

Report for the Norwegian public inquiry commission on EU relations with third countries

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1. Introduction

Since the inception of the European Economic Area (EEA) in 1994, EU-Norway relations have developed steadily, with the two entities cooperating on a wide range of economic and political issues. However, considering the current multifaceted crises and transformations Europe is facing, this report takes a forward-looking perspective on the relationship between the European Union (EU) and Norway, rather than assessing their relationship over the past decades. This is particularly relevant as there is a growing perception in Norway of the need to assess the current relationship with the EU. The report discusses the relationship in the context of the multifaceted crisis namely the watershed moment, i.e., Russia's war of aggression against Ukraine, fundamental transformations (sustainability, technology, demography, and economic security), and the permacrisis of the last 15 years (Zuleeg, 2022).

Within this context, the EU has been changing fundamentally in recent years and it is to be expected that this process of change will continue. While the Union has taken unprecedented and positive measures in response to the current crisis, structural changes in European policy and a redefinition of its future objectives are needed to address underlying causes and multiple consequences, which will inevitably have repercussions for Norway.

The paper examines the impact of these trends and challenges on differentiation within the EU, and between the EU and third countries. On the one hand, such challenges have led to greater openness to internal differentiation. On the other hand, the reality of Brexit and the changing nature of European integration suggest a stricter approach towards third countries, aiming to send a clear message to members and non-members alike that membership matters.

Against this backdrop, the paper analyses the main challenges to the current EU-Norway relationship from an EU perspective and explores potential scenarios for its future: the British way, maintaining the *status quo*, and EU membership. As such, the report represents informed speculation, recognising the uncertainties and risks that are pervasive when looking toward the future, especially in this current era. However, the report contends that the broad trends that are identified here will be persistent over time and will inevitably shape the Norway-EU relationship. The paper concludes that the most likely scenario for Norway will be to broadly remain in the current model, despite increasing challenges, as there is no appetite for a fundamental renegotiation on the EU side. That would only leave the British way, which is far inferior politically and economically to the current *status quo*, or full Norwegian EU membership, which is unlikely to happen in the foreseeable future.

2. Europe in a changing world

Europe is currently in crisis. Fragmentation and polarisation are hitting an EU that is faced with a Triple Challenge - the watershed moment of Russia's full-scale invasion, fundamental structural transformations, including the green and digital transitions, as well as the effects of the permacrisis. As this chapter will illustrate, this crisis era creates a political climate which prompts the Union to

recalibrate most, if not all, of its policies and redraws its relations with the rest of the world – including those with non-EU European countries, such as Norway.

Fragmentation and polarisation

The global environment is becoming more challenging and contested in several dimensions. Geoeconomics and geopolitics are in a constant state of flux, with increasing superpower rivalry, competition for resources, global interdependence being politically weaponised, and war re-emerging as an instrument of politics within Europe. These are just a few of the elements of the seismic global shifts that have taken place in recent years. Debates about the big state have resurfaced even in traditionally free-market economies such as the United States, alongside a growing threat of neo-nativism and populism as well as “my country first” and “take back control” movements that can be seen around the world (Borges de Castro, 2022, p. 9). Unilateral action in the economic and political environment is increasingly replacing multilateral cooperation, showing how global governance is being reshaped by power politics, with a multipolar world order taking shape. The impact of these seismic global shifts on EU-Norway relations should not be underestimated. On the EU’s side, *inter alia*, there will be growing pressure for a more proactive industrial policy at EU level (Lausberg and Zuleeg, 2023). a new approach to energy, a renewed focus on the benefits of membership, and a recognition of the importance of economic security in international economic relations – all of which impacts on the relationship with Norway.

Furthermore, these international challenges have been compounded by internal challenges. The EU is entering an age of dis-cohesion and fragmentation, straining the EU’s ability to move forward. According to Emmanouilidis (2018, p. 16), in the course of the past decade, the ‘levels of fragmentation and distrust have increased significantly, both among the EU27 and between national capitals and “Brussels”’. The EU27 is also facing a high level of polarisation within societies. Repeated attacks on the judiciary, media and civil society in Hungary and Poland threaten core EU objectives and raise doubts about liberal democratic fundamentals (Stratulat, 2022, p. 6). Brexit, as the most far-reaching and concrete outcome of this division among and within member states, highlights the consequences of not addressing those issues and thus the urgent need to address the problem of increasing fragmentation (Greubel and Zuleeg, 2021, p. 189). Fragmentation and division will continue to burden the EU and its member states in the years to come, as fundamental differences dividing EU countries and citizens will not be overcome easily. Internal dis-cohesion and fragmentation have important implications for EU-Norway relations. This difficult and contested internal political landscape makes it much more difficult for the EU to show flexibility with a third country, like Norway. If a new formal relationship with the EU were to be perceived by some members to be better than membership in certain aspects, it would threaten the whole integration process. This consideration limits fundamentally the EU’s perceived room for manoeuvre.

However, internal difficulties should not lead to the conclusion that the EU will not be able to determine the economic and political context, especially in its neighbourhood. Furthermore, the EU is the one actor that can collectively think, strategize, and politically coordinate responses to fundamental transborder challenges that Europe and the world face today. This has already been in evidence, for instance with respect to maintaining consensus on sanctions against Russia after its full-scale invasion of Ukraine, in the Union’s response to COVID-19 with the unprecedented Recovery and Resilience Facility or regarding the Union’s collective response to President Donald Trump, where the EU delivered a unified message to the rest of the world that it is ready to defend the rules-based multilateral system.

In addition, recent crises have demonstrated that, despite internal differences, the EU is crucially important to address trans-border challenges. For example, the COVID-19 pandemic clearly illustrated that crises in today's interconnected world are transnational in nature and require collective efforts across national boundaries to be effectively addressed. Especially for the smaller member states, maintaining open borders within the Single Market and collectively procuring vaccines was a demonstration of the importance of the EU in such a crisis. The challenges we face have become so complex that almost no crises can be effectively resolved by a single country acting alone.

Europe's Triple Challenge

Against the backdrop of accelerating global and European political fragmentation and polarisation, the Union has been confronted with a Triple Challenge - the watershed moment of Russia's full-scale invasion, fundamental structural transformations, including the green and digital transitions, as well as the effects of the permacrisis (Zuleeg et al., 2021). Dealing with the Triple Challenge will be the determining driver for EU policy, both at EU and at member state level, for the foreseeable future.

Over the past years, the EU has been dealing with the consequences of the "permacrisis", multiple, interrelated crises, including migration and asylum management, the Euro and sovereign debt, the adverse social and economic impacts of COVID-19, populism and the rule of law, global instability including the Trump Presidency and the annexation of Crimea, terrorism, and Brexit. The EU's response to these crises has often been reactive rather than proactive, leading to criticism that it has been slow to respond and that its actions have been inadequate. While many actions in the end were groundbreaking, the permacrisis has also exposed inadequacies in the EU's toolbox and deep-seated divisions within the EU, with member states struggling to agree on a common approach to these challenges. This internal dis-cohesion has made it challenging for the EU to project a united front and has undermined its credibility on the global stage, within a challenging international environment in which, threatened by disunity and dis-cohesion, the EU needs to fend for its own interests, values, and long-term future more than ever. At the same time, existential challenges such as climate change, which can only be tackled through global collaborative efforts, occur at a time of marked decline in global cooperation.

On top of the permacrisis, Europe is faced with transformative challenges. The existential impacts of climate change (as well as the Russian invasion of Ukraine) are a painful reminder that Europe must reduce its dependence on fossil fuels and build a sustainable, secure, and affordable digital energy future. A green transformation requires dramatic shifts in economic structures and policies that are coherent and aligned across various sectors and policy areas. Given the ongoing energy crisis or the risk of its re-emergence, the EU must use all tools available to accelerate a transition to a secure, sustainable and affordable energy system (Dekeyrel and Fessler, 2023, p. 23). The integration of Norway adds an additional layer of complexity, given its role as crucial supplier albeit not inside the policy framework when it comes to all related policy areas, for example trade and industrial policy.

European societies are also transforming due to demographic change, which will, *inter alia*, have impacts on growth, labour markets, migration, and electoral politics. In addition, Europe is facing a global technological revolution that will change the way economies and societies function in future, the current development of Artificial Intelligence being a case in point, but where Europe is often behind other parts of the world. The technological revolution will also drive structural change and is crucial to meet some of the EU's wider objectives. For instance, the European Commission's recent proposal for an EU Action Plan on digitalising the energy system is a valuable starting point to link

technological progress with energy and climate change, but implementation must now follow (European Commission, 2021a). This will have crucial impacts on security and competitiveness, for example with China. It has now become a key hub in international value chains (Buysse and Essers, 2022) and a crucial player in the technological race (especially in micro and nanoelectronics, robotics, as well as in Artificial Intelligence) (Heimberger and Karaulova, 2021). All of this also underlines the interrelatedness of policy areas with each other, and further examples could easily be found. It is becoming increasingly difficult to deliver results within a particular policy silo if other policy areas are not considered simultaneously. This is challenging for the EU-Norway relationship, which is highly developed in certain policy silos but not in other areas.

Diverging views within member states and among national capitals on how to jointly respond to these fundamental questions and crises are increasing mistrust among the EU27 and putting the EU27 under pressure. The stress of cumulative crises was accelerated by the full-scale Russian invasion of Ukraine in February 2022 with its manifold geo-political and economic consequences. The watershed moment (Zuleeg, 2022) – or, as German Chancellor Scholz coined it, the *Zeitenwende* –, signals the dawn of a new era (Scholz, 2022). This has turned European politics on its head, with the EU27 acting more decisively, united, and faster than in any other crisis since 2007. Contrary to Putin’s original objectives, the transatlantic alliance has been revitalised (Zuleeg and Emmanouilidis, 2022, p. 3). But Russia’s invasion of Ukraine is not just a regional war as it marks a defining moment in the reshaping of the geopolitical order, with repercussions for Europe and the world. EU policies will have to change fundamentally and systemically, re-orienting the direction of European integration, for example from an inward, narrow, and short-term focus to one with a much more external, intergenerational mindset. But the EU has not yet recognised the full scale and magnitude of the era of change that has just begun. These challenges will inevitably impact all policies, including the single market, trade, agriculture, and energy, and will have implications for the EU’s relations with third countries. Unavoidably, this will have an impact on future Norway-EU relations as well.

Consequences for EU policies

The (geo-)political headwinds of recent years, exacerbated by the pandemic, Russia’s war on Ukraine and China’s assertive rise, have changed the perception of economic globalisation. International trade and investment are no longer seen by many as a positive-sum game, and concerns about the distributional consequences of global economic exchange are even more widespread (Zuleeg and De Angelis, 2023). Russia’s war of aggression has shown that global economic interdependence has also become a geopolitical concern, as it can be weaponised for geopolitical purposes. Europe’s geopolitical naivete and lack of security-conscious policies have made it dependent on Russia’s raw materials and energy, creating critical vulnerabilities (Mollet and Riekeles, 2022).

Inflation has re-emerged as a major issue, directly challenging household confidence and investor sentiment. In the Eurozone, annual inflation stood at 8.5 % in February 2023 (Eurostat, 2023). This not only puts pressure on the European Central Bank to withdraw stimulus that has helped protect the balance sheets of vulnerable member states, but it also has consequences for households and businesses. Businesses face higher input costs and are forced to reduce their production (BusinessEurope, 2022). Private sector confidence has declined and access to finance is re-emerging as an issue due to the current economic context and monetary tightening (European Central Bank, 2022). This puts pressure on competitiveness and also on political cohesion. It will also increase the risk of financial instability, especially in over-indebted countries. The recent collapse of U.S.-based Silicon Valley Bank, the biggest bank failure since the global financial crisis, and the emergency bailout

of Credit Suisse by its Swiss rival UBS and the Swiss National Bank have worsened the outlook for the global economy and raised the risk of an even greater financial catastrophe.

Financial and trade sanctions on Russia by the world's liberal democracies and the wider economic repercussions of the war are already significantly reconfiguring global economic relations. For instance, the decoupling and creation of alternative financial systems will lead to greater fragmentation and bifurcation in the existing system, especially in trade (Mollet and Riekeles, 2022). In this context, Norway quickly replaced Russia as Europe's number one gas supplier, providing about a quarter of the EU's gas needs, and serving as a vital lifeline to compensate for the drastic shortfall in Russian gas supplies following the war in Ukraine. This is unlikely to change in the near future, putting Norway in an important strategic position for Europe – and a close ally both politically and economically with view on its energy policy and more broadly, including in (economic) security terms. Norway is one of the critical suppliers of increased economic security for the EU, given its role in guaranteeing energy supplies.

Will the EU become a more decisive actor in response?

The EU has implemented unprecedented and positive measures in response to recent crises, such as the Recovery and Resilience Facility in response to the COVID-19 pandemic or the multiple measures, including sanctions, in response to Russia's war of aggression. The EU has managed to weather crises by providing temporary relief through, at times far-reaching, yet reactive policy interventions. However, while these measures go in the right direction, they may not be sufficient to address the full scale or nature of the challenges Europe is facing. In case of systemic, structural challenges, which are cumulative in nature with exponential impacts, linear and limited responses, which might well be progress in themselves, are not sufficient to change the long-term trajectory. This progress illusion is a real issue that must be acknowledged and addressed to achieve real and lasting change in response to the current crises and challenges facing the EU (Zuleeg, 2023b).

Even before Russia's war of aggression, it was clear that the European and national policies would have to change radically and acquire a new dynamic. But this should now have become inevitable (Zuleeg and Emmanouilidis, 2022, p. 5). But, so far, the EU has not made the structural changes necessary to address underlying causes and multiple consequences. When it comes to making next steps, i.e., fundamental, and decisive systemic changes, political cracks are appearing.

The EU has a strategic imperative to develop the capacities and capabilities to respond quickly, decisively, and collectively to fundamental challenges. The need for action is clear, but the challenge of responding to the new realities in practice is enormous, including finding answers to fundamental questions about the overall direction of travel with profound political implications. Whether or not the EU succeeds in making the necessary changes, it will have a major impact on its relations with other countries, which will be shaped by these global trends and by the EU's responses, or lack of responses, to them. Regardless of whether the EU carries out the fundamental changes that are needed or not, retaining the status quo is not an option in the dynamically changing environment the Union is now in.

3. Impacts of these trends on EU integration

The Triple Challenge, culminating in the war in Ukraine, has upended the Union's policy agenda. The focus on the political agenda was dominated by the Green Deal and its various policies, including a shift towards more sustainable energy consumption. The war puts into question what the EU's future

objectives needs to be, at the very least driving a broadening. Where debates on cross-border deliverables, or so-called European Public Goods (Zuleeg, 2009), were focused broadly on sustainable development (environmental, social and economic progress), the current invasion has re-shifted foci to security and military considerations, albeit it that nexus of energy and environment clearly also has a security of supply dimension and sustainable development in its broadest sense has not disappeared from the political agenda.

With this re-shuffling of the policy agenda comes the necessity for the EU to redefine its future direction, objectives, and the long-term purpose, beyond dealing collectively with the aftermath of the war in Ukraine (Mucznik, 2022). In short, the EU will have the task to re-define the public goods it provides for its citizens. Central to this approach will be providing security to EU citizens in all aspects, from the core foundation of territorial security to energy security, while also pursuing a joint approach to addressing climate change. Economic security has to become a new paradigm for the EU (Zuleeg 2023a). At the same time, climate change remains omnipresent in today's debate, both in the civic sphere, where Fridays for Future protests and activists regularly raise awareness and on the political agenda, where the Green Deal is on top of both the European Commission's and the European Council's strategic agendas.

A re-calibration of the policy agenda can only be the start of a broader discussion of EU objectives and strategic goals for the future. But what is clear in this new, far more challenging era is that the issue of trade-offs and choices will be central to the direction of the Union. It will be exceedingly difficult to find a consensus within the EU, or even a limited agreement on the immediate next steps, given that much of the focus will be on the distribution of costs arising from these fundamental challenges.

Once the Union has set strategic goals, it will need to use all mechanisms it has available to achieve them, while also developing new instruments and competences to address any gaps. At the same time, the Union needs to further develop crisis instruments and contingency mechanisms. It will also need to find new ways of combining national powers and capabilities with the supranational strength of the Union's institutions and the Community method. If the EU shows both unity and ambition in setting strategic goals and overcoming old recipes, it can emerge stronger from this crisis. Achieving unity and ambition in these circumstances is hard enough between member states, given the divergent views and interests, so, within that context, the (at times legitimate) concerns of third countries will have to take a backseat.

Differentiated integration

But even if the Union manages to set strategic objectives, the member states will hit a variety of roadblocks where it will become obvious that acting unanimously as a EU27+ will not be possible. The need to respond effectively and comprehensively to the multifaceted crisis the EU has been facing since 2008, paired with diverging interests, a high degree of economic, social, and geopolitical heterogeneity, different political goals and expectations regarding the future path of integration, will all require a higher degree of differentiation. Internally, as in the past, the willingness of member states to apply the instruments of differentiated integration in practice will be determined by the (in)ability of EU institutions and member states to respond to serious challenges and fundamental crises (Emmanouilidis, 2021, p. 28). Severe pressures in particular policy areas or existential threats to the European integration project as a whole increase the likelihood that national governments and like-minded partners will intensify their cooperation in smaller groups. Moving forward in smaller groups can serve as a convenient tool to remain capable and efficient to act when severe divisions prevent

the EU from moving forward (Greubel and Zuleeg, 2021, p. 196). Diverse groups of member states will have to intensify cooperation in specific policy fields, for example in areas such as taxation or defence, to be able “to move beyond the lowest common denominator” (Rappold, 2019, p. 158).

However, the pressures arising on member state governments might also lead to an effective renationalisation of certain policy areas if the EU is collectively unable to address fundamental challenges. For example, when it comes to the fundamental transitions, coupled with the experience of COVID-19 and challenging actions taken by countries such as the USA with the Inflation Reduction Act, there already is a tendency to give member states a freer rein when it comes to state aids, risking the coherence of the Single Market (Lausberg and Zuleeg, 2023).

Club goods

The hostile geopolitical environment and internal fragmentation will mean that the Union will move gradually from a strong focus on providing common or public goods to the increasing tendency of providing club goods, formed by individual actors to pursue a common goal. Club goods display two defining attributes. They are non-rival in their consumption to club members and the benefits of club goods cannot be enjoyed by non-members, i.e. exclusion is possible (Zuleeg, 2009, p. 9). This means that one individual’s consumption does not affect anyone else’s but that people are excluded from consumption if they do not belong to a particular ‘club’. As a result, club members are required to fund the production of such goods to enjoy these benefits. The excludable attribute of club goods prevents free riding; if a member does not pay his dues, that member can be deprived of the benefits of club membership.

Internally, such developments enhance differentiated integration among member states to provide such club goods when there is no universal agreement on the objective or means to provide this good. Externally, it will also mean a much stricter differentiation between the ins and outs of such clubs – with especially stark consequences for those who are out of the Union entirely, including Norway. The starkest and most visible of these examples is Brexit and the UK’s new relationship with the EU, explored further below.

The EU’s lessons from Brexit

The loss of trust over the last years of negotiations between the EU and the UK and current politics both point to growing estrangement and divergence between the EU and the UK over time. The Trade and Cooperation Agreement established a distant relationship with limited economic integration between immediate neighbours, and as of now, there are serious concerns as to whether it will be an effective, sustainable, and legitimate model to govern EU-UK relations (Wachowiak and Zuleeg, 2021). The latest chapter of EU-UK relations, the agreement of the Windsor Framework, which facilitates the free movement of goods in the context of the Northern Ireland Protocol, is a step in the right direction. However, the continued tensions illustrate that there are still long-term challenges to a relationship that clearly downgraded the UK’s relation with the EU fundamentally – with economic repercussions, especially for the British side (Dhingra and Sampson, 2022, p. 8).

Moreover, the UK’s exit from the Union is among the factors that have spurred renewed interest in the EU’s relationship with third countries, including the question of the political room for manoeuvre embedded in existing models of association with the Union. This can be seen in the case of Switzerland, where Brexit has had spillover effects.

The Swiss model, in comparison to the Norwegian framework, is considered more fragmented, with a series of separate agreements that require ongoing negotiations and lack the same level of harmonization and integration as the EEA Agreement. Since 2014 the EU and Switzerland have tried to conclude a new Framework Agreement with the (EU) intention of addressing the lack of an overarching framework governing Switzerland's participation in the Single Market. The Swiss government's withdrawal from these negotiations has triggered a deep crisis in the bilateral relationship. Not only is Switzerland's future access to the EU's single market in jeopardy, but Switzerland's withdrawal may now require a Swiss rethinking of its relationship with the bloc almost as fundamental as the United Kingdom's after the 2016 Brexit referendum.

The EU has been clear that an update will not be considered absent a Framework Agreement (European Commission, 2021b). Given Swiss resistance to such an overarching framework, this has led to some commentators concluding that the Swiss government has shown little interest in a fair single market agreement with the EU, and will face some immediate economic consequences for breaking off talks (Riekeles, 2021). While many in Switzerland do not agree with the EU's stance or perception on the issue of cherry-picking and "cakeism", the EU is reacting to behaviour it sees as clearly unsustainable. And given its size and influence, the EU is able to enforce its model and policies.

From an EU perspective, Brexit has sharpened the recognition among the 27 that being a member must matter – there need to be clear red lines dividing those who are in and those who are out and any divergence must come at a cost (Wachowiak and Zuleeg, 2022, p. 151). Against this backdrop, the reality of Brexit acts as a disincentive not to develop generous forms of third-country access, suggesting a harder line towards non-EU members (Wachowiak and Zuleeg, 2021, p. 16). The four and a half years of debate about what it means to be "in or out" has solidified the principles that underpin the EU's approach and relationship with third countries. The experience with Switzerland serves as a reminder of these principles and reinforces the EU's stance on this matter.

4. Scenarios for the EU-Norway relations

Looking ahead, how might the above-mentioned challenges, together with the EU's new approach to club goods and the lessons learned from Brexit, affect the future of EU-Norway relations? The following chapter will outline three possible scenarios.

Compared with other third countries Norway participates in more areas of EU cooperation than any other country – the internal market, Schengen, nearly all EU programmes, EU agencies, energy as well as security. These agreements are part of Norway's overall relationship with the EU but are considered distinct agreements with their own specific purposes and provisions. However, it is fair to say that the relationship between Norway and the EU is far more, if not most, integrated when compared to other third countries.

From an EU perspective, there is little appetite to re-negotiate its relationship with Norway, in particular to provide Norway with further benefits that are available to EU members. The triple challenge and Brexit have sharpened the EU's determination that EU membership must matter in a post-Brexit world. And EU leaders hold that if a state wants access to the EU internal market it must align itself politically with Brussels, and the EU has shown it is willing to risk a no-deal outcome rather than compromise on that fundamental idea (Duxbury, 2020). The current difficulties with Switzerland in agreeing on a redesigned bilateral relationship has not only decreased the Union's appetite to re-

open agreements with other third countries, but it also precludes the possibility of an adjusted Switzerland model of individual bilateral agreements to be applied to other third countries.

Brussels and member states share the broad perception that the EU-Norway relations are based on a fair, comprehensive agreement. However, since negotiating it a few decades ago, the balance of economic power between Norway and the EU has shifted fundamentally. This asymmetry between the EU and Norway reflects not only population size (5 vs. 450 million citizens), but also economic resources and global political and diplomatic power – especially considering several rounds of enlargement since the initial agreement with Norway was agreed upon (Græger and Haugevik, 2022, p. 6). The EU has grown into an institution of 27 countries, while Norway is a small state and a member of EFTA, together only with Iceland and Liechtenstein.

While there are areas where further cooperation can be agreed upon, for example limited health measures in wake of the COVID-19 pandemic, there will always be the question in the background of how far this is in the EU's economic and political interest. More broadly, from an EU perspective, there is little opportunity for Norway to change the agreement in favour of Norway and pursue what will be perceived as cherry-picking in the areas where it has entered into agreements. The most important agreements, EEA and Schengen, are packages in which the condition prevails that if Norway wants to take part, then it has to take part in everything, both in what it likes and in what it does not like. There is little room for perpetual opt-outs and changes (Norwegian Ministry of Foreign Affairs, 2012, p. 14). Brexit reinforces the perception in the EU that “you have to be fully in to avail from the opt-outs” (Wachowiak and Zuleeg, 2021, p. 17). This includes no possibilities for opt-outs from the EU's core principles, including the indivisibility of the four freedoms of the single market, its founding values and democratic and judiciary control of the EU institutions. Furthermore, this comes with a stronger focus on implementation in the future, ensuring that existing legislation is sufficiently adhered to in member states and those countries benefitting from overarching frameworks such as the Single Market. This factor could also have implications for Norway's existing practices of alignment with the single market, including an at best “mixed implementation performance” of the EU's energy packages (Jevnaker, 2014).

In short, in any re-negotiation of the relationship, the EU's position would likely result in a much less favourable status for Norway, with EU demands likely to include further integration in additional policy areas, including agriculture and fishery policies, and would insist on the full implementation of existing measures, including in the field of energy. Therefore, with a much harder EU line on the benefits of membership, the Swiss model off the table, and no appetite for a renegotiation, there are three possible scenarios for Norway's relationship with the EU: the British way, the *status quo*, or EU membership.

The British way

Norway has established a dense network of institutionalised relationships, which has led to it being the most deeply integrated non-member (Leruth et al., 2019, p. 1387). Norway has also opted for cooperation with the EU beyond the EEA Agreement, including in the areas of justice and home affairs as well as foreign, security and defence policy (Græger and Haugevik, 2022, p. 4). Today, Norway's EU membership consists of more than 70 agreements. While this may seem extensive, it is worth noting that even EU member states have various aspects governed by treaties beyond those making up the core EU legislative framework. Despite the inherent complexity, these agreements with Norway

function effectively and maintain stability. However, once questioning of specific agreements begins, it can lead to a dynamic unravelling of the existing framework.

The costs of Norway following the British example will be asymmetrically distributed – with Norway being much more affected than the EU27. Arguably, the economic impact of leaving the current arrangements would even be greater than for the UK, given the size of Norway’s economy and its high interdependence with the EU. But Brexit has impacted the domestic debate in Norway about the nature of its relationship with the EU. Some claim that Norway would “take back control” – to keep it in Brexit terms – by fully decoupling from European decision-making and Norwegian rule-taking from Brussels.

For the EU, a Norwegian exit from current arrangements would be manageable. It could have a significant impact on energy, as Norway is a major supplier of oil and gas to the EU. However, the EU would still remain Norway’s largest market, implying limited leverage. Thus, while there would be an erosion of economic relations, the impact on the Union will be limited. For Norway, which depends on being part of the single market, a break with the EU would be more dramatic. Looking at the UK, Brexit has made the UK a less open economy, reducing the UK’s trade in both goods and services and increasing the prices of some products. The implementation of the TCA has led to higher trade costs due to the re-establishment of a customs and regulatory border between the UK and the EU (Dhingra and Sampson, 2022). Further, the implementation of the new trade relationship led to a large and sustained drop in the number of trade relationships between UK exporters and EU importers, suggesting the demise of many UK manufacturing companies that are oriented toward supplying the Single Market.

It is likely that Norway would have to fear even more severe consequences than the UK due to its close economic ties with the EU while being smaller and less diversified. In 2021, Norway was the EU’s 7th most important partner for trade in goods with nearly 60.5% of Norwegian exports to the EU (European Commission, n.d.). The consequences would go beyond the economic sphere, as Norway opted into EU cooperation in the domains of justice and home affairs, and foreign, security and defence policy. The British way is therefore not fully excluded but comes with crucial and substantial costs of disintegration – both institutionally, economically, and politically.

EU membership

The second option for Norway remains full membership. Already today, Norway is *de facto* integrated into the EU *acquis* in many ways, both economically and politically. But while paying a high economic fee for its access to the internal market, Norway is excluded from decision-making bodies. Membership would change that status: while keeping the economic benefits Norway currently has, it would receive the full rights of membership. Under this scenario Norway could exert disproportionate influence in areas such as energy and fisheries. However, it would also imply painful compromises for Norway, in particular in the fields of fisheries and agriculture.

Considering the demanding tasks of crisis management, already existing fragmentation among the 27, and the Triple Challenge, the EU countries may pay less and less attention to its third country partners, with the predominant objective to find solutions among themselves. Partners like Norway or Switzerland have to vie for attention, and they are likely to experience marginalisation and partial isolation in an increasingly overcrowded EU policy arena. As a result, Norway will get limited attention

and has limited access to policymaking. Membership may be the only way to guarantee access and attention in the EU context.

From an EU perspective, this scenario is desirable and would not encounter major hurdles. Due to the existing close intertwined nature of the EU-Norway relations, such a process could also be accomplished relatively quickly. However, recent experiences with Brexit postulate a strict EU position in these negotiations: Membership can only mean full membership, implementing all elements of the *acquis* – significant permanent opt-outs will be unlikely in this case.

Maintaining the Status Quo

Under the final option Norway would retain the *status quo* with the EU under the EEA and the other existing agreements. Norway is sufficiently wealthy and secure to bear the costs of non-membership of the European Union, relying on offshore gas and oil and a strong economy. Despite the position as a rule-taker, the current state of bilateral relations, therefore, offers a political balance between economic integration and non-membership.

In the context of the war in Ukraine, Norway is a valuable and important security partner for the EU. In addition, Norway is increasingly central to Europe's energy security as the EU's leading supplier of natural gas. The EU and Norway agreed on June 23rd 2022 to cooperate to bring more gas from Norway to the EU's 27 countries. Norwegian natural gas exports through pipelines to Europe totaled 116.9 BCM (billion standard cubic metres) in 2022, nearly reaching the 2017 record year of 117.4 BCM (European Commission, 2022). The gas and oil reserves put Norway in a favourable negotiating position with the EU when it comes to energy questions, as long as these do not touch the fundamental workings of the EU.

This leverage, however, will not give Norway any significant advantage in other policy areas, for instance if Norway were to attempt to use its position as a supplier of gas to leverage internal market exemptions or exceptions. Given the challenging situation the EU currently faces and its emphasis on membership-related red lines, any fundamental recalibration of the EEA or the way its rules are applied is likely to be off-limits. Furthermore, any such attempt could potentially impact the dynamics and considerations surrounding security of supply for the EU. The security of supply relationship between Norway and the EU can't be assumed as a given in the long term if it imposes unwanted concessions on the EU. The energy relationship is characterized by interdependence, with Norway being the smaller partner.

However, this is not to say that the EU-Norway relationship will not be changing. In particular, the many policy changes that are resulting from Europe dealing with the Triple Challenge will materially affect the EU-Norway relationship. We can already witness that the pressure will increase on Norway to contribute to the realisation of European objectives, for example in the context of climate change. Two immediate questions are looming on the horizon: Firstly, what will Norway contribute in support to Ukraine, especially when it comes to the enormous task of reconstruction? The Norwegian government has pledged NOK 75 billion over five years to support Ukraine's reconstruction efforts, demonstrating Norway's commitment to help Ukraine recover from the conflict (Office of the Prime Minister, 2023), but there will be questions about the scale and scope of support in the long run. Secondly, in the wider context of the war in Ukraine, another question arises regarding Norway's efforts to help the Union mitigate energy price increases and address concerns about the issue of excessive profits resulting from current prices.

While the *status quo* defines a substantially integrated relationship, in the long run its existence alone does not guarantee the fulfilment of all expectations or goals set by Norway and the EU, especially in the context of the Triple Challenge. In such uncertain times, changes and events will occur that will fall outside the scope of the relationship. This could potentially limit its ability to effectively pre-empt or address emerging issues and lead to increasing dissatisfaction on both sides.

Furthermore, policy changes within the EU, aimed at addressing some of the current challenges, will inevitably affect Norway. Policies in areas such as trade and investment, technology, industrial policy, including state aid, economic security and energy are all shifting fundamentally, which will inevitably impact Norway, not least since there is a direct read-across to the Single Market, while not necessarily being covered by Single Market provisions or competences (Zuleeg 2023a; Lausberg and Zuleeg 2023). Recent controversies about battery supply chains are a sign of issues to come. In some cases, it might be possible for Norway to negotiate access so that it is inside the tent when it comes to these measures, especially in areas where Norway has leverage, but this will come at a price, essentially agreeing to ways of substantively contributing to broader EU objectives. In particularly sensitive areas with strong membership interests, Norway is likely to end up being excluded, even when this strongly affects Norwegian interests. Nevertheless, this is still a more favourable position than Norway would be in if it chose the British way, which implies having few institutional means to further interests in this new policy environment. So, the *status quo*, despite being more contested and difficult to implement in future, is still in Norway's best interest if membership is off the table.

5. Conclusions

In the current political environment, the most likely and most favourable scenario for Norway will be to remain in the current model if full EU membership is excluded from the consideration. From the Norwegian side, EU membership is currently considered off-limit, whereas disintegration following the British example would cost the country both economically and politically. At the same time, there is no appetite for fundamental renegotiation of the *status quo*, particularly on the EU's side, considering recent experiences with Brexit and the relationship with Switzerland. However, this does not exclude that cooperation in certain policy areas could be added to the current arrangements, for example, a closer cooperation in the field of health/pandemics, particularly when it can be shown that further integration is in the interest of the EU and does not imply that third countries have a similar or even better deal than members.

The relationship between Norway and the EU, however, will become even more challenged and challenging as the EU responds to global trends, which could, for example entail that for strategic reasons, it would exclude certain (third) countries from future industrial policy measures. A possible partial solution for this challenge could be to develop the concept of like-minded countries further globally, enhancing cooperation in certain areas to complement current cooperation through a broader alliance of liberal democracies. Under any scenario, the EU's and Norway's relationship will, therefore, continue to evolve also over the coming decades.

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