

# Fact and fiction about Norway

Two recently-published reports have analysed the option of replacing full membership of the EU with a trading arrangement modelled on Norway's and have arrived at different conclusions.

Firstly, James Knightley of ING has written a paper called "Ready for Brexit?" A recent article in The Independent summarises the main conclusions, which are quite negative.

The report is not intended, so it appears, for general distribution. One of our members, Dave Phipps, has managed to obtain a copy and we are thankful; for him for his detailed analysis. Dave claims that the research is very poor. The article in The Independent points out how much red tape Switzerland has to suffer in its trade with the EU. Dave highlights a different area – the inaccuracies regarding taking the Norwegian option .

For instance, Page 5 of Knightley's report says:

*A second option is joining the European Free Trade Association (EFTA) along with Norway, Switzerland, Iceland and Liechtenstein, and sign up to the European Economic Area (EEA), which would allow the UK to participate in the single market with zero tariffs. At the same time it would free itself from obligations related to the Common Agriculture Policy and the Common Fisheries Policy.*

*However, the UK would still have to make a financial contribution to the EU and adopt all EU legislation relating to the single market without having a say on these laws. Being a member of the EEA would also mean that workers from other EU member states would continue to be able to live and work in the UK. Consequently, we doubt that the UK would sign up to the EEA either.*

to which Dave replies:-

*Had Knightley done his homework, had he the faintest idea on that which he pontificates, he would know that Norway sits on over 200 committees within the EFTA/EEA; that under the terms stipulated in the EEA agreements the European Union is mandated to consult with EFTA/EEA members; that Norway has a seat of its own on United Nation's bodies that set standards, said standards which are then handed down to governments and trade blocs (of which the EU is one) for implementation: that as of 2013 there were over 400 matters of EU law that Norway had not implemented; and that as a last resort Norway, as a member of the EEA has the final resort of a veto over the implementation of EU law.*

*What is missed is that if one discounts the above facts about membership of committees, coupled with the fact that EFTA members are mandated to be consulted; the fact remains that by sitting on the bodies which set standards, EFTA members do have a voice – and it beggars belief that this ‘meme’ about Norway is allowed to prevail; it beggars belief that those who present what are, in the event, misleading ‘research papers’ are allowed to continue without being questioned; and it beggars belief that the media continue to reproduce such examples of being economical with the actualité with themselves guilty of not doing their own research prior to printing it.*

Dave refutes Knightley's claims that it “makes little sense from an economic standpoint, and not much more politically.” Without having seen the report, one can but speculate, but the rejection of the EEA alternative may well be based on the conclusions of David Cameron's favourite think tank, Open Europe. In the report “Trading Places”, Open Europe takes a similar line about the EEA:-

*However, while guaranteeing access to the single market in services and goods, outside the customs union, access for*

*goods would be subject to complex rules of origin and Britain would still be subject to EU regulations on employment and financial services but with no formal ability to shape them.*

The popular myth about “The Norway Option” which both Knightley and Open Europe are helping to promote, is best summed up in the phrase “Government by Fax” As a new report, The Norwegian Way written by Jonathan Lindsell from the Civitas think tank reminds us, this phrase was popularised by Jens Stoltenberg, Norway’s Prime Minister from 2005 to 2013, although he actually called it “fax diplomacy.” What is not often mentioned is that Stoltenberg’s Labour party is still keen to join the EU. You can understand why there is no need for a separate Raving Loony party in Norway when one of the main political parties supports such a daft policy – and moreover, mis-represents the true picture of Norway’s favourable position.

Lindsell’s report runs to over 100 pages and, while it follows the usual Civitas line of neutrality on the withdrawal issue, it presents a far more balanced and positive view of Norway’s relationship with the EU than Knightley. “The Norwegian model should not be written off”, he concludes.

The advantages of Norway’s relationship with the EU compared with full-blown membership will be well-known to many regular readers of this website. Lindsell sets them out in some detail and shows that such assertions as that made by David Cameron that “Norway has no influence in setting trade rules” is simply false.

Just to reiterate a few points in Norway’s favour:- :

- Norway has a strong track record of influencing EU legislation and is involved in EEA-relevant legislation from the early drafting stages to the final outcome.
- As a member of the EEA, Norway is better able to fight its case for exemptions to EU legislation that apply to it than

the UK does as a member of the EU.

- Norway is theoretically allowed to suspend the free movement of labour in emergencies. (It has not so far done so, but Liechtenstein, another EEA member, has imposed restrictions on free movement)
- Many flagship Norwegian seafood products have preferential or tariff-free access to EU markets, even though Norway is not subject to the Common Fisheries Policy
- Norway pays a lot less into the EU budget than the UK
- Outside the EU, Norway has negotiated Free Trade agreements with countries which the EU has not succeeded in so doing – China, for example.
- Norway sends its own representatives to organisations like the WTO, whereas we have to be represented by EU officials.

Lindsell says that “Norway has a half-in, half-out relationship that gives it free trade with Europe but keeps it out of the EU’s political institutions.” This is perhaps a bit simplistic. It is only “in” inasmuch as for trade purposes, membership of the EEA suits its interests. Norway is free at any time, if the voters so desire, to replace EEA membership with something looser. However, it does not help that some Norwegian politicians are keen for some strange reason to emphasise the closeness of their country to the EU. For instance, Rune Bjåstad, Minister Counsellor for Culture and Communication at the Royal Norwegian Embassy in Paris, said *“Economically, Norway is already part of the EU Internal Market....In fact, we are strongly integrated in the European Union, even if we are not members.”*

Of course, Norway’s relationship with the EU is not an ideal model for the UK in the long-term. The point about Norway’s relationship is that it is a readily available off-the-peg alternative which, contract to the opinions of Knightley and Open Europe, is a great improvement on EU membership. It is ridiculous for David Cameron to dismiss the Norwegian model so glibly. It is a far better immediate option than any sort of

renegotiation he might manage to agree and one which, if explained to the electorate, would greatly enhance the chance of an “out” vote in any future referendum. Given that within the EU, we face increased marginalisation as the Eurozone integrates (unless it implodes), it is a very logical alternative to consider.

There is some debate as to whether, as Lindsell maintains, the EEA was only designed as a stopgap – “a ‘halfway house’ for states expected to join the EU imminently”, but it has worked well for Norway, Iceland and Liechtenstein and would work well for the UK, ensuring our trading links would continue seamlessly and no jobs would be lost (apart from those of UK officials working in the EU institutions) However, for many supporters of withdrawal, it would definitely be only a stepping stone. Those whose opposition to EU is driven by a desire drastically to restrict immigration would definitely be seeking for a looser relationship eventually and we in CIB would not regard our work as being complete until the relationship between the EU and the UK is no more than a free trade relationship on similar lines to those between the EU and, for instance, Mexico and South Korea. However, Mexico and South Korea will never have to go through the process of unscrambling themselves from 40 years of ruinous EU legislation. As we are not signed up to Schengen and are surrounded by the open seas rather than EU member states, we have no need for such an elaborate relationship with the EU as the Swiss have negotiated. Nonetheless, a bespoke relationship, even a simple Free Trade agreement will take time, so the Norwegian Way looks to be the best option to tide us over in the period immediately following withdrawal.

One particular issue concerning free trade agreements and, indeed, the EEA, is that the “single market” has never been completed in services and that no free trade agreement between the EU and any other country has included services. Given the importance of the financial services sector to the UK, it is

vital to understand how withdrawal would affect the City of London, where most such businesses are located. These concluding comments by Professor Tim Congdon, who worked in the City for many years, show that the nature of many of these businesses is such that withdrawal would not affect many of them greatly – and indeed, would actually be a benefit. Tim writes:-

*Financial services are of two main kinds:- retail (where the bank/financial institution) deals with the general public and wholesale (where the banks/financial institutions. are dealing between themselves).*

*Retail (e.g., ISA, unit trusts) etc. is ineradicably national, because so much is determined by tax (pension tax arrangements vary enormously in the EU) and tax systems are national in the EU. The notion of 'a single market' in retail financial services and of a 'passport' to that single market is just a confusion, and the Europhiles deserve to be trounced if they mention it. (If Barclays wants to attack the French market. it needs to set up a French subsidiary. Being outside the EU would not stop Barclays doing that. American, Japanese, Swiss etc. financial organizations own and operate businesses in the EU.)*

*Wholesale? Well, this is a cross-border global business which depends, critically, on the absence of exchange controls, and is (I am afraid) heavily motivated by attempts to avoid national systems of tax and regulation. The concept of 'offshore business' is crucial here – offshore really means not attached to any national jurisdiction, although contracts usually specify the laws under which disputes are to be settled, with English law, New York state/Delaware state laws being much favoured, so I am told. EU membership would have no bearing on the location of most wholesale business now in London. In fact, EU regulation is pushing a lot of this business elsewhere, e.g., Singapore.*

So fisherman and financiers alike ought to benefit from day 1 of withdrawal if we were to take the Norwegian way.

For more information about Norway's relationship with the EU and its suitability as a template for the UK, we recommend Peter Troy's The Norway Option DVD