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## **Iceland and the EU: fish and banks**

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*The story of Iceland's entry into the European Union proved to be brief, and, to a significant degree, the result could have been predicted: six years after submitting its application, Iceland withdrew it and halted its negotiations on joining the EU.*

Unlike the majority of European countries, Iceland has never been keen to join the European Union. However, after the financial crisis, which came from the United States at the beginning of 2009, Iceland's banking system ended up on the brink of a crash, which led to a change of government. In the initial stage of the crisis the country suffered far worse than the Eurozone states, therefore it activated talks on the possibility of joining the EU, which was regarded as a guarantee of the future financial stability. The left-wing government that came to power, headed by Prime Minister J. Sigurdardottir, called for Iceland to join the European Union. In the middle of July 2009 the Icelandic parliament voted with a small majority to apply to join the EU and authorized the country's government to begin the accession procedure. At the end of July 2009 Iceland submitted its official application to join the EU.

For the European Union Iceland is one of most desirable and, at first glance, most trouble-free candidates: a country with a very high standard of living, the oldest democracy in Europe, closely linked with other Nordic countries, part of the European Economic Area (EEA) and the Schengen Area. As a member of these projects, Iceland has already incorporated two-thirds of the EU's statutory provisions into its national law<sup>1</sup>. In addition, this country is one of the world's leaders in use of hydro-power and geo-thermal resources, and therefore its

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<sup>1</sup> Tindale S. The Commission should stand firm on Iceland's accession negotiations. CER, London. 08 August 2012. <http://www.cer.org.uk/insights/commission-should-stand-firm-icelands-accession-negotiations#sthash.xYMKpNpD.dpuf>

experience is of considerable interest to the EU in terms of implementation of the 20-20-20 program or the climate and energy package<sup>2</sup>.

Despite Iceland's long membership of the EEA and the Schengen Area, the differences in interests have not disappeared. The first stumbling block was the fisheries quotas specified by the European Commission. Protection of the sea's biological diversity comes within the exclusive competence of the EU, and national governments have no authority here. But, the fishing industry is one of the main sectors of Iceland's economy, generating about 40% of export incomes and 8% of jobs<sup>3</sup>, therefore it is not in the country's interests to bring in restrictions in this area. This issue has also been discussed in the EU. According to Olli Rehn, former member of the European Commission responsible for enlargement, "issues such as fisheries and agriculture are very sensitive for Iceland and for the European Union. Iceland meets more than half the criteria required by the EU of a candidate country. Nevertheless, the negotiations could prove to be fairly complicated"<sup>4</sup>. The disagreements over fish catch quotas between the EU and Iceland also spilled over into the so-called "mackerel wars", when the Commission accused Iceland of catching too much mackerel in the North Sea and not taking into account the possibility of replacing it and the interests of the EU countries that are also engaged in this fishing. Iceland stated that it had a lot of practical experience of fishing and maintaining the necessary natural balance. There are also disagreements over the question of access for EU member-states' ships to fish in Iceland's territorial waters.

Secondly, Iceland, along with some other countries, has not joined the ban on whaling, citing its existing national traditions. The European Union is taking a very strict position on this matter and consequently criticizes all countries, including Iceland, which hunt whales.

Thirdly, there is an unresolved issue of paying compensation to foreign depositors in Icelandic banks. When Landsbanki collapsed, it were not only citizens of Iceland that suffered, but also foreigners who had willingly deposited money in profitable Icelandic assets. The United Kingdom and the Netherlands, which had suffered the most, came to the defense of their subjects by compensating their losses, but threatened to veto Iceland's EU entry unless the country reimbursed their costs. The Social Democrat-led Icelandic government twice took a decision on the payments being demanded, and each time the Icelanders walked out in the streets protesting against using Iceland's national budget funds to compensate foreign

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<sup>2</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - Limiting global climate change to 2 degrees Celsius - The way ahead for 2020 and beyond. COM/2007/0002 final. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0002:EN:NOT>

<sup>3</sup> Tindale S. The Commission should stand firm on Iceland's accession negotiations. CER, London. 08 August 2012. <http://www.cer.org.uk/insights/commission-should-stand-firm-icelands-accession-negotiations#sthash.xYMKpNpD.dpuf>

<sup>4</sup> Euronews 17.07.2009. <http://ru.euronews.net/2009/07/17/iceland-parliament-votes-to-join-eu/>

depositors. The country's President refused twice, under the pressure of public opinion, to sign the relevant law. The International Court later found in favor of Iceland.

In general, it appears that Iceland was not interested in seeking a compromise with the EU on those issues; on the contrary, it was clearly defending its own national interests. In April 2013 the government of Iceland broke off talks with the EU, arguing that this was in preparation for the national elections. By that time, the negotiations had opened on 27 of the 53 chapters requiring agreement, and those on 11 chapters had already been successfully concluded<sup>5</sup>. On the most difficult issues, however, including those concerning agriculture and fisheries, and the free movement of capital, discussions had not even begun.

On the other hand, over the last four years Iceland's economy has gradually overcome the consequences of the crisis. In the peak year of 2009 the country's GDP fell by 6.6%, inflation reached 16.3%, unemployment rate was close to 10%, and the Icelandic krona was devalued by almost 50%. In such situation, joining the still stable Euro zone seemed an attractive option for solving the problems. After taking some unconventional steps to get out of the crisis and receiving help from the IMF and countries in the Northern Europe, the country's economy began to get straight quite quickly. In 2011-2014 Iceland saw stable economic growth, at the rate of 2.7% in 2011 and 1.9% in 2014. Inflation was cut by almost two-thirds, to 6% in 2012. The country also managed to achieve a substantial reduction in unemployment: in the last two years it has stood at the 5.5% mark, which is significantly lower than in the majority of EU countries. Forecasts for Iceland for the next few years by the statistical agency Eurostat are quite positive. Although per capita GDP (PPP) declined in absolute terms during the crisis, in relation to the EU average it stands at 130%, the same as in 2002<sup>6</sup>. Iceland's economic success looks especially impressive against the backdrop of the severe crisis in the Euro zone, joining which was one of the country's goals when it applied to join. Not only has the economic situation changed in Iceland and the Euro zone, there's also been a change of mood in Icelandic society. According to Eurobarometer, in 2013 24% of the country's population thought EU membership for Iceland was a good idea, and 42% considered it as a bad idea<sup>7</sup>.

The elections, held in Iceland in April 2013, led to the creation of a Center-Right government that rapidly stated it was freezing negotiations on entering the EU. This decision reflected the existing difficulties between Iceland and the EU, as well as the apprehension connected with the internal transformation of the EU. As the country's new Prime Minister Sigmundur Gunnlaugsson said, "there has been a very big change in the situation since Iceland sought

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<sup>5</sup> European Commission. Enlargement.

[http://ec.europa.eu/enlargement/pdf/enlargement\\_process/accesion\\_process/how\\_does\\_a\\_country\\_join\\_the\\_eu/20121026\\_overview\\_negotiations\\_is\\_en.pdf](http://ec.europa.eu/enlargement/pdf/enlargement_process/accesion_process/how_does_a_country_join_the_eu/20121026_overview_negotiations_is_en.pdf)

<sup>6</sup> Eurostat [http://ec.europa.eu/eurostat/statistics-explained/index.php/National\\_accounts\\_and\\_GDP](http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP)

<sup>7</sup>Standard Eurobarometer 79, p.68.

[http://ec.europa.eu/public\\_opinion/archives/eb/eb79/eb79\\_publ\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb79/eb79_publ_en.pdf)

membership”<sup>8</sup>. The Center-Right politicians decided first to carry out an overall assessment of the situation in the EU and then to think about continuing the negotiations. The EU transformation processes are indeed proceeding quite actively at the moment. Countries that want to join the EU cannot be sure that tomorrow they will be joining the same union that it was yesterday, when they were negotiating. Candidate states are obliged to fulfil the requirements of the EU if they are interested in becoming full members of it.

Meanwhile, Eurobarometer recorded a certain improvement in the position of Iceland’s citizens in relation to the EU. A poll, conducted in spring 2014, showed that 36% of the country’s population thought EU membership for Iceland was a good idea, and 29% thought it was a bad idea<sup>9</sup>. Such a result, however, was clearly not enough to resume negotiations, especially in the context of a positive outcome to a referendum on joining the EU, the results of which would probably be negative.

In view of the above, the Icelandic government announcement, withdrawing its application to join the EU on March 12, 2015, was not unexpected. The government’s decision is all the more understandable if one takes into account that Iceland’s Progressive Party, which heads the government, relies primarily on farmers and fisheries workers, who have negative attitude to the introduction of EU rules on the operation of these industries. At the same time, Iceland is insisting on maintaining close relationship with the EU within the framework of the EEA and the Schengen Area, which ensure duty-free imports of Icelandic goods into the EU countries, including fisheries produce, and the free movement of tourists and workers to the island.

It is obvious that in Iceland’s case the EU’s integration project is not particularly attractive. This can be explained by the country’s low level of interest in seeking a compromise on disputed issues, and by the final decision to withdraw its application for membership. For the EU, Iceland’s decision is quite a painful blow. It is necessary to understand, however, that the Icelandic case is an exclusive one for the countries of Europe, in which specific economic, social and political interests have coincided. The process of European integration envisages the possibility of flexible approaches to involvement in integration processes. Countries that share with the EU an interest in cooperation but have interests that are not very compatible with the practice of the EU, may still find a mutually acceptable format of cooperation.

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<sup>8</sup> Euronews 23.05.2013. <http://ru.euronews.com/2013/05/23/iceland-s-government-promises-eu-referendum/>

<sup>9</sup> Standard Eurobarometer 81, p.83

[http://ec.europa.eu/public\\_opinion/archives/eb/eb81/eb81\\_publ\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb81/eb81_publ_en.pdf)