

CHAPTER 4:

The Failure of the Nest-Best Solution: EC-EFTA Institutional Relationships and the European Economic Area¹

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In the late 1980s, after decades of parallel development, the twelve member states of the European Communities (EC) and the seven members of the European Free Trade Association (EFTA) attempted to build common institutions to address the double challenge of competitive world markets and new realities in Central and Eastern Europe.² They came up with a grand idea: the European Economic Area (EEA) project, which was to lead to a broad regional accord encompassing the two existing subregional institutions. The initial mandate of the EEA was to preserve subregional institutional diversity while minimizing the costs of it. For EFTA countries, this mostly meant sticking to their vision of “natural” economic integration while enjoying the consumption of the EC Single Market at a very acceptable price. For the EC, the EEA was the best way to preserve the crowding-out of their club. They would extend some of the group privileges to EFTA members but without jeopardizing the individual benefits to existing members. Furthermore, the hope was that the new institution would help stem the pressure from Central and Eastern European countries.

The project materialized in 1992 when member countries of EC and EFTA signed an agreement to create a vast market of over 370 million consumers in which goods, capital, services and persons would move freely. The agreement also provided member countries with a set of cooperative schemes in domains such as research and development, education, consumer policy, social policy, and the environment. But EFTA countries had to pay a high price for gaining a privileged access to the Single Market. The EC took full control of decision-making, imposed its agenda on EFTA countries, and even forced EFTA to build up some supranational structures. This price proved to be too high and quickly transformed the EEA into an obsolescent framework. In December 1992, Switzerland dropped out of the treaty after the government's defeat in the domestic ratification campaign. Six months later Austria, Finland, Norway and Sweden started bargaining over the terms of their entry into the EC, with the first three ultimately making the move. At the same time, the EEA failed to attract the attention of Central and Eastern European countries and thus failed to stem the rush to the EC house. In short, then, the EEA was an over-priced product that quickly vanished from the shelves of European integration.

This episode is puzzling: why did the EC over-price the EEA product? There is no doubt that the EC was a regional hegemon and that EFTA was in a position of demandeur. There was thus a natural temptation for the hegemon to sell partial

access to its limited inclusive club at a very high price, and to definitely impose its conception of integration and sovereignty in Europe. But the EEA was also supposed to help produce a common pool resources (CPR) good -- pan-regional stability.³ And the EC needed some help from EFTA countries for this undertaking: First, the EC wanted to avoid sending a message of enlargement by having to accept new members coming from EFTA. Second, they wanted to use the new joint institutional structure -- not the EC -- as an anchor for emerging economies and countries in Central and Eastern Europe. To secure the help of EFTA countries, the EC had to design a new institution that was not too asymmetric in terms of political say. Why did it fail to do so? Unidimensional explanations are of little help. There was no change in the nature of the good to be produced. There was no cognitive change among EC decision-makers on the usefulness of the EEA. There was no major power change between the actors involved in the case. So how can we explain the chosen path of action? This chapter relies on the notion of “institutional bargaining games” to account for the dynamics of institutional creation and decay between EC and EFTA countries from the mid-1980s to the mid-1990s.⁴

To address the effects of major contextual changes, EC and EFTA countries responded with the creation of a new institution -- the EEA. The crux of the problem was that this new institution had to be reconciled with existing ones -- EC and EFTA. The nature and type of the institutional linkage were especially

problematic. Even though there was an inherent ground for a substantive nested linkage of the existing institutions inside the new one, there was a major obstacle to it. The salience of the EC was very high to EC members and the latter were not ready to have it endangered by a nested position inside the EEA. They were ready to risk conflict with EFTA members rather than yielding on this aspect. From this perspective, the situation was potentially explosive and EFTA countries provided the spark which caused the explosion. Under severe domestic constraints, several EFTA governments asked the EC for a large say in the future institution. These demands fueled EC fears that the Community would lose some control over its destiny. In particular, the European Parliament and southern member states opposed granting any significant concessions to EFTA members and forced the EC commission to follow a tough bargaining attitude. Imposing a very high price for EFTA's access to the Single Market took precedence over getting EFTA's support for the provision of the CPR good of pan-regional stability. As argued above, this strategy backfired because it pushed most EFTA countries to ask for immediate entry into the EC and directed all the pressure from Central and Eastern European countries onto the EC alone.

This chapter is divided into three sections. The first one covers the road toward the EEA from the Luxembourg process through the Single European Act and its effects. Shocks during this period mostly affected EFTA countries who feared

loosing private goods from their privileged relationship with the EC. Given the EC's lack of interest in changing the existing bargaining game, and that EFTA countries lacked the power to force change, there was no major institutional change during that period. The second section highlights how change materialized. The evolution in Central and Eastern Europe created new negative externalities in Western Europe and created the need for some joint action among Western European countries in order to preserve pan-regional stability and prosperity. To address this new challenge, the EC suddenly became more interested in a new partnership with EFTA countries, opening the way to the process of designing a new institution, the EEA. The section examines how a cocktail of severe domestic constraints in EFTA countries, the high salience of the EC club, and sharply asymmetric power pushed the parties down the wrong road toward an over-priced EEA. The third and last section focuses on the movement away from the EEA toward EC membership for most EFTA countries. Membership provided these countries with better private goods than the EEA at a roughly same price. They thus had no reason to stick to the EEA. I conclude the article with some general lessons from the case on institutional change and nesting in processes of regional integration.

1. Toward the EEA: 1984-1989

Ever since the splitting of Western European trade arrangements in the late 1950s, due to the failure of the Maudling Plan to bring a Wide Free Trade Area, relationships between EFTA countries and EC countries have remained a key issue in the evolution of Western European regional integration. Both political and economic concerns have shaped the marital life of this awkward couple, and led to a range of unilateral, bilateral and multilateral actions from both sides. I do not review here the historical evolution of the couple, but start in the early eighties after the full implementation of the series of free trade agreements that followed the entry of the United Kingdom, Denmark and Ireland into the EC.⁵ I describe the state of the situation at that time and consider it as being the “initial bargaining situation.” I then turn to an examination of how the situation was affected by new developments on world markets and inside the EC

The Initial Bargaining Situation

After the free trade agreements of 1972, which gradually led to the final removal of trade barriers on December 31, 1983, the relationships between EFTA and EC did not undergo major changes: EFTA countries expressed their willingness to develop closer economic coordination to avoid the potential drawbacks of divergent economic policies, but this had no effect. The EC was facing major internal and

external challenges -- enlargement to include Greece, furthering of special economic ties with former French colonies, and domestic economic recession in the wake of oil crises -- factors that made relations with the EFTA a secondary priority.

Western Europe was characterized by a clear separation between two groups, each abiding by different regulatory arrangements -- EFTA and EC. They developed links between them but maintained their autonomy. Both were nested in the GATT framework which regulated trade activities at the global level. Significant differences existed both at the meta-regime and at the regime level. The EC opted for economic and political integration, whereas the EFTA aimed for regional free trade. The EC regime was strong, with supranational bodies to enforce and monitor the regulations, whereas the EFTA was weak and exclusively intergovernmental. Both were rather liberal in nature, although the EC tended to be more restrictive with outsiders. Finally, the scope of the EC regime was broad with a large agenda of trade liberalization, trade facilitation and economic cooperation for goods and services, whereas the EFTA was limited to the trade of industrial goods. In sum, regulation of national actions was much stronger and broader for EC members than for EFTA members who often engaged in ad hoc measures to cope with rising externalities. As an illustration, each EFTA country negotiated separately its free trade agreement in 1972, even though there was a common pattern in all the bilateral agreements. "Bounded unilateral course of action" also characterized the failed

attempt by Austria, Sweden and Switzerland to negotiate association agreements with the EC in 1961-1963. This mixture of coherent international regulations and fragmented national controls increased transaction costs, and thus lessened the economic potential of regional trade, despite growing interdependence among societies. Despite these shortcomings, there was no strong willingness to promote a game change among the members of the two groups. Externalities were not perceived as being major, and political costs of changing course were prohibitively high.

Status Quo Plus: the Luxembourg process

In the beginning of the eighties, the dual structure of trade arrangements in Western Europe became more of a problem for the various parties, which began to think of the possibility of changing the rules of the game. World competition, especially from newly industrialized countries in Asia, became increasingly costly to most Western European economies. This fostered the emergence of a need for both domestic economic reforms and collective action at the regional level. Collective action was however not joint between EC and EFTA. EC countries were concerned about the stagnation of intra-EC trade due to the fragmentation of the EC large market. As a consequence, they focused their efforts on ways to relaunch the internal dynamics, whereas EFTA members were much more interested in joint action. This was not surprising given the increasing dependence of EFTA

countries on EC markets. This dependence was the direct consequence of the realization of free trade for industrial goods, and of the severing of access to alternative markets.⁶ With respect to trade flows, between 1972 and 1986, intra-EFTA imports fell as a percentage of total EFTA imports from 15.9 to 13.3 percent, while EFTA's imports from the EC increased from 59.4 to 61.1 percent.⁷ EFTA countries feared a loss of individual benefits from their relationships with EC countries and wanted to implement some institutional change to prevent an erosion of their privileges.

With the EC mostly focusing on its own deepening, change remained quite limited. The major development -- the launching of the so-called Luxembourg process -- remained mostly a cosmetic change with some symbolic value.⁸ Meeting on 9 April 1984 to discuss the prospects of future joint cooperation, EC and EFTA Ministers emphasized their willingness to deepen bilateral ties and, ultimately, to create a "dynamic European economic space." This rather vague label encompassed a broad agenda: i) members from both organizations should increase their efforts regarding harmonization of standards, remove non-tariff barriers, simplify border facilities and eliminate unfair practices; ii) cooperation would also concern the fields of research and development; iii) coordination of employment policies; iv) exchange of information on economic and trade difficulties. To monitor and supervise the

follow-up of this program, EC and EFTA countries established a High Level Contact Group which began working on the removal of technical barriers to trade.

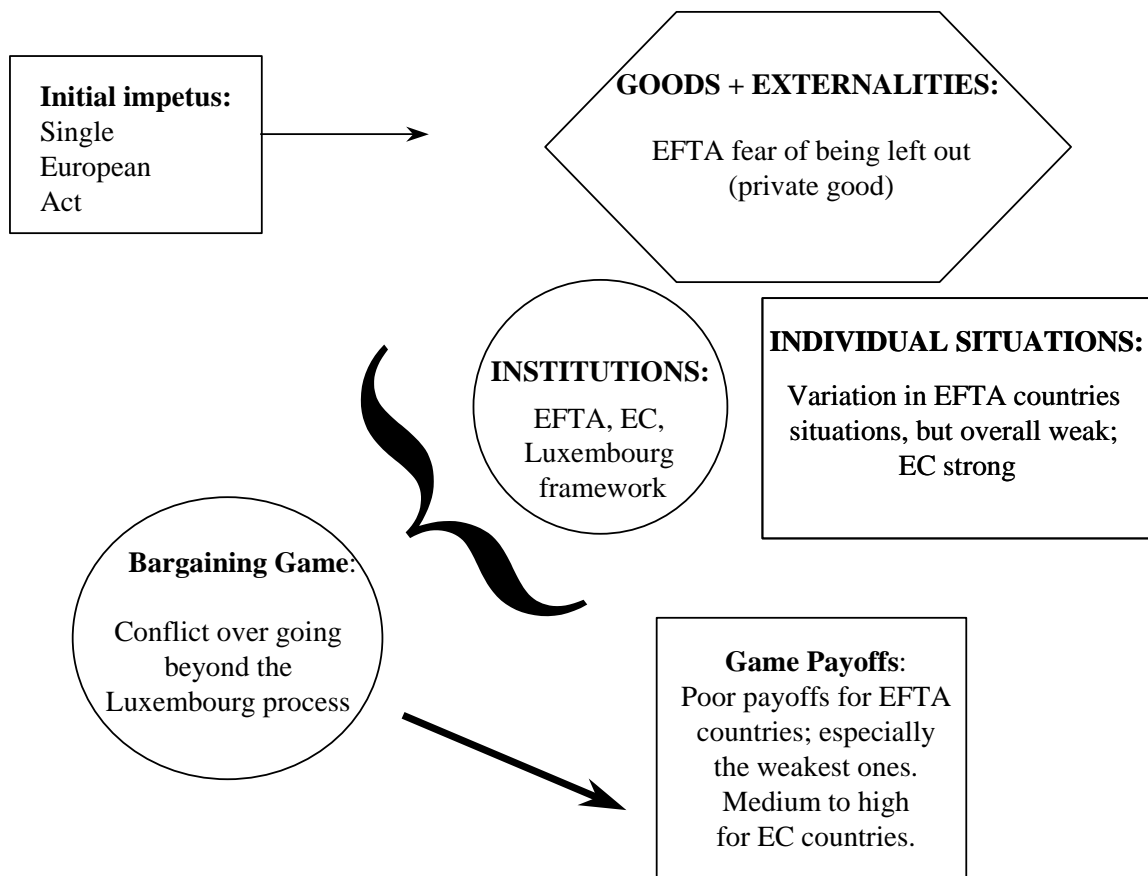
The First Major Shock: The Single European Act

Shortly after the launching of the Luxembourg process with EFTA, the EC adopted the Single European Act in December 1985, a program that aimed at transforming the European Community into a vast frontier-free economic and social area which would tend toward a political union with even closer cooperation on foreign policy and security.⁹

In the terms of Aggarwal's framework, the internal market was the first strong shock to the existing institutional bargaining game between EFTA and EC (see Figure 1A). The development of the Single Market program had the immediate implication of creating fear among EFTA countries of being left out of economic integration in Western Europe. While this fear existed prior to the Single Act, it took a new dimension with the advent of the single market, especially when the first concrete implications of the program began to appear in 1987-88. The best indicator of EFTA's fear of a Fortress Europe can be found in foreign direct investment (FDI) flows. In 1985, 28% of EFTA's outward FDI went to the EC; in 1988 this figure was about two thirds.¹⁰ Sweden and Switzerland were the most sensitive, but Finland and Norway also underwent significant changes. This growing outward flow of investment was gradually eroding the productive base of EFTA countries.

EFTA was not specialized in the fastest growing activities and almost completely absent from the high-technology sector. Specialization in low-technology products or intermediate-technology products made EFTA countries especially vulnerable to the fierce competition from the Third World. Privileged access to the EC market was thus extremely important. In addition to market access, cooperation with EC countries in R&D was crucial to develop new industries.¹¹

FIGURE 1A: THE EFFECTS OF THE SINGLE EUROPEAN ACT



Despite official EC denials that 1992 Europe would not be “a fortress Europe,” and commitments that it would be a partner and act to “strengthen the multilateral system,” it was not clear to EFTA countries and firms how the EC could abide by its willingness not to succumb to some closure. The unaffected power of the EC Council of Ministers, directly linked to the preservation of domestic interests, raised doubt about the Community’s ability to meet the openness requirement. The increased power of the European Parliament regarding relations with the external world was of little comfort, because Parliament members might use market access as a tactical tool to promote political and social rights in external countries.¹²

In sum, the Single European Act threatened to disrupt EFTA countries’ consumption of their private access to the EC club. Concerned with this potential blow to their existing payoffs, they were willing to implement some change in the institutional game with the EC countries. But the room for maneuver was quite limited -- both because of the lack of interest by their EC partners, as well as stringent domestic brakes against supranational action. EC countries were concerned about crowding-out effects in their club and thus were not interested in selling access to it. On the other hand, EFTA countries did not have much to spend on buying access, anyway, due to domestic political opposition to large European

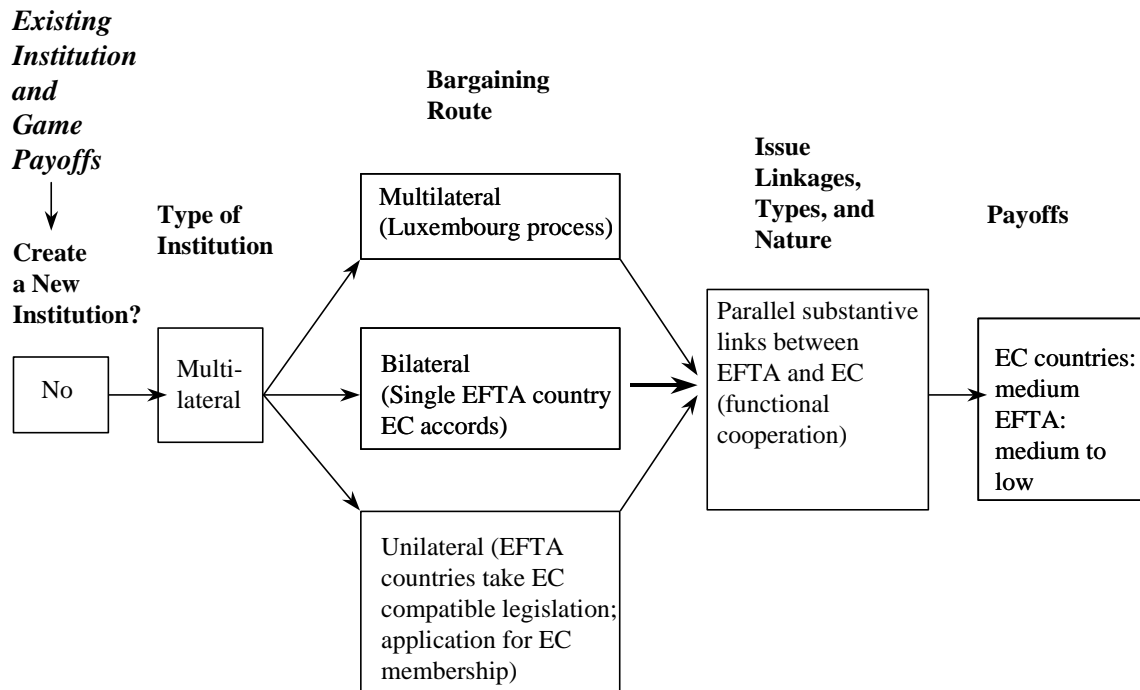
initiatives. As we will see in the next section, this resulted in trying to make the best out of the existing institutional setting, while waiting for better times.

Responding to the Single European Act: Multiple Functional Cooperation

Reactions to and ways of remedying the potential negative externalities of the Single European Act differed according to national abilities to sustain the shock, domestic political constraints, systemic imperatives and the actors' perception of the nature of the problem. Figure 1B depicts the various paths taken by EFTA and EC countries during the years 1986-1989. First and foremost, the parties did not engage in building a new international institution but continued to use the existing ones, that is EC, EFTA and the Luxembourg framework between the two organizations. The EC favored the status quo -- functional cooperation through the Luxembourg framework together with the continuation of some bilateral accords with single EFTA countries -- thus leading to two bargaining routes, a multilateral and a bilateral one. This attitude stemmed from cognitive and domestic coalitional imperatives. There was a strong agreement among EC countries that priority should go to the full realization of the internal market and not to relationships with neighboring countries, including EFTA countries.¹³ Widening would have hurt deepening and would have stopped the new impetus given by the Single European Act program. On the EFTA side, the use of existing institutions was the only position commonly held. Members were converging on the need of something in-between adhesion and the current situation.

This “muddling through” could hardly disguise individual differences. At the multilateral level, members diverged on the question of strengthening EFTA in order to improve their bargaining position with respect to the EC, and also on whether a new institutional arrangement should be a short-term or long-term venture. They also diverged on the respective weight of multilateral and bilateral bargaining routes. The Scandinavian countries preferred a multilateral bargaining route through the Luxembourg process and EFTA, whereas Switzerland sought a more balanced approach between bilateral and multilateral solutions.¹⁴ Austria wished to pursue the unilateral option of seeking EC membership.

FIGURE 1B: RESPONDING TO THE SINGLE EUROPEAN ACT: MULTIPLE FUNCTIONAL COOPERATION



Different domestic political constraints and divergent economic interests stemming from different economic specialization and domestic regimes explain the variation in preferences and strategies. If all EFTA countries were largely dependent upon EC markets -- much more than the EC was upon EFTA markets -- different aspects of the EC internal market appeared to be important to different EFTA countries. For Austria, the most dependent upon EC markets, the presence of Austrian companies abroad had traditionally been low, thus making export capacity all the more important.¹⁵ Industry was predominantly small-scale, with a very low level of outward foreign direct investment. In addition, the domestic market was highly segmented by domestic firms capturing high rents. Under these conditions, reforms were to achieve a higher level of competition through the removal of border procedures and through mutual recognition of diplomas and establishment rights.

These reforms could hardly be undertaken without an external push, given the corporatist structure that locked the existing situation. Consensus politics would make the necessary redistribution of income, or rents, from existing firms to new entrants or new consumers almost impossible. As a consequence, political elites became increasingly interested in the option of joining the EC in order to push for the necessary reforms. In June 1988, the influential report of a Working Group on European integration of senior civil servants came to the conclusion that the multilateral approach through EFTA had hardly shown any concrete results.¹⁶ The

consensus that the only way to get out of the economic difficulties was through full participation in the Single Market program was not limited to political elites but also reached the social partners. Labor wanted to get rid of rent-seeking firms that jeopardized job creation. They saw an opening of the domestic market as the only way to do so. On the side of industry, deregulation had a strong appeal.¹⁷ In sum, both domestic economic characteristics and domestic political feasibility pushed Austria toward the unilateral strategy of asking for EC membership.¹⁸ Economic necessity was more heavily weighted than the concern with neutrality by the Austrian government. In other words, expected payoffs from EC membership largely outweighed existing payoffs.

In contrast to Austria, the other countries thought that they could remedy the externalities of the SEA without full participation in the Internal Market, let alone membership. In the Scandinavian countries, some industry studies came to the conclusion that large gains would come from the first stage of integration -- reduced trade costs and increased intra-industry trade. The reason is that in these small, open economies, the dominance of domestic firms is less than in a country like Austria and imports are more important.¹⁹ Sweden was particularly looking for improvements in the goods sector, and equal access to public procurement markets for high-tech firms would seem to be one of the economically more important areas. Compatibility of technical standards and norms was one of the prime objectives of

the Finnish government.²⁰ In Norway, large natural resources, in energy in particular, prevented any sense of economic urgency.²¹ And Iceland was primarily interested in having access for its fisheries products. For Switzerland, a well-developed banking and insurance sector was a key concern. The high level of internationalization of the Swiss economy, and the relatively wide array of exports markets,²² lessened the sense of economic urgency raised by the Single Act.²³

In addition to these economic considerations, domestic politics and international systemic constraints ruled out the EC membership option. Neutrality was still a prevailing and domestically popular principle. The discussions inside the EC of foreign policy and security issues would endanger this deeply rooted principle in the event of adhesion. The Swiss people were also concerned about a possible erosion of their political system based on direct democracy and federalism. In Norway, European integration was still a highly divisive topic, and no government had dared to venture too far into it. Finally, in Iceland, any move toward supranationalism was perceived to be prohibitively costly by the government.

2. The EEA Experience: 1989-1991

In the late eighties, new developments in Central and Eastern Europe created new externalities that endangered the future consumption of a newly CPR good for EC and EFTA countries -- pan-regional stability in Europe.²⁴ In addition, these new

developments created a fear of crowding-out effects in the EC club, especially among EC Southern members. The shock needed some responses and the EC turned to EFTA partners to implement a major institutional change -- the creation of the EEA. This section analyzes the different issues involved with this effort and highlights the roots of the weaknesses of the new institutional framework.

The Second Major and Decisive Shock: Changes in Central and Eastern Europe

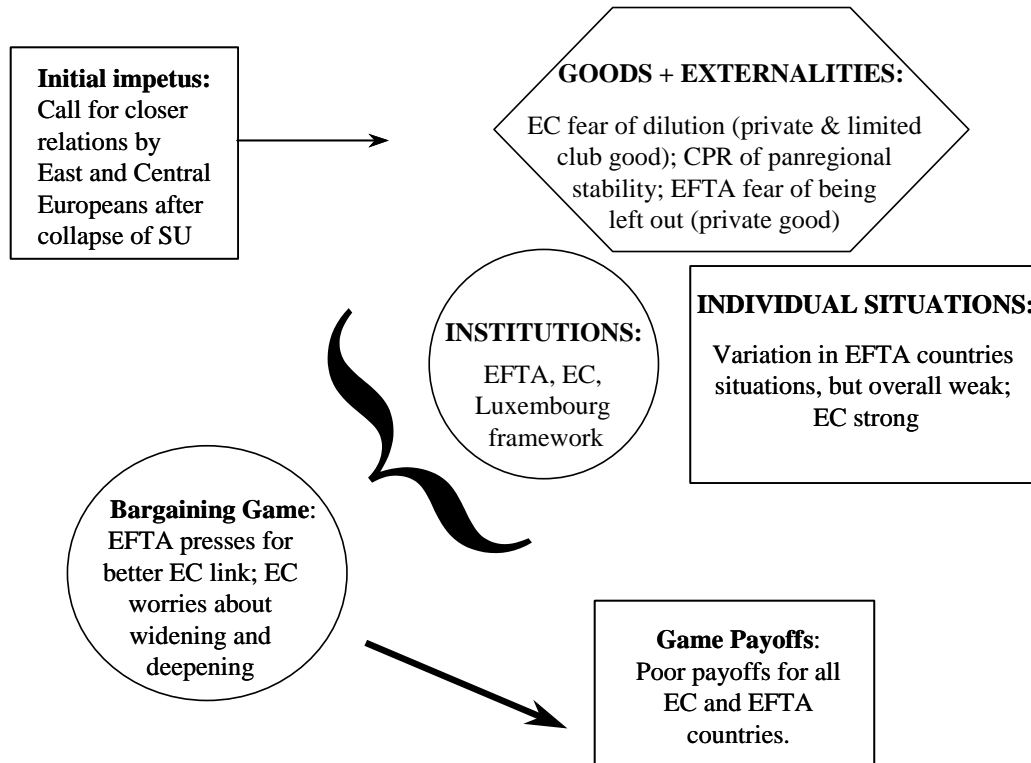
As argued in the previous section, negative externalities from the development of the EC internal market program had clearly created a desire for a new institutional arrangement on the part of EFTA countries. However, the EC was not in a rush to promote change, simply because externalities did not affect it. This situation changed in the late eighties in the wake of the economic and political reform processes in Central and Eastern Europe. These developments began to affect the EC payoffs in the existing game.

The priority of deepening was affected by economic and political pressure coming from the East. Economically, there were emerging demands for new trade arrangements, and the Community could hardly resist them without jeopardizing ongoing political reforms. The best cases were Poland and Hungary where political rights were expanded in 1988, leading to the entry of democrats in their Parliaments in 1989. As a consequence, the Community began to conclude special agreements

with these countries. In November 1988, Hungary was the first member of the Council of Mutual Economic Assistance (CMEA) to get such an agreement. It included a schedule for the abolition of specific quantitative restrictions on Hungarian exports to the EC. Czechoslovakia signed a less wide-ranging agreement on industrial goods in March 1989. In September 1989, Poland signed an agreement similar to the Hungarian one.²⁵ These agreements themselves did not endanger the pace of the Community's deepening process; but there was clearly a fear that new demands would come from other countries and concern that more far-reaching demands would emerge. This would be costly both politically and economically. In sum, the new shock endangered the future consumption of the EC limited inclusive club good by its current members, and at the same time created the need for the provision of a new CPR European good, pan-regional stability. Members of the EC and EFTA did not have to worry about it in a bipolar Europe but the unraveling of the Communist pole forced them to address this issue. Keeping in mind the continuing concern of EFTA countries with their individual access to the EC club good, the shock radically transformed the strategic interaction between EFTA and EC by making it a story with a mix of goods. Most significantly, there were not only goods characterized by the possibility of exclusion -- club or private goods -- but also a CPR good which required a new institutional structure. EC hegemony would not be sufficient to ensure the provision of this good, not the least because

private benefits of EC members risked being jeopardized by a unilateral provision of the new collective good. Thus both sides had a strong interest in doing something to alter the existing situation and they did not wait long to do so.

FIGURE 2A: THE EFFECTS OF CHANGES IN CENTRAL AND EASTERN EUROPE



The first step of the EEA process was taken in early 1989 by the President of the EC Commission, Jacques Delors. In a decisive speech to the European Parliament on January 17, 1989, Delors emphasized the need for a new partnership with the EFTA countries. He envisioned this new approach as a “more structured partnership with common decision-making and administrative solutions in order to increase the efficiency of our action.”²⁶ EFTA countries reacted to the commonality of interests

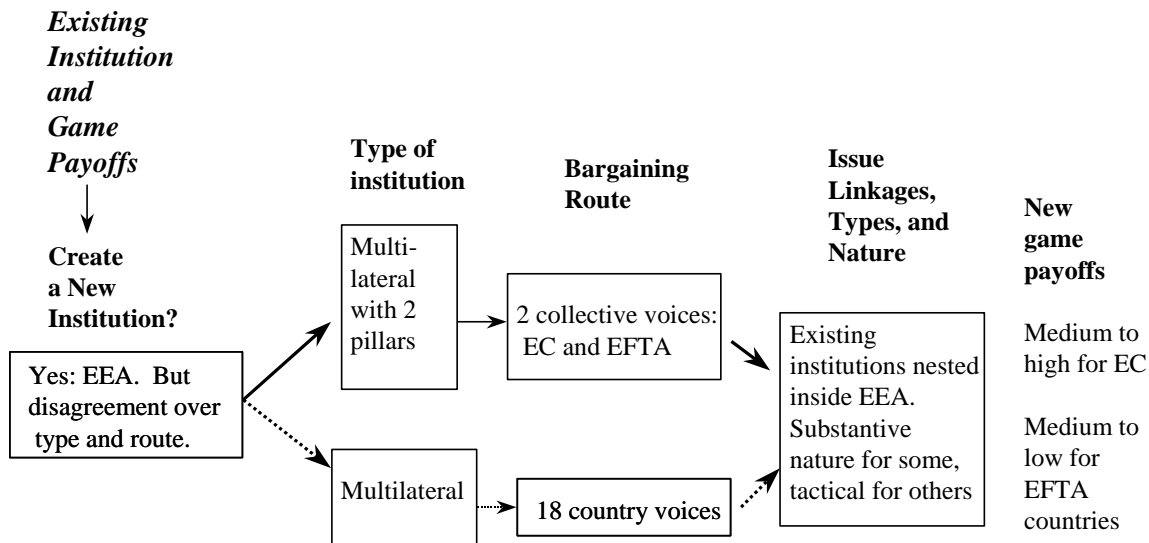
and values highlighted by Delors, and responded positively to the proposal during a Ministerial meeting in Oslo on March 15, 1989. They explained that enlarged cooperation under the Luxembourg process had not lived up to their expectations and hopes. They endorsed the necessity of exploring together with EC countries the “ways and means to achieve a more structured partnership with common decision-making and administrative institutions in order to make cooperation more effective.”²⁷

Delors’ initiative and the positive response by EFTA countries led to a new dialogue between the two sides, initiated by a Joint Ministerial meeting in Brussels on March 20, 1989. Ministers noted the major progress achieved since the Luxembourg Declaration and confirmed their willingness to extend and deepen their cooperation. They asked for a comprehensive examination of the “possible scope and content of an expanded and more structured partnership between the Community and EFTA countries.”²⁸ The parties concluded exploratory discussions in October 1989 and agreed to move on with the opening of formal negotiations.²⁹ Exploratory talks between January and March 1990 stiffened the parties’ resolve to immediately open final negotiations. Before turning to these talks, the next section highlights the institutional options that the actors considered when promoting change.

Debating the Institutional Options: 1989-1990

Institutional choices and linkages were key considerations and a bone of contention -- both in the fact-finding and exploratory phases. Figure 2B identifies the alternative choices that were evaluated and the path actually favored by the parties (in plain arrows in Figure 2B).

FIGURE 2B: DESIGNING THE EEA



To address the externalities of the new situation, both parties decided to engage in the creation of a new institution rather than simply using existing arrangements. The reason behind this choice stemmed from the nature of the goods at stakes, from the individual situations of actors, and from past performance of existing institutions.

The Luxembourg process between EFTA and the EC had clearly shown its limits. Nine multilateral agreements had been signed but they were limited mostly to administrative procedures.³⁰ Functional cooperation was inadequate to meet the new challenges and thus had lost its appeal to both sides. Another existing option was an extended use of the EC. The Community itself opposed such an option, at least in the near future. Priority had clearly been given to the completion of the internal market before any widening to include new members. The EC feared crowding-out effects, and therefore wanted to build a new institution that would help it preserve pan-regional stability without jeopardizing the distribution of private goods to the existing members. In addition, most EFTA countries also ruled out an extended use of the EC. Austria was the only country in favor of admission out of economic urgency and decision-making autonomy. There was a strong consensus among elites in favor of joining the Community. The two largest parties, the Socialist and the Populist, favored admission and were united in a strong coalition government with 157 out of 183 seats in Parliament. If the Austrian government preferred joining the EC, it however considered the creation of a new institution to be a second-best solution. Austria chose to support this solution at least until the opening of negotiations over membership because it was the quickest road to Brussels.

In the other EFTA countries, concern with neutrality and sensitive domestic political constituents continued to rule out the EC membership option. Hostility was greater in Norway, Switzerland, and Iceland but also quite strong in Sweden and Finland. In Norway, the Conservative Party broke the ice on possible adhesion, but its coalition partners in the government, the Christian People Party, and especially the Center Party were opposed to such a move.³¹ As a consequence, the biggest bone of contention was European affairs, ruling out possible adhesion.³² In Switzerland, the four largest parties -- radicals, conservatives, socialists, and agrarians -- supported the government's "third way," that is, the search for a new partnership with the EC that would go beyond current bilateralism without endangering Swiss interests. Fears for Swiss national identity, aversion to European red tape, and determination to preserve agriculture and direct democracy spurred the emergence of a minority coalition opposed to any change in the Swiss attitude toward Europe. This minority did not hold much weight inside Parliament, but had a strong following among the German speaking population, especially in the small rural cantons. In Iceland, opposition to adhesion was the only common denominator inside the coalition government regarding European integration. While the Social Democrats favored closer ties with the EC and favored the creation of a new institution, the People's Alliance and the Progressive Party were more reluctant about pursuing the EEA process. In Sweden, the minority Social-Democratic

government was in a stable position regarding European affairs.³³ This was due to the existence of a compromise between the major parties regarding European integration. Sweden would make all efforts to improve its situation, short of EC adhesion. Finland was in a similar situation with the largest parties in Parliament favoring a deepening of links with the EC.³⁴

EC adhesion was also economically suboptimal for these EFTA countries, despite the increasing pressure of increasing flows of foreign direct investments by both multinational and smaller firms in countries like Sweden and Switzerland. Rushing to the EC was not the first-best option, because preserving the competitiveness of EFTA economies would require compatibility between European integration and world competitiveness.³⁵

A third option, available only to the Nordic countries, was to use the existing institutions of Nordic cooperation. These included the Nordic Council, the Council of Ministers, and the Joint Investment Bank. Although these institutions constituted part of the identity of Scandinavian countries, they were a secondary concern, to be upgraded in line with the creation of a new institution rather than used as a primary instrument.³⁶

Turning to the type of the new institution, the bargaining route, and the institutional linkages, a key factor of explanation was the high salience of the EC to its members. It deeply influenced the choice of a multilateral institution with two

pillars, a bilateral bargaining route, and an asymmetric tactical nested linkage between the new and the existing institutions. As we will now see, this factor was not sufficient to explain the institutional path chosen by the actors.

On the type of the new institution, the issue was not one between different types but one within the multilateral type. Clearly, the EEA would encompass the eighteen members of the two existing institutions, and would thus be multilateral in terms of membership. In terms of decision-making procedures, however, the EC did not want to have its own prerogatives diluted inside the new institution. At a meeting in Consendonck (Netherlands) in April 1988, the EC Commission stated that priority had to be given to deepening rather than widening until the end of 1992.

Any new development with EFTA had to respect this commitment, or would otherwise meet the opposition of institutional actors, such as the Parliament,³⁷ or domestic constituencies, in southern EC countries in particular.³⁸ Whereas a truly multilateral framework would not meet this commitment, the Commission came out with the idea of an institutional structure with two pillars -- EC and EFTA. The salience of the EC cannot explain, however, why the Commission requested a strengthening of EFTA structures to ensure the feasibility of this option. Here efficiency and control were the main motives. The difficulties of the Luxembourg process beyond the stage of sectoral adjustments had highlighted the limits of EFTA as an effective partner. Intergovernmentalism and the systematic use of consensus

in decision-making made the organization ill-adapted to a more ambitious European integration. In other words, EFTA's organizational principle had to be transformed to economize transaction costs.³⁹ In addition, with several EFTA individual members eager to strike an easy deal with the EC, a strengthening of the EFTA collective was for the EC a device to better control some more demanding countries, like Switzerland.

On the EFTA side, several members welcomed the idea of reinforcing EFTA structures, because they considered the existing ones to be ill-adapted to the new challenges. In the Nordic countries, decision-makers shared the belief that the multilateral EFTA strategy did not make any sense if there was not a parallel course between all EFTA countries.⁴⁰ Without better coordination, the unilateral adaptation strategy was a better path from the perspective of engaging bilateral accession talks once the Community would be ready to consider it. Strengthening EFTA could take many forms but one of the most often mentioned was the possible creation of a customs union.⁴¹ For other countries, in particular Iceland and Switzerland, the two-pillar track caused trouble similar to accession to the EC. A strengthening of EFTA would lead to a transfer of power to a supranational body, a highly unpopular move among domestic constituents. Given that the economic benefits of such a construction would be far less than joining the EC, these two countries tended to consider the two-pillar option as part of a worst case scenario. Decision-makers

continued to believe that a third way between adhesion and a unilateral course of action was both possible and would provide an effective means to address the externalities stemming from the deepening of EC integration. In Switzerland, they relied on the economic expertise of some academics to justify their position.⁴² But this expertise did not distinguish between multilateral/two-pillars and multilateral/common decision-making, primarily because they focused on the economic application of a new agreement, rather than on its likelihood.

Continuing division inside EFTA precluded a clear settlement of the issue of the type of the new institution.⁴³ Although the EC option took precedence when EFTA countries accepted in October 1989 the acquis communautaire as the basis for the future agreement,⁴⁴ under the pressure of the hardliners, EFTA continued to call for “a genuine joint decision-making mechanism in substance and form,” and insisted on an equal footing with the EC for any matter of concern, and on the right to take initiatives.⁴⁵ At most, the Commission offered to accept an osmosis between separate EFTA and Community pillars throughout the decision-shaping phase. Still some EFTA members, in particular Switzerland, continued to think that there was some chance that the EC would change course on the issue during the negotiations. As we will see below, this displaced hope had serious consequences in the negotiation process.

Turning to the bargaining route, actors finalized their choice during the exploratory phase that took place in the Spring of 1990. In harmony with the two pillar structure, negotiations were to follow a mostly bilateral road. Issues would be addressed in five negotiating groups: i) free movement of goods; ii) free movement of capital and services; iii) free movement of persons; iv) horizontal and flanking policies; v) institutional questions. Each of these groups would proceed independently but would directly depend on directives coming from a leading group, the Joint EC-EFTA High Level Negotiating Group (thereafter HLNG). This supervisory committee was constituted on one side with the EC chief negotiator speaking on behalf of the Commission for the Member states, and on the other side with the chief negotiators of all EFTA countries speaking with the voice of one primus inter pares -- the EFTA chief negotiator. The dissonance of EFTA's voice put some doubt on this bilateralism. Still, it did not threaten the bilateral nature of talks because EFTA members with special interests in some issues would be encouraged to seek compromise directly and separately with the EC. The choice of the bargaining route was influenced by the Community's willingness to see the two-pillar construction quickly implemented. Negotiations would thus serve as a test case for a strengthened EFTA. The EC was particularly keen to have the EFTA countries speak with one voice, both for efficiency concerns and to help overcome the resistance of laggard countries. Indeed, the Commission wanted to avoid having

to consider individual demands from each EFTA country based on domestic imperatives and constraints. Forcing them to speak together shifted the onus of reconciling divergent domestic demands to EFTA, where opposition from individual countries could be overcome.

Regarding linkages, the key consideration in creating EEA was to encompass the two existing institutions in a larger framework. Delors hinted at this in his January 17, 1989 speech:

To make myself better understood I will go as far as to say that we dream of a European village, governed by détente, in which economic and cultural activities could develop in mutual confidence. However if I were to draw this village today, I would see in it a house called 'European Community' of which we would be the only architects and careful custodians of the keys, ever prepared to open up our doors to enter into dialogue with our neighbor.⁴⁶

In this vision, EFTA members would belong to a second circle, the village called EEA, that was more flexible and less demanding than the EC. As the closest neighbors surrounding the Community's house, they would have privileged relationships and would be a test case for future relationships with Central and Eastern European countries. In terms of the analytical framework used in this book, there was clearly a nesting perspective behind the EEA. Both the EC and EFTA

would belong to the same village. But the salience of the EC precluded a full nesting of the EC into the EEA. As a consequence, the EC pushed for a kind of partial nesting which would have different hierarchical implications for the two existing institutions. Some of the prerogatives and policy domains of the EC would remain outside the nest, whereas EFTA would be fully in it. Moreover, EFTA would be the nest-keeper in charge of welcoming Central and Eastern European countries willing to anchor themselves to Western European countries. As such, it could help the EC and share the costs of supporting these countries.

Turning to the nature of the linkage, there were both substantive and tactical reasons to proceed with a partially nested design. Substantively, nesting was believed to be the only feasible route to cope both with deepening and widening issues in European integration. It allowed for a variable geometry approach that would nicely fit the different economic and political conditions of Western European states. Substantive nesting addressed systemic and domestic imperatives while responding to trends in transactions. From an economic point of view, there was a clear interest in coming up with concentric circles. Enhanced performance required a careful hierarchical ordering with different integration speeds embedded in a common framework.⁴⁷ Politically, Delors restated at a meeting of the General Affairs Council that the strengthening of cooperation with the EFTA could also be the basis for discussions with the countries of Eastern Europe.⁴⁸ There was now a

larger acceptance inside the Community that the EEA was more than a simple matter of integration with the neighboring EFTA, as revealed by an editorial of Agence Europe:

The real problem of a Europe that claims to be a political entity with its own voice in the world should not be concerned with how many members it has, but with the coherence of the fundamental choices and the value of the links that bind them.⁴⁹

From this viewpoint, the EEA was considered by the EC as the best possible link between the EFTA and the EC, as an osmosis that could succeed.

But these sound motivations could not hide more tactical purposes. From the EC's perspective, the EEA offered a tactical response to systemic developments in Europe and on a global level. The EC was under increasing pressure from the US and Japan to open up its borders, and to avoid choosing the option of a "Fortress Europe." The new relationship with EFTA combined the wish to gradually open the internal market to outsiders and the desire to prevent a disorganized flow of new applications for EC membership. The new structure could also be used to welcome East and Central European countries through association treaties.⁵⁰ In addition, at the global level, the EC could use the EEA to increase its influence on international regimes and world commercial negotiations.

Tactical reasons also guided the behavior of EFTA countries, especially Norway, Sweden, and Austria. In the latter, the government publicly stated that the EEA was the shortest way to adhesion, and would be pursued until adhesion would become a reality. In Norway, the EEA provided a way to avoid a premature domestic debate on EC membership that was considered to be the ultimate goal of the government. In Sweden, the changing systemic environment was gradually eroding the neutrality constraint, but the EEA was still the best option for improving the economic performance of the country. It was the best way to satisfy those domestic constituents concerned with economic necessity and those concerned with political security.

The Devil is in the Details: Formal Negotiations 1990-1992

After more than a year of sporadic preparatory work, formal negotiations on the creation of the EEA opened in June 1990. The initial situation was one of deep disagreement on some key institutional features, with a background of severe domestic or institutional constraints on both sides. This left little room for integrative bargaining in order to design an institution that had to take care directly or indirectly of the mix of goods -- limited inclusive club, private and CPR -- discussed in the previous section. In such a context, there was no place for strategic mistakes. Yet EFTA could not have had a worse start, and sent the whole process

into a spiral of conflicts which in the end turned to be a blow both to EFTA and EC countries.⁵¹

During preparatory work, the EC had made it clear that the acquis communautaire would be the substantive basis of the new institution and that it could not tolerate any erosion of its prerogatives. Yet EFTA countries thought that they could change the EC's position on these issues, and thought that the best way to get something, as minimal as it might be, would be to ask for much more. They thus started with very high initial requests. During the first formal meeting of the HLNG on July 24/25, they submitted a list of desired permanent exemptions from the acquis communautaire. They expressed the hope that they would be allowed to participate in the different committees that assisted the European Commission in the implementation of Community legislation for the areas to be covered by an EEA Treaty. They also requested the creation of a common supervisory organ to monitor the implementation of the legislation, a departure from the Community's desire for a system with two supervising pillars.⁵² EFTA justified most of these demands on domestic political grounds. This initial strategy stunned the EC Commission and jeopardized much of EFTA's credibility. Reacting to this first HLNG meeting, the EC Commission expressed serious concern over the numerous list of exemptions the EFTA countries had requested, especially for the permanent ones. From the Community's viewpoint, exemptions from the acquis should be limited to a

country's fundamental, not political interest, and could not lead to a de facto suspension of any one of the four freedoms.

The initial divergence was so large that the process got stuck in an early stalemate, which could be likened to a dialogue of the deaf until late in October. After such a bad start, EFTA countries had to make some concessions to try to relaunch the process. They agreed to explore the two-pillar principle for the surveillance mechanism but called for the creation of a common body to link the two pillars.⁵³ The EC Council restated its strong willingness to continue negotiations, and recognized the "great political importance of having an agreement both on institutional and substantive matters."⁵⁴ The EC's explicit mention of institutional aspects was a nod of recognition to their political importance in most EFTA countries. On the following day, the Ministers of the EFTA countries welcomed this positive signal with the official recognition of the need to reduce to a minimum exemptions from the acquis.⁵⁵

The prospects for a quick and smooth bridging of differences remained dim, however. This, coupled with a rapidly changing systemic environment, pushed the Swedish government to announce its intention to submit an EC application form to the Parliament on October 26, 1990.⁵⁶ The other EFTA members globally interpreted Sweden's decision as unfortunate. Switzerland thought it sent the wrong message when the negotiating parties were in a battle of wills.⁵⁷ In Finland and

Norway some officials considered it an unfortunate break in EFTA solidarity,⁵⁸ and feared that Sweden intended to pave the way to demanding Nordic adhesion to the EC, a move that neither Norway nor Finland was ready to endorse at that time.

Internally divided and externally pressured, EFTA countries could not avoid making additional concessions simply to keep the boat afloat. In preparation for the fourth HLNG meeting on November 21/22, they dropped their request for permanent exemptions and reduced the number of transitional ones.⁵⁹ The offer brought some relief and a new atmosphere of cooperation. Problems were still present, however, as revealed by the Joint Ministerial Meeting in Brussels on December 19, 1990, considered to be a “mid-term review.” Both the EC and EFTA were quick to emphasize that improvement or compromise had taken place in several areas, but at the same time admitted that large stumbling blocks remained open.⁶⁰ The intrinsic limits of the EEA framework had already appeared, but both sides lacked any better alternative to fulfill their objectives. For the EFTA countries, the EEA remained the best road to European integration, either because no membership negotiation would begin before 1993, or because it gave time for a progressive preparation of public opinion in favor of EC membership. For the EC, the EEA was still a useful device to take care of pan-regional stability and gain time before granting access to new members.⁶¹

Negotiators made little progress in January and February 1991. Persistent stalemate eroded even further EFTA countries' faith in the EEA, and severed strains inside the two existing institutions. Among EFTA members, two major fault lines appeared. Both had to do with exemptions from the acquis communautaire. The first divided Alpine and Nordic countries on the transit issue. The EC had long demanded a removal of restrictions for the transit of its trucks through Austria and Switzerland, but the two Alpine countries had strongly opposed it. They were particularly concerned with the negative externalities of increased traffic on the environment, which was a politically sensitive issue in these countries. Under increasing EC pressure, however, bilateral talks had started prior to the EEA talks, and independently from it. But, once the EEA talks opened, the EC soon made an explicit link between it and the ongoing bilateral talks. As a consequence, the ongoing deadlock on the issue of transit threatened the whole EEA negotiation process -- causing great strain among EFTA countries.⁶² The second fault line was between Iceland and Norway over the issue of fisheries. Heavily dependent on the fishing industry, Iceland was eager to have its special position understood by the Community, and it feared that Norway's inflexible attitude could undermine its efforts.⁶³ Among EC members, Spain remained the most aggressive, and its stance contrasted greatly with countries like Denmark and Germany, which found Spanish

demands totally unacceptable. Spain did get support from Greece, Portugal and Ireland, however, and thus maintained a solid veto power inside the Council.

Another consequence of the stalemate was the change of attitude among EFTA countries regarding the question of EC membership. By mid-April, all of the EFTA countries except Iceland had publicly stated their preference for EC membership, even if it would not be a viable alternative for at least three more years.⁶⁴ Even the Swiss Federal Council made adherence a top priority.⁶⁵ But all of these countries reaffirmed that preparing for possible adhesion was not incompatible with the conclusion of a good agreement on EEA, which remained the best short-term solution. Accordingly, they were still willing to fight for a balanced accord.

Their show of unity began to induce some changes at the negotiating table. On May 14, 1991, both parties succeeded in coming to a general understanding on some thorny issues during a Joint Ministerial Meeting. In particular, resolution was found for the judicial body, for the opting-out mechanism, and for agricultural products.⁶⁶ These positive elements prompted some relief, especially for EFTA countries, but compromise had been painful to Switzerland and Iceland.⁶⁷ Both countries were on the verge of quitting the process and had clearly reached their limit for an eventual participation in the EEA. Preparing for the next rounds of negotiations, EFTA countries strove to preserve their unity through the use of

tactical linkages. They supported Austria and Switzerland on the transit issue, and Iceland and Norway on the fisheries. They re-stated their willingness to strike a balance between procedural and substantive issues.

Few disagreements were bridged in June.⁶⁸ The tug of war was going on with both actors trying to force the other to “chicken out.” Consequently, on the eve of the summer recess at the end of July, both sides appeared less willing to search for a compromise than to have one more fight that would probably not yield solutions. A last minute marathon failed to change the tide and negotiations came to the summer halt with several unsolved issues including fisheries, and transit.⁶⁹

Parties made use of the summer recess to prepare a more constructive attitude. In particular, the weaker side, EFTA, worked hard to find a politically acceptable way out of the deadlock. The Seven made it clear, however, that they could not simply accept a bad agreement to save the process. They warned of the consequences of a failure, which would also be a "wrong signal to those countries which expect to enter into closer relations with the countries of Western Europe."⁷⁰

But this did not have a significant impact on the process, mostly because in the EC attention was now dangerously shifting away from the EEA talks to preparations for a treaty on political union. From this perspective, agreement on the EEA had to come soon to preclude indefinite delay. After yet another month of stalemate, progress could no longer be avoided.

Germany and Denmark took up the matter during a meeting of the General Affairs Council on October 1, 1991. They urged their EC partners to sign an agreement by the end of the month and pushed for the organization of two parallel meetings -- one on transit and one on the EEA. Spain -- with the support of the UK and Ireland -- was still keen to get concessions on the issue of fisheries. The Netherlands and Greece emphasized the necessity for good bilateral agreements on transit as a precondition for an EEA agreement.⁷¹

The long hoped-for breakthrough emerged in the bilateral talks on transit. In Eindhoven on October 12, representatives of the EC, Austria and Switzerland cleared the remaining hurdles for an agreement. As differences on transit narrowed, the situation looked ripe for a political agreement at the parallel Ministerial meetings on October 21 in Luxembourg. The parties did not pass up the opportunity to put an end to such a difficult process. The final conclusion of this general agreement, however, depended upon the endorsement of the European Court of Justice (ECJ) over some procedural aspects of the Treaty, as requested by the EC Commission on August 13, 1991. After hearing the member States' positions on the EEA, the Court rejected the Treaty on December 14, 1991. The Court concluded that there was a fundamental contradiction in the objectives of the EC and the EEA. Because of this basic contradiction, the Court stated that it was impossible to establish a common judicial body that would uniformly apply EEA law without infringing upon the legal

autonomy of the Community.⁷² In other words, the creation of the EEA Court was incompatible with EC law, and thus the political agreement reached on October 22, could not be signed in its current form.

The parties went back to the negotiating table, agreeing to focus only on the judicial mechanism and some minor points on competition rules. After some uncertainty in January 1992, both sides compromised on a new mechanism that replaced the EEA Court with an EFTA Court, which would settle disputes inside the EFTA, and conferred to the EEA Joint Committee the difficult task of preserving the legal homogeneity of the EEA. The ECJ found the new institutional framework compatible with EC law on April 10, and the EEA agreement was finally signed in Oporto (Portugal) on May 2, 1992.

Globally, the agreement allowed for a large realization of the four freedoms, and establishes several administrative and judicial bodies to monitor the implementation of the rules.⁷³ In terms of institutional scope, goods, capital, services and persons were to move almost freely inside a vast market of 376 million potential consumers. Social and environmental provisions would help the implementation of the four freedoms and ensure a harmonious life inside the area. Although apparently very similar to EC membership, the EEA agreement falls short of it in many areas. It did not create a customs union but establishes a free trade area. Thus it did not include a common external tariff and does not require the

removal of border controls nor the harmonization of indirect taxes. Moreover, it did not include participation in the EC common policies (agriculture, fisheries, transport, trade) nor in the European Monetary System.

Operationally, the agreement established organs and mechanisms to ensure a dynamic and homogeneous process.⁷⁴ It distinguished procedures between decision-making ones on the one hand, and surveillance and enforcement mechanisms on the other. The EC had the key decision-making role, and EFTA countries are left with few prerogatives. In the preparation phase, they could be informally consulted on an expert level with regard to some of the EC committees which assist the Commission in its executive functions. In the decision-shaping phase, they got an individual right to raise any matter of concern (droit d'évocation), and got the option to collectively ask for the suspension of new rules (collective opting-out). They did not get any right of co-decision, although they could unilaterally call for a general safeguard clause for some areas of vital interest.

Functions	EFTA States	EEA	EC
General Guidelines	EFTA governments	EEA Council	EC Council
Executive	EFTA Standing Committee	EEA Joint Committee	Commission and EC Council
Decision-making process leading to new rules	EFTA Standing Committee; EFTA governments and legislators	EEA Joint Committee	Commission and EC Council
Surveillance of a legal nature	EFTA Surveillance Authority and legal mechanisms of EFTA States	-	Commission
Judicial control	EFTA Court of Justice and jurisdictions of EFTA states	-	EC Court of Justice
Surveillance of a political nature	EFTA Standing Committee	Joint EEA Committee and EEA Council	Commission and EC Council
Dispute settlement legal	EFTA Court of Justice	Arbitration limited to some disputes on safeguard measures	EC Court of Justice
political	EFTA Standing Committee	EEA Joint Committee	
Parliamentary cooperation	Committee of Members of EFTA Countries' Parliaments	EEA Joint Parliamentary Committee	European Parliament
Cooperation of economic and social partners	EFTA Consultative Committee	EEA Joint Consultative Committee	Economic and Social Committee

Table 1: Institutional structure of the European Economic Area (translated from "Message relatif à l'approbation de l'Accord sur l'Espace Economique Européen," Feuille Fédérale

(1992), 144,IV, p. 448a.)

Regarding surveillance and enforcement, provisions largely followed the "two-pillar" approach favored by the EC. The EFTA countries had to create an independent EFTA Surveillance Authority, the EFTA Court of Justice and a

Standing Committee. As can be seen in Table 1, the EFTA Surveillance Authority mirrors the role of the EC Commission for surveillance of a legal nature and the EFTA Standing Committee parallels the task of the Commission and of the EC Council regarding surveillance of political nature. Judicial control was left to each pillar -- the EFTA Court of Justice for the EFTA and the EC Court of Justice for the EC. Joint action through the EEA Joint Committee was restricted to securing uniform interpretation of EEA rules, and to settling disputes of a political nature between the signatories.

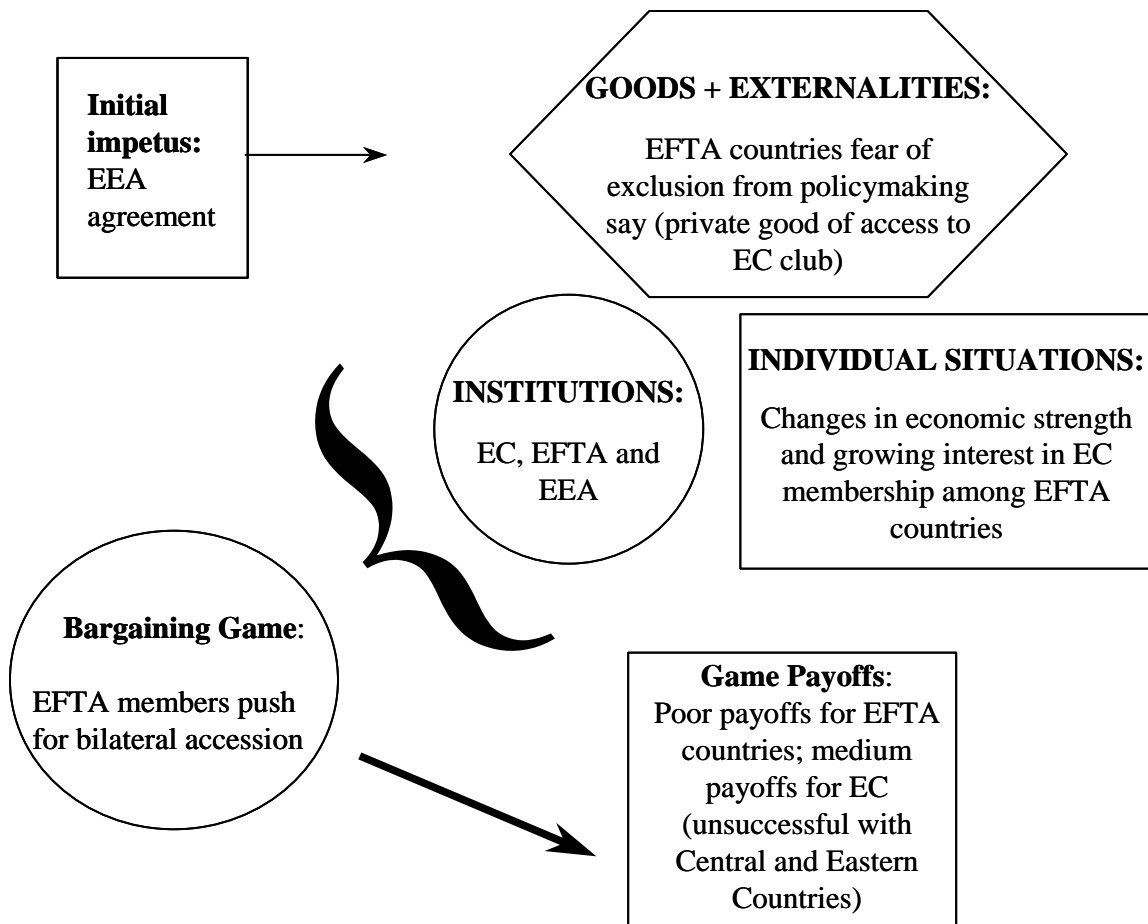
3. Away from the EEA and Toward EC Membership: EFTA in Pieces

The conclusion of the EEA Treaty failed to address the externalities of the collapse of the Communist world. In a rapidly changing European context, EFTA countries were dissatisfied with the new institutional arrangement and opted for a new course -- EC membership. This option was financially more costly than the EEA, but gave full economic and political access to the Single Market. Under continuous pressure from Central and Eastern European countries, the EC became convinced that the only way to have some EFTA countries help them was to let them in, rather than try to artificially keep the EEA alive.

The Impetus to Change: Failed Expectations from the EEA Agreement

Figure 3A depicts the bargaining game after the creation of the EEA. The key element is that the newly created institutional setting failed to significantly improve the game payoffs, not only of EFTA countries but also of EC countries. This constituted a strong impetus for change and the search for a different solution.

FIGURE 3A: TOWARD EC MEMBERSHIP



On the EFTA side, the agreement was politically asymmetric and thus difficult to “sell” to domestic constituents. Economically, it did not stop the erosion

of national productive bases in EFTA countries. This had more to do with the psychology of economic actors than with objective factors, as revealed by academic research and by sharp differences between Sweden and Switzerland regarding FDI in the EC. A study by the London based Center for Economic Policy Research concluded that moving from the EEA toward EC membership would bring little economic gain for EFTA countries.⁷⁵ Regarding Switzerland and Sweden, both had externally oriented economies with strong multinationals, and both shared a high dependence on the EC market. Despite these commonalities, the outward flow of investments continued to grow in Sweden after the conclusion of the EEA, whereas it significantly decreased in Switzerland. Differences in confidence in the respective national economies is surely one plausible explanation.⁷⁶ Finland's situation was different due to the need to compensate for the losses inflicted by the collapse of the Soviet market that had traditionally accounted for 15 to 25% of Finnish exports.⁷⁷

On the EC side, the EEA failed to act as a magnet for Central and Eastern European countries. And thus the pressure did not lessen on the Community. In the course of 1990, all postcommunist countries announced their willingness to join the Community. EFTA membership lost its appeal once EFTA members began to show less enthusiasm on the EEA process. Faltering concern in the West thus negatively influenced potential interest by Central and Eastern European countries, and pushed them to lobby for a different structure of cooperation. Central and Eastern decision-

makers believed that EFTA would sooner or later disappear and that the EEA would go with it.⁷⁸ In addition, former communist countries were looking for a firm political anchor in the West rather than a kind of economic internship in the EEA. They thus pushed the Community to propose a new form of cooperation, the Europe Agreements. Poland, Hungary and Czechoslovakia signed in December 1991.⁷⁹ These new forms of association agreements gave priority to the political dimension of the relationship with the EC, and included: i) association institutions; ii) political dialogue; iii) a free trade area in industrial goods; iv) economic and financial cooperation; v) cultural cooperation. They avoided the very process that the EC had hoped to impose on former Communist countries, namely to put them in a “premembership” chamber, where they would gradually adapt their economic systems in order to qualify for full membership. The agreements mentioned the ultimate objective of membership in the Community, albeit very cautiously, in their preamble. The political dialogue and the technical assistance frameworks were designed to help the future applicants to come closer to the conditions of joining the EC.

The Response: Bargaining for Enlargement of the EC to Austria, Finland, Norway and Sweden

Figure 3B depicts the institutional path toward a new arrangement between EC and EFTA countries. First, the option was to use an existing institution, the EC, rather to

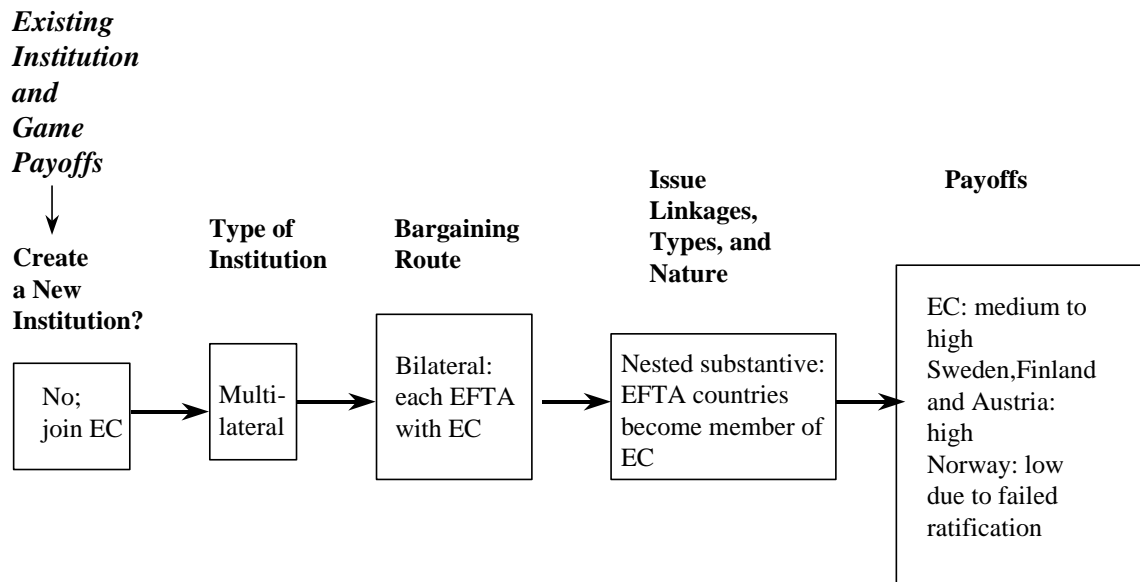
create a new one. By the end of 1992, all EFTA countries except Iceland and little Liechtenstein had officially submitted an application for EC membership: Austria in July 1989 (prior to the conclusion of the EEA), Sweden in July 1991 (during the negotiation process), Finland in March 1992, Switzerland in May 1992, and Norway in November 1992. As we discussed in the previous section, this change of policy toward EC membership came when the EEA ceased to be tactically appropriate and thus lost its raison d'être for most EFTA countries. At a systemic political level, the deep transformation process in Central and Eastern Europe cleared the security-related hurdles toward EC membership. This was true for Sweden and Finland, but also for neutral Switzerland. At the domestic political level, public opinion was still very skeptical toward European integration but the question was no longer a taboo in any country. In addition, large numbers of political elites now favored adhesion. Disguising the aim for EC membership was thus no longer a chosen strategy.

Overt support of EC membership was however not free of risks as the Swiss case revealed. Voters refused the EEA in anticipation of the incremental process that would have led to adhesion to the EC. On December 6, 1992, the Swiss people turned down membership in the EEA. Voters did not really react to the EEA per se but to the feared drift toward EC membership. Hence the debates focused on Swiss political institutions and values rather than on the economic benefits of joining the EEA.⁸⁰ Nationalists ably manipulated the agenda on highly sensitive political items,

and trapped the government, which could not agree on a unified stance on matters of European integration. Blocked by domestic constraints, the Swiss government had to come back to the pre-1989 situation, yielding an especially poor payoff.

On the EC side, member states decided during the European Council in Lisbon in June 1992 that widening to include EFTA countries would again become possible after the ratification of the Maastricht treaty. They made clear that the choice of enlargement negotiations would imply acceptance by the applicant countries not only of the traditional *acquis communautaire* but also the extensions contained in the Single European Act and in the Treaty on European Union. Figure 3B depicts the chosen institutional path for promoting change.

**FIGURE 3B: BARGAINING EC MEMBERSHIP
(EC, AUSTRIA, FINLAND, NORWAY, SWEDEN)**



Regarding the bargaining route, negotiations were to be bilateral between each of the four applicants and the Twelve EC members. The various bilateral processes would evolve in parallel within a common general framework. Contrary to the EEA process, the Commission did not have the conducting role on the EC side but simply assisted the Council of Ministers.

Turning to linkages, the new applicants would be substantively nested inside the European Union. No permanent exemptions from the acquis would be granted. The Commission had previously evaluated the admissibility of each applicant under these terms and had stated favorable opinions for the four candidates. Negotiations aimed at establishing transitional periods to allow the incorporation of the acquis communautaire into the legislation of the four candidates.

Talks officially opened on February 1, 1993 for Austria, Sweden and Finland and on April 5, 1993 for Norway. The parties agreed on March 1, 1994 as the deadline for finishing negotiations and submitting the results to the ratification of the European Parliament, so that the applicants could become members on January 1, 1995.⁸¹ Progress was limited in 1993; parties quickly went over the chapters fully covered by the EEA but then stumbled over the difficult areas, some of them partially covered by the EEA Treaty (agriculture, fisheries, environmental protection) and some left out (state monopolies, regional and structural policy).⁸² In December 1993, the four declared their willingness to accept all the new provisions

of the Maastricht treaty on European Union and the EC granted them concessions on environmental protection.⁸³ Southern EC members did not welcome this progress because they feared that too easy a deal would move the momentum of European integration decisively to the North. Spain, in particular, began to put the brakes on the process, first by requesting that the new members be denied early entry in the Economic and Monetary Union.⁸⁴ But bigger trouble came in January on the issues of fisheries, agriculture and regional policy. Regarding fisheries, Spain publicly disagreed with the Commission's position and asked for higher quotas in Norwegian waters, a demand flatly rejected by Norway.⁸⁵ On agriculture, Austria, Norway and Finland were highly concerned with the proposals to align farm prices with EC levels on entry into the Union, and asked for transition periods.⁸⁶ On regional policy, Greece, Portugal and Spain rejected the Commission's proposal to apply the highest level of structural aid -- the so-called objective 1 status -- to the applicants' most disadvantaged regions.⁸⁷ Bargaining also hardened on Alpine transit through Austria. The Commission proposed to modify the bilateral treaty on transit and reduce the ban to 3 years instead of 12 years.⁸⁸ The tug-of-war increased during February and also included the amount of the financial contributions of the applicants. On this issue, the Southern EC countries wanted to have most of the contributions of the new members go to the poorer south of the Union. And they opposed the demand by Sweden and Austria to be exempted from most of their

contributions for the first three years on the ground of the adjustment efforts for entry.⁸⁹

With the March 1 deadline nearing, the stalemate endangered the whole political impetus in Western European integration. Some countries inside the EC were particularly worried about the bad consequences of a missed deal. Among them was Germany which put strong pressure upon Spain and the Southern countries to stop making irresponsible demands. Germany also urged that financial concessions be granted to the new applicants so that they could sell the terms of entry to their domestic constituents.⁹⁰ Some countries were however more concerned about the issue of the new decision-making blocking minority in a Union of 16 members. UK and Spain threatened to oppose enlargement if the new blocking minority was changed, as planned, from 23 (out of 76 votes) to 27 (out of 90) votes. The UK complained about the loss of power of big countries, whereas Spain feared a weakening of the Mediterranean front.⁹¹ They could not however block a first series of agreement with Sweden, Finland and Austria on March 1, 1994. The EC made most of the concessions to ensure this outcome. Sweden got a budget rebate disguised as a farm adjustment payment. In order to facilitate Finland's participation in the Common Agricultural Policy at full price parity on entry, the EC declared that the whole land would be an Arctic region eligible for special agriculture support. Regarding Austria, in addition to declaring some

regions eligible for structural support, the EC agreed to retain the restrictions on transit included in the existing bilateral treaty.⁹² However, German pressure proved insufficient to push for a deal with Norway. The row over fisheries put an end to German hopes. Spain remained inflexible in its demand for additional fishing quotas, and Norway stuck to its “not a single additional fish” stance.⁹³

A first breakthrough occurred on March 8 when Norway and the EC reached an agreement on agriculture. Special investment support would ease the process of readjustment during the first three years of Norwegian membership. Eighty-five percent of Norway’s agricultural land was defined as disadvantaged and would be eligible for special support.⁹⁴ A second and decisive move came on March 15 on fisheries. Norway slightly increased the fishing quotas agreed under the EEA (11000 to 14000 tons of cod); in addition to these rights, Spain and Portugal were granted fishing rights from other EC members, and the EC promised to purchase quotas elsewhere in the world, including Russia and Canada.⁹⁵ The last hurdle to a successful completion of the negotiations was the institutional quarrel, pitching the UK and Spain against the other EC members. A last minute compromise emerged during a special meeting held in Ionnina (Greece) on March 29, 1994. The EC’s new blocking minority was raised to 27 votes, but a “reasonable” delay was provided before calling a vote on a decision if 23 or more votes were opposed to it.⁹⁶

Spain immediately agreed to this compromise and the UK reluctantly accepted it two days later.

Successful ratification by the European Parliament occurred on May 4, 1994. The Parliament strongly endorsed the deal.⁹⁷ But the most difficult task remained: referendums were due in the four applicant countries. The “Yes” vote won in Austria on June 12, 1994 (66.36% Yes votes), in Finland on October 16 (56.9% for Yes), in Sweden on November 13 (52% for Yes) but lost in Norway on November 28 (52.5% for No). The Norwegian failure confirmed the doubts cast by the Parliamentary elections held on September 13, 1993 in which the anti-EC Center Party was the biggest winner.⁹⁸ Despite all its efforts, the Labor ruled government could not change the tide.

In terms of payoffs, it is clear that the Norwegian government suffered a blow from the No vote and thus received a bad payoff from the whole process. It lost credibility and restricted its margin for maneuver with the EC over the next decade. For the successful applicants, the payoffs were high. They could join the EC while getting generous periods to adopt the *acquis communautaire*. Finally, for the EC, the successfully completed negotiation process sent a positive sign to possible applicants and to the rest of the world. However, not every EC member was pleased with the fiscal concessions given to the new members. France, the Netherlands and Spain in particular found the terms to be too generous, and blamed

Germany for this.⁹⁹ More generally, the negotiations revealed the fault lines that had appeared in the Maastricht Treaty negotiations: between a rich North and a poor South; between big and small members; between supporters of a tight federation and those of a loose one, closest to a confederation.¹⁰⁰ This gave support to those who resented the idea of pressing ahead with enlargement rather than taking care of institutional reforms. Hence the payoffs of the new institutional setting were medium to high inside the EC.

Conclusion

The story of the EC-EFTA institutional relationships since the mid-1980s is both one of institutional creation and one of institutional decay. In the mid-eighties, the institutional bargaining game between EC and EFTA entered a new era. EFTA countries were the first to try to promote change after the EC adopted the Single European Act. They feared losing private goods from their privileged relationship with the EC. The latter, however, became interested in some major change only after the collapse of the Communist bloc. To preserve pan-regional stability and prosperity and avoid the crowding-out of its club, the EC proposed to closely work with EFTA and create a new institution, the EEA. Despite a common interest in promoting such a change, parties got bogged down during the negotiation process, due to a cocktail of severe domestic constraints, the high salience of the EC to its

members, and sharply asymmetric power. The result was a largely asymmetric new institution that proved to be attractive only to very few EFTA members. Most other members rushed toward EC membership. Membership provided these countries with more political rights and more economic goods than the EEA at only a somewhat higher price. They thus had no reason to stick to the EEA; and by the same token, this decision also fatally rocked the EFTA boat.

The experience of the EFTA-EC institutional relationships is suggestive for several elements and hypothesis presented in the introductory chapter of this volume. First, it shows how the high salience of existing institutions makes nesting difficult, if not impossible. Even though there was an inherent ground for a substantive nested linkage in the case of the EEA, EC countries only accepted partial tactical nesting of their institution for fear of diluting their prerogatives. This pre-determined the choice of a bilateral bargaining route and bilateral decision-making and monitoring structures, and laid the ground for a deeply asymmetric new institution. Second, the experience highlights how crucial the link is between the nature of the good and the type of institution. In particular, it shows that hegemony is not sufficient to force other actors to participate in the provision of CPR goods. The EC failed to secure, through the EEA, active cooperation of EFTA countries vis-à-vis developments in Central and Eastern Europe, mostly because the new institution did not give the right incentives to them. They had no reason to care

about an institution that offered them few net benefits. Third, and pointing to more detailed research on negotiation processes, the case of the EEA emphasizes how asymmetric power, and stringent domestic constraints, can quickly transform negotiations into nasty fights under situations of incomplete information. Weak actors may try to exploit incomplete information to extract concessions on the basis of domestic constraints. When facing a much more powerful actor, the risk that such a strategy of inflating demands will backfire is very high with poor consequences for both parties, but especially for the weaker ones.

From the substantive perspective of regional integration processes, my analysis of the EEA builds useful bridges for comparative work on regional integration in Europe, Asia-Pacific, and North and Latin America. In other work, I have shown how the focus on institutional bargaining games can shed new comparative light, and I mention here two policy-relevant implications of the EEA case.¹⁰¹ First, it should be a warning to those who want to engage in the creation of ambitious pan-regional institutions in other parts of the world. Such efforts have been on the drawing board both in the Asia-Pacific within the Asia-Pacific Economic Cooperation (APEC) forum, and in the Western Hemisphere with the idea of a Free Trade Area of the Americas (FTAA). The high salience of existing institutions in these two regions -- in particular ASEAN, Mercosur and NAFTA -- precludes substantive nesting for the moment. Second, given the CPR nature of

some of the most important goods that the pan-regional institutional setting should provide, it would be illusory to rely on power alone to impose new institutions. From this perspective, US actions have been more promising than declarations about the need to move quickly. A careful and selected issue focus is a more promising -- and institutionally safer path -- than the kind of organizational focus that the EEA took in Western Europe.

ENDNOTES

¹ For comments I would like to thank Vinod Aggarwal, Jerry Cohen, Jonah Levy, and Steve Weber as well as two anonymous reviewers for Cornell University Press.

² For the sake of convenience, I shall use throughout the paper the European Community (EC) as a generic title for the integration process from the Treaty of Rome to the current status. Historical accuracy would force me to distinguish between the European Communities (EC), the European Economic Community (EEC), the European Community (EC), and the European Union (EU).

³ On common pool resources, see Ostrom (1990).

⁴ See Aggarwal (1997) for a description of the analytical framework linked with the notion of “institutional bargaining games.”

⁵ The free trade agreements were concluded between each EFTA member and the EC, following a kind of hub and spoke pattern .as labeled by Baldwin (1994). For

studies on the path to these agreements, see in particular Bachmann (1970) and Binswanger (1972).

⁶ See Pedersen (1994), p. 28..

⁷ EFTA Trade 1986.

⁸ Some authors see the “European prise de conscience” to be the real impetus toward a new relationship between EC and EFTA (Pedersen (1994), pp. 29-31; Laursen (1990), p. 39). I consider it much more as the continuation of an incremental process, as illustrated by the wording of the Luxembourg declaration - - “consolidate and strengthen cooperation” through “flexible cooperation.”

⁹ See for instance Moravcsik (1991) and Cameron (1992) for an analytical account of the road toward the agreement on the Internal Market.

¹⁰ The major leap occurred in 1988 after the prise de conscience that 1992 Europe was moving forward. EFTA FDI flows to the EC amounted to 2,086 million ECUs in 1985, 2400 in 1986, 4591 in 1987, and 10904 in 1988 (Pedersen (1994), p. 31).

¹¹ Nell (1990), pp.351-352.

¹² On the new role of the Parliament vis-à-vis the external world, see for instance Corbett (1989).

¹³ See for instance the declarations of Commissioner De Clercq during the Joint EC-EFTA Ministerial meeting at Interlaken on May 20, 1987 (Agence Europe, May 20, 1987). De Clercq mentioned three guiding principles: I) priority given to internal EC integration; ii) preservation of EC's autonomous power of decision; iii) fair balance between benefits and obligations in any deal with non-members.

¹⁴ These positions were revealed in the respective reports on European integration released by the different governments in 1987 and 1988. See Hamilton (1991) for an analysis of the reports of the Scandinavian governments and Sciarini (1992) for Switzerland.

¹⁵ Pedersen (1994), pp. 79-85; Luif (1990), pp.189-193.

¹⁶ See Wieser and Kitzmantel (1990), p. 436.

¹⁷ See Wieser and Kitzmantel (1990), p. 444.

¹⁸ In Austria membership became a top priority at the beginning of 1988. The government no longer considered the EFTA an adequate substitute to full integration to the EC internal market, mainly because it could not offer sufficient participation in decision-making. See Dupont, Sciarini, and Lutterbeck (1997).

¹⁹ For detailed results of these studies, see Haaland (1990), p. 398.

²⁰ See Antola (1990).

²¹ See Saeter (1990).

²² This did not mean, however, that Swiss firms were not adapting to the Single Market program. See Brauchlin (1989) for a description of changes in the strategies of Swiss firms.

²³ For a contrasted perspective on Austrian and Swiss responses to the Single European Act, see Dupont, Sciarini and Lutterbeck (1997).

²⁴ During the Cold War, pan-regional stability was a by-product of bipolarity in Europe between NATO and Soviet Union. For EC and EFTA countries, this was either an inclusive club good (for members of NATO) or a public good which they could enjoy for free. The end of the Cold War transferred the nature of the good in the sense that it added a collective dimension (or CPR) to it. EC and EFTA could not longer rely exclusively on other arenas or actors to ensure the provision of pan-regional stability.

²⁵ See Nicolaïdis (1993) for more details on these accords.

²⁶ Agence Europe, Doc. no 1542/1543, January 26, 1989.

²⁷ EFTA Bulletin, April-June 1989, p.6.

²⁸ Agence Europe, March 20/21, 1989.

²⁹ They defined the objectives of these negotiations to be: 1) to achieve the free movements of goods, services, capital and persons on the basis of the relevant acquis communautaire to be identified jointly; 2) strengthen and broaden

cooperation in areas such as research and development, environment, education, working conditions and social welfare; 3) reduce economic and social disparities between regions -- the so-called principle of social and economic cohesion. The resulting framework should “respect in full the decision-making autonomy of the parties.” Agence Europe, December 23, 1989; EFTA Bulletin , 4/89-1/90.

³⁰ Three were related to administrative measures facilitating border controls or information on these; one covered export restrictions; one dealt with rules of origin; three concerned exchange of information to increase transparency in governments’ procedures; and the last one pertained to education (Nell (1990), p. 347).

³¹ Among the parties represented in Parliament, the Socialist Left held 17 seats, the Labor 63, the Christian People's Party 14, the Center party 11, the Conservative 37, the Progress Party 22, and one seat was occupied by a non-affiliated member (Valen (1990), p. 278).

³² The Center Party which represented the primary sector was fiercely anti-EC and considered the EEA process with suspicion. The Christian People's Party represented the Lutheran bourgeoisie, who feared the prospects of a European Political Union but also the hegemony of the Catholic Church in Western Europe. On the contrary, the Conservatives were overwhelmingly in favor of closer ties with Europe either through some association formula or through full membership.

³³ Social Democrats held 156 seats out of 349, but benefited from the passive support of the Communists who held 21 seats thus preventing the formation of any blocking group. The other parties represented in the Riksdag were: Conservative (66 seats), Center Party (42), People's Party (44), and Greens (20) (Wörlund (1989), p. 82).

³⁴ The 1987 legislative elections had given 56 seats to the Social-Democrats, 53 to the Conservatives, 13 to the Swedish People's Party, and 9 to the Rural Party. These four parties formed the government. Other parties included the Center Party with 40 seats, Leftist Union with 20 seats, the Greens with 4 seats, and the Christian Union with 5 seats (Berglund (1991), p. 337).

³⁵ See interview of Georg Reisch, Secretary General of the EFTA, in West-Ost Journal, Nr 3/4, June 1989.

³⁶ See Church (1990), pp. 412-413.

³⁷ The Parliament had acquired a greater threatening power with the adoption of the Single European Act. In particular, it had been given the power to reject association agreements with external countries.

³⁸ These countries wanted the EC to ensure a balance between deregulation and economic and social cohesion. In other words, benefits of the internal market could only go to countries which would be willing to pay for it -- cash payments

for regional funds, and implementation of the common agricultural policy in particular. Given that these aspects were not covered by EC-EFTA agreements, southern EC countries did not see big opportunities for increased trade with EFTA countries, contrarily to West Germany and other heavily industrial EC countries.

³⁹ In particular, substantial reduction in ex post transaction costs could be realized with a changed organizational structure. See Williamson (1985), pp. 15-18.

⁴⁰ See Saeter (1990), p. 126.

⁴¹ See Church (1990), p. 417.

⁴² The most influent report was the so-called Hauser report (Hauser 1991).

⁴³ Dissension between Nordic countries and Switzerland reached a climax during the EFTA summit in Kristiansand on June 12/15, 1989. Switzerland rejected the principle of majority voting inside the EFTA Council (Agence Europe June 15/16, 1989) and as a result, Norway proposed that the Nordic countries inside EFTA go on without the other EFTA members (Dagens Industri, July 5, 1989).

⁴⁴ The acquis communautaire is the official term for applicable EC law, both primary (stemming from the Rome Treaty, and other such treaties) and secondary (regulations, directives, and decisions adopted since the Rome Treaty). The acquis also covers the relevant case law for the European Court of Justice (ECJ).

⁴⁵ European Report, November 1, 1989.

⁴⁶ Agence Europe, January 19, 1989.

⁴⁷ See Baldwin (1994) for an economic argumentation on concentric circles.

⁴⁸ Dagens Naeringsliv, October 18, 1989.

⁴⁹ Agence Europe, October 4, 1989.

⁵⁰ See the interview of Horst Krenzler, the EC chief negotiator, in EFTA-Bulletin, 4/90, p. 20.

⁵¹ Elsewhere I have carefully analyzed this process of negotiations with formal game-theoretic tools. See for instance, Dupont (1994).

⁵² Agence Europe, July 26, 1990.

⁵³ In addition EFTA countries wanted complete freedom in choosing their own supervisory body. As a consequence, the new position differed only slightly from previous offers. With a high degree of freedom, the EFTA could choose not to create its own pillar, which would leave the common body that it had initially wanted.

⁵⁴ General Affairs Council, October 22, 1990, p.8.

⁵⁵ EFTA Bulletin, 1/91, p. 20.

⁵⁶ Press release from the Swedish government, October 26, 1990.

⁵⁷ See interview with the EFTA Chief Negotiator, the Swiss Franz Blankart, in Neue Zürcher Zeitung,. November 26, 1990. In its message to the Parliament for the

ratification of the EEA Treaty, the Federal Council considered Sweden's move important because it had two significant effects: i) first, a clear majority of countries now favored market access over institutional aspects; and ii) second, the Community was vindicated in its refusal to build an ambitious institutional framework.

⁵⁸ See declarations in Agence Europe, December 8, 1990.

⁵⁹ This offer was contingent on three conditions: i) a satisfactory legal and institutional framework, that is an arrangement that would give EFTA the right to debate; ii) temporary exemptions for the application of appropriate, non-discriminatory legislation; and iii) adequate safeguard mechanisms (Agence Europe, November 23, 1990).

⁶⁰ Progress had been achieved in the following areas: a) mutual recognition of the *acquis communautaire*; b) exemptions to this *acquis*, since EFTA members have demonstrated willingness to reduce their demands; c) willingness to combine a high-level of health and environmental protection with the establishment of the four freedoms; d) establishment of solid legal principles for flanking policies; and e) establishment of a system applicable to financial services. On the contrary, dissension was still deep on issues such as the joint decision process, the agriculture sector, and fisheries (EFTA Bulletin, 1/91; Agence Europe, December 20, 1990).

⁶¹ In addition, continuing deadlock in the Uruguay round of GATT talks strengthened the EC interest in an all-encompassing deal which would make it as big and powerful a bloc as possible. For a similar analysis, see European Report 1644, January 16, 1991.

⁶² On the issue of transit and its consequences, see European Report 1655, February 23, 1991; Agence Europe, February 22, 1991; Die Presse, February 20, 1991.

⁶³ Aftenposten, April 11, 1991.

⁶⁴ Agence Europe, April 26, 1991; Financial Times, May 2, 1991; European Report, 1675, May 9, 1991.

⁶⁵ "The prospect of adhesion to the EC now makes much more sense but we should not rush into. Adhesion has become the option we should consider with the closest attention." (Press Release from Swiss Federal Council, May 10, 1991, my translation).

⁶⁶ EFTA Bulletin, 2/91; Agence Europe, May 15, 1991, and European Report, 1676, May 15, 1991.

⁶⁷ Switzerland had to abandon its demand for an individual opting-out mechanism under the combined pressure of the EC and of the other EFTA members, whereas

Iceland was highly critical of the “unholy trinity” made by fisheries, the equalizing fund and agriculture.

⁶⁸ The most important meeting in June was a Joint Ministerial one in Luxembourg on June 18, 1991. See European Report 1687, June 22, 1991 and Agence Europe, June 20, 1991.

⁶⁹ European Report 1698, July 31, 1991, and 1699, August 3, 1991; Agence Europe, July 29/30, 1991 and July 31, 1991.

⁷⁰ Agence Europe, September 11, 1991.

⁷¹ European Report 1708, October 2, 1991.

⁷² See Brandtner (1992) for a detailed analysis of the ECJ opinion.

⁷³ For the full text of the agreement, see Official Journal of the European Communities, L1, 1994. For a useful summary of its provisions see for instance The EEA Agreement, EFTA, Geneva, 1993.

⁷⁴ For a detailed description of the institutional mechanism, and of the problems around it, see for instance Krafft (1992) and O'Keefe (1992).

⁷⁵ CEPR (1992).

⁷⁶ This argument is made by Pedersen (1994), p. 124.

⁷⁷ Pedersen (1994), p. 98.

⁷⁸ See Nicolaïdis (1993).

⁷⁹ The last one was renegotiated in 1993 after the partition; the same year agreements were signed with Romania and Bulgaria

⁸⁰ See Kriesi et al. (1993) for a detailed analysis of the vote.

⁸¹ For a detailed chronology of the ministerial conferences throughout the process, see Granell (1995), pp. 125-127.

⁸² The EEA Treaty fully covers 11 out of 29 chapter headings of the enlargement negotiations, including the four free movements, transport policy, competition policy, consumer and health protection, research and information technologies, education, statistics and company law. It partially covers 5 other chapters including social policy, environment, energy, agriculture and fisheries. Among the remaining items, there were those covered by the EC prior to Maastricht including customs union, external relations, structural instruments, regional policy, industrial policy and taxation; there were those introduced by the Maastricht Treaty including Economic and Monetary Union, Foreign and Security Policy, Justice and Home Affairs. Finally, among general chapters, there were the key items of financial and budgetary provisions and institutions. See Granell (1995), p. 122.

⁸³ Financial Times, December 22, 1993; Wall Street Journal December 22, 1993; Journal de Genève, December 22, 1993

⁸⁴ Financial Times, December 21, 1993.

- ⁸⁵ The Royal Norwegian Ministry of Foreign Affairs, Norway Daily 7/94, January 11, 1994.
- ⁸⁶ Financial Times, January 13, 1994.
- ⁸⁷ Financial Times, January 18, 1994.
- ⁸⁸ Die Presse, January 21, 1994.
- ⁸⁹ Financial Times, February 22, 1994.
- ⁹⁰ Financial Times, February 28, 1994.
- ⁹¹ Financial Times, February 28, 1994.
- ⁹² Journal de Genève, March 2, 1994; Financial Times, March 2, 1994; International Herald Tribune March 2, 1994.
- ⁹³ The Royal Norwegian Ministry of Foreign Affairs, Norway Daily 43/94, March 2, 1994; Financial Times, March 5-6, 1994.
- ⁹⁴ The Royal Norwegian Ministry of Foreign Affairs, Norway Daily 48/94, March 9, 1994.
- ⁹⁵ The Royal Norwegian Ministry of Foreign Affairs, Norway Daily 53/94, March 16, 1994; Wall Street Journal, March 17, 1994.
- ⁹⁶ Wall Street Journal, March 30, 1994; Financial Times, March 28, 1994.
- ⁹⁷ Norway 376 for, 24 against and 57 abstentions; Austria 378-24-60; Finland 377-21-61 and Sweden 381-21-60 (Granel (1995), p.123).

⁹⁸ Arbeiderbladet, September 15, 1993; Financial Times, September 15, 1993.

⁹⁹ Financial Times, March 2, 1994.

¹⁰⁰ Financial Times, March 14, 1994.

¹⁰¹ See for instance Dupont (forthcoming).

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