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## **From compromise to continuity**

The EEA Grants as a soft power tool for Norway in central and eastern Europe

Master's thesis in European Studies

Supervisor: Michael J. Geary

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## **Abstract**

The thesis investigates how Norway is using the EEA-Grants to gain influence in central and eastern European countries. The reasoning for the paper is to investigate how the domestic political situation in Norway towards the EU has affected the design of the EEA-Grants. The thesis is based on the concept of soft power developed by Joseph. S. Nye. The research question was ‘‘ Does the EEA Grants serve as a soft power tool for Norway in central and eastern Europe?’’. The thesis is centred around the concept of soft power influence. The methods selected to solve the task is a qualitative document analysis in combination with a Case study of Hungary as a recipient of EEA-Grants. The thesis details the development of the dispute between the EEA-countries and Hungary over management of the EEA-Grants. It accounts for the broad developments from the Norwegian referendums on EU membership in 1972 and 1994 to the signing of the EEA Agreement. The thesis establishes a separation between the overall EEA-Grants and the Norwegian funded Norway-Grants. It accounts for the ways that Norway may wield the EEA-Grants to increase its influence. The findings suggest that the domestic political situation has impacted the design of the EEA-Grants. Norway has enjoyed success in increasing the Norwegian signature on the EEA-Grants in the recent years. The case-study uncovered a connection between the conflict with Hungary and the Norwegian influence on the EEA-Grants. The discovery must be seen in context with the illiberal tendencies displayed by both Hungary and later Poland, and with the conflict surrounding the financial control over the EEA-Grants. It is therefore not possible to conclude that the conflict with Hungary is a consequence of the Norwegian interference in the political situation in Hungary. The thesis is affirmative to the research question and concludes that Norway is using the EEA-Grants as a soft power tool in central and eastern Europe.

## **Sammendrag.**

Denne oppgaven undersøker hvordan Norge får innflytelse på sentral og østeuropeiske land gjennom EØS-midlene. Målet med oppgaven er å undersøke hvordan det innenrikspolitiske klimaet rundt Norges forhold til EU har påvirket utformingen av EØS-midlene. Oppgaven er basert på begrepet soft power formulert av Joseph. S. Nye. Problemstillingen er derfor "Bruker Norge EØS-midlene som et soft power verktøy i sentral og øst Europa?". Oppgaven er sett i sammenheng med begrepsforklaring av soft power. Metoden for gjennomføring er en kvalitativ dokumentanalyse kombinert med en Case-studie av Ungarn som mottaker av EØS midler. Oppgaven redegjør også for utviklingen av konflikten mellom EØS-landene og Ungarn om kontrollen over utdelingen av EØS-midlene. Den tar for seg de brede utviklingstrekkene fra Norges folkeavstemninger om EU-medlemskap i 1972 og 1994 til signeringen av EØS avtalen. Oppgaven gir et overordnet inntrykk av nøkkelhendelser som påvirket utviklingen mot EØS-midlene som de er i dag. Den etablerer et skille mellom de overordnede EØS-midlene og det særnorske bidraget. Oppgaven redegjør også for måter som Norge kan bruke EØS-midlene for å skaffe seg innflytelse i mottakerlandene. Funnene tyder på at den innenrikspolitiske situasjonen har i stor grad påvirket hvordan EØS-midlene ble utformet. Norge har også hatt suksess med å øke det norske avtrykket på EØS-midlene de senere årene. Case studien fant en sammenheng mellom konflikten med Ungarn, og norsk påvirkning på EØS-midlene. Samtidig må dette sees i kontekst hvor Ungarn og senere Polen har utviklet illiberale tendenser og konflikten sentrerer rundt den finansielle kontrollen på EØS-midlene. Det er derfor ikke et grunnlag for å konkludere med at konflikten med Ungarn skyldes norsk innblanding i den innenrikspolitiske situasjonen i Ungarn. Oppgaven bekrefter problemstillingen, og konkluderer med at Norge bruker EØS-midlene som et soft power verktøy i sentral og øst Europa.

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## List of Abbreviations

EEA	European Economic Area
EC	European Community
EEC	European Coal and Steel Community
ECSC	European Economic Community
EU	European Union
EFTA	European Free Trade Association
US	United States
NGO	Non-Governmental Organizations
NATO	North Atlantic Treaty Organization
UN	United Nations
UK	United Kingdom
OECD	Organisation for Economic Co-operation and Development
ESIF	European structural and investment funds
CFP	Common Fisheries Policy
CJEC	Court of Justice of the European Communities
GDP	Gross domestic product
ESA	EFTA Surveillance Authority
DIKU	Norwegian Agency for International Cooperation and Quality Enhancement in Higher Education
ECU	European Currency Units
EMU	Economic and Monetary Union
NFP	National Focal Point
FMC	Financial Mechanism Committee
FO	Fund Operator
PO	Programme Operator
OAG	Norwegian Office of the Auditor General
NRK	Norwegian Broadcasting Corporation
HEPF	Hungarian Environmental Partnership Foundation
MCS	Management and Control System

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## **1.0 Introduction.**

The objective of this thesis is to identify the level of influence Norway wields through its financial contributions to the EU. The contemporary relationship between Norway and the EU is regulated through the arrangements of the European Economic Area (EEA). An overlooked part of the agreement that regulates their relationship is the financial scheme known as the EEA Grants. The EEA Grants is the name for the monetary contributions that the EEA members transfers to the EU on a periodical basis as part of the EEA Agreement. The arrangement is a product of decades of negotiations and is shaped by the political framework in which it was created. Norway's relationship with the EU has been turbulent with two referendums that fragmented the political landscape up to this day. This thesis will explore how the complex relationship Norway shares with the EU has affected the EEA Grants. In turn the thesis examines how and if Norway use the EEA Grants as a tool to gain influence and spread its values in the recipient countries.

The EEA Agreement regulates nearly all aspects of the relationship between Norway and the EU. It remains controversial in Norway over concerns of eroding autonomy in the face of an expanding EU. Even so the EEA Agreement is often accredited for having played a role on Norway's economic success since 1994. Despite ensuring a stable and predictable relationship between the two sides the EEA Agreement remains detested. It exists in a scenario where it is loathed by both sides of the Norwegian EU membership debate. Occupying the position as the ultimate compromise. Even as it is frequently debated in the public discourse the agreement remains unexplored and remote to most.

The same relationship details the EEA Grants' place in the Norwegian public debate. Apart from their existence they are largely overlooked and neglected. The aspiration of this thesis is therefore to explore in-depth how the Grants came to be a recurring feature in the EEA Agreement. With the historical background it is an opportunity to analyse the strategic and diplomatic elements that are incorporated into the Grants. This will be explored through a case study of the EEA Grants in Hungary with results that can be applied to other central and eastern European states. The thesis will summarise how Norway adapted its policies to EU's enlargement. Through this it is possible to determine if the Grants principally serve Norwegian ambitions or if they represent a compromise that had wider consequences than anticipated.

The research question to be examined is therefore “ Does the EEA Grants serve as a soft power tool for Norway in central and eastern Europe? ”.

The question of EU-membership is among the most polarising in Norwegian domestic politics. Two referendums on Norwegian membership in the EU formed persisting cleavages in the political landscape. The cross-party consensus in Norwegian politics fragmented in the 1970’s during the first membership-referendum. A second referendum in the early 1990’s proved just as devastating for the political harmony in Norway. The events created a political trauma which reemerges sporadically and still riddles Norway to this day. It serves as an epitome for the political saliency that ties to the EU represents in some countries. Apart from its potential as a suitable case study for a similar referendum held in 2016, the convoluted relationship between Norway and the EU has produced concrete political institutions. The EEA Agreement is one example of an arrangement established to balance the need for cooperation, with adjustment following the rejection of full membership.

The EEA Agreement represents a unique trade agreement for the signatories. For Norway it represents the ultimate compromise between the fractions that formed over the referendum. Despite being labelled unwanted and inadequate by all sides, it has proven remarkably resilient. It caters to the needs of both domestic blocs, as well as representing a way to achieve a stable and regulated relationship between the EU and EFTA states. However, this has not been achieved without a cost. The emphasis of this thesis will be with the parts of the Agreement that stipulates the EEA Grants. As it is within the EEA Agreement that the EEA Grants has emerged as a permanent pillar for cooperation. As the Grants spring directly from the agreement, it is reasonable to assume that they are influenced by the climate of compromises. With the objective of this thesis being to assess the Grants as a tool for the Norway’s soft power, it is critical to dissect the compromises from the desired policies.

The first section will outline the rationale behind the presumption of a link between the EEA Grants and the concept of soft power tool. This will be presented through a brief presentation of the concept of soft power, according to its architect Joseph. S. Nye. It will go on to give an account for Norway’s application of soft power as a strategy in its wider foreign policy. This will be done by observing the primary components that Nye claims to be incremental for a country to generate soft power. By considering these factors, it will

be possible to compare them to the structure and objectives presented for the EEA Grants. As the thesis will attempt to separate practices of the Grants deriving from the EU and Norway, this will strengthen the overall analytical aspect of the thesis.

Subsequently, the thesis will summarise the relationship between Norway and the EU to draw attention to the political climate that created the Grants. A section is devoted to examining the EEA Agreement to explain the initiation of Grants. This section will also provide an overview of the structural operations of the Grants, and to explain the responsibility of the organizational bodies. After assessing the structural shape of the Grants, it will go on to compare the earlier goals Norway set for the Grants with the situation that manifested. To assist in reaching the stated objective, a case study of the Grants' operations in Hungary is included. This section will give an illustration on how the cooperation can be structured, as well as investigating diplomatic difficulties they have created between Norway and Hungary. This case section will be followed by a discussion and conclusion of the findings.

### 1.1 Soft Power terminology.

To observe if the EEA Grants represents a soft power tool for Norway, it is useful to explore the implications that is behind the terminology of soft power. The terminology lays the groundwork for conducting an analysis of the EEA Grants to see if they can be placed within the concept. This section will assess the motivation behind and in what ways Norway has developed its soft power capabilities.

Soft power is a term coined by the political scientist Joseph S. Nye. In his book *Soft Power – The Means to Success in World Politics* (2004, x), he describes it as "*What is soft power? It is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals, and policies.*" When discussing power as a political science concept, there is a variety of theories that maps perspectives of what is perceived as power. Joseph S. Nye is credited with the development of some of the most prevalent concepts of analysing a country's power. The soft power concept derives from this analysis and is a term discussed as a counter to the term hard power. Hard power is described as the ability to influence the decisions of other through

coercion (military might) or payments (economic sanctions). Instead, Nye argues that a country's soft power stems from primarily three resources: its culture, its political values, and its foreign policy. In his words, culture works when it is attractive to others, political values when a country lives up to them at home and abroad. Lastly, foreign policies work when they are legitimate and have moral authority. Nye explains the presence of these resources as a necessary premise for soft power and how they individually impact the total sum of soft power at a country's disposal.

According to Nye, one of such resources is Culture. He defines this as a set of values and practices that create meaning for the society, this includes high culture as literature, education and art, or mass entertainment through popular culture. For a country's culture to increase the probability of a desired outcome, it is incremental that it contains universalistic values, and that it promotes values and interests that others share (Nye 2004, 11). Nye states that culture as a resource, is often mistaken for popular culture power. Consequently, the soft power behaviour is often mistaken with the cultural resources that help produce it. Cultural resources are also confused with the behaviour of attraction. He illustrates this by pointing out that enjoying wines and cheese produced in France, does not guarantee an attraction to France. One of the principal arguments presented by Nye is that the effectiveness of any power resource depends on its context.

Governments' policies at home and abroad is another example of elements that influence its soft power capabilities. Nye exemplifies this by claiming that the soft power of the United States (US) was weakened by inconsistent policies in the 1950's. He argues that domestic racial segregation weakened the ability of the US to project its soft power to African countries. In turn, this underscores the initial argument that soft power as any power resource, is limited to its context. A key element for successfully projecting soft power is therefore to avoid contrasting principles in domestic and foreign policy. Unsurprisingly, domestic, or foreign policies that appear to be hypocritical, arrogant, or motivated by national interests also tend to weaken a country's soft power. At the same time, soft power is less tied to a government's behaviour than hard power. Nye explains this by arguing that soft power resources are less vulnerable to negative responses to a government's conduct. An example of this was how the US was heavily criticised globally in the wake of the 2003 invasion of Iraq. Despite the unfavourable view on US foreign policy, the world continued to consume American technology, music, movies, and culture (Nye 2004, 14).

## 1.2 Soft power: what is it, and how does Norway utilize it?

According to Nye, Norway fits the narrative of a country that punches above its "weight-class" in terms of soft power. In his book on soft power, he analyses how Norway has proceeded to frame itself as a peaceful nation on the global stage to increase its relative soft power. Nye emphasises its success despite being a country with only 5 million people, lacking an international language and transnational culture. It is not positioned at a central location, has a no hub of organisations, or multinational corporations, as well as not belonging to the EU. Despite the unfavourable circumstances, Norway has "developed a voice and presence out of proportions to its modest size and resources". This is conducted in Nye's words "Through a ruthless prioritization of its target audiences and its concentration on a single message, being Norway as a force for peace in the world" (Nye 2004, 112). Nye sees the conflict mediation in the Middle East, Sri Lanka, and Colombia, with funding of foreign aid, and participation in peacekeeping forces as commitment to the framing as a nation for peace. He points out that Norway accomplish almost all their public diplomacy through actions, rather than broadcasting.

One key condition that has contributed to the Norwegian soft power success is modernity itself. Nye argues that the information age means that transnational corporation and Non-governmental organizations (NGO) play larger roles. He bases his observation on the increase in cross border alliances, with citizen coalitions, that in turn makes politics into a competition for attractiveness, legitimacy, and credibility. This enhances the necessity of credibility and as well as ability to share information (Nye 2004, 31). An example of how Norway has mastered the arts of legitimacy and credibility is how it has disarmed the potential reaction to its states perceived negative behaviour. It has used its credibility to effectively downplay a competing narrative to its profiling as a peaceful actor. Through extensive transparency Norway has managed to largely nullify the potential backlash of its arms and ammunitions exports. In 2018, its value of exports of arms and ammunition amounted to close to NOK 4 billion (Ministry of Foreign Affairs 2019). The publications of annual reports of Norwegian arms exports is hence a successful attempt at removing sensationalism from the conflicting practice.

Nye has pointed out that Norway possess and utilize soft power with extensive success on the global stage. To investigate possible motivations for Norway's soft power strategies, Kristian Stokke has looked at soft power from the perspective of a small state. In his article he examines the institutional practices of Norway's peace engagement. In line with Nye's

observations, Stokke sees Norway a typical example for a small state that wields an unproportionate amount of soft power. He argues that the Norwegian foreign policy discourse is influenced by geographic factors. The size, geostrategic location and resource-based economy shapes its objectives on the international scene. Norway's insignificance means it has limited impact on the international affairs and conditions that affects its sovereignty and development. Stokke states that for small state actors like Norway, it is a key objective to facilitate national consensus on foreign policy (Stokke 2010, 141). This has not always been the case for its relationship with the EU and will be explored in detail later. In turn it is likely that this has hindered Norway's possibility for replicating other successes in its foreign policy. Despite this, Stokke claims that Norway has attained a excessive influence on specific areas. Norway's foreign policy is defined by its small population, relatively small land area, but with an extensive maritime economic zone. Including the maritime economic zone, Norway would be among the 15 largest countries in the world. The economic activities springing from this, petroleum, seafood, and shipping has made Norway one of the richest countries in the world. Petroleum also makes Norway an influential actor in the global energy sector. Stokke argues that Norway's identification as a small state with international interests has played a key role in forming its foreign policy (Stokke 2010, 142).

Based on the arguments of both Nye and Stokke, Norway's mastering of soft power is a result of necessity. The small state identity is considered the backdrop for the strategic pursuit Norway conducts in its foreign policy. According to Stokke, the dilemmas faced by small states on the international scene has shaped three key positions of domestic response in Norway. Stokke characterises the three broadly as neutralism, moralism, and internationalism. He argues that concerns of self-determination, and neutralism are among the factors that kept Norway outside the EU. Simultaneously, Norway's persistent participation in the North Atlantic Treaty Organization (NATO) is attributed to the realist internationalism. The idealist internationalism has manifested in the policies that is associated with soft power capabilities. This moralism has led to strong commitments to humanitarian and development collaboration, support for human rights and rule of law, as well as support for the United Nations (UN). Stokke goes on to argue that the Norwegian foreign policy could be described as an accumulation and coexistence of these paradigms (Stokke 2010, 142).

The three positions identified by Stokke is traceable to the Norwegian approach to the EEA Grants. Drawing upon the moralist position, the establishment of the Grants can be perceived as an extension of Norway's established foreign aid programs. These programmes overlap with the European structural and investment funds (ESIF) that

appears to be motivated by altruistic motives. However, the two diverge at the point where the ESIF is aimed at reducing the internal regional development imbalance within the EU. The EEA Grants on the other hand, is set up with ambitions to encourage the strengthening of bilateral relations between the donors and beneficiaries. One may draw parallels to the American post-World War two Marshall Plan's approach to Europe. Its primary ambition and purpose were to reconstruct and aid a devastated Europe. A spillover from this however an increase of American soft power, as the beneficiaries was exposed to reforms and ideas from the donor (Nye 2004, 49).

The neutralist perspective manifested in Norway's reluctance to let the EEA Agreement cover important domestic sectors such as agriculture and fisheries. A reflex for Norway was to curb the EU's influence by its attempt at isolate these sectors from the overall agreement. The third perspective came to surface through the realisation that Norway would be compelled to adapt to the changes within the EU. The Norwegian realist internationalism reveals itself in the compliance to update the relations with the EU by formulating what came to be the EEA Agreement. It has persisted over time as Norway has increased its participation in various EU initiatives. At the same time, the internationalist perspective's onset coincided with the establishment of the EU's internal market. The timing suggests that the establishment of the internal market came represent the aforementioned small state dilemma for Norway. In Nye's words, external events meant that Norway found itself trapped between the alternatives of abandonment and entrapment (Nye 2004, 65).

Based on the theories of Stokke and Nye, it seems that Norway's foreign policies have been impacted by a shifting predominance of perspectives. Norway has developed its soft power capabilities in line with realist ideas that it has limited influence on the international scene as a small state. Norway appears to have enjoyed success with this strategy on many areas vital for its prosperity. This increases the likelihood of Norway using comparable procedure in its relationship with the EU. The choice of action is influenced by the presence of the three domestic perspectives identified by Stokke. They suggest that the EEA Agreement is a result of a small state dilemma being managed at a time when the internationalist perspective was dominant. The result is that the EEA Agreement to some extent will appear conflictingly domestically in Norway depending on the prevalent perspective. At the same time, Stokke points out that the presence of a national consensus is incremental for the degree of success a small state can achieve in its foreign policy. This stipulates the necessity for exploring the relationship between Norway and the EU to determine the degree of national consensus on the existing policies. Persistent national consensus on policy is therefore essential if Norway is to be successful in get what it wants in relations

to the EU by exporting its political ideals and policies. These features also provide an imperative for investigating the EEA Grants from a Norwegian perspective.

## **2.0 Methodology**

To achieve the stated objectives the paper must assess multiple aspects in both the EEA Grants, as well as in the context which they emerged. In order to understand how they are operated; it will be necessary to break down their organizational structure. This will be done by chronologically tracing the historical developments that led to the establishment of the Grants. The thesis will thereby unpack the circumstances of the negotiations that has affected them. As the EEA Agreement and Grants stems from complex political arrangement, the historical tracing will attempt to clear prevalent misconceptions surrounding them. It will also ease the process of pinning down changes in the design or expansion of the Grants. The idea is that this will separate what parts of the Grants that derive from the Norwegian side to those from the EU. In turn, this may point to the areas that can be considered to benefit Norway's relationship with the beneficiary states in Central and Eastern Europe.

The methodological approach of the thesis is through a qualitative document analysis. Empirical data collected was since compared to a case study. Conducting a qualitative document analysis meant that the main section of the research was constructed by exploring relevant literature. As the topic of the paper involves supranational as well as bilateral relations, this reinforced the selection of qualitative document analysis as a feasible choice of method. The reason is twofold, firstly that the topic can be politically controversial as it touches upon diplomatic relations between Norway and the beneficiary states. This might restrict the potential for gaining reliable information from stakeholders that are concerned about sowing discord. Secondly, the key institutions examined provide substantial amounts of information by practicing a large extent of transparency with documents, numbers, and data. In turn this allows for cross referencing the information between organisations and actors involved. The decision to include a case of Hungary was that it has been one of few examples where the Grants has received widespread public attention. Hungary was further selected as it was among the states that joined the EU with the 2004 expansion. Since becoming a member Hungary has been amongst the bigger recipients of financial contributions through the EEA and Norway Grants. Furthermore, Hungary represents a case were the Grants has received political pushback that since spilled over to affect the bilateral relations with Norway. Including a case will allow a way to verify and confirm the findings from the document analysis.

## 2.1 Literature selection.

As is the case with qualitative document analysis, the thesis was structured around the bodies of literature that was available. It became apparent during the collection of the literature that the topic has not been explored to a noticeable extent. This limited the possibilities in the selection process of relevant literature. A significant part of the literature compiled come from sources with Norwegian background and perspective. This could affect the reliability of the conclusions as the authors could have partisan motives or be structured towards the domestic debate. A way to minimize the impact of this was through cross referencing statements on the EEA Grants between multiple sources. An example of the evaluations done was the decision to include the book "Mot Europa – Fortellingen om et nølende Norge" (Frisvold 2016) by Paal Frisvold. It was included as the author is a distinguished source on EU and EEA. At the same time, Frisvold is considered proponent for Norwegian EU membership. It therefore felt necessary to cross reference parts included to ensure an unbiased narrative and limit the weakness of relying on primarily Norwegian literature. Concurrently it should be mentioned the topic of the EEA Agreement and Grants has not invoked much academic attention in EU states, or those that are not tied to EFTA.

As the premise for the thesis was to observe if Norway was wielding the EEA and Norway Grants as a soft power tool. It was therefore necessary to incorporate a short explanation of the concept. The short definition was based on the concept of soft power presented in Joseph S. Nye's book on soft power taken from the 2004 edition.

One article that had examined the topic was the "The EEA and Norway Grants: A Source of Soft Power?" by Johnsen and Rieker (2014). With the overlapping theme it also faced similar challenges such as finding a reliable way to measure the concept of soft power. The problem was encapsulated by the necessity for differentiating between soft power resources and soft power outcomes. Whereas one does not necessarily equate to the other. Johnsen and Rieker's focus lay on the Grants and Norway's influence on the EU, this thesis focused on the influence in the beneficiary states. The article is from 2014 and was written at the onset of the funding period, in contrast to this thesis at the closure. Despite its limited scope, the article provided inspiration on how to approach the topic, even if this was constrained by the article format.

Sections of the literature such as "Norway outside the European Union" by Clive Archer (Archer 2005) is partially outdated, and its contributions were mainly to the historical aspect. Possibly as a consequence of the Norwegian EU-membership debate being dormant for the last years there are has been notably few books up to date. An exception to this is the book "En fot utenfor – Historien om EØS-forhandlingene" by Wade and Støren (Wade and Støren, 2019). Although written in retrospect from the EEA negotiations, it provided an in-depth description of the EEA framework and the political integration in the wake of the Norwegian referendums. Released in 2019, it is based on interviews with key participants in the political process surrounding the EEA Agreement and Grants. The book targets the contemporary public discussion of Norway's gradual integration into the EU, through the EEA Agreement. Its main contribution was to cross reference the developments in addition to highlighting the constitutional dilemmas presented by the EEA agreement.

A substantial source of information on the topic was the Norwegian public inquiry from 2012. This inquiry remains among the largest conducted on the Norway-EU relationship and much of the thesis is built upon it. The public inquiry was compiled by noted Norwegian scholars from different academic backgrounds. It further contains remarks on aspects of contention among the authors in order to control for a conflicting narrative. As it is substantial in scope, the chapters three to five discussing the historical developments and the chapter 24 and 25 regarding Norway's financial contributions to the EU was prioritized. The empirical data and analysis provided is considered reliable. Moreover, the 2012 Norwegian public inquiry is cited as the primary source for much of the Norwegian supplementary literature on the topic. However, as it was published in 2012 it was necessary to supplement and update parts of it.

Relevant institutions from both Norway and EFTA/ Financial Mechanism Office (FMO) publish frequent updates on empirical data, figures, and concrete policies. By utilizing empirical data from public institutions, the degree of transparency in the thesis increased. One of the difficulties was to obtain information on the 'Norway Grants'. After inquiries to the Norwegian Ministry of Foreign Affairs I was informed that the Norway Grants came to existence in 2004 as part of negotiations between the EFTA states and the EU. Furthermore, that there were no disclosed minutes from the meeting. This proved a major obstacle as the two schemes that make up the EEA Grants are often seen as one in the public discourse. This made it challenging to distinguish to which of the two funding schemes that articles and reports are referring to.

Sources that did distinguished the two schemes was a whitepaper from the Ministry of Foreign Affairs' that accounts for Norway's perspective prior to expansion. A primary focus here was the envisioned relationship with some of the nation's joining the EU in 2004. By this the whitepaper provided insight to how Norway expected to be impacted by the expansion. It furthermore provided a platform to cross-reference the past expectations with impressions from more recent sources. Ulf Sverdrup's article from 2004 was important to highlight areas of contention with the establishment of the Norway Grants. His article also measured the public opinion in Norway in regard to the EUs expansion to East and Central Europe. Despite the limited literature it was thereby possible to establish an overview of the Norway Grants as a separate entity.

The discord between Hungary and Norway over the Grants has not been subject to much scientific research. To circumvent the shortage of academic sources, the thesis was reliant on reports on the EEA and Norway Grants published by the FMO. These provided substantial information on the projects and programs that were launched in Hungary after 2004. As the reports are published annually, they gave valuable insight to the developments as they progressed. In addition, these reports are narrated by the National Focal Point (NFP) meaning that they are penned by a designated Hungarian institution. This may counter some of the effects from relying overly on a Norwegian perspective. The case study was supplemented by news-paper articles to narrate aspects that were left out of the official reports. To encapsulate the Norwegian perspective a speech by the Norwegian Ambassador to Hungary Mr. Olav Berstad was included.

### 3.0 Norway's early relationship with the EU.

Norway established a bilateral trade agreement with the EU's predecessor the European Economic Community (EEC), In 1973. This trade deal trailed in the wake of a series of developments in the 1960's. Developments such as the establishment of the European Coal and Steel Community (ECSC), and the later customs-union enacted by the 1957 Rome-Treaty. Norway's foreign policy was closely aligned to that of the United Kingdom. This especially manifested in Norway's approach European politics. With the British reluctance to join the EEC, Norway's position was cemented, and it joined the United Kingdom (UK)

in its attempt at establishing a less comprehensive free trade area. The UK suggested a free trade area made up by the members of the Organisation for European Economic Co-operation and Development (OECD) the same organisation that exists today. The British proposal was abandoned in 1958, although the idea of a less comprehensive free-trade union led to the establishment of the EFTA. A total of seven countries signed the EFTA-Agreement in 1960. (NOU 2012: 2012:2 45, 46).

As the UK was barred from membership in the EEC in the 1960's, Norway consequently withdrew its own application. In 1970 the EEC once again opened for expansion, and the Norwegian parliament voted to renew the 1967 membership application. A cleavage that transcended both leftist groups and right-wing nationalists emerged during the arrangement preparations (Archer 2005, 39). The side opposing a Norwegian membership, successfully fixed issues of autonomy to their campaign. They argued that they had little faith in Norway's ability to influence decisions as an EEC member. Especially fisheries came to play an important role in the referendum with the EEC launching its Common Fisheries Policy (CFP) in 1970 (Archer 2005, 46, 47). The CFP and other areas related to fisheries has since this time been a recurring point of tension between Norway and the later EU. The level of political mobilisation in the Norwegian membership referendum reached levels not previously seen during the 1900's. Drawn from a population of 3 863 221 (SSB 2020), the "No" campaign accumulated 130 000 members (NOU 2012: 2012:2, 46). In 1972, a referendum on the membership was initiated to mandate a decision. It culminated in a 53,5 percent majority against Norwegian membership (Frisvold 2016, 64).

### 3.1 Establishment of the internal market.

The period between the 1972 and 1994 referendums witnessed Norwegian political exhaustion, over the relationship with the EC. Through its EFTA-membership Norway still benefitted from the cooperation between the two. The accession of the United Kingdom and Denmark to the EC marked the changing power dynamics between the two organisations in favour of the EEC. In 1975, 44,4 per cent of EFTAs total exports went to EEC-states, and the EECs export to the EFTA bloc accounted for a merely 11,4 per cent of the EECs total export (NOU 2012: 2012:2, 47). At the same time, the general secretary of EFTA (1981-1988) summarised the dynamics as "*The main objective of the EFTA was all along to expand the cooperation with the EEC*" (NOU 2012: 2012:2, 48). In 1984, EFTA

and the EEC established the 'European Economic Space' (Archer 2005, 56). They agreed to harmonize standards and eliminate unfair trade conduct, and eased border crossings, which brought the two organisations closer together (Wade, Støren 2019, 22). In addition, this period marked a decline in bilateral agreements in favour of supranational treaties negotiated between the two blocs.

The Norwegian apathy to dealing with the EEC came to an end in 1987, when the foreign ministry released the White Paper, *Norway, the EC, and European Cooperation*, investigating Norway's relations with the EEC. It concluded that the EEC-EFTA link was the best strategy in order to strengthen relations between the two sides. The backdrop for the report was EEC's membership expansion, spillover from free trade, and intention to establish the EEC's internal market (Wade, Støren 2019, 17). With its focus on the '*Single European Market*', expanded cooperation with EFTA lost priority in the EC (NOU 2012: 2012:2, 48). Despite the changing dynamics in the EEC, the Norwegian government showed reluctance to readjust its strategy and there was no domestic debate on the EC relationship in the Norwegian 1985 or 1989 elections (Frisvold 2016, 85). Concerns over the internal market changing the *status quo* was mentioned in the White Paper and was linked to uncertainty over the relaxed approach and lack of coherent strategy for the EFTA countries (NOU 2012: 2012:2, 50). However, as EFTA remained the largest trade partner for the EEC there was a mutual interest in allowing continuation of trade between the two (Frisvold 2016, 95).

The EFTA states further lacked a concerted authority to negotiate on its behalf. To avoid timely negotiations with individual members the EEC proposed to allow the EFTA states to participate in the EEC-bodies with legislative proposals for the internal market. If successful, it meant that the EEC-commission would oversee the implementation of the rules, as well as mediating conflicts in a shared judicial organ (Frisvold 2016, 96). This idea presented would have facilitated the EFTA states to participate in the development of the internal market, while implementing a common set of regulations on competition and subsidies. This 'common European room', excluded arduous sectors such as fisheries and agriculture (Frisvold 2016, 97). This formally laid the groundwork for the EEA Agreement. For the EC, the idea provided an alternative for countries that wanted cooperation without membership, as well as for eastern European countries that were transitioning from a state of compelled neutrality. It further made a new way for the EFTA states to vary of one-sided integration, while ensuring a continuation of the important trade relations (Wade, Støren 2019, 36).

As the EEC-position was established, the internal negotiations within the EFTA began in 1989. The negotiations were disrupted by several events in the EEC. Firstly, the Court of Justice of the European Communities (CJEC) rejected the possibility for EFTA access to the decision-making body (Frisvold 2016, 101). The EEC's southern member states voiced dissatisfaction with participation of non-members in the internal market (NOU 2012: 2012:2, 50). EFTA's internal negotiations displayed its lack of unity, and members fragmented over the supranational implications of the agreement. Outwards, its negotiating power was eroded when Austria declared their pursuit of full membership. A deep financial recession in 1990 led the Swedish parliament to issue an intent to join the EEC. Switzerland stated that any form of supranational outcome would be unacceptable (NOU 2012: 2012:2, 52). For Norway, a main area of contestation was the EEC demand that the CJEC would have primacy over the Norwegian supreme court (Wade, Støren 2019, 50). Negotiations continued despite Austria and Sweden's intent to join the EEC as this could not happen until after the realisation of the internal market. The Swedish readjustment is particularly attributed to the altered focus of the EEA Agreement from an independent path, to one of transition towards full membership (NOU 2012: 2012:2, 54).

### 3.2 The second referendum.

Alongside the political discussions, the relationship with the EEC was once again gaining public attention. Towards the 1989 elections the rate of voters against a Norwegian membership dropped significantly, and the organised 'yes-side' nearly doubled its members. Despite this only nine per cent of the electorate reported the membership question as important to them (Wade, Støren 2019, 57). A polarised electorate was reflected in the election of an unstable government. Besides the Christian Democrats, it contained the only clear-cut 'yes' party, the Conservatives, as well as the principal 'no' party, the Centre Party (Wade, Støren 2019, 62).

The opposition against the EEA Agreement broadly mirrored those of the 1972 'no' campaign. The Centre Party argued that the European Commission's rejection of certain dispensations of EEC regulations represented a foreign take-over of Norwegian resources. This implied a divergence from a national policy line that could be traced to the Norwegian independence (Archer 2005, 56). Mobilising broadly, the opponents of the EEA Agreement emphasised the security provided by the existing 1973 trade agreement. They argued that small amendments would suffice, and thereby avoiding further loss of sovereignty as well

as new renegotiations of sensitive fields as agriculture and fisheries (Wade, Støren 2019, 58, 59).

In the negotiations it was evident that the balance of power was significantly favouring the EEC side. As Norway stayed part of a weakening EFTA, it was clear that many of the EFTA countries would not sign the final agreement regardless of the negotiation outcome. Switzerland rejected the EEA Agreement for its supranational character, while Austria, Sweden and Finland moved towards full membership over fears of an inadequate agreement. Hence, Norway was left to assign itself to an expanded EEC within the EEA framework alongside Iceland and Lichtenstein (Archer 2005, 58). With negotiations ending, the revised treaty was ready in February 1992. In October 1992, Stortinget determined that a membership in the EEA conflicted with Paragraph 93 of the Norwegian constitution that regulates the amount of sovereignty that could be delegated to an international organisation. Therefore, a three-quarters majority at Stortinget was necessary to confirm a membership in the EEA. A suggested referendum on the matter was voted down by the Labour and Conservatives, and the EEA Agreement was passed with 130 votes in favour and 35 against. It entered into force from January 1994 opening the EEC market for Norway trading economic benefits with a further loss of autonomy (Archer 2005, 56, 57).

The timing of implementation of the EEA Agreement had longstanding influence on the domestic Norwegian politics. As it came into effect the same year as the second referendum it is often seen in context and intertwined with the referendum outcome. For the electorate, the two were and remain difficult to separate (Frisvold 2016, 123). The public memory of the two events were also coloured by the Labour party's strategy of using the Norwegian integration in the internal market to 'socialise' the country into full membership over time. The strategy unravelled with Sweden and Finland's 1991 membership applications and Prime Minister Brundtland called a referendum on full membership in 1994. With a voter turnout of 89 per cent, it concluded with a 52.2 per cent against, with 47.8 per cent in favour (Archer 2005, 57). With the EEA Agreement in place, the practical implications of the electoral outcome were eased. However, the politicization from the referendum contaminated the EEA Agreement. The government had not tied the referendum to its continuation, and the split within the labour party was less severe than in 1972 referendum. Despite this only 65 per cent of Labour voters voted in favour of their governments proposition (Archer 2005, 58). A new generation of politicians experienced the political saliency that the EEC – Norway relationship contained, and the two referendums are credited for the political unwillingness to host a new EU debate. Illustrated

by the then prime minister Jens Stoltenberg declaring in 2011 that "I will never use any political ammunition on a new EU-battle" 2011 (Frisvold 2016, 64).

The timeline illuminates some of the factors that has fuelled the domestic discussions and controversies that surrounds the EEA Agreement in Norway. The developments expose the reactive nature of Norway's approach to developments in Europe, it spanned over several decades and influenced policy outcomes. Between the Cold War to the signing of the EEA Agreement the focus of Norwegian foreign policy laid primarily with security policies. Its alignment with the UK's position was therefore rational and in line with its foreign policy objectives. This meant however that Norway paid less attention to the European integration taking place during the decades up to the 1980's (NOU 2012: 2012:2, 45). The political climate in the wake of the first referendum further impeded domestic discussions on the evolution of the European cooperation. As the reactive approach prevailed it left the formulation of the future relationship between Norway and the EU solely to be defined by developments in the latter. This meant that Norway was vulnerable to the changing power balance between EFTA and the EEC-side. As the political weight and integration progressively favoured the EEC, Norway was compelled to negotiate the EEA Agreement on multilateral terms.

It is rational to assume that the new EEC members were pursuing self-interest with regards to the EFTA states. This would in turn mean that the EFTA states experienced significant erosion of its negotiation power compared with prior arrangements. The Norwegian strategy for handling the expanding EEC was solely resting on a splintering EFTA. This in turn explains the Norwegian obligation to accepting more compromises than it anticipated. Through domestic political manoeuvring and ratification near a polarising referendum the EFTA Agreement became associated with the cleavages originating in the EU integration debate. Moreover, the referendum represented a divide with a majority of parliament in favour of membership, being rejected by most of the electorate (Stortinget 2018). With the EEA Agreement including a substantial delegation of sovereignty political arrangements such as the EEA Grants carries a dimension of domestic political controversy. The political controversy can ultimately be traced to the Norwegian reactive approach to developments in the EU.

Springing from a focus on security during the cold war, it persisted from the first referendum in the early 1970's. With the EEC and later EU, representing a threat to the harmony within the largest Norwegian political parties. The apparent reactivity would be a

rational choice as they stood to gain little from a new EU debate. Nonetheless there was no way for contemporary actors to foresee the changes that occurred in the EEC and later EU. From the perspective of the Cold War era, there was no way to envisage the depth and success of the European integration process. Norway's reactive approach to the single market and the EEA Agreement must therefore be observed in its contemporary light. The same notion must be applied to the EEA Grants when observing their evolution from their creation in the EEA Agreement.

#### **4.0 The origin of the EEA Grants.**

The idea of a financial scheme was conceived during the negotiations of the EEA Agreement. Their origin highlights the developments they have underwent from a compromise to area of contention. In the time leading up to the launch of the EEA negotiations, the EEC focused its attention towards the anticipated influx of new member states at the expense of the relationship with the EFTA states. This is cited as a factor in the cooling relations between EFTA and the EEC. During the negotiations a group of Southern members, led by Spain, argued that if EFTA were to enjoy the benefits of the internal market, they should be obliged to contribute to the structural fund of the EEC (NOU 2012: 2012:2, 51). This demand was entrenched in material negotiations. Southern members sought increased agricultural exports to the EFTA countries, as well as eased access to fishery resources. Spain's Secretary of State on EEC matters stated in June 1991 that the country would rather let the EEA-process collapse than to give up the demands. The Spanish insistence of access to Norwegian fishing quotas, was avoided by minor concession related to fishery, paired with the establishment of an EFTA-financed fund for less developed regions. This so-called solidarity fund represents a precursor to the EEA Grants. It intended to compensate the existing EEC-members for the increased competition in their internal market that was ushered in by the EFTA-countries (NOU 2012: 2012:2, 55).

The EEA Grants existence are entrenched in the articles 115 to 117 in the EEA Agreement. The article 115 provide the prominent premise as it incorporates the EU's overall aim of reducing economic and social disparities between its member states. It further stipulates the signatory's consent to promote continuous, balanced trade, and economic relations between the Contracting Parties. The article 116 specify the establishment of the Financial Mechanism that is to serve as the principle institution to assist the community on behalf of the EFTA States. Lastly, the article 117 determines the provisions that govern the Financial Mechanism. As such, the article 117 defines the areas covered by funding through additional protocols that indicate the programme areas for each funding period. The programme areas are determined by the European Commission (EC). In the period from 2009-2014 the EC fixed the Grants to four principal target areas such as environmental protection, climate change, civil society to name a few (Annex Protocol 38 B, article 3, 2010). Showing that the Grants are perceived to be a long-term operation, the periods often have overlapping areas and programmes that are repeated. Continuing from the previous funding period the next phase of 2014-2021 the Grants continued to fund climate

change and civil society. Other new priorities included assistance towards youth unemployment and justice and home affairs (Annex Protocol 38 C, article 3, 2016).

Intentions for a future financial funding scheme was integrated into the EEA Agreement through the article 115 to 117. The financial mechanism is seen as an device for reaching the EU's aim at reducing regional economic disparities. Intentions of strengthening bilateral relations was added later (NOU 2012: 2012:2, 761). There is no fixed formula for determining the size of the Grants, consequently they are subject of periodical negotiations. At the time of signing, they were envisioned to be in existence for a five-year term. Since 1994, there has been five rounds of negotiations, as well as a renegotiation after the Swiss rejection of the EEA Agreement. The official Norwegian Report concludes that these negotiations have been tough for Norway, an impression that is backed up by the figures. In 1992, the estimated spending for Norway would be NOK 250–300 million annually. In 2010, the total sum for Norway's participation in programs and bureaus had reached NOK 1.67 billion. The Grants has been considered an overall success especially highlighted during the negotiations for their preservation. Despite the substantial increase in expenditure and transitions they have been subjected to, the Grants do not receive much attention in the Norwegian EU debate (NOU 2012: 2012:2, 760). Other aspects of the Grants will be explored in the later sections.

The lacking attention could be linked to how Norway organises and conducts its financial obligations to the EU. For instance, is the Norwegian financial transfers to the EU are often seen under one, without distinguishing their respective areas. In the Norwegian official report from 2012, funding from Norway to the EU is divided into three categories. The first and largest segmented is funnelled to finance the Grants themselves, also referred to as the financial funding scheme. A second part of the funding covers the financial support for cooperation outside and inside the EEA Agreement. These payments ensure Norway as an equal participant in EU-led programs centred primarily on research, education, and innovation (NOU 2012: 2012:2, 759). As an example, Norway is an equal participant in EU's Horizon 2020 program for innovation and research. It is considered the largest of its kind in the world, with a total budget of EUR 80 billion (Forskningsrådet 2019). Payments for equal participation of research projects makes up the largest portion of the second category of funds. Parts of these payments are funnelled back to Norway as funds are allocated back to participating institutions situated in Norway. Exemplified by the Norwegian participation in the Horizon 2020 program, where Norwegian actors received NOK 667 million in funding from 2014 to 2018 (Nordlie 2018). In 2019, approximately 15,6

per cent of Norwegian applications resulted in funding from Horizon 2020 (Mikkelsen 2019).

The third category discussed in the Norwegian official report is the costs of operating the regulatory and EEA related institutions. Norway's part of financing for EFTA and EEA-institutions were envisioned at NOK 20-40 million at the time of signing. In 2010, the expenditures amounted to NOK 205 million. The significant increase is attributed higher level of activity for the organisations as well as for covering the budget gap left by Sweden, Finland, and Austria's departures from EFTA in 1995. Expenditure is shared between the members based on side of gross domestic product (GDP). Thereby Norway covers approximately ninety per cent of the EFTA Surveillance Authority (ESA), as well as the EFTA court (NOU 2012: 2012:2, 760).

At the time of its publication in 2012, the report observed that over time there had been a gradual shift in how the financing is communicated and rationalized. It recognised a tendency of Norwegian politicians to increasingly present the Grants as a foreign policy tool for Norway. In addition, the Grants was increasingly broadcasted as a prerequisite for the Norwegian participation in the internal market. This represented a divergence from the earlier emphasis on the Grants having altruistic motives. The idea that the EEA Agreement stipulate the payments of the Grants to access the internal market has proven resilient. Illustrated by the Norwegian Agency for International Cooperation and Quality Enhancement in Higher Education (DIKU) citing that; *'The EEA Grants are contributions from Iceland, Lichtenstein and Norway, to participate in the EUs internal market'* (DIKU 2020). As in 2012 the headline of an article from the Norwegian Broadcasting Corporation or Norsk rikskringkasting (NRK) described the EEA Grants as *'A part of the contingent Norway pays for access to the EUs internal market'* (NRK 2012).

These two citations stress the overall understanding that the Grants has transitioned from a temporary compromise to an established arrangement. The citations may be a consequence of the rhetorical shift that has taken place in the domestic Norwegian debate. It may also simply be a manifestation of the lacking interest and knowledge in the Grants in the Norwegian public. This development has taken place despite Norway's increased expenditure in funding the Grants. As stated, the nature of the EEA Grants provides another sphere where Norway have lost negotiation powers towards an expanded EU. On the other hand, the shift in framing of the Grants points to the increased expenditures as being influenced by latent motives. Having established a general overview of the history of the

Grants, the next section will assess the Norwegian perception of the Grants. The structure and *modus operandi* of the Grants will in turn be dissected to conduct the later analysis.

#### 4.1 The EEA Grants from a Norwegian perspective.

Examining the Grants solely by their origins suggests that Norway was never a principal driving force in their establishment. The EEA Grants at the time of their establishment were nevertheless very different from the contemporary arrangement. Apart from the scope of the Grants there has been a series of organisational changes accompanying their growth. Even as the changes in the EEA Grants are predominantly driven by the EU it does not mean that Norway was been indifferent to the process. Being the largest contributor carries with it a natural influence on the developments of the Grants. This influence is strengthened by Norway financing a large share of the institutions that mediates the EEA/EFTA relationship with the EU. In line with investing larger sums to the Grants and their operations it is natural that political attention follows in their wake. A critical step towards the modern format of the Grants came with the EU's expansion of 2004. Based on this it is necessary to examine the Norwegian understanding and outlook on the expansion process. The idea is that by observing the Norwegian perspective one may isolate the influence that Norway played in the organisational process of the Grants.

This perspective was captured in a series of whitepapers accounting for the Norwegian expectations to the EU's Eastern expansion in the years prior to 2004. These whitepapers give an insight to Norway's policy-makers' anticipation, preparation, and strategies for the expansion. Moreover, they give insight to the expectations of how the financial contributions were to progress under the new conditions and which fields that were expected to gain importance for Norway. It can in turn provide a platform of analysis for the Norwegian aspirations for the Grants.

The whitepaper from the Ministry of Foreign Affairs (2001-2002) shows that the EFTA states committed to a direct financing scheme running from 1994-1998. The sum amounted to 500 European Currency Units (ECU), which was the currency predating the Euro. It further stipulates an additional loan of ECU 1500 million to target development and structural adjustment in Greece, Spain, Portugal, Ireland, and Northern-Ireland.

Culminating in a Norwegian contribution of about NOK 200 million annually. It further specifies that around 75 per cent of this was provided as grants and 25 per cent as interest rate subsidies. Once again, the whitepaper express that the EFTA states assumed that the arrangement was to conclude after a five-year period. In the summer of 1998, the EU states requested a continuation of the scheme. Which was agreed to after a group led by Spain hindered cooperation on unspecified parts of the EEA agreement. The sides were agreed to a renewed framework in which two thirds of the funding was delegated to environmental projects in a broad sense. In May 2000, the EEA-committee ratified the new arrangement. A total of EUR 120 million were allocated by the three EEA/EFTA states for the five-year period 1999-2003. Norway's share amounted to around NOK 930 which was close to 94 per cent of the total sum. The protracted negotiations on the design of the new scheme meant that it did not come to effect until January 1<sup>st</sup>, 2001. It is stated that the projects would span several years, and that the pay-out would be tied to the management of projects. A similar design as with the current operations of the Grants. The structure called for additional funding that exceeded the total frame of EUR 120 million spent in 2003. A remark that stands out is the claim that there would be no further commitment to allocations subsidiary to this arrangement after 31.12.2003 (Ministry of Foreign Affairs 2001-2002, 76).

Among the specifications that stand out in the document from Norwegian Ministry of Foreign Affairs is the extent of financing that was allocated as loans rather than as allocations. Furthermore, it provides a clue to the early pressure that the EEA/EFTA states was exposed to by EU states that stood to gain from the scheme. Bearing in mind that recipient countries were fewer it is plausible to assume that their leverage at that stage was weaker than in the later negotiations post-expansion. The final aspect that stands out is the whitepapers frankness about the EFTA states perceiving the financial contributions as temporary. A notion that is strengthened by the statement that there would be no further commitment to funding after the arrangements perceived conclusion in 2003.

An alternative whitepaper from the years 2000-2001 details the significant changes to the relationship Norway and the former communist candidate countries. It goes in depth to present a series of changes to the Norwegian relationship with the EU due to the expansion. At the same time, it gives an impression of an overall positivity from the Norwegian side to the integration of Central and Eastern European states to the EU. Discussing from a Norwegian perspective it contains both predictions and concerns over the future

relationship, both bilateral and multilateral. Some of the areas investigated remain of concern for Norway today while others relate to obstacles that never manifested.

Starting from the introduction of the whitepaper it delves into concerns of the expansion. It highlights the limited influence Norway would have on the EU's ambitions for more security and defence cooperation. The government maintains that Norway seeks to participate in EU lead operations and especially on fields surrounding EU's political handling of questions related to security and defence. Simultaneously, it watches the expansion and deeper integration of EU's Eastern states with a degree of concern as it will require a revision of the EU's foreign policies. The fear was that Norway would be left behind in a new potential security policy platform. To limit the fallout from this new reality it is suggested that Norway increase its contacts with central allies to safeguard its interests (Ministry of Foreign Affairs 2000-2001, 6). Furthermore, it states that Norway supports the US' understanding that reinforced European security cooperation must not take place at expense of transatlantic relations (Ministry of Foreign Affairs 2000-2001, 43). Consequently, Norway supported closer integration of EU states against NATO to ensure it remained the principal institution for European Security (Ministry of Foreign Affairs 2000-2001, 52).

The whitepaper grants substantial attention to changes ushered in by technological developments and increased globalisation. This fear centred on the EEA Agreement not covering these changes adequately. Especially as the cooperation was in decline alongside the increased cooperation among the EU members (Ministry of Foreign Affairs 2000-2001, 7). Surrounding the economic implications of the Economic and Monetary Union (EMU), Norway acknowledged the increased macroeconomic stability. A successful implementation of the Euro was deemed to be in the interests of Norway (Ministry of Foreign Affairs 2000-2001, 8). As of political influence the whitepaper determines that the remaining way to influence EU's political processes would be through the member states. Pointing to the expectations of increased attention relegated to the bilateral relations with the candidate members. Stated that in areas of great importance the government would place importance on its capabilities for contact directly with the member states. It states that through efficient use of coordination Norway could secure its interests in relations to the EU. Moreover, that extensive knowledge on the priorities of member states on important subjects would be prioritised. This is underlined by the belief that EUs difficulties with challenges from globalisation would increasingly be solved on arenas were Norway and EFTA lacked access. An implication of this was that Norway would to an increased degree

have to speak for itself in European capitals and with EU institutions (Ministry of Foreign Affairs 2000-2001, 9).

The whitepaper suggests that eroded ability for influence on basic interests and societal concerns meant changes in Norwegian foreign politics. While it warns that a potential reform of the EEA Agreement would be a complex and risky move. It was honest that the EFTA pillars relative weakening to the EU pillar would make it hard to achieve the same balance in solutions as at the time of signing (Ministry of Foreign Affairs 2000-2001, 154). It underlines the government would respect the outcome of the 1994 referendum, despite the EEA Agreements shortcomings. For instance, would the new members have duties that rights as the old ones, which would strengthen the EUs political and economic powers. Equivalent it would increase the imbalance between the EU and EFTA pillar of cooperation. With the EFTA states not being part of the negotiations of the expansion their role was limited to presenting their opinions through the EEA Agreement. This diminished Norway's room for manoeuvring in the expansion process (Ministry of Foreign Affairs 2000-2001, 307).

It specifies that the agreement only caters to the fundamental economic interests of Norway. Illustrated by the case that majority of Norwegian petroleum is sold to the EU. It was believed that these numbers would continue to rise with the central and eastern expansion. However, it predicted that the sales would be conducted on different terms with the potential development in the EUs common policy framework for energy. While the regulation of this sector was significant for Norway the EEA Agreement guaranteed no access for Norway or the EEA to the arena in which this policy is shaped (Ministry of Foreign Affairs 2000-2001, 11). A similar trajectory was presented for the fisheries sector which at the time was estimated to increase from NOK 30 to 100-150 billion the next 20 years. Before the central and eastern candidates became full members, the fisheries sector was covered by EFTA's free trade agreement. With fisheries kept outside the EEA Agreement, much of the seafood related exports would be subject to changing and higher tariffs. At the same time, the new members were attractive countries for processing products with EUs shared market access. This incentives export of unprocessed products in which value added would be captured in EU member states rather than Norway (Ministry of Foreign Affairs 2000-2001, 11, 12). The severity of deterioration of the market access was determined in negotiations concluded after publication.

*Table 1.1 GDP-growth in fixed prices 1992-1999. In percentage.*

	1992	1993	1994	1995	1996	1997	1998	1999
Bulgaria	-7,3	-1,5	1,2	2,2	-10,9	-7,0	3,5	2,5
Czech Republic		0,6	2,7	6,4	3,8	0,3	-2,3	-0,5
Estonia	26,1	-8,2	-2,0	4,3	3,9	10,6	4,0	-1,3
Hungary	3,1	-0,6	2,9	1,5	1,3	4,6	4,9	4,1
Latvia	-35,2	-16,1	2,1	0,3	3,3	6,5	3,6	0,8
Lithuania	-21,3	-16,2	-9,8	3,3	4,7	7,3	5,1	-3,3
Poland	2,6	3,8	5,2	7,0	6,0	6,8	4,8	4,1
Romania	-8,7	1,5	3,9	7,1	3,9	-6,1	-5,4	-3,9
Slovakia		-3,7	4,9	6,9	6,6	6,5	4,4	1,0
Slovenia		2,8	5,3	4,1	3,5	4,6	3,9	3,8
Russia	-19,4	-10,4	11,6	4,2	-3,4	0,9	-4,5	3,2

Source: (Ministry of Foreign Affairs 2000-2001, 17).

The whitepaper alludes to the possibility that EFTA's existing financial contributions could be impacted by the expansion. As seen in the table 1.1 most of the post-Soviet candidate members experienced GDP growth during the latter part of the 1990's. Despite the GDP growth it was estimated that with an inclusion of the ten central and eastern European countries the EU's total GDP would increase by around four per cent. In comparison the EU population would increase by an approximately 30 per cent (Ministry of Foreign Affairs 2000-2001, 25). From the Norwegian side it is emphasised the potential for greater security, economic, and social stability across a greater part of Europe. This is cited as the principal reason for it to commitment to an active role in the policies of expansion. Interestingly the whitepaper details specifically the demands laid on the three Baltic states in the membership process, while grouping the rest of the central and eastern European countries. This suggests that Norway at the time was envisioning a closer cooperation with these states. Seen in context with the earlier expression for the necessity for bolstering relations with individual members. The Baltic states seem to have intended targets for achieving this. Reinforcing this notion is the weight placed on Norway as a contributor to the reform-processes and specifically to the Baltic states and Russia within the existing budgetary framework (Ministry of Foreign Affairs 2000-2001, 29). According to earlier statements Norway was also actively supporting the ascension of the Baltic states to NATO (Ministry of Foreign Affairs 2000-2001, 27).

When assessing the integration process at the time the whitepapers remain balanced between the successes and the remaining obstacles for the candidate countries. Upon discussing the shortcomings in the integration process the whitepaper identifies sectors that it suggests that Norway should focus its assistance. These include health and environment, nuclear security, democratic institutions, and the judicial bodies to mention a few. While areas such as nuclear security and environment are areas that carry universal benefits the continued support over decades may indicate that Norway were prioritizing arenas for lasting cooperation. Parallel to defining points to concentrate future assistance the whitepaper outlines a plan of action for each country. It states that the objective is solely to identify fields of interests to Norway. The overall suggestion is an early inkling to identify sectors where Norway could influence the beneficiary states at a later stage. (Ministry of Foreign Affairs 2000-2001, 29). This plays into the notion that there was a need for a readjustment of Norwegian foreign policies. Especially as it was believed that the expansion would shift the attention of the EU eastwards (Ministry of Foreign Affairs 2000-2001, 30, 31).

The Norway Grants is the clearest manifestation for the shift that came to Norwegian foreign policy in response to the EUs expansion to central and eastern Europe. It represents perhaps the primary tool for Norway to adapt to the changes that was identified prior to 2004. The next section will there focus on the Norway Grants.

#### 4.2 Norway Grants.

The Norway Grants differ from the EEA Grants on several points. Firstly, they are solely financed by Norway. Consequently, the Norwegian Ministry for Foreign affairs functions as the decision-making body for this section of the Grants. Whereas the jointly funded EEA Grants have 15 countries eligible for funding, the Norway Grants are limited to the 13 countries that joined the EU and EEA after 2004 (EEA Grants 2020). It is plausible to assume that this is linked to the Norway Grants entering to existence in the wake of the 2004 expansion. Simultaneously the exclusion of Spain, Portugal, and Greece from the Norway Grants is cited as an important element for Norway in the negotiations (NOU 2012: 2012:2 762). Why this was important for Norway is not specified and one can assume that it was an attempt to reduce the total financial burden. It may also be an attempt of connecting the Norway Grants solely to the EU expansion. Simultaneously, the states excluded from the Norway Grants scheme were also some of the more vocal states for the continuation of the EEA Grants.

In his article from 2004, Ulf Sverdrup accounts for the Norwegian perception towards the EU's expansion. As part of his article he touches upon the Norway Grants specifically and explain their emergence as being determined by the EFTA/EU negotiations prior to the EU expansion. Sverdrup claims that Norway was a firm supporter for the planned expansion. His article argues that the overall support was incremental in the Norwegian willingness to compromise on the new dynamics that the expansion represented. At the same time, Sverdrup explains the outcome of the negotiations, the establishment of the Norway Grants and the tenfold raise in EFTA's financial contribution through a series of circumstantial effects. For instance, it is stipulated in the article 128 in the EEA Agreement members of the EU must also be members in the EEA. Terms for ascension is determined in an individual agreement between EU, EFTA, and the candidate members. In the 2004 expansion the negotiations between the EU and EFTA started in January 2003. Contrary to the wishes of Norway and EFTA the EU and candidate members had at the time concluded their agreement. This left Norway with no possibility to set conditions or terms. In other words, the negotiations evolved on EFTAs relationship with the expanded EU, rather than the candidate members integration into EFTA. (Sverdrup 2004, 4).

Sverdrup is an additional claimant to the statement that the negotiations were hard on the EFTA side. He claims that Norway prepared for fisheries as the main point of contention while the financial contribution emerged as the decisive question. As discussed earlier, Norway were already at the time contributing financially to the EU member states, and candidate countries. Organized in a 'loan and grant scheme' consisting of EUR 12 million annually from 1994-1999 the funding targeted development and structural adjustments in Greece, Spain, Portugal, Ireland, and Northern Ireland. From 1999-2003, a new arrangement doubled the sum, with EUR 24 million being delegated to Portugal, Spain, and Greece. At the time Norway financed around 94 per cent of the EFTA contributions. According to Sverdrup, the payments already represented a point of contention. With the EFTA interpreting the Grants as voluntary and the EU Commission understanding the financing as an integral part of the EEA Agreement (Sverdrup 2004, 7). This represents a lasting point of contention between the two sides.

As seen in the whitepapers Norway supported the expansion and was prepared to contribute financially to the expansion process. Sverdrup states that despite this, the size of the contributions came as a surprise. Although the Commission never forwarded monetary claims a prognosis from the Norwegian Ministry of Finance estimated an increase

of upwards to twenty to thirty times of the EFTA/EEA contributions. It was argued that the EEA had to pay its share of the increased costs and that EFTA's contribution should be a permanent arrangement raised to match the EU members contribution to the structural fund. Furthermore, there was an implication that the EU was willing to dissolve the EEA agreement if the EFTA side rejected the claim (Sverdrup 2004, 7).

Norway's stance was that there would be no increase in contributions without equal concessions given to compensate the worsened terms regarding fisheries. The EFTA states argued that there was no judicial foundation for the claim, and the current financial contribution was not integrated to the EEA Agreement. The original Norwegian position was that the size of the contribution should not be dependent on the structural funds that was outside the scope of the EEA Agreement. A point of emphasis was that the EFTA states were not qualified to benefit from these funds (Sverdrup 2004, 8).

Reflecting the changing situation, the EFTA side acknowledged the necessity for adjusting the contributions to target social and economic disparities, in accordance with article 115 in the EEA Agreement. In the negotiations Norway and the EFTA side was surprised by the hard position occupied by the Commission, as they assumed that this posture was to be softened by cordial heads of state in The European Council. Contrary to this, the EU's persistent position enjoyed broad support even by the former EFTA members that had joined the EU in 1995. The then Prime Minister of Sweden Göran Persson subsequently expressed that it was legitimate that Norway contributed more to the EU's expansion. It is pointed out that the other Nordics states did not mind if the EEA Agreement turned out to be an expensive alternative to EU membership (NOU 2012: 2012:2 762).

According to Sverdrup the EU side remained committed to a joint position throughout the negotiation process. The negotiations concluded with a tenfold increase in Norway's share between 2004-2009, at approximately EUR 235 million. Sverdrup asserts that the sum instigated disagreements internally among the EEA/EFTA states, with Iceland and Lichtenstein finding the increase unreasonable. In turn they decided in internal negotiations to partition the funding into two formal financial arrangements. Norway hence inflated its contribution and set up the Norway Grants (Sverdrup 2004, 9).

In comparison, Switzerland that remains outside the EEA Agreement has since 2007 contributed to the EU member states in its own financial scheme. The Swiss scheme was upwards of EUR 600 million in a five-year period to the ten member states, with additional

EUR 165 million to Bulgaria and Romania. The annual cost for Switzerland was around EUR 155 million, compared to Norway’s annual contribution amounting to EUR 349 million. Norway’s financial contributions are in other words more than double those of Switzerland (NOU 2012: 2012:2 763).

Table 1.2 Total contribution each period of financing (in millions of Euro).

End	Norway Grants	EEA Grants	Total	
2014-2021	1253,7	1548,1	2801,8	2024
2009-2014	804,6	993,5	1798,1	2017
2004-2009	635,0	672,0	1307,0	2012

Source: (Regjeringen 2020).

The table 2.0 illustrates the sums that goes into the respective parts that makes up the EEA Grants. After the establishment of the Norway Grants, Norway’s percentage of the total financing went from an approximate 95 per cent, to covering a total of 97 per cent (NOU 2012: 2012:2 761).

4.2 The Grants’ potential for influence.

The Grants’ two half’s share the aforementioned objective to reduce social and economic disparities in the EU. They differ primarily on their availability for candidate states, and the focus areas they prioritise. It is stated that the EEA Grants finance invest and development projects, environmental protection, European cultural conservation, health etc. The Norway Grants pursue to assist recipient states to fulfil obligations and to exploit opportunities in their EU membership. They specifically target investment and development projects of sectors shared by EEA Grants (Sverdrup 2004, 10). Beneficiary states are selected by the EU without consultation of the EEA side. Poland has been the largest recipient since 2004, and the period 2014-2021 amounted to EUR 809,3 million (Regjeringen 2020). It is likely that the allocation had transpired differently if Norway had retained the right to decide the sums to each beneficiary states (NOU 2012: 2012:2 764). This presumption rests on the

envisioned relationship measured to the moderate percentage of the funding allocated to the Baltic states.

In practical terms the donor and beneficiary states organise Memorandum of Understandings (MoU's) that dictates the allocations to the different priority sectors. For Norway Grants this is arranged bilaterally. The signing of the MoU's for Norway Grants is treated as an opportunity to brandish Norway, often coinciding with state visits. Exemplified by the 2009-2014 MoU signing in Slovakia taking place at the conclusion of a visit by His Majesty King Harald of Norway. Similarly, the then Prime Minister of Norway Jens Stoltenberg was present at the signing in Gdansk, upon the Polish premier Donald Tusk proclaiming that Grants display "excellent propaganda for Norway". The signing of the MoU's represents an increasingly important tool for Norwegian European policy. Concurrently the wielding of the Grants as a foreign policy tool facilitate frictions between the Norway and some of the beneficiary states. The Norwegian aspirations of influencing them clash with the beneficiaries that perceive the Grants as a right awarded them through arbitrations between the EU and Norway (NOU 2012: 2012:2 765).

While the financial contributions are designated as Grants and not as Norwegian Foreign Direct Investment (FDI), they come with a responsibility for the beneficiary. Sverdrup asserts that the Norwegian Ministry of Foreign Affairs communicated to the Norwegian parliament, the Storting, that the Grants would under no circumstances be subject to Norwegian requirements or interests. In the parliamentary session the Progress Party (FrP) suggested that Norway should actively seek to influence how the contributions are handled, and to include Norwegian partners in projects if natural. The proposition was met with interest in the Parliament (Sverdrup 2004, 12).

The proposition was presented to the EU side and agreed upon as Norwegian partners may be involved to some extent (NOU 2012: 2012:2 772). The EEA Grants webpage states entities in the donor countries are available to become a project partner. Although they are cannot receive project grants directly, in cooperation they are entitled to part of the project budget to cover their costs (EEA Grants 2020). The partnership programme is open to a wide range of entities. The project partners may be any public or private, commercial, or non-commercial as well as non-governmental entities registered in Iceland, Liechtenstein, or Norway (EEA Grants 2020). From the Norwegian perspective it seems that the information caters to different audiences. An example is how the Norwegian Government website displays information on the Grants depending on the language

setting. When the setting is in Norwegian the page emphasises the inclusion of Norwegian voluntary organisations, businesses, research institutions, public institutions and others in the programme and projects (Regjeringen 2020). Upon changing the site to English on settings the same section translates to "A wide range of institutions and organisations can benefit from the EEA and Norway Grants" (Regjeringen 2020).

The aspiration to increase the number of actors from the donor states was showcased in the 2012 report on the EEA Grants from the Norwegian Office of the Auditor General (OAG). The OAG maintains the right to investigate the EEA Grants even as the responsibility for the EEA Grants are delegated to different institutions such as the embassies or the FMO. The OAG may also conduct revisions of all programs or projects financed through the Grants (Regjeringen 2020). The current revision of the EEA Grants is linked to the first payment period whereas EU conducted its own revisions of the arrangement. The EU were involved in the early EFTA contribution as it paid the part left by former EFTA states that joined the EU. They discovered arrangements that violated the EUs rules for public procurement process. To preserve the legitimacy of the EEA Grants in both donors and beneficiary states the hindering corruption and defaults remain a priority (NOU 2012: 2012:2 769).

From its mandate, the OAG report thereby contains critical assessments of the EEA Grants with a Norwegian perspective. It is straightforward in outlining the objectives for the EEA Grants from Norway's position. For instance, it is resolute in stating the need for increased cooperation between Norwegian administration and cooperation partners within the prioritised sectors. It hails the participation of Norwegian actors in the project committee for the 2004-2009 EEA Grants as successful as it has contributed to establishing lasting partnerships in the beneficiary countries. At the same time, it highlights challenges such as short time frames limited availability of local partners and high costs for the local partners have limited the overall success. It envisions the persistence of these challenges into the upcoming funding period 2009-2014. The committee voice concerns over the Norwegian actor's expenditure being covered by the donor side while the costs of Norwegian project partners will be funded by the Grants. This may in turn leave less direct funding for the beneficiaries and thereby weaken the incentive for joint projects on the recipient side (NOU 2012-2013: 3.15, 11).

When summarising Norway's support for strengthening the bilateral cooperation between Norway and beneficiaries the OAG remarks that the bilateral aspect was not adequately

planned and communicated. The criticism is underpinned by the central guidance documents were not completed until a later stage. It further stated that the bilateral funds have only been used at a limited level. In turn these factors have made it challenging to plan, build networks and to encourage bilateral cooperation. Further it points to different understanding between program operators and the programme partners of what the joint programmes should contain. It therefore concludes that these factors have made it challenging for the bilateral relations to strengthen between Norway and the beneficiaries (NOU 2012-2013: 3.15, 10).

The OAG report passes its verdict on the previous programme period having mixed results for the aim of increasing the bilateral relations through the EEA Grants. It is however adamant that this is a central ambition that Norway has for the EEA Grants. It stresses that the aim of reducing economic and social disparities between the signatories now correspond to the ambition to increase bilateral cooperation between donor and recipient. The OAG report states that this amendment was included after negotiations for the financing period 2009-2014. It outlines that to bolster the bilateral relations between Norway and the donors represents a political goal for Norway. Hence that it is important that the Norwegian contributions are arranged and administered in such a way that Norway participates and controls the use of the contributions in the new member states. Conclusively the Norwegian contributions must promote Norwegian interests in the EU and strengthen its connections with the new member states (NOU 2012-2013: 3.15, 35).

Having established that increasing the bilateral aspects of the Grants was a persistent goal of Norway it is necessary to account for some of the ways Norway may achieve this. A path to influence for Norway through the Grants lies in the parts of the funding that are designated for specific programmes. Being determined in negotiations Norway's influence is visible through the inclusion of objectives such as Carbon capture and storage. This was a key ambition for Norway's foreign policy for the same time-period that they were included in the Grants (NOU 2012: 2012:2 766). The EFTA side also accomplished to maintain the EEA Grants as a separate entity from the EU's own ESIF. The independent structure was important for Norway to enhance the EEA Grants' visibility and political value (NOU 2012: 2012:2 764). An example of how the EEA Grants garner visibility is through the extensive renovation of central and eastern European landmarks. The projects that receive funding are in turn marked by a sign presenting it being financed through the EEA Grants.

Alongside a mostly positive reporting on the Grants they have also drawn a somewhat negative attention in some of the beneficiary states. The Official Report present claims that the Grants allegedly has taken over George Soros' position in several member states. It presents two potential causes for this belief. Firstly, the Grants financed smaller projects than EU's own with the minimum sum in 2004-2009 being EUR 250.000. The minimum sum was inflated for the period 2009-2014 with exceptions for voluntary organizations. Secondly, the Grants target other areas than the EU. Whereas the EU prioritises infrastructure, 21 per cent of the 2004-2009 EEA grants went to preserving cultural heritage through projects such as renovating landmarks (NOU 2012: 2012:2 769). Despite the absence of connections to George Soros, the claim has had consequences for the EEA Grants in countries such as Hungary.

The claim carries with it an aura of political bias in several the beneficiary states. However, the claim must be seen in context of some of the target areas of the EEA Grants. Democratic institutions and organisations in recipient states has been persistent partners for the EEA Grants over time. The financial contributions to support democratic institutions was reasoned by the necessity for developing lasting democracy in the candidate members. According to the EU's ascension criteria established at the European Council in 1993, all members must have institutions guaranteeing democracy, rule of law, human rights, and protection of minorities. Additional they must be functioning market economies and follow their obligations of membership to mention a few of the areas included (European Commission 2020). These requirements were dubbed the Copenhagen criteria. In relations to the politicisation of the Grants one may assume that the prospect of EU membership and assistance to fulfil the criteria impacted the impression of the Grants. Perhaps defusing their impression of interfering in the beneficiary states domestic politics. At the time that the EEA Grants began its support for democratic institutions Poland and Hungary were the two former communist states that closest to fulfil the Copenhagen criterions (Ministry of Foreign Affairs 2000-2001, 304). The Norwegian whitepapers that accounted for the candidate members that were to join the EU, seems to have had an overly optimistic view of the future developments of democracies. It predicted that information and communications technology would increase the flow of information between countries. Hence, it concludes that this would make it harder for undemocratic regimes to sustain wrongful images in their own population, own actions, or political content (Ministry of Foreign Affairs 2000-2001, 75).

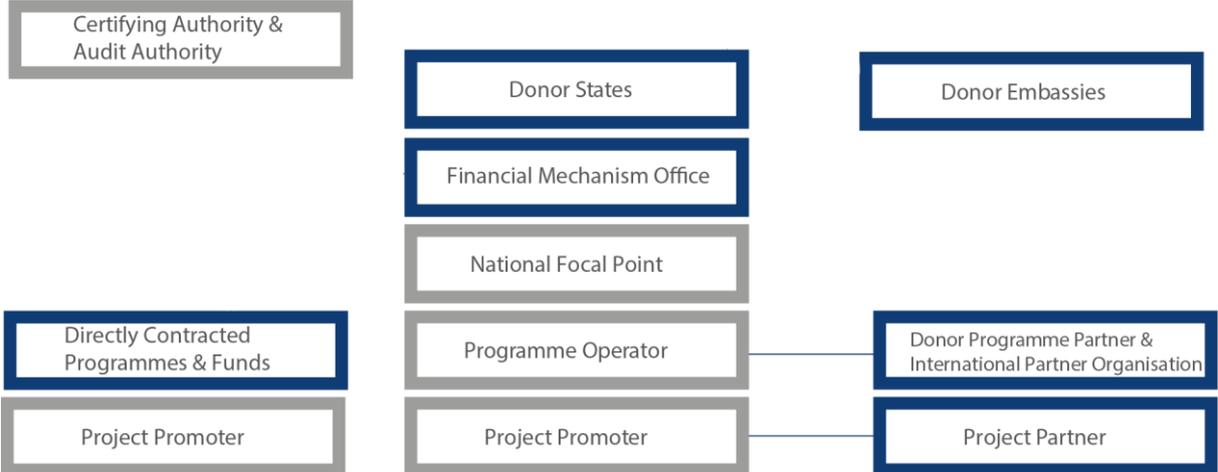
Unforeseen by the Norwegian whitepapers was the events that transpired since Poland and Hungary fulfilled the Copenhagen criteria and joined the EU in 2004. Parallel to their membership the EU's distribution mechanism made Poland and Hungary among the largest beneficiaries of EEA and Norway Grants. This ensured uninterrupted Norwegian support for democratic institutions and NGOs in the two states. Despite this, the democratic climate deteriorated first in Hungary and subsequently in Poland (Narrillos, Estefania 2020). The rigid criteria for membership have proven inadequate in providing possibilities for sanctions and pressure for states that are already EU members. Poland and Hungary's drift away from the EU's founding values has since affected the EEA Grants. Through the support for civil society and democratic actors the EEA Grants gained an element of politicization that turned to an area of contestation. To understand the central aspects of the dispute surrounding this support it is necessary to account for the structural set up of the Grants since 2004. The next section will therefore account for the administrative organisation of the EEA Grants.

#### 4.3 The Financial Mechanism.

The Financial Mechanism is the name given to the administrative structure that was set up for handling the EEA Grants in 2004. The FMO is funded by the EFTA states and were set up in correspondence to the increased burden of the administration of the expanded Grants. Formally the FMO is part of the EFTA-secretariat while it operates largely independently towards EFTA. It manages both the EEA mechanism on behalf of the EFTA states and the Norwegian Ministry of Foreign Affairs. In cases related to the EEA Grants it deals with the Financial Mechanism Committee (FMC) for the Norway Grants this is handled by the Norwegian Ministry of Foreign Affairs. A twofold responsibility rest with the FMO where it operates as the administering organ for the Grants on behalf of the EEA countries. At the same time, it is responsible for following up funding commitments and ensuring the professional handling of the EEA and Norway Grants (NOU 2012: 2012:2, 767). Between 2004 and 2011 the budget of the FMO increased from EUR 690.000 to EUR 9,5 million (NOU 2012: 2012:2 780). Most of this financed the extensive surveillance controls and evaluations of the EEA Grants. The FMO has been examined by the OAG multiple times without major remarks (NOU 2012: 2012:2 781).

The practical allocation of funding has seen small revisions since 2004 and tend to be conducted in alignment with multiple contributors that place considerable responsibility at beneficiary states. The FMC cooperate with the beneficiary states through a National Focal Point (NFP). Commonly the NFP is represented by a relevant ministry and has the overall responsibility for the Grants. Furthermore, the NFP is responsible for achieving the objectives for the Grants. It also represents the beneficiary country in its relations with the FMC and the Norwegian Ministry of Foreign Affairs. Each beneficiary country hosts programme operators responsible for making funding available to applicants through calls for proposals, evaluating applications, selecting, and monitoring projects. The donor countries are represented by bodies that are partners in the programmes contributing to the preparation and implementation phases of the programmes as well as facilitating partnerships at project level. Through the secretariat for the Grants the donor countries monitor the process (EEA Grants 2020).

Figure 1.1 The organisational structure of the EEA Grants.



(EEA Grants 2020).

When the entities are broken down the overall Financial Mechanism is divided into the following units.

**The Financial Mechanisms Committee (FMC)** functions as the decision-making body for the EEA Grants. It is made up by representatives from the Ministries of Foreign Affairs of Iceland, Lichtenstein, and Norway. It has the main responsibility for formulating and passing policy. It further deal with regulations, guidelines, as well as approving programmes. Moreover, it provides monitoring, control, and conducts evaluations.

**The Financial Mechanism Office (FMO)** Is the secretariat for the Grants and serves as a contact point between the beneficiary and donor countries. Located in Brussels, the FMO is affiliated with EFTA and reports to the Foreign Ministries of the members.

**A Programme Operator (PO)** is responsible for allocating funding to projects that fulfils criteria. A majority of PO's are public institutions with ties to the area of the programme, such as Ministries of Culture in cultural programmes.

**The Fund Operator (FO)** are in some programmes and funds, entrusted the role of PO. In these cases, the implementation of the programme is performed by an external FO selected through a tender process. For the programmes or funds where FMO is the PO, the NFP is not responsible for implementation.

**Donor Programme Partners (DPPs)** is made up by public institutions from the donor countries that work with their counterparts in beneficiary countries. They may assist in finding project partners in donor countries, as well as providing expertise and advice on programme planning and implementation.

**International Partner Organisations (IPOs)** serve a similar role as the DPPs and pay attention to ensure the projects following international conventions and treaties in the EU. For the 2014-2021 period of the Grants, among the IPOs were Council of Europe, Organisation for Economic Cooperation and Development (OECD).

**The Certifying Authority and Audit Authority** is set up through article 5.4 and 5.5 for handling the beneficiary countries responsibility of management and control systems. Examples can be to submit financial reports, ensure payments of co-financing from the beneficiary state. The Audit Authority is responsible to ensure transparency and serves as an form of accountant for the involved entities (The Financial Mechanism 2016, 14).

The Donor Embassies located in the beneficiary countries are mentioned, and for Norway they are responsible for handling the Norway Grants in its entirety. The Donor Embassies

further play an important role in communicating the results of the Grants (EEA Grants 2020).

For the FMO it has been a benefit to attract personnel from the recipient states that have knowledge about the domestic situation. At the same time, the organisational structure for distributing the EEA Grants relies on close cooperation with the beneficiary state. This has presented challenges to find local partners among varying degrees of competence and quality in the administrative partners from the beneficiary states. On the other hand, the reliance on domestic partners has increased the transparency and visibility of the EEA Grants (NOU 2012: 2012:2 767). A side effect of the reliance on local actors and especially the NFPs has played an important role in the case of Hungary that will be explored in the next section.

## **5.0 The EEA Grants and Hungary.**

### 5.1 Case selection.

The case selected for analysing the research question is Hungary. This decision is reasoned by Hungary's lasting disagreement with the EEA states on the handling of the EEA Grants. The underlying presumption is that the Hungarian dispute is response to the EEA Grants representing a tool for Norwegian political influence. While representing the clearest manifestation of resistance to the attached principles of the EEA Grants the dispute has multiple layers. The illiberal tendencies in Hungary is likely to influence the situation. A contrary assumption to the EEA Grants as the primary point for the reaction is the notion that that the situation is influenced by the parallel events transpiring between the EU and Hungary. Having established an overview over the framework that the EEA Grants operates in the idea is that the case will illuminate the potential influence Norway has over the EEA Grants. The case can in turn showcase challenges to the EEA Grants operations in states on a similar trajectory as Hungary.

### 5.2 Background.

The discord surrounding the EEA Grants in Hungary has varied in intensity and persisted over time. Hungary has been a beneficiary of the expanded EEA and Norway Grants since their membership in the EU in 2004. According to ruling stipulations this made Hungary a full member in the EEA Agreement. Parallel it became the second largest beneficiary to the EEA and Norwegian Financial Mechanisms in the 2004-2009 period. Hungary was entitled to a total allocation of EUR 135.1 million or 13.1 per cent of the total funding (EEA Grants 2007, 4).

According to the MoU for this period the National Development Office (Nemzeti Fejlesztési Hivatal) was designated as the NFP. The early project selections concentrated on aspects of sustainability and only proposals considered to be long-term were submitted for approval (EEA Grants 2007, 35). The first of the target groups of the communication of the EEA and Norwegian Financial Mechanism was the Hungarian public. This was to raise the awareness of the EEA Grants and was conducted by emailing more than 700 journalists and editors. Information about the EEA and Norway Grants appeared also in several offline newspapers and online portals (EEA Grants 2007, 21). An additional early task delegated to the NFP

was to harmonize the donor's expectations with Hungarian rules. Furthermore, they were tasked with defining the national legislative background of the EEA and Norway Grants to build up its implementation system (EEA Grants 2007, 21).

The EEA Grants Strategic report for 2007 concludes that the program has reached a level of popularity that revisions of the application procedure is necessary (EEA Grants 2008, 4). NGOs submitted around 16 per cent of the total applications accounting for 46 of the 292 project proposals. If including social and public organisations they accounted for around 27 per cent of the total applications (EEA Grants 2007, 19). Various NGOs were behind a majority of submitted applications again in 2007 (EEA Grants 2008, 20). With the trend repeating itself over time a call for an separate NGO fund materialised. This fund was since established in line with the framework for the EEA and Norway Grants for the period 2009-2014. The target areas for the NGO fund were drawn from the priority sectors of the EEA and Norway Grants at the time. These were amongst others:

- Environment protection and sustainable development
- Civil liberties and capacity building
- Social cohesion, and health and childcare
- Cultural heritage

The conditions and procedure of the fund program was regulated between the Hungarian Environmental Partnership Foundation (HEPF) (Okotars Alapitvány) and the EEA/EFTA and FMO. HEPF was responsible for managing the NGO fund in consortium with other organisations that had designated thematic areas (EEA Grants 2009, 24). The lead organisation in charge of the implementation of the NGO fund was in turn the HEPF. They were responsible for receiving proposals, signing contracts, and transferring the funding to approved winners. The total amount for the fund until 2011 was EUR 5.932.540 and were to be distributed among the four thematic areas (EEA Grants 2009, 25). Most of the allocations presented by August 7<sup>th</sup>, 2008 went to Civil liberties and capacity building (EEA Grants 2008, 26). If the Civil liberties and capacity building were to fall under the priority sector 8 of justice and home affairs. This delegation strongly contradicts the numbers for applications submitted through the ordinary calls with the least interest shown priority sector 8: justice and home affairs. This sector gained 23 applicants with merely six projects selected to the second phase. In comparison the priority sector 3: Conservation of European heritage collected 270 applicants in which 24 made it to the second phase (EEA Grants 2009, 19).

From the last report accounting for 2008, the EEA and Norway Grants entered a new funding period that covered the period from 2009-2014. The new funding period brought changes and dynamics to the operations of the EEA and Norway Grants. The FMO released a joint report on the strategic report for both Grant schemes in 2013. A significant change from the earlier reports is a new insistence on strengthening the bilateral relations between the Donor States and the Beneficiary States. The joint report marks the first time the bilateral relations are outlined in the introduction, followed by specified targets for achieving this objective (EEA Grants 2013, 8). The notion of increased focus on the bilateral aspects of the programmes is repeated in the chapter 2.3 detailing the status of preparation of programmes. It now identifies upcoming activities information on the programme preparation as well as incorporating a new segment accounting for the planned involvement of bilateral partners (EEA Grants 2013, 11-21). Chapter 4.0 is dedicated to the status of the cooperation with Donor Partners from the NFP. It contains initiatives and summaries for strengthening of bilateral relations and express the excellent cooperation between the respective Hungarian and Norwegian embassies (EEA Grants 2013, 29).

The prior goal of long-term projects is presented in the sector 2.4 that account for the overall programme areas operated in accordance with the articles of regulations. The three outlined programme areas Adaptation to Climate Change, Funds for NGOs, and Global fund for Decent Work and Tripartite Dialogue. Funding for the three is decisively in favour of the NGO funds with EUR 12.617.000 followed by Adaption to Climate Change with 7.010.000. The two are both operated by the FMO with the notification for the NGO funds that appointment of the fund operator shall be consulted with the NFP. The Decent Work and Tripartite Dialogue has a budget of EUR 832.000 and was operated by Innovation Norway (EEA Grants 2013, 22). The role as operator of the NGO Fund was awarded to HEPF now identified as Okotars Foundation, in partnership with three other foundations (EEA Grants 2013, 23). The Global fund for Decent Work and Tripartite Dialogue is assigned the objective of promoting the decent work agenda and improve the tripartite cooperation between employers' organisations, trade unions, and public authorities. Supplementary to encouraging partnership projects between Hungarian and Norwegian entities it carries a clear imprint of Norwegian political ideals (Regjeringen 2017).

To raise the attention of the projects and programmes the NFP presents its draft on strategy for publicity and communication. The strategy was developed to fit the objectives

for the EEA and Norway Grants in the period 2009-2014. From an analysis the NFP settled with seven main objectives (EEA Grants 2013, 32).

- 1) Communicating the overall objectives of the Financial Mechanisms
- 2) identifying and communicating specific objectives reflecting national priorities
- 3) giving individual image to the Financial Mechanisms to distinguish it from other grant opportunities
- 4) sharing information on an aggregate, overall level on the achievements of the Financial Mechanisms 2009-2014 in Hungary
- 5) ensuring transparency of application procedures and the regulations of project implementation, and clearly communicating them
- 6) reaching not only stakeholders, but public as well with information on the contributions of the Financial Mechanisms 2009-2014
- 7) observing and supervising the activities of the Programme Operators and Implementation Agency regarding communication of the Financial Mechanisms 2009-2014

The points in the publicity and communications strategy is comparable to a public relations campaign for the EEA and Norway Grants. As the NFP states that these objectives were harmonized with the framework for the funding period it reveals the wider aspirations for the EEA and Norway Grants from the Donor States. The signing of the MoU for the 2009-2014 period is covered in the section regarding communication activities (EEA Grants 2013, 33). This serves as a practical example of the earlier discussed idea of Norway to broadcast the EEA and Norway Grants through a ceremonial signing of MoUs alongside the beneficiary states.

### 5.3 Conflict over the EEA and Norway Grants.

A first indication for the conflict over the EEA and Norway Grants were mentioned for the first time in the 2013 report. A suggested revision for the national implementation set-up was presented. It wanted to expand the role of the NFP beyond the ones defined in the Regulations, involving the handling of transfers of project grants verifying expenditures and so forth (EEA Grants 2013, 33). NFPs annual statement on The Norway Grants from the same year report that the institutional changes regarding the NFP foreseen for the beginning of 2014 could cause delays (EEA Grants 2014, 27). In the risk assessment the

institutional changes are highlighted as the main actual risk. It elaborates that in preparation for the upcoming EU financial period (2014-2020) the Hungarian Government decided to reorganise the institutional structure dealing with development policy in Hungary.

One of the first steps of the institutional reorganisation was the acceptance of Government Decree 273/2013. It transferred the supervision of the NDA from the Ministry of National Development to the Prime Minister's office as of August 2013. A follow-up decree eliminated the NDA ceasing its operations as NFP by the end of 2013. The tasks and human resources responsible for the NFP and PO functions were transferred to SZOP with legal succession from January 2014. The SZOP is a 100% state-owned company operating under the supervision of the Prime Minister's Office (EEA Grants 2014, 32). A consequence of the institutional changes a re-negotiation of the MoU and the description of the Management and Control System (MCS) was necessary. It is added that Hungary makes great efforts to diminish the negative impacts of the transition period (EEA Grants 2014, 33).

The new NFP reports that the Donor States at the time requested to be closer to the EEA and Norway Grants beyond programme level. The request meant that they aspired to participate in specific calls and selected projects and was cited to slowing down the finalization of PAs (programme agreements). The NFP voiced concerns over the potential slowdown of programmes from this and suggests enlargement of human capacity at both sides (EEA Grants 2014, 39). When commenting the new institutional set-up, the new NFP states that its principal goal is to ensure the continuous implementation of the EEA and Norway Grants. The Hungarian side deemed it crucial to re-negotiate the MoU and conciliation on the amended description of the MCS so it could start and be finalised at the earliest convenience in 2014 (EEA Grants 2014, 40). In turn the NFP thanks the Donor States and particularly the FMO for showing flexibility. At the conclusion, the NFP appreciated the Donors intervention in some cases when issues seemed to be stuck at national level and welcomed any future support from the Donor States (EEA Grants 2014, 41).

In the wake of the changed NFP the relationship between the Donor States of the EEA and Norway Grants and Hungary decayed. Reciting the 2014 annual report, the NFP had been unsuccessful in contacting the FMO for the new funding period. In short, the donors suspended the contact with the NFP and refused to recognise the SZPO as the new NFP (EEA Grants 2015, 6). It reveals that the Hungarian Government had initiated the

conciliation with personal meetings and high-level correspondence. Because of the controversial elements between Hungary and the Donor States substantive negotiations aimed at modification of MoU has not been held after June 2014. The main disputes were according to the report; the set-up of NFP, issues of operation framework of the implementing Agency, and responsibilities of the parties regarding the NGO Fund (EEA Grants 2015, 5). As the NFP had not been recognised the Donor States suspended further disbursements to both the EEA and Norway Grants from May 2014 (EEA Grants 2015, 27). Resources for certain project implementations was ensured from the Hungarian central budget for this period (EEA Grants 2015, 33).

Even as the funding was absent the NFP states that bilateral relations was a priority in its responsibility although the bilateral relations suffered in the reporting period (EEA Grants 2015, 20). A principal part of the programme projects continued despite the lack of funding and as situation limited bilateral activities to high level official correspondence and meetings (EEA Grants 2015, 21). Consequently, the funding situation delayed any progress for this period and prevented new installations. While the cooperation was suspended there was still calls for future proposals on a wide variety of sectors although the launch and evaluations stopped (EEA Grants 2015, 29).

On the process of establishing partnerships between Hungarian and Donor States' institutions, contact seminars were organised in the period. The NFP observed that the interest in cooperation with foreign partners was low among Donor States and notes that its difficult to find partners (EEA Grants 2015, 32). This implies a spillover from the political disagreements over the Grants to involved actors. The spillover from the dispute are also visible as the report underlines that the SZPO NFP belongs to the State Secretary responsible for the EU developments. Furthermore, that NFP are involved in executing tasks related to the Swiss Contribution (EEA Grants 2015, 34).

The disputed situation between the donors and Hungary is reported as unchanged. In a perceived understatement the NFP describes the situation in these terms. Making a gesture to the conditions being imposed "regarding the examination executed by the Government Control Office (GCO) in respect of NGO Fund". And that "After the publication of the GCO report the Prime Minister of the Prime Minister's Office invited the Ministers in Norway responsible for the EU and EEA and Norway Grants to renew the negotiations" (EEA Grants 2015, 34). The NGO Fund examination was by other sources described as a police raid on the HEPF (Okotars) headquarters (Dunai, Blazs 2014). The 2014 report concludes that as

the contact was suspended and with the refusal to recognise the new NFP the effectiveness of the Grants has become questionable (EEA Grants 2015, 35).

#### 5.4 Dispute spillover.

The conflict seen through the perspective of the annual reports of the FMO does not cover the rhetorical exchanges and consequences. At a press release in 2014, the Norwegian authorities accounted for their decision to freeze the cooperation with the Hungarian counterpart. The Norwegian decision was taken on the basis that Hungarian authorities unilaterally moved the supervision and control of the Norwegian funding away from the agreed institution. Vidar Helgesen the Minister for EEA and EU relations proclaimed that the Hungarian conduct was unacceptable. He goes on to claim that Hungary displayed a lacking effort to find solutions in accordance with agreements (Regjeringen 2014).

The media took an interest in the case after the police raid of the Okotars headquarters related to the NGO Fund supported by the EEA and Norway Grants. By the time of the police raid in September the overall funding had already stopped for nearly four months. A newspaper article from Dagens Næringsliv (2014), states that the funding for the NGO had not been stopped as they were paid directly to the Okotars. It states that the Hungarian Government had accused Norway for supporting leftist groups through the contributions to Hungarian NGOs. Orban had on prior occasions stated that Hungarian Authorities would crack down on foreign funded organisations (NTB 2014).

Another dimension was added to the conflict at a press conference regarding EU leadership elections. In 2019, the Minister Gergely Gulyas from the Prime Minister's Office commented the developments in the negotiations on the Grants between Hungary and Norway. Gulyas stated that one of the aspects that weighted down the negotiations was that Norway was persistent in its collaboration organisations linked to George Soros. It was declared that the Hungarian authorities would rather support the Roma-community than the Soros-organisations. In turn announcing that they would rather spend the whole sum on this purpose than assisting Soros-organisations (Vermes 2019).

Minutes from a meeting in the Norwegian parliament gives insights to the Norwegian perception of the events. Vidar Helgesen summarises the dispute, presenting the Norwegian commitments to funding EUR 150 million through the EEA Grants to Hungary for the 2009-2014 period. Underlining that the funding was to be operated by Hungarian authorities as is standard for all beneficiary states. Helgesen since details the changed NFP

and states that it was communicated that this was in violation the bilateral agreements with Hungary. According to Helgesen the Hungarian government had expressed their dissatisfaction with the program fund for NGOs and the operator that won the tender for managing the fund. Accusations of mismanagement of the fund had been presented and the Norwegian side underlined that control and revision is the donor responsibly and not related to Hungarian authorities. Citing that the fund was financed through donor payments and outside the Hungarian state budget. The EEA side had threatened the suspension of funding if the harassment of the fund operator HEPF. Helgesen stated that Hungary had not complied and that there were accusations of legal offenses. Furthermore, there had been threats of removal of HEPFs Hungarian licenses to operate (Stortinget 2015).

Helgesen proclaim that the Hungarian government wants to restrict free and independent civil society organisations and that the actions against the HEPF is part of a negative trend that endanger the independence of the civil society. Norway had taken note the speech held by Viktor Orban where he envisioned an illiberal order of society for Hungary. In his speech he accused Norway of meddling in Hungarian affairs (Stortinget 2015). Helgesen announced that the purpose of the EEA Grants was to promote universal democratic principles and rights which the European cooperation is built upon. He reminded that Hungary had committed to the same values with their membership in the EU (Stortinget 2015) Concluding that it had been disappointing to see the low opposition to Orban in the EU, and that he had expressed his discontent to all EU members in an article to Financial Times in August (Helgesen 2014).

The suspension of the EEA and Norway Grants was removed in 2015 as the Hungarian authorities had fulfilled conditions presented by Norway. Part of the conditions was guarantees that Hungarian authorities would respect the financial arrangements for the EEA and Norway Grants to fund the civil society in Hungary (Regjeringen 2015). The annual report on the Norway Grants from the FMO in 2016 account for a different set of events. It emphasises that the EU has accepted the Hungarian intuitional changes that was the centre of the dispute (EEA Grants 2016, 26). It presents the successful re-negotiation of the MoU in Brussels with the notion that The Prime Minister's Office was acknowledged as NFP (EEA Grants 2016, 19). The MCS was also elaborated in the second half of 2015 and has been acknowledged by the FMO (EEA Grants 2016, 25).

The report asses the consequences from the despite has having affected the bilateral relationship and the situation had jeopardized any successful implementation. It was

asserted that for some programme areas the Hungarian government had provided funding to diminish the negative impacts. Meanwhile as the bilateral cooperation worked only on unofficial level and both Donor and Hungarian side must make joint effort to strengthen trust. A lack of capacity, interest, and low level of participation from the donor project partners is mentioned (EEA Grants 2016, 26). The contrasting narratives and conclusions seems to be influenced by the inconclusive dispute. Observed through the newspaper articles cited earlier they are dated after the 2015 resumption of EEA and Norway Grants operations in Hungary. As mentioned, the conflict is persistent and has sporadic flares that affects bilateral relationships between Norway and Hungary.

An example came in 2019 when Hungary attempted to involve the US in the conflict over the EEA Grants. The backdrop was the Hungarian acquisition of the air-defence system NASAMS which is a joint production between American Raytheon and the Norwegian Kongsberg Gruppen. According to the newspaper article the one-billion-dollar acquisition was postponed in the last minute. The Hungarian premier Viktor Orban requested President Donald Trumps intervention in the conflict surrounding the EEA and Norway Grants before an agreement could be reached. The Ministry of Foreign Affairs of Norway confirmed awareness on the situation and expressed that it was unacceptable to connect the two cases. The Hungarian Prime Ministers spokesman Dr. Zoltan Kovacs expressed their perspective on the matter as not of concern to Norwegian authorities. Upon questions on the EEA Grants allocation for the Hungarian civil society he expressed that the Norwegian claims was a joke. Elaborating that it concerned EU funding, which is meant for the Hungarian authorities to handle and that the funding is a payment for to the access the Hungarian market. Kovacs stated that Norway had accepted the economic benefits it means to have an agreement with the EU and that the contributions are the price to pay (Sævereid 2019).

In 2017, the Norwegian Ambassador Mr. Olav Berstad delivered a welcome speech at closing conference of the NGO Programme of the EEA Grants. The speech details his perspective on the developments in Hungary. Berstad congratulated the four NGOs on their performance in the programme period and expressed satisfaction from the donor side. He underlines the importance of support to the civil society through Norwegian foreign and development policy. According to Berstad Norway spends approximately 20 per cent of its overall international aid on support to and through civil society totalling to almost EUR 800 million. The speech incorporates the relationship Norway has with NGOs voluntary organisations and grass-roots movements and he stress the important role they play. He

signifies that the Norwegian government does not always agree with the NGOs but that they regard their activities as legitimate elements of political and social processes (Norway in Hungary 2017).

The speech draws a parallel from the national perspective of Norway, to its international activities. Highlighting their role as providers of necessary additional services and holding governments accountable in their roles as watchdogs. Berstad invites attention to the narrowing political space for civil society in many countries. Elaborating that from the point of view of the Norwegian government power must be transferred to civil society in low and middle-income countries to promote good governance, fair and equitable development. Berstad expresses that it is expected that the new NGO-law requiring a form of additional burdensome registration will be launched. In his eyes this might effectively prevent the use of EEA and Norway Grants to and through civil society unless they register as foreign agents – which will be unacceptable. He conveys that Hungary is the 10<sup>th</sup> country he has lived in since 1980, and that he has never seen anything quite similar in his career. Towards the conclusion of the speech he quotes the German president Frank-Walter Steinmeier.

... If we want to be a lighthouse in the world for the rule of law and for human rights, then we cannot ignore, when these foundations are shaken in the midst of Europe. Europe, then, must not be silent, when civil society, even academia- as now at Central European University, Budapest – are deprived of the air to breath (Norway in Hungary 2017).

When interviewed in 2017 on the situation on the EEA and Norway Grants in Hungary the Norwegian Prime minister Erna Solberg was encouraged by developments. She expected the negotiations would be fruitful. Prior to the interview there had just been a breakthrough in negotiations with Poland on the EEA and Norway Grants. It is suggested that both Poland and Hungary desired increased control over the allocations to NGOs supported by the EEA and Norway Grants. According to the article the circumstances of the Norway and EEA Grants had been a topic at a meeting between Erna Solberg and the then Vice President of the European Commission Frans Timmermans. The article claims that an agreement was reached with Poland whereas the funding would continue to be managed through an independent entity. It concludes that Erna Solberg's position had support from Timmermans that stated that they agree on the matters and that the EU shared the Norwegian approach (NTB 2017).

## **6.0. Summary.**

From the document analysis there are multiple aspects that may have swayed the final outcomes that is the EEA Grants today. Joseph. S. Nye's definition of soft power was not established with Norway in mind. Norway has had success with the small actor position in other international arenas. It has however conducted its relationship with the EU with varying degrees of success. Upon assessing the EEA Grants with Nye's three principal criteria, they fit the case for description. Funding a multitude of projects on culture. They contain a portion of political values and the Grants has been persistent and long term in its foreign policy goals.

According to Nye, the effectiveness of power depends on the context. Norway has been inconsistent in policies with the EU and as touched upon a criterion for a small state to successfully wield soft power is the unity behind the message. The EEA Grants seem to have evolved priorities that strengthen elements and the potential for generating soft power. Even so the later Norwegian success in incorporating these values does not come from a renewed national unity on the EU question. On the contrary they seem strengthened by the neglected public attention rather than a united support in Norway.

The concluding set up of the EEA Grants is also a consequence of Norway's long-term policies towards the EU. With security priorities in the Cold War Norway seem disinterested in the continental developments. Being a part of EFTA protected the Norwegian economic interests sufficiently. Outside political events forced Norway to decide on its relationship with the progressing EU. Ending with rejected membership from the population the referendum created political cleavages that persisted in Norway. It further initiated a new period of reactive policies towards Europe. In this period the power balance between EFTA and the EU were increasingly disproportionate. Once more outside political realities presented small state dilemmas for Norway. The launch of the EU's internal market meant a new reality for the EFTA states and subsequent negotiations were initiated. Norway sought a solution through the existing framework of EFTA which had severe consequences. With the collapse of the Soviet Union central and eastern European emerging were free to integrate with the existing EU structures. Many of the larger EFTA states abandoned the organisation in favour of full membership at a crucial timing of the negotiations. Norway's position became desperate and compromises were accepted consequently, and the unique EEA Agreement was created. With the near dissolution of the EFTA Norway called a new referendum on full membership. The timing

infused the EEA Agreement with a degree of politicization that has complicated Norway's European politics since.

The new reality in the balance of power in turn led to the establishment of the precursor for the EEA Grants. Political exhaustion from the referendum and politicization of the EEA Agreement effectively froze the Norwegian EU debate. Since the establishment of the EEA Agreement the remaining EFTA side has been pressured in every round of negotiations. The establishment of the EEA Grants can be considered a compromise to prevent conflict in a field that is politically demanding for Norway. For Norway, the initial concession in funding the EEA Grants was believed to be a temporary feature. The dynamic EU were disinterested in the EEA Agreement and it seems to be the case until present. With the EU expansion to the new democracies in the central and east the EEA Agreement gained newfound relevance.

For the EEA Grants this marks a turning point with the substantial increase. Once more Norway found itself compelled to save its existing framework for the relationship with the EU. From the expansion in scope and area came a professionalisation of the EEA Grants. Coinciding with this is a new chapter in their role in the domestic Norwegian debate. From an emphasis on the altruistic nature the EEA Grants were instead showcased as a tool for Norwegian European policies. Within Norway the limited knowledge of the Grants meant that a rhetoric shift could take place without much opposition. The new framing of the Grants as a obligation to uphold the EEA Agreement. At the same time the new arrangements were understood as just that from the EU perspective. The disagreement on the nature of the EEA Grants has resurfaced over time and it seems that the EUs position is coming out on top.

The literature suggests that the expansion in scope and professionalism of the EEA Grants brought a new dimension to the Norwegian handling of the EEA Grants. There are indications that Norway is successfully exploring the potential of the EEA Grants for influence in central and eastern Europe. The establishment of the Norway Grants represents a situation where Norway has made good use of an earlier blow. Today they represent a primary vessel for exporting Norwegian values and political ideas. At the same time, they were not initiated on a voluntary basis and this may explain their lack of profiling even with successes. A prevalent challenge to the Norwegian advancement for harnessing influence through the Grants has been the EUs decision of the Grants' destination. On the other hand, the EEA Grants can be considered an achievement for the EEA side as they kept financial contributions outside EU control. This increases their

potential for harvesting soft power through the EEA Grants. With the existing political climate in Norway the Grants remain controversial and underexplored. In turn this is likely to have influenced the strict revision of the Grants as mismanagement could make them exposed. The dispute with Hungary illustrates the delicate balance tied to the EEA Grants.

The case of Hungary uncovered empirical illustrations of many developments explored in the document analysis. Through the FMO reports the EEA Grants could be observed through an annual and progressive format. From the establishment with emphasis on long-term cooperation and projects to the gradual significance put on the advancement of bilateral relations. It revealed that Norway is exporting its political values and ideas by supporting comparable arrangements in the beneficiary states. The dispute with Hungary highlights the tension found within the mandate of the EEA Grants and its objectives. While supporting democratic institutions in line with the EUs fundamental values it also leaves a significant Norwegian imprint. In the case of Hungary, it seems that the Norwegian pursuit of influence and soft power was not the causing factor for the dispute. This perspective is founded in the way the conflict emerged and matured. The assumption is that if the Norwegian interference domestic Hungarian matters were the principal objection alternative measures would have been taken from the Hungarian side. As the conflict revolved on the financial control of the Grants it seems to be influenced by motivations to control the funding rather than to prevent Norwegian interference in Hungary. It is also supported by the notion that the conflict did not manifest at an earlier stage. At the same time, the conflict did develop in a timeline close to the decision to increase the Norwegian presence in the Grants. While this does not seem to be an obstacle in other eastern and central European states that receive funding through the EEA Grants. This in turn suggests that the dispute is influenced by the domestic political developments in Hungary and Poland. It is however difficult to conclude as the EEA Grants operate between numerous actors that retain different perspectives on the nature of the Grants.

## **7.0 Conclusion.**

To conclude the discoveries in the literature explored suggests that the research question can be confirmed. That Norway is using the EEA Grants as a soft power tool in central and eastern Europe. Based on the definition of soft power the projects supported are to an large extent centred on support for sectors important for Norway. These sectors are however often related to shared and common values with democratic states and are in line with the fundamental values of the EU. At the same time Norway was never the principal driving force for the establishment of the EEA Grants. It rather leaves an impression of being a result of a series of miscalculations and events outside Norwegian control. With the progression of the schemes it seems that Norway has found ways to increase its influence on beneficiaries through the funding. At the same time, it remains a balancing act to respect the referendum outcomes with a more active policy towards the EU. Which in turn requires a more significant presence within EU institutions and programs. With regard for the central and eastern Europe it seems plausible to assume that the EEA Grants will receive political backlash also in the future. Norway should therefore be prepared by increasing the domestic support for the EEA Grants to counter potential reactions.

The weaknesses of this analysis are the limited literature that it is built upon. A way to strengthen any conclusions drawn would be to expand the case selection to observe similar trends in other central and eastern EU beneficiaries. Furthermore, interviews with relevant actors could in turn have supported assumptions and opened the thesis to new aspects of the areas highlighted in this thesis. Due to the difficult situation surrounding the pandemic the structured interviews for this thesis was discarded. The scope of the thesis remains too limited to draw final conclusions. A suggestion for future research would therefore be to expand both the literature and case consulted and to incorporate perspectives from both sides of the dispute on the EEA Grants.

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