

## The EU and its Neighbours: reconciling market access, governance, and democracy<sup>1</sup>

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1 September 2017

As the European Union (EU) looks ahead to a putative relaunch after the German elections and to a future without the UK as a member, its relations with those European states placed outside its boundaries looms as an ongoing challenge. This paper focusses on the experiences of Norway and Switzerland, in particular, as they are the more prominent cases in current debates about Brexit and how the EU might structure its future relations with outsider states. That said, the issues raised in this context also have some relevance to the design and impact of the wider panoply of agreements that the EU has negotiated with other external countries and regions (see the Appendix and Fig. 2).

Like other states, the choices faced by Norway and Switzerland approximate Rodrik's well-known political trilemma – that is, the impossibility of simultaneously achieving democracy, national sovereignty and global economic integration. States can combine any two of the three, but never have all three simultaneously and in full (Rodrik, 2011: xix, 200). Gaining

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<sup>1</sup> I am very grateful for the helpful comments on an earlier draft of Iain Begg (LSE); Erik Eriksen (Arena); Christopher Featherstone (Birmingham); and, Ben Martill (LSE). Any errors remain mine alone.

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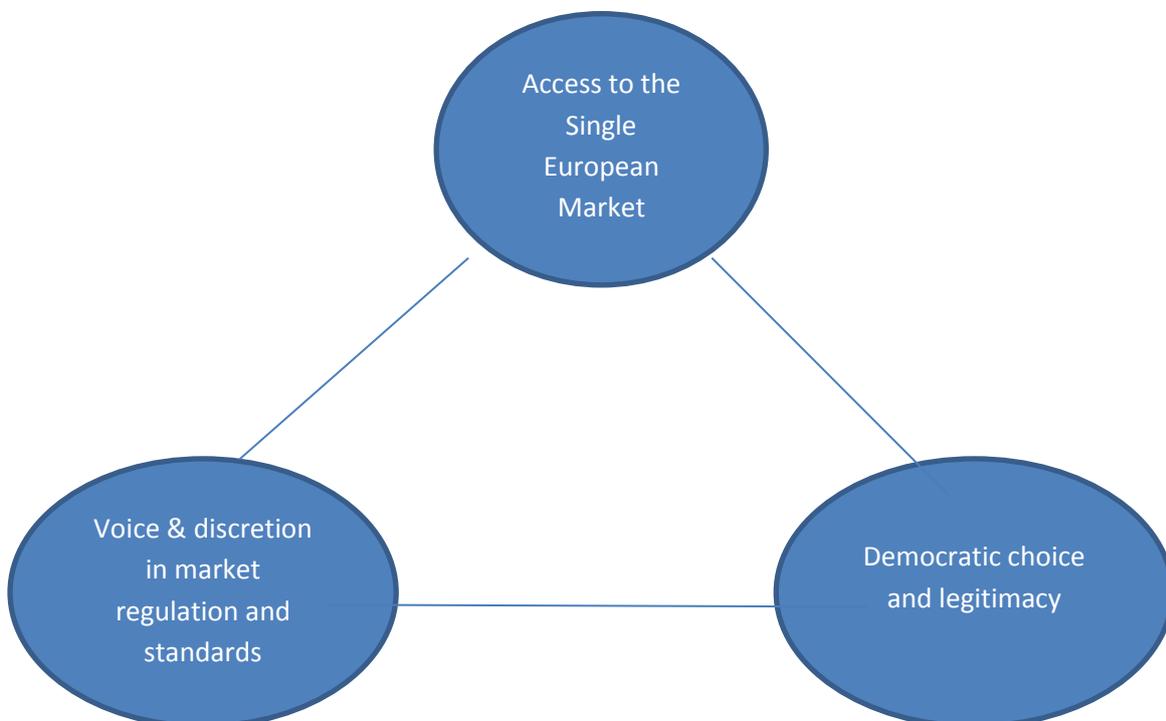
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access to the single European market, having voice and discretion with respect to compliance with EU regulations and standards, and maintaining democratic legitimacy are three objectives that are seemingly incompatible. Unlike EU member states, Norway and Switzerland currently have the first, but little of the second or third. Having the third without the second is not feasible in these cases. The EU has not countenanced facilitating their national autonomy or democracy, for fear of the ramifications for its own distinctive interests and coherence. In consequence, the associated states face a more acute 'democratic deficit' than that felt within EU member states. While the status quo largely satisfies the EU's economic interests, this 'governance by externalisation' (Lavenex and Schimmelfennig, 2009: 799) is made complex by the inconsistencies and gaps in provision of the diverse agreements, which risk confusion in implementation. The EU also has no interest in popular dissatisfaction in the domestic politics of its neighbours, which creates potential instability for the agreements. In some lesser fashion, the EU is satisfied in these relationships in the same manner as its neighbours: market access, but with concerns about governance and legitimation.

This short paper elaborates the constraints, trade-offs, and consequences of the EU's external agreements with Norway and Switzerland. It then considers these in the context of the debate over the EU's own future. For the issues raised in the Norwegian and Swiss cases also have implications for a possible deal between the EU and the UK, as the latter ceases to be a member. The paper concludes with the options for the future, the implications of reform, and the risks of not responding to the changing European landscape.

**Fig. 1. The conflicting interests of Associated States in their relations with the EU.**



### Problems with our Neighbours: the EU's ties with Norway and Switzerland

The cases of Norway and Switzerland with respect to the EU are puzzling, as an insightful volume of papers edited by Eriksen and Fossum (2015) has shown. Both states have eschewed EU membership because it has been too politically sensitive at home, in terms of the loss of sovereignty and autonomy (Schimmelfennig, Leuffen and Rittberger, 2014)<sup>2</sup>. Yet, their different forms of association with the EU involve such extensive regulation and surveillance by it that they *de facto* lose the very autonomy they themselves have championed. For Norway (and Liechtenstein), its 'European Economic Area' agreement (see Appendix) with the EU since 1994 notionally involves joint decision-making (in a 'two-pillar structure': see Fig. 2) with an EEA Joint Committee given the power to determine whether EU rules should apply. In reality, there is little discretion: the Committee rubber-stamps the application of EU legislation to the EEA (Gaenzle and Henoekl, 2018: 81) and Norway has 'incorporated approximately three-quarters of all EU legislative acts into Norwegian legislation' (Official Norwegian Report, 2012: 6). Alongside this, the EFTA Surveillance Authority and the EFTA Court<sup>3</sup> seek to further ensure compliance; indeed, Norway has implemented EU laws more effectively than some EU states. Switzerland opted for its own, bespoke bilateral agreements with the EU (signed in 1999 and 2004) which were intended to better safeguard Swiss autonomy. In practice, the scope to limit the impact of an expanding body of EU legislation is no stronger than that experienced by Norway (Levenex and Schwok, 2015).

Both Norway and Switzerland have a clear economic interest in having access to the single European market. Both have resisted full EU membership on the basis of major concerns over identity and autonomy. Yet, claims regarding the autonomous adoption of domestic laws ('autonomer Nachvollzug', in the Swiss case) lack much practical effect, as would a similar suggestion that Norway's EEA arrangement satisfies its traditional value of autonomy ('selvstendighet'). Accepting EU regulation is part of the bargain and being on the 'outside' entails formal arrangements that offer symbolic reassurance to sensitive publics rather than practical gains in terms of discretionary compliance. The settlement has served economic interests more than those of politics or governance and this carries inherent risks for the future.

The Norwegian Ministry of Foreign Affairs initiated a review of the EEA Agreement between 2010 and 2012 (Official Norwegian Report, 2012) though no EU institution was involved. The Review concluded that the EEA has 'on the whole safeguarded Norwegian interests and values, i.e. the interests and values that the majority of the Storting [the Norwegian Parliament] at any given time have considered important for Norway, and that the Government has sought to promote' (2012: 6). It also noted that the main problem in the EEA for Norway is the 'democratic deficit' it entails – which is 'the price Norway pays for enjoying the benefits of European integration without being a member of the organisation that is driving these developments' (2012: 7). A difficult bargain has thus been sustained:

<sup>2</sup> These are also reflected in protectionist interests in the areas of agriculture and fisheries.

<sup>3</sup> On EFTA, see the Appendix and Fig. 2 here. The EFTA Court has been seen by some as having a potential role in resolving future disputes between the UK and the EU, post-Brexit. See, for example, the blog written by its current President, Carl Baudenbacher, 'Could the UK use the EFTA Court to resolve disputes following Brexit?', <http://blogs.lse.ac.uk/euoppblog/2017/08/31/could-the-uk-use-the-efta-court-to-resolve-disputes-following-Brexit/>

market access with appropriate regulatory standards, but with a 'loss' on decision-making and accountability. In any event, little substantive change has occurred since 2012 (Gstoehl, 2015: 21-23), a reflection, no doubt, of the limited scope for reform.

The arrangement can be complex and troublesome for the EU also, on occasions – in terms of the domestic transposition of EU laws, the determination of how EU laws apply, and in sensitivities about the participation of Norwegian bodies in new EU regulatory agencies – and managing these provisions alongside distinct arrangements for Switzerland and others can be confusing and frustrating. But, in the bigger picture, for the EU, its agreement with Norway is “a nearly perfect tool of norm projection” (Hillion, 2011: 13) and a shift away from it risks an institutional loss for Brussels.

Like Norway, Switzerland has been obliged to accept free movement of workers between itself and the EU. When Eurosceptics called and won a referendum in 2014 attempting to limit EU migration, the Swiss government was later obliged to back down and agree to legislation that maintained access and avoided placing quotas on the numbers of EU workers to be admitted in December last year. The EU had stood firm on its collective interest.

Norway and Switzerland, despite the variation in their agreements with the EU, both lack voice and are obliged to accept the very extensive body of accumulated EU legislation (the *acquis communautaire*). The EU appears impositional and unresponsive, a defeat to domestic politics. As long ago as 1973, the Norwegian leftist Johan Galtung wrote of what was then the European Community (EC) being a superpower in the making. To those who argued that the EC only impacted on its own member states, he wrote that they “might contemplate that even big neighbours next to a union or superstate with 320 million inhabitants suddenly start looking like San Marino or Andorra” (1973: 22).

Yet, the EU's impact on its neighbours is neither transparent nor uniform. As Lavenex and Schimmelfennig outline, the EU's 'external governance' penetrates domestic systems on the basis of regulatory commitments and processes “shaped by issue-specific modes of governance and patterns of power and interdependence, which contribute to a strong differentiation of its forms and effects” (2009: 807). Its impact fragments governments at the centre (Egeberg and Trondal, 1999); keeps national parliaments distant (Egeberg and Trondal, 2015); obliges public administrations to operate as if they were in member states, with bureaus that are direct implementation organs of EU laws and rules (Ganzle and Henokl, 2018); and, it draws in national regulatory agencies in key sectors to new European Supervisory Authorities (in banking, insurance and pensions, and securities) in ways that circumvent national authorities and contradict EEA oversight (Joint Parliamentary Committee Report, 2013: 7). While the impact is most pronounced in the case of Norway – as a 'quasi-' EU member (Ganzle and Henokl, 2018) – similar effects occur, to varying extents, across the EU's external ties. Europeanisation, being drawn closer to the EU, involves acute asymmetrical and de-stabilising effects on domestic governance (Featherstone and Radaelli, 2003). These are impacts that ripple outwards from smaller, peripheral EU member states (e.g. Featherstone and Kazamias, 2001), to outsiders seeking to maintain economic ties.

In the Norwegian and Swiss cases, their ties with the EU are not buttressed by strong legitimation from parties or public opinion. For some years, coalition governments in

Norway have rested on a so-called suicide clause: a prohibition on any of the contracting parties to raise the EU issue, otherwise the coalition would fall (Fossum, 2015: 168). The intent has been to de-politicise the agenda of Norway's EU relations, but the taboo is now being challenged, stimulated by Brexit. Today, 25 years after Norway signed the EEA deal, almost half of Norwegian voters would like to put its continuation to a referendum (Dagsavisen, 2.5.17), though support for it has climbed from 46% in 2016 to 56% in 2017 (Sentio Poll in Dagebladet, 21 June 2017). The two largest parties – the Conservatives (Høyre) and the Labour Party – remain, in principle, in favour of full EU membership, though especially the latter prefers currently not to raise the issue. Public support for EU membership is low, fluctuating over the last year between 16% and 24% (IPSOS, June 2016; Sentio 21 June 2017)<sup>4</sup>. In the most recent Eurobarometer Poll, in February 2017, negligible numbers of voters had a 'very positive view' of the EU: 9% in Norway, just 2% in Switzerland<sup>5</sup>. Again, a low percentage of Swiss voters would seemingly support EU membership (15%) and 44% feel the current bilateral agreements with the EU should be renegotiated, the largest single preference reported (GFS.Bern poll, 27.3.17). In short, in both Norway and Switzerland, public support for their current ties with the EU is brittle and cannot be relied upon<sup>6</sup>. While the status quo, in both cases, is still the most acceptable compromise, it exists by default of a more popular alternative.

### Options for the Future of the EU, post-Brexit

Especially with Brexit looming, the current architecture of the EU's externalised governance is liable to challenge and reform. The immediate challenge may come from the outside states, responding to popular pressure concerned with enhancing democracy and accountability in their dealings with Brussels. At the same time, in Norway, Switzerland, and the UK, business is strongly in favour of close(r) ties with the EU and look for a political lead in maintaining them. As the EU contemplates its own future, post-Brexit, the EU also has an interest in reforming these ties: in order to establish consistent market norms and to overcome confusion in implementation – problems already noted above – and, as stressed here, to stabilise public support (Gstoehl, 2015: 31; Hillion, 2011; EU Commission Staff Working Document, 2012) .

Engineering escape from the 'design problems' of the current arrangements will not be easy. The EU's interest is to decrease the fragmented nature of its external ties and it fears 'free-rider' states on the outside picking and choosing their access to the EU market, without commensurate obligations. It does not seek to make 'quasi-' or associate membership of the EU more attractive than full membership. Moreover, the EU's legal space is already internally complex; its external ties exacerbate the confusion and it is looking to reduce it. Viewed from the outside, as it exports its market regulation, the EU stands impositional as a hegemon. Economically, most in Norway or Switzerland cannot see how they would benefit

<sup>4</sup> See: <https://www.dagbladet.no/kultur/norge-i-eos-britene-i-uvisse/67726941>

<sup>5</sup> Though it must also be noted that only 5% of voters in the EU28 were recorded as having a 'very positive' image of the EU, with 35% 'fairly positive'. This combined total of 40% compares to 43% for Switzerland and 45% for Norway (*Standard Eurobarometer 87*, Spring 2017; EU Commission, Brussels).

<sup>6</sup> This is a variant on the notion of a 'permissive consensus' being no longer tenable. On this, see: Sternberg (2013).

more if they were to be full EU members (Papadopoulos, 2007); the incentives are not apparent. Yet, the governance of the relationship is found wanting, with limited popular legitimacy, creating potential instability. The negotiations over Brexit add new weight and complexity to this agenda: the 2016 referendum vote unleashed a ‘hard Brexit’ narrative that is highly sensitive on matters of sovereignty and accountability, and the UK commands more clout with the EU than either Norway or Switzerland.

The options for escaping these constraints need to be placed in the context of the wider debate on the future of the EU. One recourse would be to take up the notion of a new ‘Continental Partnership’ as put forward in a 2016 Bruegel paper by Jean Pisani-Ferry *et al.* This would involve “economic cooperation-cum-integration”, with the aim of a wider group of states than EU members sustaining deep economic integration, with full participation in goods, services, capital mobility, and some temporary labour mobility, but excluding (full) freedom of movement of workers and political integration.

A partnership of this kind can also be equated with the ideas of the EU Commission President, Jean-Claude Juncker. In a white paper on the future of the EU published in March 2017, the EU Commission outlined five alternative scenarios<sup>7</sup> in contemplating the way forward (EU Commission, 2017). The second and third options – of reducing the EU to nothing but the single market, but also allowing those states who want to do more to do so – are most salient here. Insofar as they provided for greater participation in the relevant EU rule-setting, this would clearly represent a gain on current arrangements for both Norway and Switzerland. The issue of the ‘outsiders’ contributing to the EU budget – as both Norway and Switzerland currently do, in effect to help fund flanking policies and side-payments to states vulnerable to market competition – highlights a domestic political sensitivity that would likely be even greater in the case of the UK.

The adoption of any such ‘grand bargain’ with the EU’s outsiders carries a number of important institutional implications for the EU’s internal governance, however. There is a generic constraint in trying to fit an institutional structure for a wider membership with that of an inner group: the asymmetry creates a mismatch of representation in decision-making and of membership obligations, preventing one being properly accountable to the other. In the specific context of the EU and some wider circle of states, it raises difficult questions in terms of the relative power of the Council of Ministers, the EU Commission’s exclusive right in initiating legislation, and the adjudication of the European Court of Justice (ECJ).

Designing an institutional architecture for a wider structure that unites the EU and its currently diverse associated states is not an easy task when the aim is to ease the democratic deficit experienced by those on the outside. The more the latter is addressed, the greater the cost in terms of the internal cohesion of the EU’s own processes of governance and accountability. The trade-off would inevitably disturb the latter: the solution risks creating a larger problem.

If the concerns of the outsider states are to be addressed, some variation of the two-pillar institutional arrangement of the EEA appears the only solution. In this respect, a minimalistic

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<sup>7</sup> These were: Scenario 1: Carrying On (as at present); Scenario 2: Nothing but the single market (i.e. reducing EU obligations to the single market); Scenario 3: Those who want more do more; Scenario 4: Doing less more efficiently; and, Scenario 5: Doing much more together.

approach was outlined in the 2016 Bruegel paper which offered these states very little. It envisaged a new council for the Continental Partnership – alongside that of the existing EU Council structure – to facilitate the discussion of single market rule-setting (and other flanking policy areas, as agreed). Each of the EU's current institutions would be represented in this new council; it not being clear that full EU states would be represented individually. The new council would engage in a first reading of any new legislation, but the ultimate decisions would continue to be taken by the current EU institutions themselves and the outsider states would still be obliged to implement the legislation. Its claim that this went “well beyond” the deliberations of the existing EEA Joint Committee – the weaknesses of which were outlined here above – is contestable (Pisani-Ferry, 2016: fn 8).

The complexity of designing institutions to give a greater voice to outsiders is matched, in part, by the contemplation of allowing for greater internal differentiation amongst the EU member states themselves. In outlining its third scenario for the future – in which some states could deepen their common integration, while others did not – the EU Commission's white paper of March 2017 avoided going into the institutional adaptation that might be needed. It simply noted that in this scenario “decision-making becomes more complex” (White Paper, 2017: 21). Trying to accommodate the political interests of the EEA countries, Switzerland, and a post-Brexit UK simply magnifies the internal EU problem of facilitating a more differentiated integration process.

Against this background, the EU has shown little desire for such a grand, new bargain and its history shows that such leaps forward are rare. While some have raised the possibility of an ‘EEA-Mark2’, the EU has not signalled a will to consider greater flexibility or differentiation of external cases. On the sensitive issue of free movement, it faced down Switzerland over quotas for EU workers. Further, in 2013, the EU resisted Swiss attempts to create bespoke institutions for mediation over the application of EU regulations, insisting on the role of the ECJ (Gstoehl, 2015).

The alternative to a new grand bargain is one of the EU reducing its current trading ties to outsiders, such as the EEA states and Switzerland. Though this would satisfy Eurosceptics in those states, it serves no clear economic interest for the EU. It might occur if a new populism were to defeat the governments of the outsiders, but that would be part of a wave the EU has an interest in pushing back.

The scope for some new, third option between these polar opposites is unclear. The need for such an option may well be strengthened in the context of Brexit. Originally, Jacques Delors as EU Commission President had championed the EEA model as part of a wider thinking about Europe, as to a lesser extent had Romano Prodi (Gstoehl, 2015: 18). But, given the constraints and sensitivities inherent in any attempt to match institutional representation and authority across an inner and an outer group, a solution may prove elusive. If so, living with no solution creates its own risks for both the EU and the outsider states.

## **Conclusion**

When seen from the vantage point of its associated states, the EU can appear hegemonic and impositional, producing domestic effects in those states that are anathema to the democratic norms and values of the EU itself. Both the UK and the EU need to learn from the outsider experience of the EEA states and of Switzerland. The latter are obliged, in effect, to trade voice (government voice and democracy) for access to the EU market. The lack of popular legitimacy behind this trade-off creates potential instability for the future of these EU ties. The growing disquiet can only be bolstered by the negotiations over Brexit.

Whether this is a cost the EU is prepared to impose on outsiders depends on how the EU views its own future. At the Rome summit last March, which celebrated the 60<sup>th</sup> anniversary of the signing of the Treaty of Rome, how many of the participants could look forward to being part of a 'core' of states that shared all common policies in an 'ever-closer union'? Already, the EU27 are differentiated according to their participation in the eurozone, the Schengen Area of no internal border controls, and European security policy, as well as other EU policies (see Fig. 2 for a partial illustration). As Macron and Merkel contemplate deepening the integration of the core, how many EU states do they realistically expect to take with them? In short, the EU already has a momentum behind differentiated integration amongst its full members and this highlights an agenda of how to build an appropriate institutional architecture for core and non-core states that stretches to the implications for associated states on the outside. The 2016 Bruegel paper's notion of a Continental Partnership maps out a possible agenda that would fit a Europe in which the UK is outside the EU and the Commission's 2017 white paper recognises that greater differentiation between states on the inside is a serious scenario for the future. President Macron's ideas for reforming the eurozone by strengthening its fiscal integration similarly incorporate the notion of a parliament specifically for its member states, based either on the existing European Parliament or on a new assembly of national parliamentarians (*FT*, 22.5.17). The two dimensions of accommodating associated and non-core states are readily linked together.

Even without these considerations, the EU has its own interest in reforming how it structures its relations with the outsider states. These are to do with the governance of such relations – overcoming confusion and avoiding delays in implementation. The EU would clearly gain from the clarity and consistency that might come from a new structure for its outsider ties.

This paper has sketched out the tensions and difficulties in designing institutions that satisfy the concerns for greater democracy and accountability that arise in the particular cases of the EEA states, Switzerland, and, putatively, the UK. There are difficult trade-offs; some will see the conflicting interests as irreconcilable. The different provisions that exist for the EEA and Switzerland, let alone the UK post-Brexit, militate against simple uniform arrangements.

If their concerns are to be better met, it would likely be via some variation in the institutional provisions of a Bruegel-type Continental Partnership. Though the Bruegel paper left the options unexplored, the political dimension is a crucial one, as this paper has emphasised. The options might involve:

- a. lessening the EU's full member states' ultimate power of decision over single market legislation to offer more power to the outsiders;

- b. strengthening the consultation processes that the EU Commission conducts with the outsider states;
- c. closer dialogue between the parliamentary representatives of the outsider states and the European Parliament.

There is an attractive logic here in balancing full economic participation in the single market with a greater accommodation in political access. After all, in the Commission's own second and third scenarios (of its 2017 White Paper) that is what some current full member states might settle for.

These are difficult choices to make, with implications for the EU itself that need to be confronted. The EU may not be able to agree a solution to the concerns of these outsiders and, instead, settle for inertia. That would be sub-optimal for the EU and its role in wider Europe; more specifically, it risks a possible retreat in the ties that the EEA states and Switzerland have with the EU and creates uncertainty for the EU's future with the UK. In both Norway and Switzerland, the Eurosceptic pressures to rein in ties with the EU currently appear stronger than those of business to expand them. The EU has no interest in Eurosceptic victories; rather, it has both an economic and political advantage in drawing the outsiders closer to it. That similar concerns about governance transcend EU core, non-core, and associated states and open up a complex agenda is an important pre-requisite for debates on the future of Europe. The problems of reconciling market access, governance, and legitimacy that Norway and Switzerland face today may prove the harbinger of wider tensions.

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**Appendix : The EU's external trade ties within Europe.**

The EU has a range of external economic ties involving different types of agreement. Those within Europe mostly involve an association agreement, which is a treaty between the EU and a non-EU country that creates a framework for cooperation between them. Its legal basis is defined in Article 217 of the Treaty of the Functioning of the EU which provides for “an association involving reciprocal rights and obligations, common action and special procedures”.

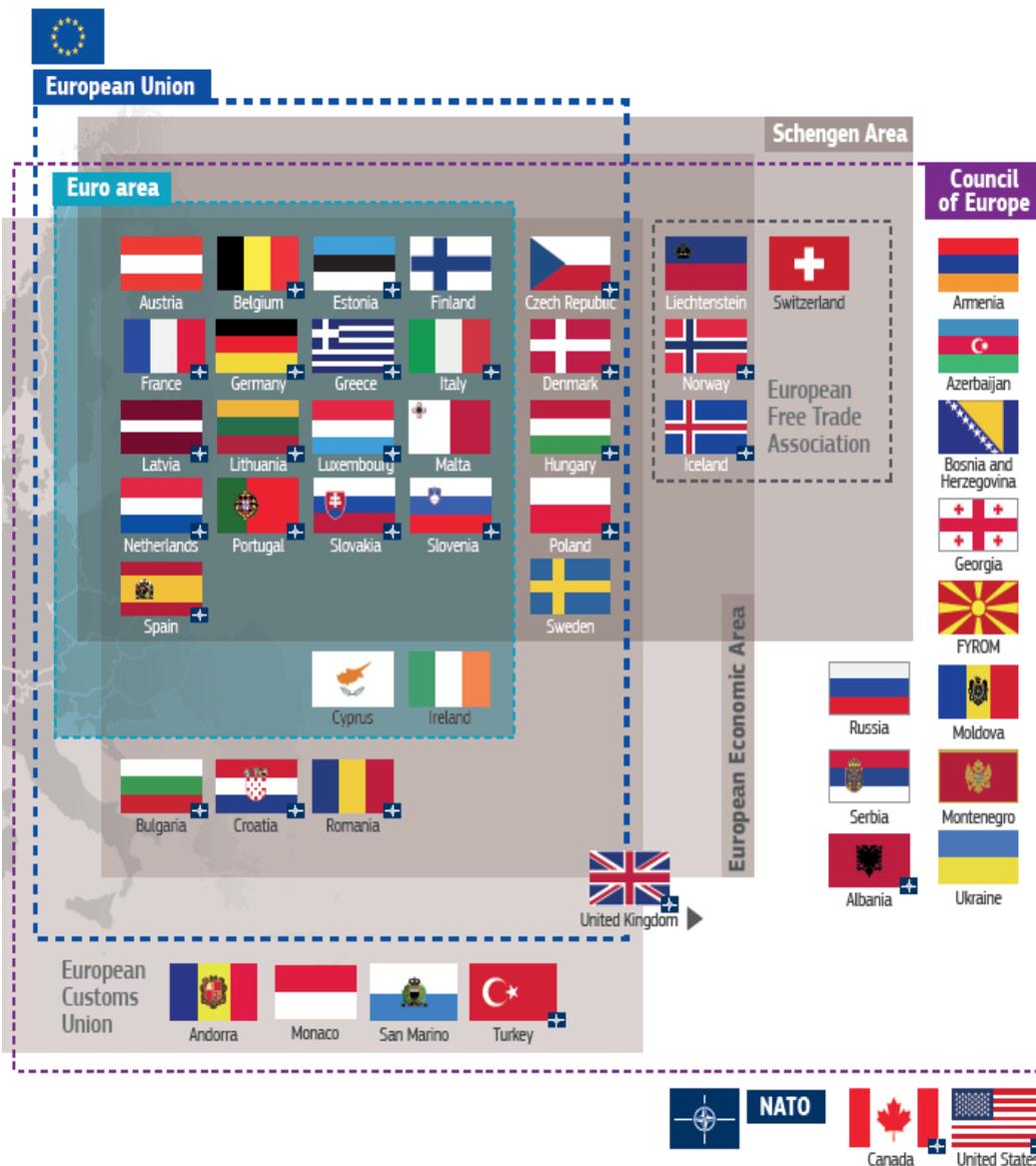
The EU has more than 20 association agreements. The current agreements are with Albania, Bosnia and Herzegovina, Croatia, Faroe Islands, FYR Macedonia, Iceland, Israel, Liechtenstein, Moldova, Montenegro, Norway, Serbia, Switzerland and Turkey. The EU's association agreements include stabilisation and association agreements with Western Balkan countries and a so-called Deep and Comprehensive Free Trade Area (DCFTA) with Ukraine, Georgia and Moldova. See: <https://www.instituteforgovernment.org.uk/Brexit-explained/association-agreements>

In addition, the EU has a European Economic Area agreement (established in 1994) with Norway, Iceland, and Liechtenstein. These three countries, together with Switzerland, form the European Free Trade Area (originally created in 1960). Switzerland has its own separate bilateral agreements with the EU (signed in 1999 and 2004 and since expanded). The purpose of the European Economic Area (EEA) is to extend the EU's single market to those non-EU countries. EU legislation relating to the internal market becomes part of the legislation of the EEA countries once they have agreed to incorporate it. Implementation and enforcement are then monitored by specific EFTA bodies and a Joint Parliamentary Committee.

See: [http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU\\_6.5.3.html](http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_6.5.3.html)

The differentiation of EU membership status and non-EU agreements is shown in Fig. 2.

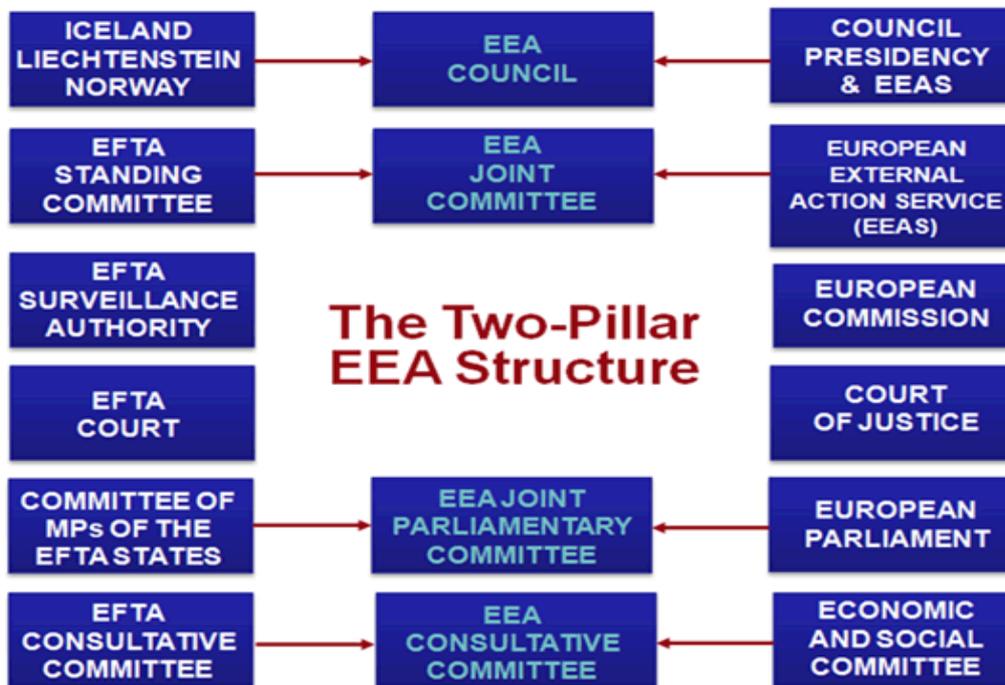
**Fig. 2: Europe’s Ins and Outs: states differentiated by their degree of inclusion in EU policies or type of external agreement with the EU, plus their participation in the Council of Europe and NATO.**



Source: Taken from ‘White Paper on the Future of Europe: Reflections and scenarios for the EU27 by 2025’; EU Commission, Brussels, COM(2017)2025 of 1 March 2017.

Note: The diagram omits the sectoral treaties the EU has signed with various SE European states and the different pre-accession agreements [Stabilisation and Association Agreements] the EU has established with some of them.

Fig. 3: The EEA's institutional dialogue with the EU.



Source: <http://www.efta.int/eea/eea-agreement/eea-basic-features>