

Recent history

Iceland was ruled by Norwegian and Danish monarchies until it gained independence from Denmark after the Second World War. The country signed a free trade agreement with the European Economic Community (EEC) in 1972 and has been part of the Schengen Convention since 2000. Iceland is also a member of the European Free Trade Association (EFTA) and the European Economic Area (EEA). This means it has adopted approximately 75% of EU legislation on the internal market.

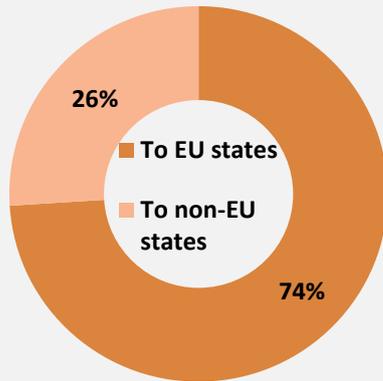
In the second half of the 20th Century, Iceland experienced high economic growth and stable government. However, the country went bankrupt in 2008 during the global financial crisis, due to years of unsustainable growth in its banking system. As a result, the government resigned and a leftist **coalition** government took office in April 2009. After intense debate, Iceland applied for EU membership and it began official accession negotiations in June 2010. Under a 'fast-track' membership process, Iceland could have joined the EU as early as 2013, but instead it decided to drop its EU membership bid in March 2015.

Issues concerning Iceland's EU membership

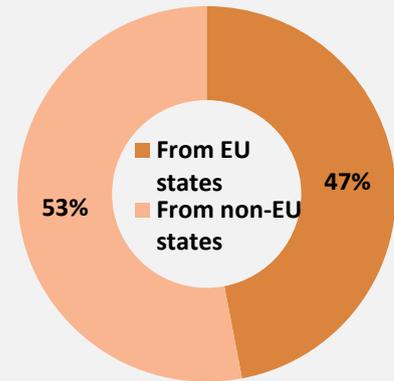
Despite the fact that Iceland's accession to the EU could have gone fast due to its small size, its firm grounding in the North Atlantic Treaty Organisation (NATO), and the fact that it has already adopted a huge amount of EU legislation, the country dropped its EU membership bid. Talks with Brussels had already been suspended in 2013, when the Eurosceptic Progress Party and Independence Party came to power. They argue that Iceland's interests are better served outside of the EU. The decision to no longer work towards EU membership was taken without the approval of a majority in Parliament. Key issues for Iceland's EU membership negotiations included:

- ◆ **National sovereignty:** Iceland has a long history of defending its sovereignty. Iceland's EU accession would have been subject to a referendum in Iceland, which was unlikely to have been supported by the Icelandic people.
- ◆ **'Fast-track' EU membership:** Turkey and the Western Balkan states (e.g. Serbia and Albania) might have opposed 'fast-track' Icelandic EU membership. Turkey has been a candidate for EU membership since 1999 but its accession negotiations have been slow. The EU would not want to frustrate Turkey's membership ambitions, leading it to refuse to cooperate on important issues such as energy supply. For the Western Balkans, the prospect of EU membership has been an important incentive for achieving peace, which the EU would not want to compromise.
- ◆ **Icesave problem:** In the early 21st century, some Icelandic banks (including *Icesave*) created high interest savings accounts in the UK and the Netherlands. When the Icelandic banking system failed during the global financial crisis in 2008, Dutch and UK savers lost €3.8bn (£3.4bn). The British and Dutch governments demanded that the Icelandic government pay back the money owed to savers, but at a referendum in March 2010 (the first in Iceland's history), the country voted against a deal to use public funds to pay back the money. In April 2011, a second referendum was triggered, resulting in a resounding No vote (60% opposed the plan). It would have been unlikely for Iceland to become a member of the EU until the issue was fully resolved.
- ◆ **Eurozone membership:** After the near-collapse of its currency (the Krona) in 2008, Iceland wanted to join the EU's single currency, the Euro. Since 2011, the Icelandic economy has recovered substantially, making it less attractive for the country to join the Eurozone.
- ◆ **EU Common Fisheries Policy:** Fishing is a key industry in Iceland. In the 1950s and 1970s, Iceland and the UK had a fierce dispute over fishing rights (known as the 'Cod Wars'). Since 1983, Icelandic fisheries have been regulated by a system that sets quotas for the amount of fish a vessel is allowed to catch, based on advice from marine scientists. Many in Iceland argue that this system has been more successful than the EU's Common Fisheries Policy (CFP), which is often criticised for resulting in overfishing, inefficiency and low profits. Iceland has had a number of disputes with the EU about its fishing quotas, for example Iceland increased its mackerel catch quota in August 2010 despite warnings that such a move would damage its relations with the EU and slow its accession negotiations. However, the fishing rights issue may have been resolvable; the EU successfully integrated Malta, which faced similar issues, by giving it funds to modernise its fishing fleet and allowing it to maintain a 25-mile Fisheries Management Zone to protect its coastline.

Icelandic exports (2013)



Icelandic imports (2013)



Facts and figures

- ❖ In 2008, Iceland received a \$6 billion (£3.49 billion) economic rescue package led by the International Monetary Fund (IMF)

Iceland: key facts



- ❖ **Capital** Reykjavik
- ❖ **Population** 330,000 (2015)
- ❖ **Official language** Icelandic
- ❖ **Currency** Icelandic krona (ISK)
- ❖ **Schengen Area member** Yes, since 2001

“Iceland will be bullied, in subtle and unpleasant ways, if it applies to join the EU from its present position of weakness. Yet it may never have a better chance of a good deal”

Economist, 2009

“The choice is between surrendering the sovereignty of Iceland in monetary policy by unilaterally adopting the currency of another country or become a member of the EU”

Jóhanna Sigurðardóttir at the SDA party convention, March 2012

Technical Terms

- ❖ **Coalition:** a formal agreement between political parties to share power in government
- ❖ **PPS:** GDP per head is expressed in Purchasing Power Standards (PPS) to eliminate the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries

Links

- ❖ http://ec.europa.eu/enlargement/countries/detailed-country-information/iceland/index_en.htm
- ❖ <http://www.theguardian.com/world/2015/mar/12/iceland-drops-european-union-membership-bid>
- ❖ <https://www.cia.gov/library/publications/the-world-factbook/fields/2145.html>