

Iceland, EEA and EU's regional policy

The European Economic Area agreement (EEA) has since entering into force in 1994 provided for an active Europeanization of the Icelandic society. It brings Iceland, Liechtenstein and Norway onto the European internal market, with them agreeing to adapt the EU's regulatory framework and implementing all the EU legal acts that apply to the internal market.

The agreement is dynamic in the sense that it calls for a constant revision and update of Icelandic law, for it to be in line with laws and regulations on the European single market. It however falls short of access to the EU's institutions and decision making and does not cover the Common Agricultural Policy and Regional cohesion policies – perhaps most importantly for Iceland it falls short of the Common Fisheries Policy. Neither do the EFTA's participate in EU's trade policy, monetary policy, taxation or foreign affairs or in many internal matters, including judiciary affairs that fall outside the Schengen- and Dublin agreements.

This presentation analyses Iceland's relationship with the EU in the field of regional policy and examines the different approach Iceland and Norway have chosen in the field. In addition it touches on the effect of Iceland's possible EU membership within the realm of regional policy.

The impact of the EEA is not only measured through the legal acts Iceland has had to adopt but also through increased and more informal trans-border cooperation which has followed. The EEA in fact opened up the closed off Icelandic society and provided for a mere transformation in the economy which became much more diversified and increasingly internationalized.

The agreement soon became Iceland's main point of entry in international relations. Through it Iceland has enjoyed increased access to the EU market and its many cross-border co-operations programs, including scientific, educational and cultural affairs, bringing with it foreign capital and increased knowledge.

In certain fields, such as on the environment, transport and food hygiene, the vast majority of all legislation passed in the Icelandic parliament is initiated through the EEA. Furthermore

the lines between what is considered part of the internal market, and therefore what is EEA relevant, and other parts of EU is becoming increasingly more blurry.

The EU operates hundreds of committees and advisory bodies around its decision making practices, many of whom are of a concern to municipalities. The EEA opens some of those up to the EFTA-states who by participating on that level are able to influence legislation on the preparatory stage.

On the same premises Iceland participates in many of the EU's agencies, including the European Environmental agency, European Maritimes Safety Agency, European Centre for Disease Prevention and Control, European Centre for the Development of Vocational Training, European Agency for Safety and Health at Work and European Foundation for the Improvement of Living and Working Condition and the European Food Safety Authority

There are also many relevant EU agencies where Iceland is not a member; including the Community Plant Variety Office, Community Fisheries Control Agency, European Agency for Reconstruction and European Training Foundation.

EU regional policy

Despite of this close integration with EU policies, the EEA agreement does not mention municipalities or local authorities. However in more than half of instances the effects of EEA's legislation is felt by local authorities in Iceland but not the state. In fact, through participation within the EU single market, the EU's legislation within the field of regional policy is ever increasingly being filtered into the EEA agreement – without Iceland, Norway and Liechtenstein formally participating within the field.

This is noteworthy as contrary to local authorities within the EU who can impact the legislation procedure through the Committee of the Regions, which was established after the EEA came into force, local authorities in Iceland only have very informal access to the decision making.

However, nongovernmental interests associations such as the Confederation of Icelandic Employers (SA), the Icelandic Confederation of Labour (ASÍ), the Federation of Icelandic Industries (SI) and Iceland's Chamber of Commerce all have access to the influential Economic and Social Committee of the EU.

The EU's regional policy is vast and covers wide ranging areas, providing for a third of the EU's budget. It further supplements the EU's agricultural policy. Combined the two policies account two thirds of the EU budget.

The European Union's regional policy seeks to reduce structural disparities between EU regions, foster balanced development throughout the EU and promote equal opportunities. Based on the concepts of solidarity and economic and social cohesion, it sets to achieve this in practical terms by means of a variety of financing operations, principally through the Structural Funds and the Cohesion Fund. The main aim is to a) help each region to achieve its full potential, b) improve competitiveness and employment at regional level by investing in areas of high growth potential and c) bring living standards in new member states up to the EU average as quickly as possible.

As said, the EEA does not provide for access of Iceland, Norway or Liechtenstein to these policies. Icelandic municipalities do not receive funding from the EU's structural policies and are not part of the decision making process on the European level.

The aim of Iceland's regional policy is however not that dissimilar to the EU's. The EU's regional policy is though more comprehensive and integrates industrial, economic and welfare policies to a much greater extent than the Icelandic one does.

Iceland and Norway

Contrary to Iceland, Norway has from the beginning of the cooperation been much keener on participating with the EU within the field of regional policy via several bilateral agreements, resulting in an ever widening gap between Iceland and Norway within the field. In 1996 Norway for example joined the EU's INTEREG-program, by paying its own way. Since then Norway has gradually been further integrated than Iceland within the realm of European regional cooperation. Through these programs Norwegian regional policies have gained a real European dimension, which has not developed to the same extent in Iceland.

As a result of this close bilateral relationship Norway has with the EU within the field of regional policy, Norwegian municipalities are very much engaged in European cooperation and most regions in Norway do for example operate their own liaison office in Brussels.

Even though Iceland surely has been lagging behind it is however not completely absent in the field. Iceland for example participates in the Northern Periphery-program and few years ago the association of Local Authorities in Iceland opened a one man office in Brussels. The representative of the ministry for industry in Iceland's embassy also monitors regional policy matters. This is however ocean's away from Norway's far reaching and closes participation.

This different approach of Norway and Iceland is not only due to different EU-policies of the two countries, but also a result of very different resources they have to spare. As a small state of little more than 300 thousand inhabitants, Iceland can only operate a much smaller administration. Because of this systemic lack of resources Iceland has been forced to prioritize much more actively on specific policy areas where it can focus its limited efforts on.

According to the EEA, Iceland, Norway and Liechtenstein are meant to harmonize their position internally and then speak with one voice. Senior diplomats in Iceland's foreign service however claim that their Norwegian counterparts on occasion seem to forget that they are in an binding agreement with two smaller partners and that Norway is prone to operate alone on issues that are of a concern for all of them, including the field of regional policy matters.

Despite being linked together in the EEA, Iceland and Norway have in general terms been in a significantly different position when it comes to European cooperation and operate quite different European policies. It is claimed that after twice refusing accession agreements with the EU, the Norwegian government is very concerned with proofing itself as being a good European and therefore presses to participate in EU policies as far as it can. Iceland has on the other hand never felt the same need to gain that kind of an acceptance in Brussels.

As a result the Icelandic government feels that the Norwegians are too keen to give into the demands of the EU rather than sticking firmly to the principles of the EEA agreement.

Senior Icelandic officials claim that the following pattern has emerged: First Iceland and Norway agree on a position and then later in the process Norway gives into the demands of the EU without consulting Iceland. This is claimed to have created increased tension in the cooperation. As an example for this pattern, Icelandic diplomats point to several cases –

including payments into the EU's development fund and Iceland's strive to update the EEA-agreement – where Norway did not back up the Icelandic position. These cases also include participation in the European Emission Trading Scheme (ETS), the widening of rights of establishment to include foreign family members of EEA citizens and the on-going pressure from the European Commission to provide the EFTA Surveillance Authority with power to issue fines on actors that are in violation of EU rules. In all of the cases Norway was more willing than Iceland to participate and give into the will of the EU.

These problems and diminished capacity to influence EEA legislation caused the Icelandic government to start pressing for a revision of the EEA-agreement by the end of the millennium. The government identified four main goals. First to bridge the ever increasing gap between the EU and the EEA by updating the text of the agreement so it would be in line with the changes made by the new treaties. Secondly to increase and broaden Iceland's access to specialists committees in the European Commission, including those that deal with regional policy matters. Thirdly to provide access to other EU institutions, i.e. the Council and the Parliament – which have gained a much greater role in decision making since the EEA-agreement was being negotiated. Fourthly to revisit stipulations in Protocol 9 with the aim of lowering tariffs on Iceland's export of fisheries goods. Apart from significant changes on Protocol 9 accompanying the 2004 enlargement the EU proved unwilling to revise the EEA at all. The Icelandic government felt quite alone on this strive as the Norwegian government showed little or no interest in revisiting the agreement.

Impact of EU-membership

Iceland applied for EU membership in mid-2009. Accession would have significant impact on municipalities and regional policies. Mostly through the chapter on regional policy (22) which has not yet been opened. Matters relating to regional development are also found in other chapters, such as on agriculture and rural development (11), fisheries (13) and on social policy and employment (19).

The European Commission screening report within the field states that Iceland has already an experience and capacity in designing and implementing regional policy measures and in participating in EU programs. It says that legislation relevant for EU Cohesion Policy is mostly in place; that the administration is small but flexible and has a broad experience in

programming and evaluation; that Iceland has a sound experience and capacity of financial control and audit.

The EC concludes that Iceland is already at an advanced stage with regard to alignment with EU legislation and policies in areas that are a prerequisite for the proper implementation of the EU cohesion policy. But that Iceland however still needs to enhance legislative alignment, for example in some areas of the environment.

Iceland furthermore would have to structure its assistance to the regions in a more systematic way and for example introduce multi-annual programming at national and regional level and budget flexibility, enabling co-financing capacity at national and local level and ensuring sound and efficient financial control and audit of interventions. These programs are negotiated and agreed with the Commission, but implementation is the responsibility of the Member State.

In the negotiation Iceland has emphasised its small population and very low population density, remoteness, insularity, demographic handicaps, difficult climate and natural conditions, large and difficult waters, recent economic downturn, limited economic diversity, dependence on imported and expensive goods because of high transportation cost and small local markets. It has highlighted that these factors should be taken into account in the negotiations and future implementation of EU's regional policy. It has mentioned that special solutions or criteria that are in place for certain member states and outermost regions could apply in the case of Iceland, also when determining the EU's financial contribution to Iceland. In fact, the EU policy of supporting its outermost regions is seen to be of utmost importance for Iceland.

For Iceland to participate in the EU regional policy; its dispersed policies and institutions relating to the field of regional development in general need to be further harmonized. Such work has already been initiated. The Ministry of Industry, Energy and Tourism produces the government's regional development plan, in cooperation with the Institute of Regional Development and in consultation with municipalities, and other bodies.

A wide range of economic development projects are being supported by national or regional authorities and numerous labour market measures are either being carried out or foreseen

for the near future. The EC however still proposes that a pipeline of projects will be established within the field of regional policy.

To conclude; irrelevant to a possible EU accession, Icelandic municipalities are still and increasingly being integrated into EU policies. It is estimated that even a majority of decisions made by local authorities are affected by the EEA agreement. In many ways an additional level of government has thus emerged, a European one – which local authorities in Iceland can no longer afford to ignore.