

E U R O P E A N E C O N O M I C A R E A

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DRAFT REPORT ON

ENLARGING THE EUROPEAN ECONOMIC AREA:

EXPERIENCES AND PERSPECTIVES

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*The deadline for tabling amendments to the draft resolution has been
set for*

9 October 2006 at 17.00

*Amendments shall be tabled in English only and sent to the JPC
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I. INTRODUCTION

Ten new member States joining the EU on 1 May 2004 posed both opportunities and challenges not only for the European Union itself, but also for the European Economic Area (EEA). On the one hand, the size of the EEA internal market would increase dramatically, to some 460 million people, with a substantial increase in opportunities for trade and investment. On the other hand, each new entrant brought specific circumstances which called for specific solutions, mostly through a wide range of transitional arrangements towards the full implementation of the *acquis*. All of this would put considerable strain on the smooth functioning of the internal market. Moreover, the eight Central and Eastern European states among the accession countries were long-standing partners of the EFTA countries, along historic trade routes across the northern seas which had quickly revived through the respective free trade agreements (FTAs) when the Iron Curtain fell.

Under these circumstances, a mere 'automatic' extension of the EEA Agreement to the newcomers, as had been the practice in the 1995 EU enlargement, clearly would not suffice. For the first time ever, formal negotiations on EEA membership for the ten accession countries were therefore opened in January 2003, once all had concluded their EU accession negotiations. The negotiating parties meeting in Brussels comprised the applicant countries, the three EEA EFTA States and the European Commission, representing the EU Member States. Over the course of six months, these negotiations reviewed the sometimes sensitive issues of transitional solutions for established trade flows in fish and agricultural products, as well as the question of increased financial contributions from the three EEA EFTA States. The negotiation process proved challenging at times, but the parties eventually arrived at a balanced result.

The EEA Enlargement Agreement was initialled in Brussels on 3 July 2003, and its signing was completed by November of that year. However, ratification procedures among the 28 contracting parties took their time, and were only completed in December 2005. In order to fulfil the proclaimed, crucial objective of simultaneous enlargement of EU and EEA, the EEA Enlargement Agreement therefore had to be applied on a provisional basis from 1 May 2004.

II. THE EEA ENLARGEMENT AGREEMENT

2.1. Five legal instruments

Technically, the package or the five legal instruments resulting from the 2003 negotiations consists of the EEA Enlargement Agreement itself, which by its nature is an amending agreement, as well as two additional protocols on fish between the EU and Norway and Iceland, respectively, an exchange of letters between Norway and the EU on certain agricultural products, and an agreement between Norway and the EU on a Norwegian Financial Mechanism.

To ensure the objective of a homogenous EEA, it was crucial that the transitional periods applicable to the Internal Market acquis agreed during the EU accession negotiations are applied in a uniform manner throughout the EEA. This is why the EEA Enlargement Agreement contained the same transitional periods as those in the EU Accession Treaty. The new EEA Members took over and implemented the entire acquis as from 1 May 2004. Each new EEA Member had, however, a limited number of transitional arrangements in certain areas. These varied from country to country and were limited in time and scope. In EEA-relevant policy areas, these included – to name a few - competition policy, the environment, social policy and employment, energy and transport policy. In line with the EU Accession Treaty, the free movement of workers from the new EEA countries was also subject to transitional arrangements. Liechtenstein's specific arrangements under the EEA Agreement in this area were maintained in the EEA Enlargement Agreement.

Table 1: Agreed annual duty-free quotas for fish imports from Norway and Iceland into the EU from 2004-2009

<i>Norway</i>	<i>Annual quota (tonnes)</i>
Frozen round mackerel	30.500
Frozen herring	44.000
Frozen filets of herring	67.000
Frozen and peeled shrimps	2.500

<i>Iceland</i>	<i>Annual quota (tonnes)</i>
Whole frozen herring	950

Source: EFTA Bulletin, EFTA and Enlargement (September 2004)

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

The two EEA EFTA States Iceland and Norway are among the largest fish exporters in the world. Under EFTA's free trade agreements (FTAs) concluded in the 1990s with eight of the ten new EU Members, i.e.: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, free trade in fish was exempted from customs duties and quotas (see Table 1). On joining the EU on 1 May 2004, the existing FTAs were terminated and the ten new member states came under the more restrictive trade regime for fish products in place between the EU and the EEA EFTA States, based on quotas and import duties for certain species. These differed from the trading conditions under EFTA's FTAs. To maintain some of the established trade in fish under the FTAs, negotiations took place on these sensitive issues with a view to maintaining some of that trade at least for a limited time. Negotiators looked at trade figures of the past years and identified the key fish products traded. The agreed solution was that the EU would open up annual duty-free quotas for the most typically traded products (essentially herring in various forms) between EFTA and the new Members from 1 May 2004 to 1 May 2009.

Under EFTA's FTAs, the new EU Member States enjoyed certain duty reductions for exporting a limited number of agricultural products to the EFTA countries. As with fish, the objective was to maintain some of this established agricultural trade between Norwegian exporters and these countries. Negotiators identified the most important products traded during the previous few years and Norway agreed to duty-free quotas for key products such as berries, apple juice, grass seed and pet food containing meat. These quotas were laid down in an exchange of letters between Norway and the European Community on certain agricultural products. Since 1 May 2004, trade in agriculture between the EEA EFTA countries and the ten new EU Members has been governed by this protocol together with a number of other agreements.

Table 2: Annual duty-free quotas on Norwegian agricultural products imported into the EU

<i>Product</i>	<i>Annual quota (tonnes)</i>
Strawberries	1.400
Raspberries and other berries	950
Apple juice	1.300
Rye grass seed	100
Pet food containing meat	1.000

Source: EFTA Bulletin, EFTA and Enlargement (September 2004)

2.2 The Financial Mechanisms

Gaining access to a much-enlarged Internal Market, the EEA EFTA states also committed to contributing towards the reduction of social and economic disparities. The financial mechanisms aim to reduce social and economic disparities within the EEA and to enable all EEA countries to participate fully in the Internal Market. Through the EEA Financial Mechanism, the three EEA EFTA states make a total of €600 million available to the 10 countries that joined the EU and EEA in May 2004, as well as to Greece, Portugal and Spain. Through the separate Norwegian Financial Mechanism, Norway will make an additional €567 million available to the 10 countries that joined the EU and the EEA in 2004. Both mechanisms operate with a five-year period from May 2004 until April 2009. The financial mechanisms are currently administered by the Financial Mechanism Office (FMO) in Brussels, which is affiliated to the European Free Trade Association (EFTA) Secretariat.

All public or private sector bodies and non-governmental organisations (NGOs) constituted as legal entities in the Beneficiary States and operating in the public interest - e.g. national, regional and local authorities, education/research institutions, environmental bodies, voluntary and community organisations and Public-Private Partnerships - may apply for assistance from the Financial Mechanisms.

Grants under the EEA Financial Mechanism are available for projects in the following sectors: protection of the environment; promotion of sustainable development; conservation of European cultural heritage; human resources development; health and childcare. Furthermore, under the Norwegian Financial Mechanism, grants are available for projects in the same sectors as under the EEA Financial Mechanism, but with priority for projects in the areas of: implementation of Schengen acquis; environment, i.a. with emphasis on strengthening the administrative capacity to implement relevant acquis and investments in infrastructure and technology; regional

policy and cross-border activities; and, implementation of *acquis communautaire* through technical assistance. Academic research within all these priority sectors may also be eligible for funding. Along the lines of EU co-financing ceilings, projects from these fields may be subsidised up to 60%, except for those that are otherwise financed by public budget allocations, where the contribution may reach 85%.

Compared with the previous EEA Financial Instruments, the priority sectors were extended in 2004. The areas covered address the needs of the new Member States by contributing to the improvement of social and environmental conditions. Directing funds into these areas also corresponds with and benefits EEA EFTA interests in an enlarged EEA. Furthermore, the selection of priority areas reflects areas in which the EEA EFTA States have considerable expertise.

Table 3: Country allocations of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the 2004-2009 commitment period

Beneficiary state	EEA Financial Mechanism (in Euros)	%	Norwegian Financial Mechanism (in Euros)	%	Total
Cyprus	1,260,000	0.21	3,402,000	0.6	4,662,000
Czech Republic	48,540,000	8.09	62,370,000	11	110,910,000
Estonia	10,080,000	1.68	22,680,000	4	32,760,000
Greece	34,260,000	5.71	0	0	34,260,000
Hungary	60,780,000	10.13	74,277,000	13.1	135,057,000
Latvia	19,740,000	3.29	34,020,000	6	53,760,000
Lithuania	27,000,000	4.5	40,257,000	7.1	67,257,000
Malta	1,920,000	0.32	1,701,000	0.3	3,621,000
Poland	280,800,000	46.8	277,830,000	49	558,630,000
Portugal	31,320,000	5.22	0	0	31,320,000
Slovakia	32,340,000	5.39	37,989,000	6.7	70,329,000
Slovenia	6,120,000	1.02	12,474,000	2.2	18,594,000
Spain	45,840,000	7.64	0	0	45,840,000
Total	600,000,000		567,000,000		1,167,000,000

Source: The Financial Mechanism Office (www.eeagrants.org)

Over the last year, which constituted the second year of operation of the financial mechanisms, the Financial Mechanism Office saw a marked shift from the preparation phase to the implementation phase. By mid-June 2006, a total of close to €330 million had been made available to potential project promoters through calls for proposals in nine of the 13 beneficiary states, most notably with a €176 million call for proposals in Poland – which is eligible for nearly half of the total support available through the mechanisms – in the end of August 2005. Currently, most beneficiary states have

truly entered the implementation phase. Cyprus, Greece, Latvia and Lithuania all plan to announce their first calls for proposals over the last months of 2006.

In total, the calls for proposals already completed have generated more than 3,000 applications. In these calls for proposals, the oversubscription rate was on average more than nine times the amount available, which testifies to the strong interest spurred by the financial mechanisms in the beneficiary states. As the beneficiary states are making a first evaluation of the submitted applications and will only forward the prioritised proposals to the FMO for further appraisal, EC screening and final decisions by the donors, most applications are still with the beneficiary states. By mid-June 2006, more than 100 applications had been forwarded to the FMO. Furthermore, the FMO is expecting a surge in applications forwarded by the beneficiary states over the coming months.

Three calls have been held the Czech Republic, Poland and Slovakia to find suitable intermediaries to administer special funds to be established for Non-Governmental Organisations (NGOs). The Czech NGO €10 million NGO fund was established in mid-June 2006. The Polish NGO fund, amounting to more than €40 million, is the biggest-ever of its kind in Poland, and is close to being established. Overall the NGO funds will place the EEA EFTA States among the most important supporters of civil society actors in Central Europe.

Additionally, most other beneficiary states are at an advanced stage of preparations in their efforts to establish special funds for selected groups of applicants – such as funds for scholarships, NGOs, research and childcare – which will enable the financial mechanisms to connect with civil society groups that otherwise might have had difficulties making use of the opportunities offered by the mechanisms. A recent example is an approved €2.5 million fund for schools and scholarships in the Czech Republic that will facilitate student and research mobility, establish partnerships and stimulate cooperation with educational institutions in the three EEA EFTA States. Overall, more than 60 such funds, or ‘block grants’, have been agreed in the Memoranda of Understanding between the EEA EFTA States and the beneficiary states.

Preliminary figures from the calls for proposals show that the financial mechanisms have attracted much interest from a wide variety of applicants across all priority sectors. This indicates that the financial mechanisms are developing into highly visible and popular additions to the wider European effort of reducing social and economic disparities, creating new opportunities for stakeholders and fostering closer political and economic ties between beneficiary states and the EEA-EFTA states.

2.3 *EEA enlargement and the citizens of the EEA*

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

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

The free movement of persons is complemented and supported by a system that co-ordinates social security schemes for people moving within the EEA. This means that no contributions are lost when moving around and that the worker is normally covered by the social security system of the EEA country where he or she works. In addition, there is a system that ensures that qualifications and diplomas are recognised

in EEA countries other than the holder's. The EU rules in these areas are not subject to transition periods and have applied since 1 May 2004.

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

2.3.1. Free Movement of Workers

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

The Accession Treaty provided for the possibility to restrict access to labour markets to workers from the new eight Central and Eastern European EU Members. Through the EEA Enlargement Agreement, the EEA countries took over the same transitional periods applicable to Internal Market acquis as agreed between the EU and the new EU Member States. This has meant that the EEA EFTA States also have the possibility to apply the transitional period with respect to the free movement of workers as under the Accession Treaty.

In practice, this 7-year transitional period is broken down according to the following formula: "2 years, plus 3 years, plus 2 years". It was possible to restrict the free movement of workers for the initial period of 2 years from 1 May 2004 to 1 May 2006. During this period, each EEA country was entitled to apply its existing national law and policy to workers from the new Member States.

2.3.2. EU Members States and transitional arrangements

On the EU side, Sweden, Ireland and the United Kingdom decided not to apply TA to the nationals from the eight new Central and Eastern European EU Member States. The United Kingdom however introduced a Workers Registration Scheme. The remaining twelve EU-15 Member States restricted, during the first phase, the access to their labour markets for the EU-8 nationals by applying their national law or bilateral agreements. In February 2006, the Commission published a report on the functioning of the TA set out in the 2003 EU Accession Treaty for the period of 1 May 2004 to 30 April 2006¹. In its report the Commission came to the following main conclusions:

First, the migration from the ten new EU Member States to the EU-15 was quite low during the period and a significant percentage of residence/work permits was granted for short-term or seasonal workers. There was no evidence showing a direct link between the mobility flows from the EU-8 Member States to the EU-15 and the TA. "Ultimately, mobility flows are driven by factors related to supply and demand conditions. If anything, TA will only delay labour market adjustments, with the risk of creating "biased" destination patterns even on a more permanent basis."²

Second, the employment rate of the EU-10 nationals in the EU-15 Member States was similar, sometimes even higher, than that of the country nationals. "This shows that EU-10 nationals positively contribute in each Member State to overall labour market performance, to sustained economic growth and to the state of public finances." The employment rate of the EU-10 nationals in the EU-15 Member States had often increased which could be partially explained by the fact that the enlargement brought to the surface part of the underground economy (previously undeclared workers from the EU-10), "with well-known beneficial effects, such as a greater compliance with legally sanctioned labour standards, improved social cohesion thanks to a reduced risk

¹ Commission, Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty (period 1 May 2004–30 April 2006), COM(2006) 48, 8 February 2006 (hereafter "Commission's Report": http://europa.eu.int/eur-lex/lex/LexUriServ/site/fr/com/2006/com_2006_0048fr01.pdf).

² Ibid.

of marginalisation of those concerned, and higher State income from tax and social security contributions".³

Third, it seemed that a substitution might have occurred in certain professions, but normally the workers from the new Member States seemed to have had a complementary role when looking at the EU-15 labour market as a whole. The evidence suggested that mobility from the EU-10 Member States into the EU-15 may have had positive effects on labour markets by relieving labour shortages in certain areas.

Furthermore, the Commission recommended to the EU Member States that they should increase their efforts in order to ensure the proper enforcement of existing EC legislation (e.g. concerning the directive on posted workers); that they should improve their statistical data; and that they should carefully consider whether the continuation of these restrictions is needed, "in the light of the situation of their labour market and of the evidence of [the] report".⁴

By 30 April 2006, Finland, Spain, Greece and Portugal had confirmed that they would stop applying restrictions on the free movement of EU-8 workers during the second phase of the TA, adding them to the list of Ireland, the United Kingdom and Sweden who had at the outset decided not to apply transitional arrangements. Italy indicated that it would raise its quota for EU-8 workers during the second phase and France confirmed that it would lift restrictions gradually. Denmark, Belgium and Luxembourg confirmed that they would not lift restrictions but ease the procedure or make the procedure more flexible in certain sectors. Netherlands postponed its decision to open up its labour market by 1 January 2007. On the opposite end of the spectrum, Germany and Austria confirmed that they would not lift restrictions before 30 April 2009 and that the bilateral agreements would stay in force.

³ Ibid.

⁴ Ibid.

2.2.3 EEA EFTA States and Transitional Arrangements

In the first phase of the Transitional Arrangements, the three EEA EFTA States Iceland, Liechtenstein and Norway also applied the transitional period of two years. Mirroring the Commission's report, the Standing Committee of the EFTA States published its Report on the Functioning of the Transitional Arrangements set out in the 2003 EEA Enlargement Agreement in April 2006⁵. According to the report, in 2004, when it had to decide to introduce the TA or not, Iceland considered that the TA were necessary to monitor the inflow of foreign workers by applying the same system to them as to third country nationals: i.e. they had to ask for a residence permit and a work permit which they could obtain if they could prove that they had a work contract which respected the labour conditions.

In Norway the TA aimed at ensuring that the EEA enlargement and the free movement of workers were positively received. To be more precise, there were at that time two main reasons for introducing the TA. The first reason was that the TA could help to prevent possible negative consequences for employees working in Norway. An average wage level in the EU accession countries being about a fifth of the Norwegian wage level was a background to that concern. At the same time, Norway believed that the greatest challenges in connection with the enlargement and the free movement of persons would be related to the provision of services and workers brought to Norway by service providers to carry out services for a limited period of time. For this group, no transitional rules could have been applied. The second reason for introducing the TA in Norway was the need to moderate the labour immigration in the first few years following enlargement, and thus reduce any pressure on welfare schemes by EU-8 workers. This aspect was at that time important for a number of EU Member States as well. Liechtenstein indicated that the purpose of the TA was to allow the country to manage the migration flow from workers from the EU-8 Member States, in order to avoid increasing unemployment. The TA also aimed at controlling the correct application of labour law.

⁵ EEA, Standing Committee of the EFTA States. Report on the Functioning of the Transitional Arrangements set out in the 2003 EEA Enlargement Agreement (period 1 May 2004 to 30 April 2006). (1063805)

Iceland required that "national wage conditions" were respected. In addition, it assessed the demand for labour. However in September 2005, Iceland simplified the procedure allowing workers from the EU-8 Member States to access the labour market. The main aim for changing the procedure was to have those who were working on the black market and also the "false" service providers who did not respect the working conditions enter the labour market. Norway introduced the least restrictive TA of the three EEA EFTA States. The Norwegian labour market was opened up for workers from the new EU Member States from 1 May 2004. However, workers from the EU-8 Member States are required to obtain work permits before taking up work. Although the transitional rules are more restrictive than the EEA rules on free movement themselves, it is important to notice that the access of EU-8 workers to the Norwegian labour market was considerably improved after 1 May 2004. Work permits have been issued for those in full-time employment at normal rates of pay and under normal working conditions. Anyone who found a job that met these requirements was entitled to a work permit.

In Liechtenstein, the national provisions foresaw that the workers of the EU-8 Member States needed a work permit if they were cross-border workers and a residence permit if they wanted to reside and work in Liechtenstein. The residence permit could be granted under the condition that the EU-8 worker had a full-time work contract for more than one year and that he/she was a specifically qualified worker and proof was provided that no worker among the Liechtenstein labour force not subject to a permit could be found to do that particular job. Furthermore, the work would require the long-term presence of the worker in Liechtenstein and that any other type of permit or working as a cross-border commuter is neither possible nor reasonable. Overall, the influx of workers from the EU-8 Member States was quite high in Iceland and Norway while it remained more or less the same in Liechtenstein as before 2004.

Table 4: Number of EEA permits granted to workers from the EU-8, 1 May 2004 to 31 December 2005, by receiving country

	2003 (1 May to 31 December)	2004 (1 May to 31 December)	2005 (January to December)	TOTAL 1 May 2004 to 31 December 2005
Iceland	230*	515	3066	3 811
Norway	12 404	16 975	19 303	36 276**
Liechtenstein	27 (+ 32 cross border work permits)	18 (+ 24 cross border work permits)	29 (+ 27 cross border work permits)	47 (+ 51 cross border work permits)
TOTAL	12 661	17 508	22 398	40 134

Source: EEA, Standing Committee of the EFTA States. Report on the Functioning of the Transitional Arrangements set out in the 2003 EEA Enlargement Agreement (1063805).

* The figures for 2003 are for January to December.

** In Norway, for the period from 1 May 2004 to 31 December 2005, 60% of the permits had a duration of less than 3 months.

In the Standing Committee Report's conclusions, all the EEA EFTA States consider that the TA had the desired effect and that their aim was reached. In Iceland and Norway, the TA had contributed to establishing order and control over the labour market regarding individual employees from the EU-8. In Liechtenstein, the TA facilitated the control of the correct application of labour law and avoided an increase in the unemployment rate.

On 28 April 2006 the EFTA Surveillance Authority received the notifications from all three EEA EFTA States concerning the continuation of transitional arrangements after May 2006. Liechtenstein and Norway stated that they would continue to apply national measures until the end of the five year period following the date of accession, i.e. until 30 April 2009, as provided for in the country specific annexes. On the other hand, Iceland notified the Authority that nationals from the EU-8 Member States may, as of 1 May 2006, seek and accept employment in Iceland without special work permits. Iceland has, however, established an obligation for all employers to inform the Directorate of Labour when they engage nationals of these countries. Furthermore, Iceland has underlined that workers from these countries shall apply for a residence permit in accordance with EEA acquis on the right of residence.

It should be noted that in May 2009, transitional arrangements should end. There is, however, the possibility for all EEA countries to continue to apply the transition period for another two years if it is experiencing serious disturbances on its labour

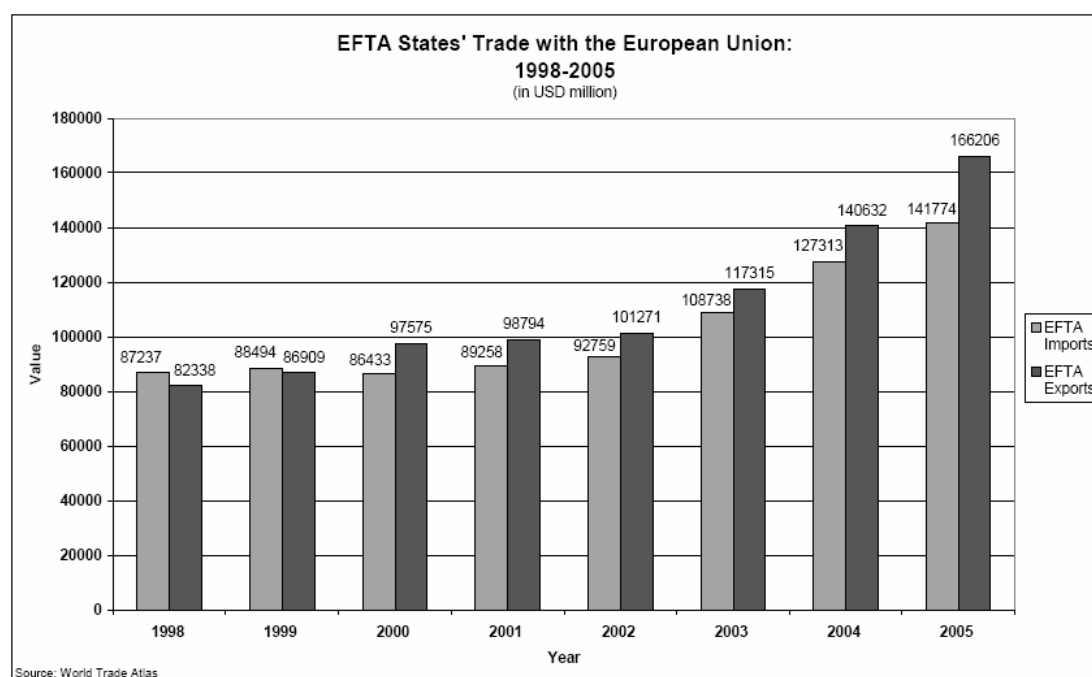
market. The transitional arrangement cannot be extended beyond the maximum period of seven years.

2.4 EEA enlargement – experiences

Two years after EU and EEA enlargement took place, it can be said that all parties involved successfully managed a smooth transition for the Internal Market. This has been emphasised by the various EEA bodies since 2004, in particular the EEA Council and by the EEA Joint Parliamentary Committee itself in its various reports on the functioning of the EEA Agreement.

For the business community, the repercussions of EEA enlargement were felt much earlier than 2004. The opening of EU accession negotiations already sent a strong signal about the likely evolution of the regulatory and business environment in the future Member States. Consequently, the total volume of EFTA trade with the EU, which regularly stood at below 200 million dollars annually, began increasing in 2003 (to 226 million), and really took off with enlargement, reaching 268 million in 2004 and over 347 million dollars in 2005, as can be seen in Table 4.

Table 5: EFTA States' trade with the EU



Source: EFTA website www.efta.int

Beyond the growing trade flow, companies from very diverse sectors and from every EEA EFTA State began to invest in the accession countries, e.g. Byko-Lat, the Icelandic lumber producer or the Icelandic garment producer 66° North; Norway's Statoil, Orkla Foods, Orkla Media or Dressman fashion; or Hilti AG and Kaiser Fahrzeugwerk from Liechtenstein, to name a few. While benefiting from low wage cost for production or distribution centres, most of these investors expect these advantages to shrink as living standards start to rise, to be compensated by increased demand in the same markets. Combined with favourable tax regimes in many new Member States, the enlargement of EEA translates into an enlargement of business opportunities.

As has been mentioned above, the Financial Mechanisms have proceeded apace. Individual memoranda of understanding have been signed with the respective beneficiary countries, and open calls for project proposals subsequently launched in Poland, the Czech Republic, Hungary, Portugal, Slovakia, Slovenia and Malta. Faced with an unexpectedly high number of applications, the FMO has inaugurated its co-operation with the European Commission while perfecting internal procedures and technical tools. It has also organised a range of information seminars, as well as workshops about sustainable development and good project governance. The Financial Mechanisms have thus reached their implementation phase, with some 300 million Euro made available to applicants by June 2006.

Politically, the enlargement of the EEA community has brought to the fore a number of subjects of common interests between the enlarged EU and the EEA countries, related to energy policies and environmental issues, which should result in common actions and mutual support. The enlarged EEA offers new means to move the relevant agendas and new ways to gather the political will for necessary action.

Meanwhile, the shift in the EEA's overall membership numbers undeniably affects the potential impact of the EEA EFTA States' stance on any given issue. Apart from increased efforts at making their voices heard and their positions understood, new avenues for early decision-shaping in the established Committees and Working Groups continue to be explored, possibly including increased interaction with the competent committees of the European Parliament.

III. SWITZERLAND AND THE ENLARGED EEA

When joining the EU in May 2004 the new EU Member States not only incorporated *acquis communautaire* in their national legislation but became also, after separate negotiations, parties to the various Swiss-EU bilateral agreements. In 1999 Switzerland signed the first set of bilateral agreements with the EU that came into force in June 2002.

In October 2004 a second set of bilateral agreements between Switzerland and the EU was signed. The new agreements covered the following areas: Schengen/Dublin, taxation of savings, the fight against fraud, processed agricultural products, environment, statistics, MEDIA, education/vocational training/youth issues, and pensions. Seven of the Agreements were subject to an optional referendum, but a referendum has been successfully requested only in the case of the Association Agreement to Schengen/Dublin where the Swiss people gave the bill its approval. The adaptation of existing bilateral agreements has been in principle a technical question. However, for the Agreement on Free Movement of Persons, a mixed agreement containing transitional provisions, formal negotiations with the ten new Member States had to be conducted. These negotiations were concluded in July 2004, and approved in a Swiss referendum on 25 September 2005.

Swiss investment in the new EU Member States has already begun to increase underlining the fact that the European Union is Switzerland's most important trading partner and by the same token, Switzerland being one of the most important export markets for the EU.

Table 6: Proposed country allocations under the Swiss cohesion contribution (in CHF)

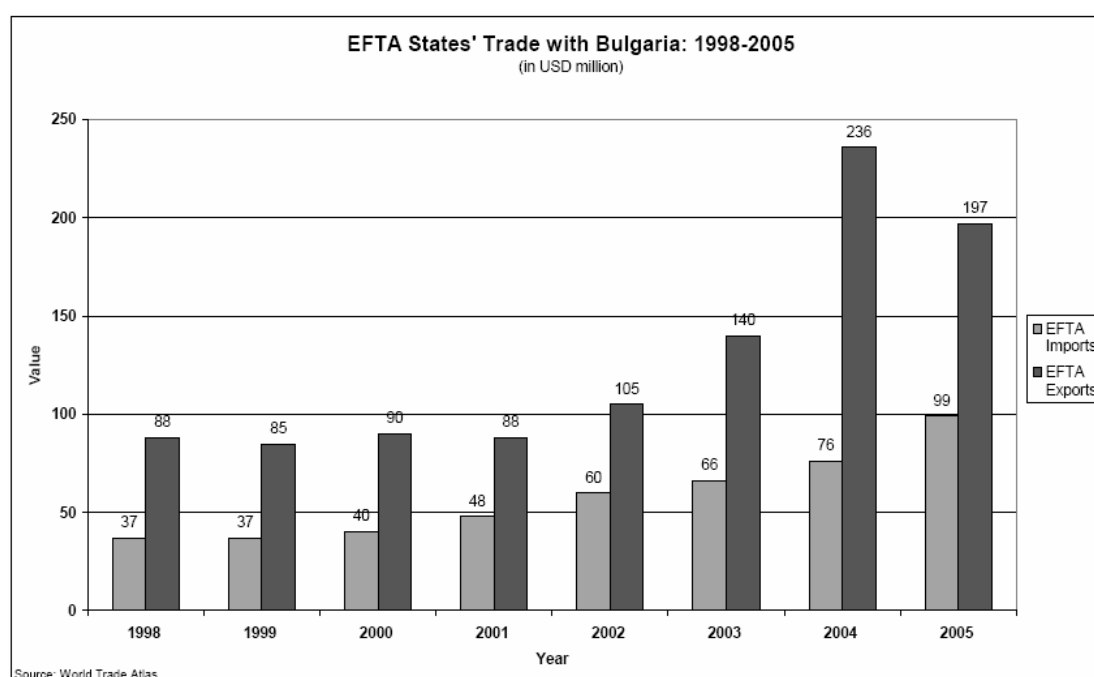
Czech Republic	109,780,000
Estonia	39,920,000
Cyprus	5,988,000
Latvia	59,880,000
Lithuania	70,858,000
Hungary	130,738,000
Malta	2,994,000
Poland	489,020,000
Slovenia	21,956,000
Slovakia	66,866,000

In February 2006 a memorandum of understanding was signed whereby the Swiss government committed to contribute CHF 1 billion in total towards lessening the economic and social gap between the old and the new Member States of the EU (Table 5). The intended Swiss contribution would therefore constitute a major factor in progressively closing the gap between old and new Member States of the Single Market. The commitments have been subjected to a referendum which takes place in November 2006. Under the scheme, Switzerland would support specific projects in different areas, which it would choose and carry out autonomously.

IV. FUTURE PERSPECTIVES

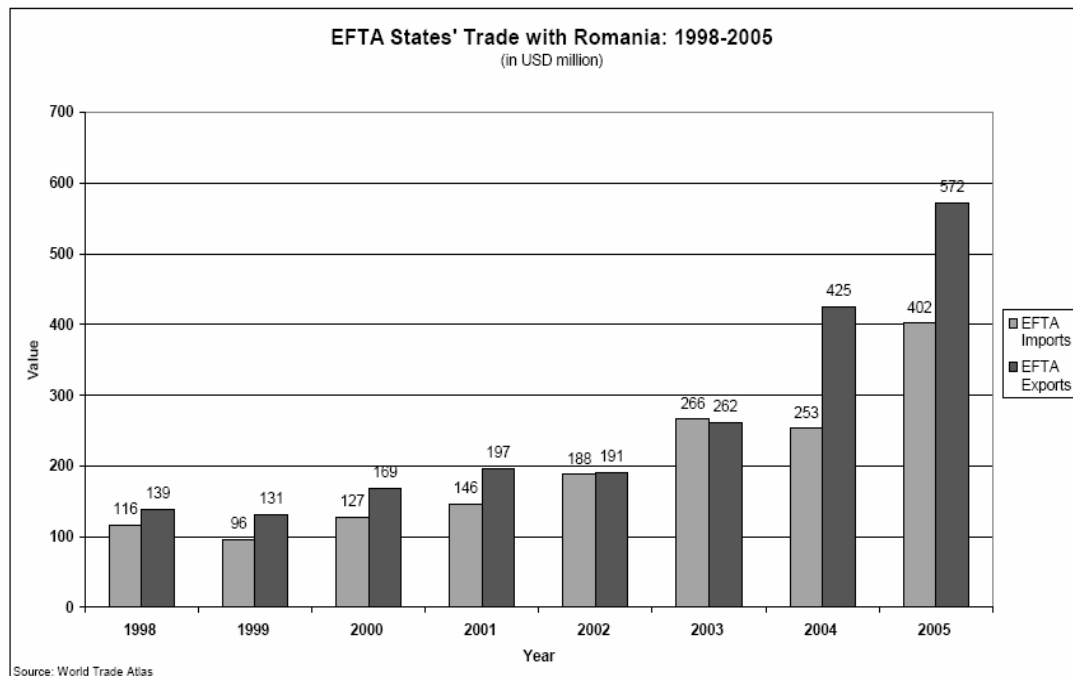
With regard to the next enlargement step, the accession of Bulgaria and Romania on 1 January 2007, the tale of opportunities for trade and investments by the EU and the EEA EFTA States appears to repeat itself. For the EFTA Countries, since 2003, the previously more or less stagnating trade with Bulgaria and Romania has shown a remarkable increase. In the case of Bulgaria (Table 6), these peaked in 2004 and have since decreased, while vis-à-vis Romania they more than doubled (Table 7).

Table 7: EFTA States' trade with Bulgaria: 1998-2005



Source: EFTA website www.efta.int

Table 8: EFTA States' Trade with Romania: 1998-2005



Source: EFTA website www.efta.int

The experience of the EU and EEA enlargements in 2004 has shown that a smooth transition into an enlarged Internal Market is possible, but that success depends heavily on good will from all respective sides, hard work at negotiating and implementing - and a timely start of the whole process. From 2004, successive EEA Councils have regularly welcomed the progress of Bulgaria and Romania towards accession, for the same reasons, both economical and political, as it encouraged in the last round of enlargement.

The fact that calls for the parties concerned to open negotiations had to be renewed again in June of this year, barely six months from potential enlargement, already raises some concern about the prospects of repeating the 2004 performance and ensuring the continued good functioning and homogeneity of the EEA. With negotiations currently being conducted, it is still difficult to establish what sort of legal instruments will emerge as concerns Bulgaria and Romania compared to the 2004 enlargement. It is however clear that in this initial phase of negotiations between the European Commission and the EEA EFTA States, differences have been noted, especially as concerns the EEA EFTA States' potential contributions to overcome the social and economic disparities in the acceding countries. Negotiating positions aside, the co-rapporteurs want to urge both sides to come to a swift and balanced conclusion

with the aim of guaranteeing the parallel enlargement of EU and the EEA and to ensure the functioning and homogeneity of the Internal Market.

As concerns the accession of Bulgaria and Romania and the issue of free movement for persons, the same provisions as were evident in the 2004 enlargement will apply, i.e. transitional arrangements are implemented during a period of up to 7 years, as agreed in the EU Accession Treaty between the now 25 EU Member States and Bulgaria and Romania. The same will apply as far as the EEA is concerned. As before, this 7-year transitional period is broken down according to the following formula: “2 years, plus 3 years, plus 2 years”. And likewise, any Member State which applies TA may introduce, under national law, greater freedom of movement than that existing at the date of accession, including full market access. By all standards, in the coming months this will become a highly political issue in the both the old and new EEA Countries. The EEA JPC will follow those developments with great interest.

The first two years of life in the enlarged Single Market have shown that despite the best efforts of all concerned there remains a considerable information deficit about the opportunities and benefits arising from enlargement. This applies not only to businesses, social partners and local authorities, who need to be fully aware of the possibilities but also to public opinion at large, both in the old and new EU member States and in the EEA EFTA states. At a time of growing scepticism about "Europe" in many regions, EU and national authorities should therefore devote greater attention and resources to raise general awareness of the positive developments after EEA enlargement.

One obvious conduit for such an enhanced information policy would be the diplomatic representations of the countries involved, if their governments recognize it necessary. At this level, the recent enlargement of the EEA still needs to be reflected fully. The case of Iceland is most significant here. Given the increase in economic, scientific and cultural exchanges that has already started, double accreditation is no longer sufficient; the network of diplomatic representation needs to be upgraded to match the new realities.

Draft Resolution

On Enlarging the European Economic Area: Experiences and perspectives

The European Economic Area Joint Parliamentary Committee:

- A. Recognizing that the European Union (EU) enlargement of 1 May 2004 posed both opportunities and challenges for the EU and the European Economic Area (EEA)
 - B. Having regard to the fact that the ten New European States joined the European Economic Area by signing the EEA Enlargement Agreement in November in Brussels, which entered fully into force in December 2005 when the ratification procedures were completed
 - C. Noting the Protocol 38 to the Agreement between Norway, Iceland, Liechtenstein and the members of the EU on the establishment of an EEA financial mechanism for the period 2004-2009 and the Agreement between the Kingdom of Norway and the European Community on a Norwegian financial mechanism for the period 2004-2009
 - D. Having regard to the EEA financial mechanism providing for a total contribution of EUR 600 million for the ten New Member States and Greece, Portugal and Spain for the period 2004-2009
 - E. Having regard to the Norwegian financial mechanism, providing for additional EUR 567 million for the ten New Member States for the period 2004-2009
 - F. Having regard to notifications from the EEA Countries in April 2006 on transitional arrangements concerning the free movement of workers
 - G. Noting the European Council Presidency conclusions in June 2006, the September 2006 European Commission's Monitoring report on the state of preparedness for EU membership as well as the September 2006 European Parliament debate as concerns Bulgaria and Romania
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- 1. Welcomes the multiple benefits resulting from the enlargement of the EEA especially due to the intensification of trade and cultural exchange, with prospects of further cooperation in the fields of science, technology and research, contributing to competitiveness and innovation capacities of the EEA;
 - 2. Underlines that the significant increase in the trade exchange, including both products and services, between the EEA EFTA and EU countries is the most feasible advantage of the EEA enlargement;
 - 3. Acknowledges that fisheries and agriculture are given a special concern as areas of high importance especially for the northern EEA EFTA States;

4. Welcomes the financial support through EEA financial mechanism and the Norwegian financial mechanism which shall contribute to the social and economic cohesion of Europe, reduce economic disparities between EEA regions and which constitute a solidarity response to the particular situation of the ten New Member States;
5. Notes the reinforcement of common interests between the enlarged EU and the EEA countries, related to energy security and environmental security issues, which should result in common actions and mutual support;
6. Notes with interest the developments concerning the transitional arrangements applying to the free movement of workers from the new EU Member States; and encourages the EEA Countries to consider whether the continuation of such arrangements is needed;
7. Welcomes commitments by the Swiss Government to contribute substantially towards lessening the economic and social gap between the old and new Member States of the EU;
8. Calls on relevant authorities for a campaign directed to the EEA citizens, disseminating information about mutual positive benefits of the EEA enlargement, including publication of results of the cooperation;
9. Urges all EEA EFTA States, in light of the 2004 enlargement and future enlargement, to continue to increase their efforts in utilising all avenues for early decision-shaping with the aim to guarantee the homogeneity and good functioning of the Internal Market;
10. Calls for upgrading the diplomatic relations, if their governments recognize it necessary, between the EFTA countries and EU Member States, with a special regard to new Member States, in order to facilitate increased contacts not only between the citizens, but also with potential economic partners, as well as in other areas of mutual interests;
11. Looks forward to the forthcoming EU and EEA enlargements and the mutual benefits it will bring to all EEA Countries; and will follow closely developments with regard to transitional arrangements concerning Bulgaria and Romania;
12. Urges relevant authorities to come to a swift and balanced conclusion in the current enlargement negotiations with the aim of guaranteeing the parallel enlargement of EU and the EEA and to ensure the continued good functioning and homogeneity of the Internal Market.