

## The EEA and Norway Grants as a source of Soft Power

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### Introduction

For nearly 20 years, Norway has contributed financially to less-wealthy EU countries. From €120 million (1994–1998), these contributions have reached nearly €1.8 billion for the period 2009–2014. In the first period of contributions through the Financial Mechanism,<sup>1</sup> there were five recipient states. Today, Norway contributes, together with Iceland and Liechtenstein, to 15 – a majority of the EU members.<sup>2</sup>

The Polish Prime Minister Donald Tusk has said that these contributions represent excellent ‘propaganda’ for Norway in Europe.<sup>3</sup> Indeed, there are reasons to believe that Norway’s contribution to the 15 poorest EU states is important for how they, and the EU, perceive Norway. But what exactly does Norway get in return? Should the Grants be understood simply as an act of solidarity? Or do the financial contributions serve as a source of soft power, providing increased influence in the EU?

The objective of this policy brief is not to assess whether the Grants have helped to reduce economic and social disparities, nor to explain why the Grants emerged. We focus on how and to what extent Norway has had and can have political advantage from these contributions, in relations with the EU and the beneficiary states. This brief can serve as a case-study examining the relation between a policy (the Grants) and soft power.

The term ‘soft power’ was developed by Joseph Nye in his *Bound to Lead* (1990). In 2004, Nye elaborated on the concept in his *Soft Power: the means to success in world politics*,

using the concept to underscore the fact that states can no longer rely exclusively on carrots and sticks in order to achieve their foreign policy goals. As shown in a recent NUPI working paper, the concept of soft power has been applied to a diverse set of countries and entities, with the USA and the EU being the most prominent examples (Johnsen and Rieker 2013).

It is almost a cliché that Norway ‘punches above its weight’ on the global stage. According to Nye (2004: 112), Norway ‘has developed a voice and presence out of proportion to its modest size and resources’. Norway has made some efforts towards understanding, measuring and mastering soft power. For instance, in 2004 the government established a group to work on improving the country’s image. It also commissioned a report from Leonard and Small (2003) on the country’s soft power. Leonard and Small (2003: 1) argue that public diplomacy for Norway involves overcoming the country’s ‘invisibility’. It is also about increasing awareness within the EU and its member states of the EEA agreement, to which Norway is a party. In other words, soft power can be a means for obtaining awareness and access.

### The development of the Grants

With the signing of the EEA agreement in 1992, a financial mechanism was established so that the EFTA/EEA states could contribute to the less-prosperous states of the EEA/EU. While Norwegian negotiators at the time saw this as a temporary arrangement (Johnsen 1998), there have been negotiations on the size of the Grants five times since 1992.

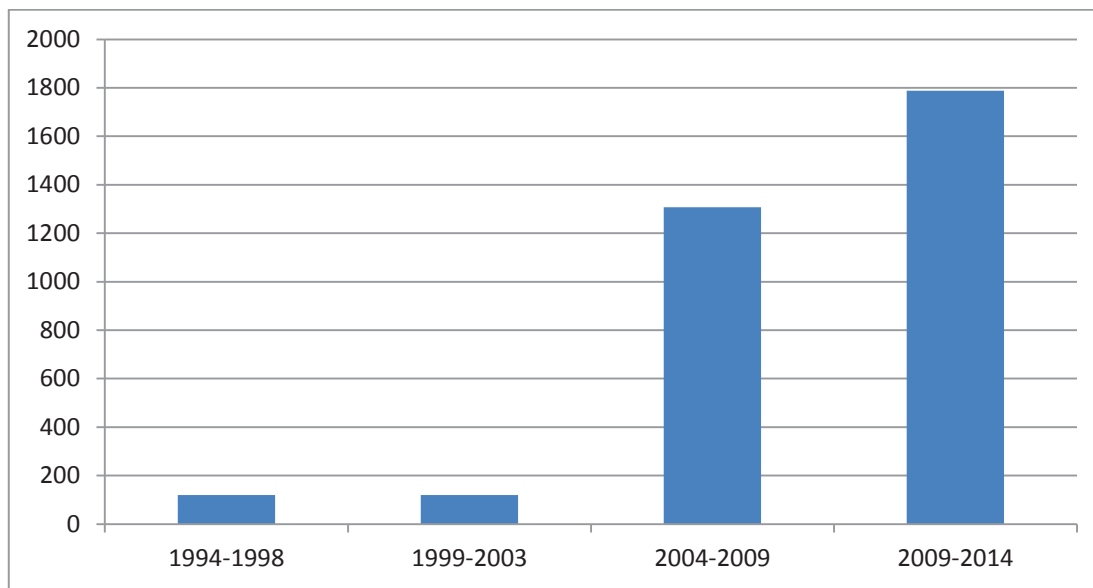
Since 1994, their size has increased almost 1500 per cent from around €120 million to €1788.5 million. Today the Grants cover 15 member states. Negotiations for 2014–2019 are expected to be conducted by the end of 2013.

<sup>1</sup> All Financial Mechanisms are here referred to as ‘Grants’ unless otherwise specified.

<sup>2</sup> In 1994, the beneficiary states were Greece, Ireland, Northern Ireland, Portugal and Spain. Current beneficiary states are Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

<sup>3</sup> ‘TV2 News’, 10 June 2011.

Graph 1. Size of financial arrangements (in million EUR)



Source: NOU 2012: 762

### From financial aid to foreign policy instrument

Political awareness about the possibilities of using the Grants as a source of power has developed gradually in Norway. The Grants were generally overlooked until the 'big bang' enlargement of the EU, and subsequently the EEA, in 2004. For instance, the final evaluation report for the Grants 1999–2003 has never been finalized. Now perceptions seem to have shifted: from being a marginal symbolic element of EU cooperation in 1994, the Grants have emerged as an important element of Norway's policy and relations to the EU (NMFA 2012).

Politicians' approach has also shifted from hesitation to greater acceptance. In fact, Norway had challenged the very continuation of the Grants at the end of the first period in 1998. The three Nordic EU members plus Germany and the UK initially supported the Norwegian position (Bjellaanes 1998), but Spain's EU ambassador, Javier Elorza Cavengt, declared that Spain would cancel the EEA agreement if the principle of the permanence of the financial arrangement was not accepted (Otterdal 1998). These negative reactions from Spain and the risk of damaging Norway's relations to the EU soon made doubts about the continuation of the Grants a non-issue in Norway (Johnsen 2010: 35–36).

While the 1999–2003 Grants were the same size as in the preceding period, in 2004 the Norwegian government faced unexpectedly high demands. Norwegian negotiators proved hesitant, but still ended up moving far beyond their own starting point. The final result entailed that the EFTA/EEA countries would contribute Grants worth nearly €167 million from 2004 to 2009, an increase of almost 1000 per cent from the previous period. In justifying the increase, the government used the solidarity argument, citing Norway's responsibility to help cover the costs of the 2004 'big bang' EU eastwards enlargement.

From being understood by Norwegian politicians as primarily an act of solidarity and moral responsibility, the Grants have increasingly been seen as a foreign policy instrument. This was first officially expressed by the Norwegian parliamentary committee in relation to its treatment of Proposition 3 on the Grants for 2004–2009 (NMFA 2003), when the Committee argued that the Grants could present opportunities for Norwegian businesses, research institutions and other organizations (Standing Committee on Foreign Affairs and Defence 2004). The next financial arrangement,

the Norway Grants for Bulgaria and Romania, set bilateral partnership as a precondition for funding of projects.

Recently, the Norwegian government has expressed the 'soft-power ambition' of using the Grants to strengthen the country's 'general reputation in the beneficiary states' (NMFA 2010: 3). The foreign minister at the time, Jonas G. Støre, called the 2009–2014 Grants an 'historic opportunity' for Norway, adding that the greatest challenge would be to 'draw out political capital on the investment' from the Grants (Støre 2009a).

### The Grants – a source of soft power?

The Grants represent a major contribution from Norway to large parts of Europe, promoting a peaceful and prosperous continent which is clearly in Norway's interest. In addition, the Grants have the potential to strengthen Norway's access and 'policy-shaping' capabilities through a set of soft-power resources that, if used wisely, may increase the likelihood of Norwegian soft power in the EU and its member states.

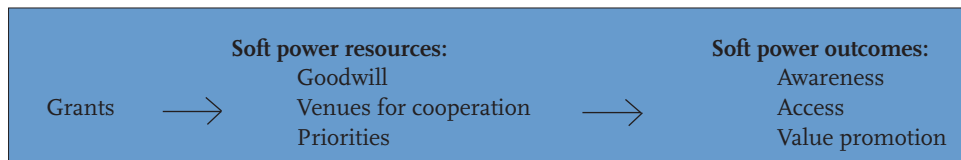
First, the Grants can contribute to perceptions of Norway as a stable and reliable partner that not only reaps the benefits of the EU project but also shares the burdens. In other words, the Grants create 'goodwill' towards Norway in the EU. Second, the Grants create venues for cooperation and negotiation, at the bilateral and the EU levels. These can serve as arenas where politicians, diplomats and bureaucrats promote mutual understanding, create networks and develop personal relationships valuable in future cooperation. Third, since Norway may influence the priorities in the Grants, these venues also offer opportunities for the Norwegian government to shape developments in the EU and beneficiary states.

All these soft-power resources have the potential to create outcomes that may promote Norwegian soft power. They can promote awareness of and knowledge about the EEA agreement, which is a Norwegian foreign policy aim in itself. They also create meeting points (Memorandum of Understanding (MoU) negotiations and annual meetings) and can make EU institutions more inclined to listen to Norwegian views and accommodate Norway's wishes for flexible solutions. Further, they can increase the EU's willingness to include Norway in policy areas and cooperation beyond the scope of the EEA agreement. Finally, there are opportunities for disseminating Norwegian priorities and values to the EU level, through the beneficiary states and towards the EU institutions as such.

In analysing soft power, it is important to be aware of the 'vehicle fallacy' of mistaking the resource itself for power and the 'exercise fallacy' of seeing an outcome and automatically presuming it had to be caused by power (Lukes 2005: 478). This does not mean disregarding power resources or observable outcomes – but we should be wary of automatically equating either as manifestations of power. With soft

power, both the soft-power resources and the soft-power outcomes should be evident. While not guaranteeing the existence of soft power, which is an intangible capacity, this makes its existence plausible. This relationship can be illustrated as follows:

**Figure 1. The relationship between the Grants and soft power**



It is difficult to find hard evidence of the Grants as an actual source of Norwegian soft power. However, there are indications that Norway has managed to create goodwill in the EU and the beneficiary states. For instance, former Prime Minister Kubišius of Lithuania has said, ‘everywhere I go in the country, I see Norwegian projects, and we are very grateful’ (FMO 2011: 110). Further, according to Norwegian MP (Lab.) Laila Gustavsen (2012), Norway had a strong position during the 2012 Cypriot EU Presidency, which might be due to the Grants. It is also likely that the Grants have brought greater awareness of the EEA agreement among EU officials and important beneficiary-state stakeholders. For instance, Svein R. Hansen (MP, Lab.) (2012) has claimed that the Grants have provided the opportunity for ‘planting Norwegian flags’ in various locations throughout the EU. As a result of the Grants, there are negotiation meetings between Norway, the EU and the beneficiary states, and the high number of partnerships established also means that contacts between Norway and the beneficiary states have increased. Moreover, Norway has managed to shape the direction of parts of the Grants, so that Norwegian values and priorities can affect developments in the beneficiary states. For instance, there is earmarked support in the Grants for tripartite dialogue, civil society, and carbon capture and storage (CCS). Especially environmental support is emphasized, with 30 per cent of the EEA Grants and 20 per cent of the Norway Grants set aside for this purpose. According to Ingrid Schulerud of the NMFA, Norway ‘received 100 per cent acceptance for the sectors in which the money is to be used’ (Bondevik 2010).

Despite these achievements, we should also note several factors that limit the extent to which Norway can derive political utility from the Grants.

First, Norway’s contribution is tiny compared to the EU’s own internal transfers: the Grants represent only some 0.7 per cent of EU’s Cohesion Policy.

Second, even though the EU is grateful for the Norwegian contribution, there is still a risk that the generally excellent relations between the EU and Norway may be threatened by the political frictions created by the recurring negotiations on the Grants. For instance, Norwegian negotiators felt that the continuation of the EEA agreement was at stake in the negotiations leading up to the 2004–2009 period (NMFA 2003). In the negotiations for the 2007–2009 period, the EU even froze the EEA agreement and would not let new EU legal acts be implemented until agreement on the Grants had been reached (Skjævesland and Ask 2007).

Third, there are also limits to how much of the funding gets directed towards Norwegian priorities. For instance, in the 2009–2014 period, only marginal amounts were earmarked for two of Norway’s priority areas (5 per cent to civil society, 0.5 per cent to tripartite dialogue).

Fourth, Norwegian politicians seem to ignore many of the prospects made possible by the Grants. For instance, the EU level is rarely mentioned in Norwegian politicians’ discussions of the Grants. Further, Norwegian attendance at MoU signings and Annual Meetings is seldom at the political level. Such elements limit the extent to which the Norwegian government can make use of these soft-power resources.

Norway cannot change the first limitation. For structural reasons, the relative size of the Grants will always be small. The second and the third limitations depend on both Norway and the other EFTA states and the EU, as the direction and institution-

alization of support are negotiated between the two parties. The fourth limitation, however, is a purely domestic constraint that can be overcome by greater willingness to use the Grants strategically, at the EU and the bilateral levels. Surmounting this obstacle will also require Norway’s politicians to appreciate the relevance of the EU level. In the end, whether or not there will be a change in the Norwegian approach will depend on the political willingness to use the Grants more strategically – a move that might undermine Norway’s image of itself as an altruistic small power.

### Concluding remarks

The Grants represent a major contribution from Norway to large parts of Europe, promoting a peaceful and prosperous continent which is clearly in Norway’s interest. As to whether the Grants help Norway to achieve more tangible foreign policy goals through ‘soft power’, we have noted several ways the Grants can create soft-power resources, serving as a source of soft-power capacity.

The financial crisis has dramatic effects on most of the economies in the EU, while Norway has remained relatively unscathed. A majority of the EU states are beneficiary states, and most of the rest have, for various reasons, no reservations against tough demands on Norway (Sletnes 2009). It should therefore come as no surprise if Norway finds itself facing demands for substantially increased contributions in the next negotiation round in 2013/2014. The Grants have become de facto a permanent feature. It is on the one hand a budgetary constraint on Norway, but it also creates a significant political possibility to underpin Norwegian policy towards the EU and its member states. Thus, the Norwegian government should be conscious of what it wishes and can achieve through the contributions.

We note that the thematic profile of the Grants have been made more consistent with Norwegian policy goals over time. But, what can be done to make better use of the soft-power resources that exist due to the Grants? Below we present three policy recommendations:

1) *Explore how the Grants could strengthen Norway’s ties with the EU, not only with the receiving member states.*

The Norwegian politicians seem to give priority to the bilateral level when considering the political use of the Grants. As we have shown, however, there is an unexploited soft-power potential also at the EU level as a result of the Grants. The government should therefore start examining the opportunities for EU-level cooperation concerning the Grants. As a result of the Grants, Norway already has a national expert in the European Commission’s Directorate-General for Regional and Urban Policy (DG REGIO). However, we have not found any expressions of official Norwegian intentions of making political use of this contact.

2) Give more priority to the bilateral meetings with the various beneficiary states.

All the beneficiary states are important as agenda-setters in the EU, so the contacts between Norway and these countries are therefore crucial for influencing developments in the EU. Even though these meeting points are important, the Norwegian government has not given priority to the venues of cooperation that the Grants create (MoU signings and annual meetings etc.). Instead of being represented at the ministerial level, the Norwegian government has sent an ambassador to over half of the MoU signings, which means that the Norwegian representative often was of a lower rank than the representative from the beneficiary state. In the annual meetings, Norway and the beneficiary state meet at the level of Division Director General – which weakens the political benefit of these encounters. In order to increase Norway's soft-power potential, the Norwegian government will need to accord priority to these meetings and be represented at the political level in these venues.

3) Examine opportunities for formalizing the Grants.

The recurrent negotiations on the Grants are a source of friction and uncertainty between Norway and the EU. The EEA Agreement, which is considered important for Norwegian economy and society, is increasingly dependent upon the successful completion of negotiations. The negotiation power is increasingly asymmetric with an EU of 500 million and an EFTA side of around 5 million. Norwegian politicians have several times expressed frustration because of what are seen as unjustly high demands from the EU. In the most recent round of negotiations, the initial reaction of Dagfinn Høybråten (MP, Chr. Dem.), was that the EU demand was 'extortion without an objective foundation' (Aalborg and Vermes 2008, our translation). The then-Minister of Foreign Affairs, Jonas G. Støre (Lab.), termed the EU's demands 'indecent and exorbitant' Støre (2009b, our translation) and argued that unreasonable EU demands were 'very damaging for the cooperation and the respect' between Norway and the EU.

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Without objective and institutionalized rules for determining the size and content of the Grants, there is no guarantee against unforeseen EU demands creating crises in EU–Norway relations. The need for reducing uncertainty was also the reasoning behind the proposal for some kind of formalization of the Grants from the majority in the EEA Review Committee (NOU 2012). But Norway's Standing Committee on Foreign Affairs and Defence (2012) is unanimous in its opposition to such a proposal, arguing especially that formalization would make it impossible to phase out the support at a future stage (2012: 8). However, historical experiences and the current crisis point in the direction that the need to reduce economic and social disparities in Europe is unlikely to disappear in the foreseeable future.

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