

The challenge of enlargement - Commission opinion on Sweden's application for membership (31 July 1992)

Part one

General

Relations to date between the Community and Sweden

1. The relations between Sweden and the Community have evolved against the background of Swedish external policy as a whole, both global and regional. Since the Second World War, Sweden has been a full participant in the newly created United Nations system. Within the limits Sweden had set herself as a consequence of her policy of freedom from alliances, she has played an active role in European cooperation both in her immediate vicinity, in the context of the Nordic Council and also in the wider context, participating for instance in the Council of Europe, and, later, in the CSCE.

2. Sweden was a participant in the attempts to create a large free trade area in Europe, in the context of the so-called 'Maudling plan'. When the Treaty of Rome was signed, in 1957, Sweden went on together with six other European countries to found the European Free Trade Association (EFTA), in 1960. Sweden continued nevertheless to search for close relations with the Community. In 1961 Sweden requested the opening of negotiations for an Association Agreement to establish closer economic ties. In the event, however, no negotiations were pursued. Later, in 1967 and 1969 Sweden proposed the opening of negotiations for a form of participation in the enlargement of the Community, compatible with her policy of neutrality. Ministerial level contacts were initiated on 10 November 1970, but the initiative ended by evolving in different direction from that foreseen. When two founding members of the EFTA, the UK and Denmark, joined the Community, free trade agreements were concluded between the Community and the remaining member States of EFTA, including Sweden.

3. These free trade agreements¹ signed in 1972, provided for the progressive abolition in respect of trade between the parties in industrial goods, of customs duties, quantitative restrictions and all measures of equivalent effect. The agreements, which also provided for rules on State aid and industrial competition and a number of mutual commissions in the agriculture and fisheries fields created bilateral Joint Committee meetings regularly to administer them.

4. To mark the completion of this process the Ministers of the Community and of the EFTA countries met in Luxembourg in April 1984 and adopted a declaration laying down the guidelines for the continuation deepening and extending of cooperation within the framework of, and beyond, the free trade agreements, with the objective of progressively establishing a dynamic European economic space. This led to efforts to strengthen and consolidate cooperation on a pragmatic basis, following three main principles (known as the 'Interlaken principles'): priority to the Community's own internal integration; preservation of the Community's decision-making autonomy and satisfactory balance of advantages and obligations. This enabled a number of important achievements, particularly in free circulation of industrial goods.

5. In his investiture speech at the European Parliament in January 1989, President Delors invited the EFTA States to reflect on the possibility of a more structured partnership. Responding to this declaration, in March 1989 in Oslo, the EFTA Heads of Government declared their readiness to explore together with the Community, ways and means to achieve such partnership, based on the fullest possible realization of free movements of goods, services, capital and persons as well as enhanced cooperation in fields going beyond the internal market programme. Ministers of the Community and EFTA States decided in December 1989, in a meeting in Brussels, to open negotiations with a view to reaching such a partnership by the same time the single market will be completed on 1 January 1993.

6. This culminated, after nearly two years of complex negotiations, in the signature, in Oporto, on 2 May 1992 of the Agreement creating the European Economic Area. This agreement, signed by the Community and Sweden, together with the other EFTA States, will, once ratified and in force, establish, throughout the territories of the Contracting Parties, the free circulation of goods, persons, services and capital (known as the 'four freedoms') as well as the broadening and strengthening of the cooperation in a number of other areas. In parallel with the EEA Agreement, Sweden has established a Protocol with the Community to facilitate the exchanges of certain agricultural products. Sweden would thus accede to the rights and obligations of membership from a high level of integration where she was already applying a large part of the Community's acquis not only in the field of the 'four freedoms' but also in such areas as social policy, the environment, company law, consumer protection and competition rules. In the field of social policy, for example, there would be little further legislative change necessary in Sweden as a result of accession beyond that required as a result of taking over the acquis of the Community in the context of the EEA.

7. While the Community and Sweden were negotiating the EEA Agreement, the world in general and Europe in particular were changing very fast. Full membership of the Community came to be considered in Sweden as no longer incompatible with the Swedish policy of freedom from alliances. Sweden, realizing also the large extent of the Community acquis already taken on board initiated a reflection about the advantages and disadvantages of requesting membership of the Community, as another member of EFTA, Austria, had already done. It was above all the Swedish determination to play an important role in the construction of the new European architecture that led to the presentation of the request. The then Prime Minister, Mr Ingvar Carlsson, indicated this in the course of a speech to the Swedish Parliament on 14 June 1991. Recognizing that the Community was regarded as a major driving force for cooperation and development in Europe, Sweden believed that, as a member, her possibilities of influencing this future cooperation in political, economic and social terms would be improved, and that membership would be in Sweden's overall interest. Sweden shared the Community's long-term goals, as formulated in the Treaty of Rome and the Single European Act, and wanted to work for their realization together with the other members of the Community.

The Swedish economy and the Community

1. Achieving economic and monetary union in the Community will require increased convergence of its Member States in the monetary and budgetary spheres greater cohesion in their economic policy objectives and structures, which will need to be all the more competitive in the face of increased competition.

2. Sweden has a population of eight and a half million. Its per capita GDP is around 20% higher than the Community average putting it close to that of Germany. Its medium-sized economy is heavily dependent on external trade and is already well integrated with Community markets.² Trade relations with the Community will soon be boosted by its becoming part of the European Economic Area. The Swedish economy's increasing involvement with the Community, which is already far advanced should allow it to apply the entire *acquis communautaire* on the internal market right from its accession. In addition, Sweden unilateral action in linking the Swedish krona to the ecu in 1991 has brought the country's economy closer, in monetary terms, to the economies of countries in the EMS.

3. Sweden's economic development and its people's standard of living are fundamentally dependent on its ability to position its economy in the international division of labour. This assumes steps to integrate the Swedish economy further into international markets and at the same time to establish structures to improve its competitiveness. However, the pattern of Swedish economic development has been significantly different from that of Community countries and what is more, its main industrialized trading partners. Essentially, the economy has traditionally had four major specific features:

(i) a level of social protection and public goods provision which has raised State spending as a percentage of GDP, and with it the burden of taxation and other like charges, to 14 points above the Community average;

(ii) a relatively high degree of regulation and weak domestic competition, particularly in the service sector but also in some manufacturing sectors;

(iii) the priority long given to keeping unemployment under control both in the choice of macroeconomic policies and by means of active employment policies between 1960 and 1990 unemployment never exceeded 3% of the working population;

(iv) weaker performance on inflation during the 1980s than the Community average, with the gap widening towards the end of the period. In 1992, the level of inflation could however, fall to close to 3% under the influence of the recession and a reduction in the indirect tax burden.

4. In the 1980s this pattern of development was increasingly challenged. One measure of the crisis is that the Swedish economy is currently experiencing one of the worst recessions among the industrialized countries. Another is Sweden's economic decline relative to its industrialized trading partners. For example, per capita GDP was 30% higher than the Community average in 1970 but is now only 20% higher. Moreover although during the last upturn between 1985 and 1989 domestic demand rose faster in Sweden than in the Community, GDP growth was only about the same and industrial production rose markedly more slowly than in the Community. This decline in Sweden's competitive position was reflected in a rapid deterioration of its external balances over the period.

The gradual extension of State intervention via public finance and regulatory measures restricting competition evidently reflects a popular Swedish preference for collective action and consumption of public goods. This preference has long gone hand in hand with acceptance of an unusually high level of taxation. After all, the bulk (70%) of public consumption is administered at municipal and regional level. Around half of this expenditure is financed by direct taxation set independently at local level.

None the less, the expansion of public intervention has produced macroeconomic and price mechanism dysfunctions, which have made the Swedish economy less efficient and less flexible and have intensified inflationary pressures. On the one hand, a high level of taxation and social welfare increases the strain on the labour market in periods of expansion. On the other hand, distortions in relative prices tie up resources in sectors protected or favoured by public intervention when they could be used more effectively in sectors geared to international markets.

Sweden's strategy, being introduced gradually since the late 1980s, for eliminating these dysfunctions has been to pursue sustained monetary stability and revive market mechanisms. In its present form, the strategy will involve reducing public spending and taxation as a percentage of GDP. It is seen as important that the objective of the structural reforms (some of which have already been started) should be to eliminate obstacles to allocating resources in the most efficient way possible. In this way, the Swedes' preference for a relatively high level of consumption of public goods can be reconciled with a healthy competitive position and a dynamic economy. Integrating the Swedish economy into first, the internal market and then the Community will none the less increase the effectiveness of the reforms.

5. In 1991 inflation fell substantially to 3%, which is lower than the Community average, from 10% in 1990. This was linked to a fall in demand, a rise in unemployment and a cut in the rate of indirect taxation. This achievement has yet to be confirmed in conditions of economic recovery, but the prospects are indeed good.

6. The new objective set for monetary and exchange rate policy is creating conditions for stability and convergence with the countries in the EMS. It has already gained in credibility. The switch in the first half of the 1980s from a monetary policy based on credit controls to one based on interest rates similar to that applied in the Community, has given Sweden the instruments it needs for this purpose. The more recent but now almost complete liberalization of capital movements is contributing greatly to achieving this objective, increasing the integration of Sweden's money and capital markets with those of the Community. However, the credibility of monetary policy will have to be increased still more by judicious use of economic policy.

7. The new exchange rate objective links Swedish interest rates and prices more closely to those on the international markets. Consequently, a surge in nominal wages is reflected more quickly in the labour market in a loss of competitiveness and profitability and in higher interest rates. In future, labour market adjustments will depend more on a greater flexibility in nominal wages.

In Sweden, the social partners negotiate wages independently in a highly centralized manner. This model of wage negotiation means that they bear a great responsibility for the macroeconomic consequences of their wage agreements. In the past, the consequences of wage agreements have often been offset by a rise in inflation, which moderates real wages but is ultimately detrimental to competitiveness and optimal resource allocation, and by the absorption of a significant proportion of the working population by means of active employment policies. The new monetary regime is fundamentally at odds with the first of these adjustment mechanisms because it compels the social partners to pay more attention to the twin objectives of stability and full employment. Moreover, the impact of active employment policies is limited both by budgetary constraints and by the fact that their effectiveness decreases as the number of people covered by them rises.

8. For budgetary policy this is certainly a crucial point in time. The budget, which was still in surplus in 1990, is expected to show a deficit of close to 5% of GDP in 1993. Up to now the Swedish Government has given priority to reducing the tax burden, which will fall from around 56% of GDP in 1991 to 51% in 1993 as a result of reforms already undertaken or planned, as well as the effects of a decline in economic activity. Despite reductions in spending (equal to around 2% of GDP) planned in the supplementary bill presented by the government in late April public spending's share of GDP will probably rise by almost two percentage points between 1991 and 1993. At present, Parliament is examining a number of structural reforms aimed at halting the trend in public spending as part of a medium-term strategy. It should be noted that the Swedish public debt in relation to GDP in recent years has been substantially lower than the average of the Community.³ Whatever happens, the effort required to reconcile the objectives of reducing taxes and bringing public finances back into equilibrium will be considerable.

9. Since the late 1980s, the Swedish authorities have had to move quickly to introduce a strategy to revitalize the economy. On the one hand, given the specific characteristics of the Swedish economy and its comparative advantages, it had little choice but to opt for closer integration with a Community which was advancing towards the internal market and monetary union. On the other hand internal tensions and the need to restore competitiveness in the face of increased competition demanded a thorough review of the very functioning of the economy. This review is far from being finished, although important measures have already been taken. A key issue is the redefinition of the public sector. There is political and social pressure to find a balance which will reconcile the specific preferences with the need for efficiency which, alone, will enable the country to preserve in the long term its remarkable achievements, namely a standard of living well above the Community average and low unemployment. Pursuing these objectives with determination will allow Sweden to integrate into the Community without too much difficulty and eventually to make a positive contribution to the achievement of monetary union.

10. Sweden's external trade is strongly directed towards Europe and in particular the Community, which accounts for 55% of both its exports and its imports. Sweden fellow members of EFTA, three of which have applied for membership of the Community, account for 18% of its exports and imports. Central and Eastern Europe now account for some 2.3% of Sweden's external trade.

Sweden's largest export markets outside Europe are the United States (8%) and Japan (2.1%), which also supply 8.5% and 1% respectively of its imports.

Despite the modest size of its economy, Sweden ranked fourth as a supplier of the Community in 1991, after the US, Japan and Switzerland, accounting for about 5.1% of imports from outside the Community (ECU 21.9 billion). It was the Community's fifth largest export market after the US, Switzerland, Austria and Japan, taking 5.2% (ECU 25.2 billion) of total EC exports.

Since the late 1980s, Sweden has had a substantial trade surplus with the Community, which amounted to ECU 3.3 billion in 1991.

The pattern of trade between the Community and Sweden is fairly similar in both directions, mainly comprising machinery and manufactured goods. The Community major imports from

Sweden are paper and board (16.3% or ECU 4.1 billion), machinery (16% or ECU 4 billion), vehicles and vehicle accessories (13.2% or ECU 3.3 billion) and electric motors (6% or ECU 1.5 billion). The Community's major exports to Sweden were machinery (18% or ECU 3.9 billion), electric motors (10% or ECU 2.1 billion), vehicles and vehicle accessories (9.5% or ECU 2 billion) and plastics (4.6% or ECU 1 billion).

Impact of accession

Agriculture and forestry

1. Sweden has about 2.8 million ha of arable land and about 0.3 million ha of meadows. Of the arable land, about 1 million ha is grain area and 0.9 million ha is pasture and temporary pasture. The remaining area of 0.6 to 0.7 million ha is either used for other crops or it is left fallow. The area of Sweden covered by forest totals 23.4 million ha which is slightly less than 60% of the area of the entire country.⁴

Production of a number of important agricultural products has in recent years exceeded the 100 % degree of self-sufficiency. As a result of a major reform of the Swedish agricultural policy, decided in 1990 and implemented from 1 July 1991, the surplus production is expected to be reduced eliminated. In the livestock sector production has already fallen significantly and earlier surpluses have virtually disappeared. Compared with EC agricultural production, Sweden's production represents 1 to 3% according to the product.

2. Presently, the Swedish system of support to the agricultural sector differs from that of the Community. The Swedish deregulation has meant a shift away from certain traditional policy instruments (e.g. internal market and price regulations and export refunds) which are still an important part of the CAP. Given the overall importance of market and price policy for the CAP, the adaptation of the Swedish policy is necessary. In particular, a reintroduction of the above policy instruments and quota system would be necessary, as well as, in certain sectors, a reduction of the level of producer prices. Since the fruit and vegetable sector in Sweden is not regulated, an adjustment to the CAP will necessitate the adoption of intervention buying and export support for these products.

The level of border protection for some major agricultural products is higher in the EC than in Sweden, although market prices are often lower. Nevertheless, as a general rule, harmonization of the Swedish border protection should not cause major problems.

3. Under present conditions, a Swedish accession to the EC would mean, in terms of consequences for Swedish producers, a downward pressure on prices for some of the preliminary study done in Sweden⁵ showed that the general producer price for cereals in the EC was somewhat lower than the long-term prices expected in Sweden. For most live-stock products, a downward pressure on producer prices is expected. Feed costs will however, also be lower and to some extent compensate for the lower prices of livestock products. In the sugar sector, no dramatic changes are expected as regards producer prices and production. The level of EC direct support for certain feed crops such as peas and beans and for grass seed is generally higher than in Sweden. For lamb and sheep-meat, an accession would mean increased support as well as increased import competition. For horticultural products, an accession is expected to lead to a downward pressure on producer prices. An adaptation by the Swedish farmers to the conditions prevailing on the EC market means that they will be exposed to generally lower producer prices, a reduced support level and more intense

competition. As a result of decreasing producer prices and stronger competition, reduced consumer prices as well as a broader variation of food supply can be expected in Sweden.

4. Given the small volume of production of the applicant country compared to the production volume of the Community, no global effects for Community markets have to be expected, especially since Sweden is reducing or has already eliminated its earlier surplus production. However, there is a possibility that regional trade flows between countries directly neighbouring Sweden could be shifted. This would possibly result in the need for regional adaptation.

5. Production patterns and climatic conditions in the south of Sweden are not very different from those prevailing in the northern EC countries, although the low population density and the geographical location may give Swedish agriculture certain specific characteristics. In the north of Sweden, however, the conditions for agriculture are quite different from those in the south. The northern parts of Sweden constitute a special problem given in particular the extremely low density of population, unfavourable climatic conditions, long transport distances and higher production costs. For many different reasons, such as regional development, employment, national security and nature conservation, special support is therefore directed to these regions. The agricultural sector is one of the main beneficiaries of these supports. According to Swedish estimates, the level of support directed to the north of Sweden as a part of the Swedish agriculture policy considerably exceeds the corresponding support levels in the EC. It is anticipated that Sweden would wish to maintain a high level of support in the event of accession. The Community would have to verify, in the course of negotiations, compatibility between such support and the Community's relevant policies and legislation including State aid policy.

6. The existence in Sweden of a variety of measures in the field of agricultural structures and rural development which are specifically adapted to its own situation makes a direct comparison with EC rural development measures somewhat difficult. However the adoption of the accompanying measures to the CAP reform enlarged the range of Swedish rural development measures comparable with those of the EC. This applies both to a number of horizontal measures and to the regional development measures.⁶ As far as horizontal measures are concerned two of the main measures do not have equivalents in Sweden: aids for investment in farms and aids for processing and marketing of agricultural and forestry products. The same applies to the early retirement schemes or measures aimed at encouraging accounting on agricultural holdings, launching of mutual assistance, relief and management services, start-up for launching producers' groups. EC aids to young farmers or vocational training aids have comparable equivalents in Sweden. This is also true of the set-aside scheme and the conversion scheme, especially after the CAP reform. Sweden has no geographical definition of less favoured areas on which to base payments per livestock units. Direct payments to farmers were introduced for a transitional period, without any geographical definition. These payments are much higher than the maximum amount available under EC legislation. Concerning the regional development measures, regions in the north of Sweden already benefit from support, mainly addressed to the agricultural sector. Any aids by the Community under Objective 5b⁷ could be extended to new sectors of activity in rural areas, to environment, training and other measures as well as cover new areas within agriculture, such as the re-parcelling of farms.

Environmental measures are very important in Sweden. The programme to reduce plant nutrients losses and the programme to reduce the damage of using pesticides both seem to

have some elements comparable with EC legislation on extensification, but many others have no equivalent in the EC. Important aid measures are applied, in Sweden, in support of landscape conservation. Their content is largely comparable with the recent Community decision, in the context of the CAP reform, on agri-environmental measures. The adaptation of the Swedish forest and environment legislation could require adaptations but should not cause any major obstacle.

Both Sweden and the EC give plantation grants for forest. Swedish grant levels are relatively low compared to EC maxima. On the other hand the conversion grants for planting forest on arable acreage are higher than the EC level. Conditions of eligibility should be examined more carefully to see if they correspond to EC eligibility conditions.

Economic and social cohesion

1. As this report describes elsewhere,⁸ the Swedish economy has experienced quite a serious recession since 1989, registering rates of inflation (10% in 1990, 3% in 1991) and unemployment (5.7% in February 1992) which, although lower than the Community average, are nevertheless a far cry from the country's past standards. In Norbotten county in the far north, unemployment is now at 9.5 % and has even reached 15% in some municipalities. Elsewhere, the recession has exacerbated employment problems in areas converting from traditional industries such as paper, steel and iron mining.

2. The current economic climate is affecting the different regions to varying degrees.

The north-west of the country is the least developed, in terms of both per capita income and employment, while the inland areas to the south (Jönköping, Älsborg, Åksbirgn Skaraborg and Västmanland) are the most industrialized. However, these divergences between regions are not as pronounced as those between Community Member States.

3. Although the Swedish Government introduced changes in its regional aid policy in 1990 (giving priority to direct aid for infrastructure projects, targeting the sectors of the economy in greatest difficulty and reducing the degree of aid) too much regional aid still appears to exceed the levels applied in the Community. ⁹

4. The Swedish regions¹⁰ will be eligible for Community structural Funds under regional Objectives 1, 2 and 5b¹¹ only if they satisfy the conditions laid down in Regulations (EEC) Nos 2052/88 and 4253/88.¹²

5. According to the criteria currently in force, the Swedish regions are not eligible for funding under Objective 1. As regards Objective 2, the industrial regions will have to be assessed on the basis of the most recent figures available at the moment of accession with a view to determining whether or not areas particularly affected by industrial decline are eligible.

6. Some of Sweden's rural areas furthest removed from the country's (and the Community's) economic centres may, in that they have greater transport and communications problems, meet the eligibility criteria for Objective 5b. As with Objective 2, the regions concerned will have to be assessed in detail on accession.

7. A number of the more important horizontal measures listed above under Objective 5a have no equivalent in Sweden - for example, farm investment aid or processing and marketing aid

in the agriculture and forestry sectors. Other measures, such as aid to young farmers, do have equivalents in Sweden, which will have to introduce certain changes if it is to satisfy the eligibility criteria laid down by Community legislation.

8. In view of the recent increases in unemployment, Sweden could probably benefit, to a certain extent, from aid granted by the European Social Fund under horizontal Objectives 3 and 4. However, if long-term and youth unemployment levels remain relatively low compared to the Community average, Sweden would probably qualify for only fairly modest amounts under these two objectives.

9. With a view to the application of Community rules, notably as regards the structural Funds, the Swedish Government will have to supply the appropriate national and regional data drawn up to Community standards.

10. The accession of Sweden would bring Arctic and sub-Arctic regions into the Community for the first time. The climatic and demographic features specific to such regions would increase the regional and social diversity and would need to be taken into account in EC structural policies.

Taxation

1. The level of the overall tax burden in Sweden (taxes and social security contributions) is the highest among OECD countries and substantially higher than the average of the EC Member States. However, the tax reform introduced during the last three years will tend progressively to reduce the overall level of the tax burden.

Furthermore, the structure of the tax burden in Sweden, i.e. the distribution of the burden between different types of tax and social contributions, is comparable to that of the Community.

2. The areas of company taxation and direct taxation were not covered by the EEA Agreement and will have to be discussed during the accession negotiations. Sweden is expected to be able to introduce these measures without any need for transitional periods. Sweden will also have to accept the Convention of the Member States of the Community on the elimination of double taxation in connection with the adjustment of profits of associated enterprises.¹³

3. Sweden operates a complete value-added tax system, which was introduced in 1969. Until 1992, in common with other Nordic countries, Sweden had a single VAT rate system, at a level of 25%. In 1992, the standard VAT rate was lowered from 25 to 22 % and a reduced rate of 18% was introduced applying notably to foodstuffs.

In the context of the present Swedish policy which is directed at a continuous lowering of the tax pressure, the possibility of further reducing VAT rates would bring Swedish rates closer to the EC minimum levels: 15 for the VAT standard rate and 5% for the reduced rate.

4. Sweden presently applies 23 excise duties, which are characterized by their very high rates, especially in the energy sector and for alcohol and tobacco products.

The Swedish tax level on alcoholic beverages is, as a matter of health policy, significantly above the minimum rates decided for post-1992. Sweden would be able to maintain this level

of taxation after accession, but would have to consider the consequences of the abolition of restrictions on private individuals' purchases in other Member States.

Tobacco products are subject to a specific tax. There would be no obligation for Sweden to change the rate levels on tobacco products as the Community legislation will be based on minimum levels. Sweden will have only to adapt its way of calculating the tax.

Mineral oils are subject to three different taxes apart from VAT: energy tax, CO₂ tax and sulphur tax. In view of the need for approximation to the Community average Sweden has adopted a new energy taxation maintaining the current environment objective but with a reduced level of taxation.

There are at present a number of other products which are subject to excise duties. Several of the latter are however to be abolished on 1 January 1993. Unlike the excise duties on mineral oils, tobacco products and alcoholic drinks, duties on other products are not being approximated to the Community level. Member States are permitted to keep such duties provided that they do not give rise to border-crossing formalities in trade between Member States.

Competition

1. Driven by the need to integrate the Swedish economy into the Community market, the government has radically altered its anti-trust legislation, which had previously allowed an economic environment to exist in which cartels flourished. The Swedes have made considerable efforts to bring their competition laws into line with Community legislation.

The biggest change concerns the replacement of the old system involving abuse control with a new one based on the Treaty of Rome and outright bans. This is an encouraging development, but the new rules have yet to be effectively implemented: this will largely be the responsibility of the newly created Swedish Competition Board.

2. Progress in the field of State aid has also been encouraging, with the total amount disbursed to companies having halved between 1986 and 1990. Nevertheless, closer inspection reveals the existence of a number of aid packages that may not be compatible with a common market. Examples include a number of export subsidies and certain cases of regional aid, sectoral aid and aid cumulation.

3. There are some concerns about State monopolies of a commercial character within the meaning of Article 37 of the EEC Treaty, the alcohol monopoly being one that is particularly worrying. To date, the Swedish Government has taken no steps to remedy this situation in preparation for the entry into force of the EEA, which contains similar provisions to Article 37 of the EEC Treaty.

However, in sectors such as electricity and rail transport, in which enterprises are granted special or exclusive rights within the meaning of Article 90(1) of the EEC Treaty, legislative reforms that should open up the Swedish market have been announced for 1992. These reforms will have to be assessed in the light of developments in Community policy.

4. All in all, the anti-trust law changes and the reduction of overall State aid will help the integration of the Swedish economy into the Community, but these measures do not of

themselves justify the conclusion that Community competition rules can be implemented in Sweden without difficulty. The effectiveness of the EFTA Surveillance Authority and the application of the *acquis communautaire* from 1 January 1993 will be a vital test, particularly in respect of certain State aids and the alcohol monopoly, which is giving cause for concern.

Fisheries

1. Despite its long coastline, Sweden's maritime fisheries sector is not as large as that of its neighbours. As things stand, its accession therefore seems unlikely to change the nature of the common fisheries policy appreciably. Sweden also seems unlikely to have any major problem in adapting its fishing policy, given the commitments on opening up markets made under the EEA Agreement.
2. Nevertheless, the full appreciation of the *acquis communautaire* will require a detailed examination of reciprocity of access to fishing waters and of the exploitation of resources (in particular the adaptation of Sweden's system of management to the Community's quota-based system) and the organization of markets, because of the total lack of legislation on the subject.
3. After accession Sweden will participate fully in the common fisheries policy. In the mean time, the Community must closely monitor the development of its fishing links with countries such as the Baltic States and the Russian Federation, with which specific agreements providing for quota exchanges have been agreed for 1992.

Transport

1. All questions concerning the extension of the Community legislation in the transport sector to Sweden are treated in the EEA Agreement. No transitional periods or exemptions will apply for Sweden in this case, which proves that the Community and Swedish transport policy are evolving in the same direction.
2. Compared to the Community, Sweden is applying in national transport higher weight and dimension limits for heavy vehicles. The length of 24 metres and the maximum weight of 64 tonnes are considered economically necessary for timber transport, in particular. Vehicle weights and dimensions in national transport would have to be discussed in the accession negotiations.

Industry

1. For the majority of the industrial sectors no problems are expected in relation to Sweden's likely membership as most of the relevant Community *acquis* will already be adopted by Sweden by virtue of the EEA Agreement. Transitional periods were restricted to exceptional cases and strictly limited in time. As a result, Swedish legislation will already be, not later than 1 June 1995, adjusted to the obligations of Community membership in almost all areas.
2. In some areas, nevertheless, such as in the chemicals, motor vehicles or construction sectors particular issues remain to be addressed in the context of the accession negotiations.¹⁴

External trade

1. As a member of the European Economic Community, Sweden would be bound by the Common Customs Tariff and by the Community common commercial policy towards third countries.

2. The Swedish tariffs on industrial products are comparable with those of the Common Customs Tariff (CCT). The average level of MFN duties for such goods is 4.6% and 5.6% respectively.¹⁵

3. The introduction of the common commercial policy would mean the application to Sweden's external trade of the relevant basic provisions of the Treaty of Rome (and notably those of Article 113 of the EEC Treaty) as well as of the Community acquis in this field and in particular:

- (i) the common import regime
- (ii) the rules concerning dumping or subsidization by countries not members of the Community,
- (iii) the common export regime
- (iv) the so-called new commercial policy instrument
- (v) the rules concerning the prevention of imports of counterfeit goods
- (vi) the Community's system of generalized tariff preferences towards developing countries.

4. Any trade policy instruments or measures currently applied by Sweden would have to be modified or repealed so as to bring Swedish law into conformity with her obligations under the above acquis. Given Sweden's current liberal trade policy for industrial products, none of these is likely to give rise to major difficulties. Sweden has an anti-dumping regime based, as is that of the Community, on the GATT anti-dumping code. Sweden has introduced in 1972 a generalized preferences system characterized by total exemption from import duties for goods to which the system applies as well as no tariff quotas or ceilings. A comparison between the two GSP systems, by experts of the two sides, is under way.

One possible area of difficulty could be the application in Sweden of Community decisions concerning economic relations with third countries taken following decisions reached within the framework of political cooperation (or future common positions or joint actions of the CFSP). There might also be problems in the application of Article 59 of the ECSC Treaty.¹⁶

5. Sweden would have to take over the existing agreements the Community has established with third countries in the area of preferential agreements. The most important are those with the (remaining) members of EFTA, the Europe Agreements with the countries of Central and Eastern Europe, the various Mediterranean agreements and the Lomé Convention. None of these should give rise to any substantial difficulty for any of the parties involved. In certain cases, the Community itself might need to renegotiate its existing agreements with certain partners to take account of Sweden's accession, to the extent the technical adaptation or transitional periods were called for, e.g. the EEA Agreement, bilateral textile agreements and preferential agreements with third countries.

6. Sweden has no restrictions on the imports of textiles and clothing and has not signed the protocol of extension of the agreement regarding international trade in textiles (MFA). The Swedish trade in textiles would have to be subject to the Community own regime on imports of textiles as it emerges from the discussions presently taking place in the context of the Uruguay Round. Any resulting increase in protection which might arise out of the Swedish

accession might need to be compensated by increases in quotas to reflect the traditional trade flows between Sweden and third countries.

7. Sweden would have to repeal the trade agreements it presently has with third parties. As a general rule this should not pose major difficulties, since Sweden only has few free trade agreements, most of which with European partners. A particular case that would require close scrutiny refers to the Baltic States with which Sweden has entered into free trade agreements while the Community still has relations based on MFN treatment.

8. Sweden would have to cease to be a member of EFTA, her relations with these countries being henceforth ruled by the EC's own agreements with the EFTA countries. The EEA Agreement would cease to be applicable to the bilateral relations between Sweden and the Community.

The implications of Sweden's accession to the Union for trade relations with third countries would have to be the subject of a GATT assessment under Article XXIV of the General Agreement.

Development cooperation

1. Sweden has been traditionally closely involved in development cooperation aid, the amounts consecrated to that purpose corresponding to one of the highest proportions of GDP in the world. The experience gathered by Sweden in the area of development cooperation would represent an asset to the Community, particularly in the context of the establishment of a common development policy arising from the Treaty on European Union.¹⁷ Sweden would have no difficulty in accepting all the *acquis* and joining all the international agreements the Community has established in this area. Sweden would participate in new areas development cooperation; for example, Sweden has presently no system for compensation for losses in export earnings of the Stabex or Sysmin type.

2. As far as the relations with the ACP States are concerned, the accession of Sweden to the Community would imply the accession to the Lomé Convention and the participation in the EDFs.

3. A protocol of accession would be concluded in order for Sweden to become a contracting party to the Lomé Convention. Indeed, under Article 358 of Lomé IV, the Community is required to inform the ACP States of its decision to enter negotiations in view of the accession of a third country. Regular contacts between the Community and the ACP States are foreseen to take place during accession negotiations. Once these negotiations are concluded, the Community and the ACP States will enter negotiations in order to establish a protocol of accession and adopt any adaptation or transitional measures deemed necessary.

Foreign and security policy

1. Sweden's external relations have traditionally been determined by her policy of neutrality, which dates back to the 19th century. The Swedish policy of permanent neutrality, although never defined or incorporated in law, pursued the same goals as other permanent neutralities: pre-ordained neutrality in possible wars through restrictions on foreign policy in peace time. The policy, designated as 'non-participation in alliances in peace time, aiming at neutrality in war', was based on a national consensus. This consensus is now evolving.

Sweden's neutrality was furthermore characterized by her strong commitment to maintaining the capability of ensuring its own defence. Sweden has thus developed an important military capability.

2. Up until the end of the cold war membership of the European Community was considered by Sweden to be incompatible with her policy of neutrality. The latter has not however prevented Sweden, since 1945, from playing an active international role with the emphasis on the UN, EFTA, Nordic cooperation, CSCE, the Baltic States the G-24 exercise and in the provision of development assistance to the Third World. Sweden has participated in many peace-keeping missions in the UN context, placing its military expertise and capacity at the service of her commitment to the UN system and to peace.

3. The unification of Germany, the emergence of the new democracies in Central and Eastern Europe, the dissolution of the Warsaw pact and the transformations undergone by the former Soviet Union have led to a major reassessment of Swedish external policy. In a statement to the Riksdag on 14 June 1991, on the Swedish membership application, Prime Minister Carlsson considered that, in these new circumstances, conditions had improved for the realization of a vision of a united Europe, living in peace, prosperity and social justice, through a broad cooperation in which Sweden had an important role to play. Noting that throughout Europe, the European Community was regarded as a major driving force for cooperation and development, Sweden considered that, as a member, her possibilities of influencing this future cooperation would be increased. This was one of the important factors in the Swedish decision to apply, without reservation, for membership of the European Community.

4. The election of a new government in September 1991 confirmed a change in attitude towards Swedish security policy and neutrality. Prime Minister Bildt's policy statement of 4 October 1991 declared that 'the formulation of Swedish foreign and security policy will change in a changing Europe'. Today, the Swedish Government declares that the term 'policy of neutrality' is no longer an adequate description and prefers instead to speak of 'Swedish foreign and security policy with a European identity'. The government has indicated an openness to closer cooperation with European partners in the security field. It considers, none the less, that Sweden retains sole responsibility for her own defence.

5. The Swedish application must be viewed against her willingness and ability to fulfill the obligations arising out of the European Union's external policies in the broadest sense, from the common commercial policy of the Community to the provisions of Title V, on common foreign and security policy (CFSP), of the Maastricht Treaty. Sweden will have to accept the *acquis* in all of these areas, as it may have developed by the time of her accession.

6. The Swedish Prime Minister welcomed, on 11 December 1991, the decisions taken in Maastricht and stated Sweden's willingness once a Member of the Union, to participate fully in the field of foreign and security policy. He has later confirmed that Sweden accepts all the provisions of that Treaty.

7. By declaring herself ready to accept all the provisions of the Treaty on European Union, Sweden would appear to have implicitly accepted that the Union will eventually frame, in the context of the CFSP a common defence policy, which might in time lead to 'a common defence' (Article J.4).

The current Swedish position, nevertheless still falls some way short of the objective of a common defence in the context of the European Union. The Member States of the Western European Union (WEU), in their declaration at Maastricht, invited Member States of the European Union to accede to the WEU or to become observers if they so wish. The majority view of the Swedish parliament is that only after Sweden has joined the European Union should the question of participation in the WEU be decided. Until then, the Swedish defence policy will remain one of military non-alliance.

8. The question is whether the traditional Swedish policy of neutrality - which is now evolving - might stand in the way of a full acceptance of the Union's external policies. Since the Swedish policy of neutrality is not rooted in national or international law, the doctrine of the anticipated effects in peace time of maintaining neutrality in war time is less developed in Sweden than it is in some other countries where there is a legal basis for neutrality.¹⁸

In the domain of the common commercial policy, the Community's practice of imposing economic sanctions on certain third countries on the basis of Article 113 of the EEC Treaty, after a consensus to this effect has been reached within the framework of political cooperation (e.g. Argentina, USSR, South Africa, Iraq, Serbia-Montenegro) - a practice which is now codified in Article 228A of the Maastricht Treaty - might pose problems for Sweden. This is certainly not the case for sanctions taken pursuant to UN Security Council resolutions, since Sweden has always wholeheartedly supported such sanctions and regarded them as not in conflict with her neutrality. Problems might arise however in relation to peace-time trading restrictions (of a political or strategic nature). They might lead to a policy conflict but Sweden's freedom to determine her position within the Union's institutions vis-à-vis such measures would remain unfettered, since it is not bound by any legal obligations of neutrality.

Insofar as accession to the ECSC Treaty is concerned, Article 59 (critical shortage) could theoretically lead to a situation where Sweden would be forced to prohibit the export of coal and/or steel (strategic commodities) to third countries. In time of war this would be contrary to the duties of a neutral State.

Furthermore, Chapter VI of the Euratom Treaty may force Sweden to deliver, or to agree to delivery by the Supply Agency, of source materials or special fissile materials to any Member State in time of war.

Finally, in respect of the CFSP, the question arises to what extent Sweden, which, as an armed neutral, has always laid great emphasis on the capability of defending the national territory, can fully share some of its objectives, such as the safeguarding of the independence and security of the Union, and the evolution towards a common defence policy of the Union (Article J.4).

9. An assessment of the relevant articles and associated declarations of the Maastricht Treaty leads to the conclusion that Sweden could fulfil all CFSP obligations. There is a strong consensus in Sweden favouring a full and active role for Sweden within the European Union. There remain reservations, however, regarding the eventual framing of a common defence policy and these reservations are even more marked as regards the possible establishment, in time, of a common defence. The Community would need, in the context of the accession negotiations, to ascertain further the full nature of the present Swedish policy in order to be satisfied that this would not hamper the possible evolution in time of a common European

defence. As the Commission already pointed out in its report on enlargement¹⁹ of 24 June 1992, 'specific and binding assurances will be sought from (applicant countries) with regard to their political commitment and legal capacity to fulfil the obligations' of the common foreign and security policy.

Cooperation in the fields of justice and home affairs

1. Declaring its acceptance of all the provisions of the Treaty on European Union,²⁰ Sweden has implicitly indicated its acceptance of all the decisions concerning the cooperation in the fields of justice and home affairs, included under Title VI of the Treaty on European Union. These include asylum policy, the movement of nationals of third countries across the external borders of the Community, the immigration policy including conditions of entry, movement and residence of nationals of third countries. Sweden is particularly well informed on all these questions, having followed them closely because of their implications for the workings of the Nordic Passport Union Agreement.

In the last years, Sweden has restricted immigration to refugees and asylum seekers and to cases justified on humanitarian grounds. Sweden has considerable experience in dealing with matters related to refugees and asylum seekers and would not have difficulty in participating in cooperation in this area.

2. Sweden would equally be ready to join cooperation in the fight against drug addiction and fraud on an international scale judicial cooperation in civil and criminal matters, customs cooperation and police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crime. Sweden has both the means and the will to cooperate fully in these areas and is already one of the partners regularly consulted in the Trevi framework.

Conclusions

1. According to the Treaty on European Union²¹ a State which applies for membership must satisfy the three basic conditions of European identity, democratic status and respect for human rights. Sweden's democratic traditions and human rights record are as valid as her important place in European history and culture.

2. In the accession negotiations, the Union should take as a basis the rules and structures as they will exist following the entry into force of the Treaty on European Union.

3. As the Commission had noted in its report 'Europe and the challenge of enlargement', the accession of the EFTA countries who have applied for membership 'should not pose insuperable problems of an economic nature, and indeed would strengthen the Community in a number of ways'. The findings of the present report show that in the specific case of Sweden this would be particularly true as regards economic and monetary, social and environmental policies and synergy effects in the field of research and development.

4. Sweden has free trade in industrial products with the Community in the context of the free trade agreements of 1972.²² This relationship will be further developed in the context of the EEA Agreement. Furthermore, Sweden has close relations with the Community in the economic and monetary field, the Swedish krona being linked unilaterally to the ecu since 1991. Accession to the Union is expected to contribute to creating the conditions for

strengthening the Swedish economy. As regards the Community's acquis, much of this will already be applied by virtue of the EEA Agreement.

5. There are some areas where problems might arise, but the Commission considers that it should be possible to solve these satisfactorily during accession negotiations. Although Swedish agricultural policy is evolving in very much the same direction as that of the Community, accession would represent an important challenge for Swedish agriculture, resulting in lower prices reduced support level and increased competition. Changes would be required also in a number of other sectors. State monopolies such as that for alcoholic beverages, would have to be adapted. Competition in general would increase in a number of fields. Swedish national policy in relation to regions facing particular difficulties, such as the northernmost regions of Sweden, would have to be implemented in forms compatible with the Community acquis. Changes, mostly of a technical nature, would also be required in Swedish policies in a number of other fields such as fisheries, transport and industry.

6. The Union will on the whole benefit from the accession of Sweden, which would widen the circle of countries whose prospective economic, monetary and budgetary performance is likely to contribute to the development of the economic and monetary union.

7. In the area of foreign and security policy, the Community notes that Swedish policy has evolved significantly, especially since the beginning of the 1990s. There seems to exist a consensus in Sweden in relation to a full participation in the common foreign and security policy of the European Union. Sweden will be required to accept and be able to implement this policy as it evolves over the coming years. There seem however to remain reservations in the Swedish position relative to the eventual framing of a common defence policy and, in an even more marked way, regarding the possible establishment in time of a common defence. The Commission recommends that in the context of the accession negotiations, specific and binding assurances from Sweden should be sought with regard to her political commitment and legal capacity to fulfil the obligations in this area.

8. As regards the adjustments to the Treaties referred to in Article O of the Treaty on European Union which would have to be made in the case of Swedish accession, these would obviously have to take into account not only the specific case of Sweden but also the fact that a number of other EFTA countries would be joining the Union at the same time.

9. On the basis of the above considerations, the Commission confirms in respect of Sweden the conclusion it reached in its report on enlargement as regards EFTA applicants in general. The Commission recommended that negotiations should be opened after the Member States have ratified the Treaty on European Union and concluded the negotiations on own resources and related issues. These conclusions were moreover confirmed by the European Council.

[...]

(1) Agreement between the European Economic Community and the Kingdom of Sweden (OJ L 300, 31.12.1972) and Agreement between the Member States of the European Coal and Steel Community and the European Coal and Steel Community, on the one part, and the Kingdom of Sweden, on the other part (OJ L 350, 19.12.1973).

(2) See 'External trade', pp. 11 and 16.

(3) See Graph 21 in the Statistical annex.

- (4) A more detailed description of the Swedish agriculture sector is enclosed in Part Two.
- (5) Before the CAP reform.
- (6) The possibility of Community aids is analysed in 'Economic and social cohesion', p.13.
- (7) See 'Economic and social cohesion', below.
- (8) See 'The Swedish economy and the Community', p.8.
- (9) This point is dealt with in the section on competition.
- (10) In the absence of regional division into NUTS, the eligibility of Swedish regions for Community funding will have to be assessed on the basis of the counties (län) and the areas receiving regional aid in Sweden.
- (11)
- (a) Regional objectives
1. Promoting the development and structural adjustment of the regions whose development is lagging behind (whose per capita GDP is lower than or near 75 % of the Community average);
2. Converting the regions seriously affected by industrial decline (eligibility criteria: unemployment rate higher than the Community average, proportion of total employment accounted for by industrial employment equal to or above average, falling industrial employment);
- Promoting the development of rural areas (criteria: high level of total employment accounted for by agricultural employment, low agricultural income levels and low socio-economic development in terms of GDP per capita).
- (b) Horizontal objectives
3. Combating long term unemployment;
4. Facilitating the occupational integration of young people;
- 5a. Adjustment of agriculture and forestry production, processing and marketing structures.
- (12) Regulation (EEC) No 2052/88 of 24.6.1988 (OJ L 185, 15.7.1988) and Regulation (EEC) No 4253/88 of 19.12.1988 (OJ L 374, 31.12.1988).
- (13) Council Directive 90/436/EEC (OJ L 225, 20.8.1992).
- (14) These are analysed in Part Two, 'Industry' p.29.
- (15) See also 'Customs union', p 26.
- (16) See also 'Foreign and security policy', p. 18.
- (17) Through the addition to the EEC Treaty of Title XVII, containing Articles 130u to 130y.
- (18) It should be recalled, however, that in acceding to the International Energy Agency, Sweden has made exactly the same declaration as Austria and Switzerland which left it considerable freedom of manoeuvre to act as it wished in conformity with its status of neutral even in the face of binding decisions of the IEA in time of an energy crisis.
- (19) See footnote 1, p.5.
- (20) See Introduction, p.6.
- (21) Articles F and O.
- (22) See footnote 1, p.7.