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**Research Report**

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## Iceland on Course for the EU

### Accession as a Last Resort

*Carsten Schymik*

The course is set for Europe. Iceland is likely to apply for full membership of the European Union following the victory of the Social Democratic Alliance led by prime minister Jóhanna Sigurðardóttir in the general elections of 25th April. However, it seems unlikely that Iceland will eventually accept the terms of membership. Three factors militate against Icelandic EU membership: time, fish and the euroscepticism of the political elite. Germany is nevertheless well advised to welcome Iceland's move towards the EU and to be as accommodating as possible in the course of the accession process.

Iceland's early elections were held under the impression of the acute financial and economic crisis and resulted, as expected, in a political earthquake. For the first time since the country's independence in 1944 a majority of Icelanders voted for left-wing parties. For the first time ever, the social democrats became the biggest party with 29.8 per cent of the vote. Together with the left-green party (21.7 per cent), they command an absolute majority of 34 of 63 seats in the Althing (parliament). The first red-green coalition, formed as a caretaker government in January, won a mandate for a full legislative term until 2013.

The election outcome signals a clear wish for membership negotiations with the EU, as the winning social democrats are the only party with an open mind towards the EU, a position which they held even prior to the financial crisis, and which con-

ducted a pro-EU campaign. However, the elections do not indicate a paradigmatic shift in favour of the EU. Opinion polls suggest that Icelanders wish first to know the terms of full membership. It is, however, doubtful whether they will accept them once they are clear. Three factors will be crucial in this context: time, fish, and euroscepticism.

### Fast track accession unlikely

Prime minister Sigurðardóttir seeks to take Iceland into the EU as fast as possible. During the election campaign she promised that her government would submit a membership application by July so that Iceland could become a full member of the EU and of the euro zone within four years. This plan is feasible in theory, but hardly realistic.

A rapid accession process could be facilitated by the fact that there is actually little to negotiate. Iceland, like Norway, is already integrated in the European Economic Area (EEA) and in the Schengen cooperation and has thus incorporated significant parts of EU law. Sweden, which will take over the EU presidency on 1st July, is a Nordic partner country which could help to speed up the placing of an Icelandic application on the agenda of Commission and Council. Membership negotiations could therefore start during the Spanish EU presidency in the first half of 2010. Negotiations with Norway in the early 1990s were concluded within twelve months, despite delays arising from disagreement over fisheries. Norway's entire accession process would have been completed within two years. An Icelandic application submitted in 2009 could therefore lead to accession in 2011 even without a special fast track procedure, an option discussed following remarks by the enlargement commissioner, Olli Rehn, earlier this year.

So much for theory. In practice, however, Sigurðardóttir's agenda is fraught with uncertainties. Although it is now clear that it will not be necessary to hold a referendum prior to membership negotiations, EU membership will nevertheless require an amendment to the Icelandic constitution. This requires the approval of the sitting parliament and, following an election, confirmation by the new parliament. The Sigurðardóttir government put such an amendment to parliament shortly before the election, but failed to get it through. Disagreement about how to bring about the necessary constitutional change may seriously delay Iceland's accession, if not bring the process to a complete halt.

From the EU point of view, Iceland's wish for fast track accession is badly timed. Currently the EU is negotiating with Croatia and Turkey, while membership applications have also been submitted by Macedonia, Montenegro and, more recently, by Albania. Since every applicant

country is treated equally, Iceland cannot expect to receive preferential treatment. Interested member states are increasingly using their possibilities to influence or block the negotiation process, as the recent border dispute between Slovenia and Croatia has shown. As for Iceland there is a certain potential for conflict, too. One recalls the 'cod war' with the UK. In addition, the EU may well be preoccupied with the Lisbon reform treaty, the fate of which will probably be decided in the second Irish referendum in autumn. Until then it is unclear how a Commission capable of acting will be formed after the elections to the European Parliament. In the event of Ireland rejecting Lisbon again, some member countries would, as they have already warned, block any further enlargement of the Union.

Iceland's ambition to introduce the euro by 2014 seems even less realistic. Theoretically, the plan is feasible provided that the krona joins the European Exchange Rate Mechanism immediately after Iceland acceded in 2011. However, Iceland will also need to fulfill all convergence and stability criteria, which will not be easy to achieve. The current inflation rate is 15.2 per cent, and the policy interest rate 17 per cent (as of March). The budget deficit is expected to increase to 10 per cent of gross domestic product in 2009, and the total state debt to 100 per cent. Even if Iceland succeeds in meeting the euro requirements within the next two or three years, the chances of accession will not improve. On the contrary, the sooner Iceland is able to overcome its financial crisis, the sooner the focus will shift towards the two other factors mitigating against membership: fish and euroscepticism.

### **Fish or the euro?**

Iceland's movement towards the EU was triggered by a financial crisis and is motivated primarily by economic considerations. The Icelandic nation conceives of itself as the cradle of Nordic culture, and

as such a part of Europe. And yet the ideal of a united Europe has no deep roots in Icelandic society. Icelanders want a currency union, not political union. It is commonly believed that the krona will never recover from the collapse of the banking system and should therefore be replaced by the dollar, the Norwegian krone or, the most popular option, the euro. This preference is evident from the fact that, even before the financial crisis, Icelandic discourse on the EU had focussed on the question whether Iceland could join the euro zone without becoming a full EU member. This would be the perfect solution in the eyes of many Icelanders.

The EU has repeatedly made clear that it does not find a unilateral introduction of the euro by Iceland desirable. 'How much fish does the euro cost?' – The title of a recent article in 'Analys Norden' captures the essence of the Icelandic position. Membership negotiations will boil down to the question what is more important: a safe currency haven or secure fishing grounds – the euro or fish? For Brussels the answer seems obvious. Yet for Iceland fish is more than just a commodity; it is the basis of over thousand years of Icelandic civilisation and an integral element of national culture and identity. Hence for Icelanders, the choice between the euro and fish is more than an economic trade-off: it is a choice between values.

Fish is also the backbone of Iceland's economy. Only in the last two decades have there been attempts at diversification. First came the exploitation of Iceland's natural resources: water and geothermal power, which were used to produce aluminium at competitive rates. This strategy has been successful. Aluminium has since become the country's most important export. Second came the attempt to turn Iceland into a global financial centre, which ended in spectacular failure. This failure has led Icelanders to reassess the importance of their natural resources, fish and energy, and has reinforced their reluctance to surrender control over them.

Fisheries will definitely be the most difficult chapter in membership negotiations with Iceland. As the example of Norway has demonstrated, bartering about fishing quotas and fleet capacities can lead to compromise. However, there is little scope for agreement on the most crucial issue, control over the national fishing grounds. The EU will insist, as with Norway, that national waters be made accessible to all Union members. And like Norway, Iceland will have to accept this. There, however, the threat of a loss of sovereignty over fisheries was one of the main reasons why the referenda of 1972 and 1994 failed. In Iceland, not a single political party, not even the social democrats, has indicated any readiness to give up national control over fishing grounds. EU membership will cost far more fish than Iceland is willing to pay.

### **Eurosceptical political elite**

With regard to the EU issue, it is not quite clear where the majority in the new Althing lies. On the one hand, there appears to be a two-thirds majority across party lines in favour of membership negotiations. On the other hand, there seems to be an almost equally large majority against full membership. Parliamentary opinion on this issue reflects that of the population at large. According to recent surveys, over 60 per cent support a membership application, while full membership is rejected by an absolute majority. This does not augur well for a successful referendum.

The experience of the other Nordic countries – Norway, Denmark, Sweden, Finland – suggests that public debate intensifies as the consequences of EU membership become clearer in the course of negotiations, and this invariably happens at the expense of the pro-European camp. To reverse this trend, the country's political elite would have to commit itself with 'might, media, and millions', as a Norwegian EU opponent once put it. This is

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precisely the problem in Iceland. In previous accession referenda in Nordic countries the yes side usually consisted of a grand coalition of government and opposition parties, i.e. of social democrats and conservatives. In Iceland, on the other hand, EU membership is opposed, not only by the largest conservative party, the Independence Party, but also by the left-green party, the social democratic coalition partner in government. This would not be the first time that coalitions have disagreed on the question of membership. This was the case in Norway both in the EC accession negotiations of 1972 and in the EEA negotiations of 1990. In neither year did the government of the day survive the negotiation process. Iceland's political elite is more eurosceptical than the elite in any other Nordic country. Moreover, the powerful fisheries association of Iceland has already positioned itself against the EU.

### Germany's role

Iceland is unlikely to have the political will to become a full member of the EU. The EU should nevertheless welcome an Icelandic membership application. Iceland is small, but rich in scarce resources (energy and fish). As an EEA member, the country has already become a *de facto* net contributor to the EU budget. Furthermore, due to its geographical location, Iceland could become a strategic bridgehead into the increasingly important Arctic region. If membership negotiations were to lead to innovative solutions in the agriculture and fisheries sectors, Iceland's accession to the EU could even influence the last Nordic country still outside the Union – Norway.

The German government is well advised actively to support Iceland's move towards the EU. It is once again useful to point to Norway in this respect. In 1972, the Brandt government acted as trustee of Nordic interests in Europe, thus making a breakthrough in the German-Norwegian relationship, which was still burdened by memories of the Second World War. In 1994, the Kohl

government pursued a similar line. Although the accession process failed again, bilateral relations nevertheless continued to improve. Today, despite Norway's special status vis à vis the EU, it has an excellent, strategically important relationship with Germany. It would be well worthwhile developing German-Icelandic relations in the same way, even if this means that the German foreign minister repeats what a predecessor, Klaus Kinkel, once told his Norwegian counterpart, Bjørn Tore Godal: "By now I know every Norwegian fish by their first names and still you say no!"