%, Precision Instruments 2.74%, Pharmaceuticals 2.72%, Iron & Steel Articles 2.17%, Other 33.60%	Industrial Machinery 12.39%, Oil & Mineral Fuels 10.33%, Electrical Machinery 9.90%, Motor Vehicles & Parts 6.17%, Plastics 4.28%, Pharmaceuticals 3.80%, Precision Instruments 3.07%, Iron & Steel Articles 3.06%, Apparel: Non Knit 2.58%, Items nesoi 2.44%, Other 41.98%	Oil & Mineral Fuels 13.84%, Items nesoi 11%, Industrial Machinery 10.98%, Motor Vehicles & Parts 8.65%, Electrical Machinery 8.08%, Precious Stones & Metals 4.85%, Pharmaceuticals 3.90%, Plastics 2.50%, Precision Instruments 2.38%, Organic Chemicals 2.25%, Other 31.56%
Main export partners	United Kingdom 26.50%, Netherlands 12.24%, Germany 11.97%, Sweden 6.34%, France 6.28%, United States 5.02 %, Denmark 4.13%, Belgium 2.86%, South Korea 2.77%, Italy 2.28%, Other 19.61%	Norway 10.16%, Germany 9.56%, United Kingdom 7.56%, Finland 6.38%, Denmark 6.37%, United States 6%, Netherlands 5.15%, Belgium 4.55%, France 4.45%, China 3.18 %, Other 36.64 %	Germany 14.14%, Sweden 12.70%, United Kingdom 9.12%, Norway 6.64%, United States 5.52%, Netherlands 4.09%, France 2.93%, China 2.49%, Italy 2.28%, Poland 2.23%, Other 37.87 %	United States 13.34%, Germany 10.82%, Netherlands 7.87%, France 7.16%, Ireland 5.30%, Belgium 4.51%, Switzerland 3.37%, China 3.26%, Spain 2.69%, Italy 2.57%, Other 39.12%
Export Commodities	Oil & Mineral Fuels 69.78%, Seafood 5.32%, Industrial Machinery 4.26%, Items nesoi 3.04%, Aluminum 2.70%, Electrical Machinery 2.09%, Precision Instruments 1.29%, Nickel 1.01%, Iron & Steel 0.88%, Ships & Boats 0.82%, Other 8.81%	Industrial Machinery 15.51%, Electrical Machinery 11.13%, Motor Vehicles & Parts 9.39%, Oil & Mineral Fuels 9.37%, Paper 6.51%, Items nesoi 4.66%, Iron & Steel 4.34%, Pharmaceuticals 4.27%, Plastics 3.33%, Precision Instruments 3.02%, Other 28.47%	Industrial Machinery 13.36%, Oil & Mineral Fuels 10.04%, Items nesoi 8.57%, Electrical Machinery 7.65%, Pharmaceuticals 4.93%, Meat 4.51%, Precision Instruments 4.40%, Iron & Steel Articles 2.94%, Furniture 2.51%, Motor Vehicles & Parts 2.49%, Other 38.61%	Industrial Machinery 13.82%, Oil & Mineral Fuels 13.67%, Motor Vehicles & Parts 9.79%, Items nesoi 8.72%, Pharmaceuticals 6.88%, Electrical Machinery 6.33%, Precious Stones & Metals 5.34 %, Precision Instruments 3.58%, Organic Chemicals 3.34%, Plastics 2.42%, Other 26.11%

(Source: Numbers from UN Comtrade, Last available data from 2012)

Appendix 14: Value of the countries imports (total imports and EU imports)

2013, million euros	Total import of SITC 3, 2013	Extra EU imports 2013 (SITC 3)	Total Extra EU imports 2013	Total Extra EU imports (excluding SITC 3)	Total intra import	**Total imports 2013**	Total imports excluding SITC 3	**Share of Extra EU imports excluding SITC 3**	**Share of intra imports excluding SITC 3**
Denmark	7493	4567	22948	18381	50931	**73879**	66386	**28 %**	**72,31 %**
Sweden	17341	10256	38273	28017	83264	**121537**	104196	**27 %**	**73,11 %**
United Kingdom	66405	48927	241554	192627	257580	**499134**	432729	**45 %**	**55,49 %**

Share of Extra EU imports (excluding SITC 3) found by taking Total Extra EU imports (excluding SITC 3) divided by Total imports (excluding SITC 3).

Norway:
Value of Norway's total imports of goods from all countries in 2013: 527 722 million NOK.
Value of imports of goods from EU countries in 2013: 341 330 million NOK (SSB, 2015).

Appendix 15: Host country determinants of FDI

I. Policy framework for FDI
Economic, political and social stability
Rules regarding entry and operations
Standards of treatment of foreign affiliates
General legal and administrative system that shape the structure and functioning of markets (e.g. competition & M&A policies, corporate and labor taxation, product & labor market regulations, IPRs)
International agreements on FDI
Privatization policies
Trade policies (tariffs and non-tariff barriers) and the coherence of FDI and trade policies

II. Economic determinants (by FDI motive)
II. ***1 Market seeking***
Market size and per capita income
Market growth (potential)
Access to regional and global markets
Country-specific consumer preferences
Structure of markets (e.g. market concentration, entry barriers, pricing)
II. ***2 Resource seeking***
Availability of natural resources (e.g. oil and gas, minerals, raw materials, agricultural land)
Physical infrastructure (ports, roads, power, telecommunication)
II.3 Strategic asset seeking
Skilled labor and quality of educational infrastructure (e.g. schools, colleges, universities)
Quality of technological and R&D infrastructure (e.g. research institutions, universities, ICT)
Innovation clusters
II.4 Efficiency seeking
Cost and productivity of local labor supply
Cost of raw materials and intermediate inputs
Cost of transport and communication to/from and within host economy
Financing cost
Industrial infrastructure (e.g., subcontracting and business services, supplier industries, industry clusters)

III. Business facilitation
Investment promotion
Investment incentives (tax and financial)
Costs related to corruption and bureaucratic inefficiency
Social amenities (e.g. quality of life)
Infrastructure and support services
Cluster and network promotion
(Source: European Commission 2012)

Appendix 16: FDI stocks per captia

These countries differ greatly in terms of size and population; therefore another measure can be to consider the stocks of FDI per capita. Looking at the table below, the comparison of the inward and outward stocks per capita is shown.

FDI stocks per capita 2013, USD

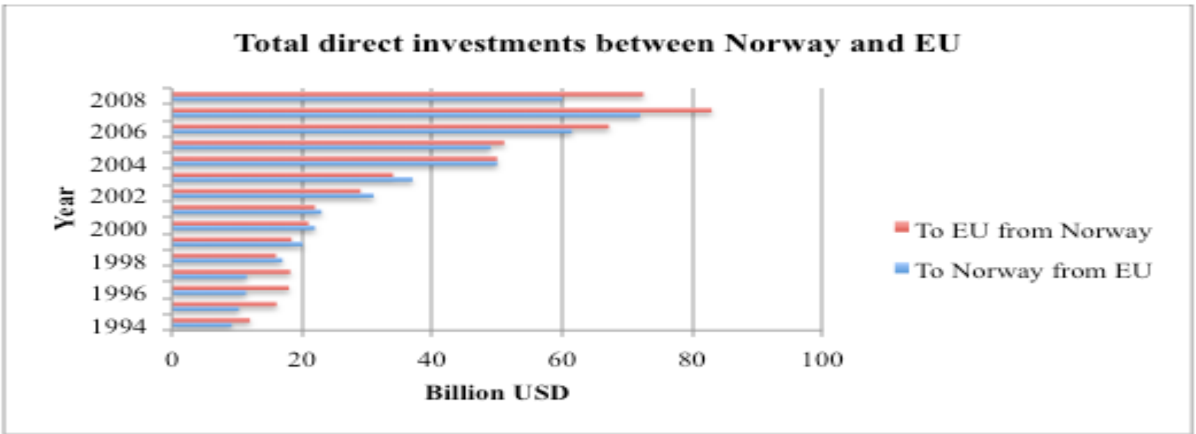
2013	United Kingdom	Sweden	Denmark	Norway
Per capita inward stock	$ 25 044,50	$ 39 384,59	$ 28 316,65	$ 37 874,55
Per capita outward stock	$ 29 401,25	$ 45 411,16	$ 45 614,08	$ 45 492,42

(Source: numbers from UNCTAD)

When considering this measure, the picture of largest stocks changes, and the United Kingdom's stocks are very small in comparison to these Nordic countries, mainly because their population is so big in comparison to the population in Sweden, Denmark and Norway. Norway's stock of inward FDI per head was $37 874 in 2013, which was significantly above the United Kingdom and Denmark investments per person. Sweden's inward FDI per person was slightly higher than Norway's. Considering outward stock per capita, the Nordic countries had almost identical outward FDI per head in 2013, whereas the United Kingdom's again were much lower.

Appendix 17. Figure of the FDI between Norway and EU (1994-2008)

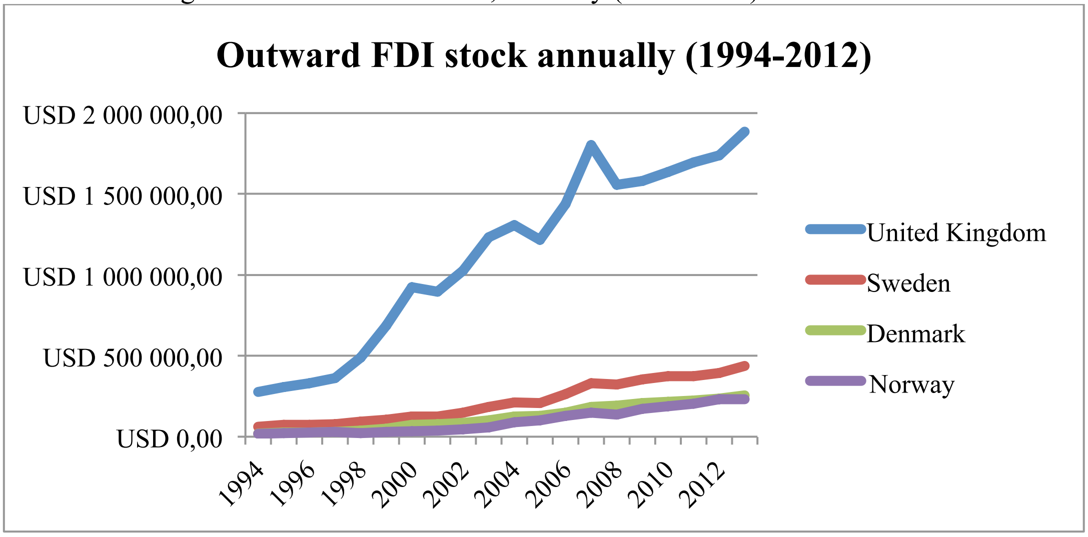
-Significant growth since the EEA Agreement



(Source: Numbers from Eurostat)

Appendix 18: Outward and Inward FDI stock annually (1994-2012)

Outward foreign direct investment stock, annually (1994-2012)



Inward foreign direct investment stock, annually (1994-2012)