

# Nordic responses to Brexit: Making the best of a difficult situation

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## Summary

This policy brief examines how the British decision to withdraw from the EU has influenced the political debates in and foreign policies of the five Nordic states – Denmark, Finland, Iceland, Norway and Sweden. With the exception of Iceland, all these countries had a stated preference for Britain to remain in the EU – not least due to historical ties and the tendency of Britain and the Nordic countries to have similar approaches to European integration. Three general findings can be highlighted: First, Brexit has featured prominently in political debates in all the Nordic countries since the British referendum, and the causes and consequences of the Brexit vote continue to be discussed with vigour. In all the Nordic countries, Brexit has also stirred debates about their current relationships with the EU, prompting EU critics to demand new privileges or opt-outs. Overall, however, the Nordic governments, supported by a stable majority among their populations, have signalled that they wish to preserve their EU membership or current forms of association models, with the access and benefits these provide. Second, for all the Nordic countries, securing good relations with Britain post-Brexit is a key priority, but they have generally indicated that maintaining good relations with the EU must come first. Finally, the Nordic governments are well aware that Brexit could create a vacuum in EU policy-making, perhaps tipping the balance among internal clusters. Britain has been a highly visible member of the ‘Northern’ grouping in the EU, and its absence is likely to be noticed. As the Nordic countries are about to lose what has at times been a powerful ally in EU decision-making, they may have to forge new coalitions to safeguard their interests.

This policy brief examines how the outcome of Britain’s June 2016 referendum, and the government’s subsequent decision to withdraw from the EU, has influenced the political debates in and foreign policy approaches of the five Nordic states.<sup>1</sup>

Three of these – Denmark, Finland and Sweden – are EU members, whereas Iceland and Norway are non-members but part of the internal market through the EEA Agreement. We begin with a brief overview of the Nordic states’ approach to European integration and their relations with Britain historically, before turning to how Brexit has influenced these states’ internal debates about Europe and the EU since the referendum. Next, we discuss what changes may be expected in their approaches to EU policy-making post-Brexit, and the kinds of bilateral relationships the five have signalled that they will seek with Britain. We conclude with some reflections on how Brexit might influence dynamics among ‘the Nordic Five’ in the context of the EU.

## The Nordics, Britain and the history of European integration

In the first decades after the Second World War, there were close and often explicit linkages between Britain’s and the Nordic states’ approach to the European integration process. Like Britain, the Nordic countries have been described as ‘reluctant integrationists’ or ‘footdraggers’ as regards political integration.<sup>2</sup> Like Britain, the Nordic countries have typically approached European integration pragmatically, emphasizing the importance of tangible benefits rather than sweeping political visions for Europe.<sup>3</sup> And like Britain, none of the Nordics became involved in the initial collaboration efforts that emerged in Europe the 1950s, collectively known as the European Communities (EC). Instead, having fairly similar positions as to how European integration could best be organized, Britain, Denmark, Norway and Sweden co-founded the alternative, more inter-governmentally oriented European Free Trade Association (EFTA) in 1960. Finland became an associate member, in 1961, whereas Iceland was not involved in the initial EFTA negotiations – due mainly to fisheries disputes with Britain during this period.

Iceland joined EFTA in 1970, but the Nordic unity in EFTA did not last long. Already in 1961, Denmark and Norway had tagged along when Britain made a U-turn and applied for EC membership. In both Denmark and Norway, political and cultural ties to Britain were explicitly stated

as reasons for applying for membership. Also Iceland explored the EC possibility, but in the end, the government decided to let the matter rest due to its underdeveloped economy. For Finland and Sweden, EC membership was not a viable option at the time, as it was widely seen as being incompatible with their policies of non-alignment. Finland's participation in West European economic integration was also limited because of reservations on the part of the neighbouring Soviet Union.

Britain's entry into the EC was stopped twice by French vetoes, which meant that also the Danish and Norwegian applications were put on hold. When Britain was finally given the green light in the early 1970s, new debates about membership followed in both Denmark and Norway. In 1973, following a referendum, Denmark followed Britain into the EEC. Norway, however, remained outside after an advisory referendum in which a narrow majority of voters (53.5%) advised against membership.

With the exception of Denmark, EFTA remained the Nordic institutional home for two more decades. However, as the 1980s proceeded and the Cold War was drawing to an end, the remaining EFTA states,<sup>4</sup> with Sweden in the lead, began seriously reconsidering membership in the internal market. Deliberations between the EC and EFTA states resulted in the Agreement on the European Economic Area (EEA), signed in 1994. The Agreement extended the single market to include also the EFTA states,<sup>5</sup> and they in turn committed to 'the four freedoms' – unrestricted movement of goods, capital, services, and labour. However, at this point, the Swedish government had already signalled its intent to leave EFTA and become a full EU member. Strongly influenced by the Swedish decision, Finland and Norway also applied for membership. In 1995, both Finland and Sweden joined the EU, while Norway once again remained outside, following a second referendum. Iceland applied for EU membership for the first time in 2009, following the fiscal crisis. However, the negotiations were never completed, and have now been put on ice indefinitely.<sup>6</sup>

### **Opting out, opting in: European integration the Nordic way**

While the most common combination among European states is to be a member of both the EU and NATO,<sup>7</sup> only Denmark among the Nordic countries has chosen this model. The rest are either EU members (Sweden, Finland) or NATO members (Norway, Iceland).

Within the Nordic cluster, Finland has gone the farthest in terms of political integration: it is part of the Eurozone and has adopted the Euro as its currency (since 1999). Sweden has formally committed to doing the same, but has remained outside; in 2003, a majority of voters were opposed to Sweden's entering the Eurozone. Denmark is the oldest Nordic EU member. Geographically, it is also the only 'continental' Nordic state, and the one positioned closest to Brussels. However, Denmark's opt-outs from the Eurozone, and from matters under justice/home affairs and defence cooperation, have given it a reputation for being a 'footdragger' in Brussels and among more pro-EU countries. For Norway and Iceland, the EEA Agreement remains the chief institutional platform for their relations with the EU. However, unlike Denmark, they have often sought to opt *in* to other parts of European cooperation. For instance, both countries are party to the Schengen Agreement, and they tend to align themselves with the EU's Common Foreign and Security Policy.

### **Nordic reactions to the Brexit vote**

Historically, when Britain has changed or attempted to change the nature of its relationship with the EC or the EU, this has often also triggered debates in the Nordic countries about their membership or association models. This was also the case when it became clear that a small majority of British voters had voted in favour of 'Leave' in the 2016 British referendum. In both the run-up to and aftermath of the referendum, Brexit received considerable public attention in the Nordic countries – also in parliamentary debates, in media coverage and in academic analyses. Initially, much of the focus was on making sense of British decision, before shifting to possible scenarios and the implications for Britain, the EU and – increasingly – for the individual Nordic states themselves.

Apart from Iceland, whose government has observed that Brexit could represent an opportunity for Iceland and other non-EU North Atlantic states and entities (in terms of following the British lead and establishing free trade agreements with states around the world), the Nordic countries signalled that the result of the British referendum was not only unexpected, but also regrettable. While stressing that they respected the will of the British people, the general message from the Nordic capitals was that they would have preferred Britain to remain in the EU, and that they feared Brexit would have negative consequences not only for Britain, but for European integration as well. In the Nordic media, the British referendum has been widely portrayed as a turning point, an hour of destiny for European integration.

In all the Nordic states, Brexit has triggered renewed debate about their current relationships with the EU. EU sceptics and critics have used the British decision to breathe new life into debates about national arrangements – what Fägersten has termed an EU debate 'by proxy'.<sup>8</sup> In Denmark, Finland and Sweden, the debate has been about continued membership in a changing EU and, in the case of Denmark, current opt-outs possibilities. In Norway and Iceland, the spotlight has been on the pros and cons of the EEA Agreement. In Iceland, a group of parliamentarians has recently requested the Foreign Ministry prepare a report on the advantages and disadvantages of the Agreement. This move can be linked to more negative rhetoric on the EEA Agreement more generally. In all the Nordic countries, governments have generally wished to preserve their current formal relationships with the EU, with the access, benefits and opt-outs now in place. No one wishes to 'rock the boat'. These default positions have support in the Nordic populations – current relationships with the EU enjoy wide backing. In the EU member states Denmark, Finland and Sweden, polls show growing popular support for continued membership.<sup>9</sup> Conversely, in the non-member states Norway and Iceland, opposition to membership is increasing.<sup>10</sup>

Since the Brexit negotiations began, Denmark, Finland and Sweden have all remained loyal to the EU position, their governments taking care not to communicate deviating views concerning Britain's exit deal. As EEA members, Iceland and Norway have been consulted under way, but they have no formal voice in the process. However, they too have remained loyal to the EU policy of not entering into bilateral talks with Britain about future deals, until the withdrawal terms, transition period and future association model have been agreed upon.

### EU minus Britain: What implications for the Nordics?

When Britain leaves EU membership behind, and joins the group of EU outsiders in Europe, this will have implications for the remaining members, for other third countries, and for the dynamics between these two groups. Starting with the EU's internal dynamics, Britain's exit seems likely to alter the balance of power among the remaining 27 member states. Since Britain joined the EC in 1973, the Nordic states – members and non-members – have often identified with British positions within the EC/EU, seeing Britain as an important and 'likeminded' voice on many matters of European integration.<sup>11</sup> Also in non-member Norway, governments since the Brexit vote have emphasized how Britain inside the EU has given voice to viewpoints harmonizing with those of Norway.<sup>12</sup> Britain and the three Nordic NATO members Denmark, Iceland and Norway have had similar 'anti-federalist' leanings, coupled with a preference for Atlanticism and a continued strong US presence in European security. Britain and the Nordic countries also share a general preference for liberal trade policies. Further, Britain and the Nordics share an identity as pragmatic Europeans, effective in implementing EU directives once these have been agreed on.<sup>13</sup>

When Britain leaves the EU, the cluster of Northern European states known for often voting together are set to 'lose about 12 percent of their voting power'.<sup>14</sup> Brexit could therefore trigger new coalition and voting patterns within the EU. Concerning the EU agenda, as Britain's departure date draws closer, the Nordic EU members as well as Norway have increasingly shifted their attention towards other like-minded EU members. Germany has been an important interlocutor for some time, and a further strengthening of this relationship now seems underway. In March 2018, the finance ministers of eight northern EU member states published a joint paper on euro-area reform. The paper reflected their known opposition to proposals calling for a deeper fiscal union, underlining instead market discipline and national responsibility. The inclusion of non-euro members such as Denmark and Sweden in this joint paper indicates that the interests of the non-euro members count in the North. This move might also speak to a more general concern related to the relative power of the middle-sized and small northern members in a post-Brexit EU.<sup>15</sup>

The 'Norway model' has been a key reference point in the Brexit debate since David Cameron held his Bloomberg speech back in 2013, when he took the first step towards realizing the plans for a British in/out referendum. While the governments of both Cameron and May have consistently ruled out the Norwegian model – i.e. joining the EEA from the EFTA side – British officials, journalists and scholars have taken considerable interest in Norway's experiences as a non-member. While evidently flattered by the interest, members of the Norwegian government have expressed some concern at this possible outcome, not least since a British return to EFTA would radically alter the internal dynamics among today's EFTA states.<sup>16</sup> By contrast, two consecutive Icelandic foreign ministers have welcomed Britain back into EFTA. The current foreign minister has welcomed the idea of Britain becoming a champion of free trade post-Brexit. In the foreign ministries of both Iceland and Norway, cross-departmental Brexit teams have been established, to identify the potential legal, economic and political implications for non-member states.

The British exit and transition deal, and Britain's entry into the outsider group, may serve to tilt the European integration process towards greater differentiation, for instance by opening further possibilities for opting in or out of specific areas of cooperation. In turn, the distinction between outsiders and insiders could become blurrier than it is today. However, also the converse is possible: that the distinctions between insiders and outsiders become further sharpened, forcing countries like the Nordics to choose whether they want to be on board fully (e.g. on the euro, on defence cooperation) or to position themselves in the outer tier of a multi-speed Europe.

### Britain minus the EU: What implications for the Nordics?

All the Nordic states have enjoyed close historical ties with Britain; however, Britain has played different roles in their foreign policies. For Denmark and Norway, relations with Britain have been particularly important in the field of security and defence and in NATO,<sup>17</sup> and that seems likely to continue after Brexit. However, Denmark will lose its most important 'intergovernmentalist' ally in the EU and one of its closest trading partners. For Sweden and Finland, Britain has been particularly important as a trading partner and, on the bilateral level, as a security partner. All these countries thus have expressed strong interest in maintaining good bilateral relations with Britain post-Brexit, although they have also signalled that relations with the EU will have priority, should a conflict arise between the two concerns.

Iceland, which is also heavily reliant on exports to Britain, is probably the Nordic state with the most conflicting relationship with Britain: it has been described as 'close, but full of challenges'. The cod wars from the late 1950s to the 1970s are an obvious case in point, likewise the diplomatic crisis (the Icesave dispute) that followed the bank collapse in 2008, when British citizens lost their savings in Icelandic banks and the Brown government made use of terrorism laws to freeze assets. Nevertheless, these challenges have not hindered the Icelandic government in seeking to establish closer ties with Britain after the Brexit referendum.

### Concluding remarks

The British government's decision to withdraw from the EU, after 45 years as a member state, marks a watershed in the history of European integration. Along with increased uncertainty about US foreign policy, Brexit strikes at the very foundations of trans-Atlantic security and economic relations, of which the United States and Britain have traditionally been the key guardians. While the outcome of the Brexit negotiations and their states. For the Nordic countries, which have long considered themselves Northern European allies of Britain, Brexit could change the way they operate within or in relation to the EU. One possible result could be a further increase in informal Northern European cooperation initiatives, outside the EU and with Britain on the team. Or Britain might shift to playing a more peripheral role in the foreign policy of the Nordic states, and the Northern dimension in the EU could either be watered out or change its form – perhaps with Germany featuring as a more visible lodestar for the Nordics.



## Notes:

1. This policy brief has been produced with financial support from the Nordic Council of Ministers (project number 17027) and the Konrad-Adenauer-Stiftung Nordic Countries project. The analysis draws on findings in an article collection on Brexit and the Nordic states in *Internasjonal Politikk*, 75 (2), 2017. For an introduction to the forum, see Haugevik, K. & U. Sverdrup (2017), 'Norden og Storbritannia – et nytt avsnitt', *Internasjonal Politikk*, 75 (2).
2. See e.g. Grøn, C.H., P. Nedergaard & A. Wivel (eds) (2015), *The Nordic Countries and the European Union: Still the Other European Community?* London: Routledge.
3. Grøn, C. & A. Wivel (2018), 'Scandinavia and the European Union: pragmatic functionalism reconsidered', in Nedergaard, P. & A. Wivel (eds), *The Routledge Handbook of Scandinavian Politics*. London: Routledge.
4. Austria, Finland, Iceland, Norway, Switzerland and Sweden.
5. Minus Switzerland.
6. Thorhallsson, B. & P. Gunnarsson (2017), 'Island og Brexit: "Icexit" fra søknaden om EU-medlemskap?' *Internasjonal Politikk*, 75 (2).
7. As of 2018, NATO and the EU share 22 member states.
8. Fägersten, B. (2017), 'Sverige, EU och Brexit – effekter, vändor och vägval', *Internasjonal Politikk*, 75 (2).
9. See, for instance, the European Parliament's 'Parlemeter' surveys from 2015 and 2017. The share of Danes, Finns and Swedes who responded that EU membership is 'a good thing' increased from 2015 to 2017. Denmark: 65% in 2015, 67% in 2017; Finland, 56% in 2015, 58% in 2017; Sweden, 59% in 2015, 65% in 2017. <http://www.europarl.europa.eu/atyourservice/en/20171016PVL00116/Eurobarometer>
10. In January 2018, polls indicated that more than 80% of the Norwegian population was opposed to EU membership. See Aardal, B. (2018), 'Nordmenns syn på EU. Opinionsutvikling juni 1999 – januar 2018', <http://www.aardal.info>. In Iceland, opposition to membership has remained around 60%; see [https://www.mbl.is/frettir/innlent/2017/10/16/mikill\\_meirihluti\\_vill\\_ekki\\_i\\_esb/](https://www.mbl.is/frettir/innlent/2017/10/16/mikill_meirihluti_vill_ekki_i_esb/)
11. There are similarities in how EU opponents and critics in Britain and the Nordic countries have portrayed the EU as 'elite-driven' and out of touch with ordinary people. The fiercest EU criticism in Britain in recent years has come from the right wing of the Conservative Party and, since the early 1990s, the UK Independence Party (UKIP), which holds that the EU is interfering and regulating too much. In the Nordic countries, opposition to European integration has traditionally been located on the left-wing side of the political spectrum, with many expressing concern about too much 'market focus'. However, also right-wing parties in the Nordic countries are now becoming more eurosceptical. For a comparison of Danish and British euroscepticism, see Sørensen, C. (2004), 'Danish and British Popular Euroscepticism Compared', DIIS Working Paper, No. 25.
12. Haugevik, K. (2017), 'Hva betyr brexit for utenforlandet Norge?' *Internasjonal Politikk*, 75 (2).
13. See for instance EFTA Surveillance Authority (2018), 'Internal Market Scoreboard'. No. 41, April.
14. De Gruyter, C. (2018), 'There is life for the EU after Brexit', *Commentary, Carnegie Europe*, 23 March.
15. Jokela, J. (2018), 'Brexit Roundup: Finland Focuses on Its Northern Partners', *Comment, Scottish Centre On European Relations*. <https://www.scer.scot/database/ident-5659>
16. See e.g. *The Guardian* (2016), 'Norway may block UK return to European Free Trade Association', 9 August.
17. See Haugevik, K. (2015), 'Ledestjernen som forsvant: Storbritannia i norsk utenrikspolitikk', *Nytt Norsk Tidsskrift*, 32 (4).

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