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# Iceland's Application to Join the EU



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## Introduction

Iceland's application to join the EU was made in July 2009, and following a positive Opinion from the Commission, accession negotiations commenced a year later and made progress in June 2011.

Iceland is the smallest country ever to have applied for EU membership – its population of 320,000 compares with Malta's 400,000 and Luxembourg's 500,000 – and it is also one of the richest, despite its financial crisis. While Iceland's application presents fewer problems than other candidates for EU membership (the Western Balkan countries and Turkey) there are in reality several obstacles along the way, including fisheries, before Iceland's government puts the issue to a referendum – to which a positive outcome cannot be taken for granted.

This paper explains the history of Iceland's application, the progress so far and obstacles remaining to its accession.

## Background

Iceland joined the European Free Trade Area (EFTA) in 1970 but unlike other EFTA members did not go on to join the EU. But it joined the European Economic Area (EEA), the free trade area jointly established by the EU and most remaining EFTA countries, in 1994. Iceland adopted much of the EU's *acquis* after joining the EEA and later joined the Schengen borderless zone. In terms of meeting the tests established by the EU for members, such as democratic institutions, compliance with human rights law and a market economy, Iceland is clearly eligible for membership.

The major problem for Iceland in joining the EU within the country is the application of the Common Fisheries Policy. Fishing is more important to the Icelandic economy than it is to the economy of any other EU Member State. Fisheries products supply almost half the total exports of Iceland and one of its largest industries. Although only four per cent of the total workforce is employed directly in fisheries, there are many more jobs in related sectors. Iceland has faced declining cod stocks in its traditional fishing grounds – this is significant because it is the most valuable of the fish caught by Icelandic vessels. It is currently in dispute with the EU over Iceland's unilateral decision to increase its quota for mackerel.

Those in Iceland opposed to EU membership have argued that the Common Fisheries Policy would mean loss of control of the Icelandic fishing industry, including the potential imposition of less favourable quotas than those allowed by their own government. Even if the quota problem can be addressed satisfactorily, there is the prospect of fishing companies from other EU Member States getting access to Icelandic quotas (a practice known as "quota hopping").

Another complication is that the Common Fisheries Policy is presently under reform within the EU, so in the negotiations with Iceland it is a 'moving target'. However, if the Commission's proposals for reform are adopted, the future fisheries policy would be better suited to Iceland.

There are also objections in Iceland to the EU's ban on whaling under its environmental regulations, which prevent the hunting, capture and holding in captivity of whales and dolphins. Iceland has not complied with the global ban on whaling established by the International Whaling Commission and allows the hunting of whales for 100 days each year.

Agriculture in Iceland faces harsh natural conditions and enjoys a high level of state support. There is a fear among Icelandic farmers that EU membership would lead to a drop in income, and the Icelandic government has promised to safeguard their interests. A satisfactory solution can probably be reached within the framework of the Common Agricultural Policy, on the lines of the agreement on 'Arctic agriculture' negotiated by Finland when it joined the EU.

Other objections to membership within Iceland have included the argument that its economy is not aligned with that of the EU, and that its contribution to the EU budget would be costly since it has a higher income per head than most EU Member States.

### **The Global Financial Crisis & Iceland**

There had been discussion in Iceland before the financial crisis about the country joining the euro as the small size of its currency area had given it a relatively weak currency with high interest rates. But the EU had always been clear that in order to join the euro, Iceland would have to join the EU first.

In September and October 2008 Iceland's three main banks all faced collapse and had to be rescued by the state. The Icelandic króna had declined by 35 per cent from January to September 2008 and inflation was running at 14 per cent. When the banks collapsed their debts exceeded Iceland's GDP many times over.

The situation was worsened by the fact that several of the failed banks had operated overseas and taken in substantial deposits which the Icelandic Government said it would not cover under its deposit protection scheme. Landsbanki was one of these institutions, operating under its Icesave brand; the British, Dutch and Isle of Man governments all stepped in to rescue their retail depositors, who would otherwise have lost their money. The UK Government's decision to freeze the assets of Landsbanki in the UK using anti-terrorism legislation angered the Icelandic Government. It followed action by other authorities to freeze the assets or takeover the ownership of Icelandic financial services businesses operating on their territory.

The financial crisis in Iceland, which triggered a major recession, a loss of confidence in the government and its eventual resignation, led to a reappraisal of the question of EU membership. In addition, the Prime Minister at the time of the crisis, Geir Haarde, was a strong opponent of EU membership and his fall from power discredited opponents of EU membership. If Iceland joined the EU, it was argued by supporters, that this would offer the country a "safe haven" to cope with its economic problems.

Two of the major political parties in Iceland made joining the EU part of their platform in the 2009 parliamentary elections; in July 2009 the Icelandic parliament voted by a narrow majority in favour of submitting an application.

### **The Accession Process**

As Iceland already largely meets the tests the EU applies to prospective members, it has had little difficulty in proceeding rapidly from application to accession negotiations. In June 2011 four out of the 35 chapters were opened and two of them were closed; the European Commission says that Iceland already largely applies the *acquis* in seven further areas. The main areas of difficulty, as indicated above, are expected to be fisheries, whaling and agriculture. Other problems may arise over the free movement of capital, taxation, economic and monetary policy and statistical record keeping, as well as the outstanding issues arising from the financial crisis.

The Dutch and UK Governments have always been clear that Iceland is expected to repay them the €3.9 billion they had spent to recompense Icesave depositors after the collapse of Landsbanki. Although this bilateral problem is outside the accession negotiations, until it is resolved the two governments will not consent to the 'financial services' chapter of the negotiations being opened. Two attempts at getting agreement in Iceland to a refund deal have collapsed after being rejected in referendums. However, it is possible that a ruling by the EFTA Surveillance Authority, which has the matter under legal examination, may lead to a solution acceptable to all the parties. In any case, following the winding-up of Landsbanki, it seems that sufficient funds will be available for Iceland to reimburse all private and institutional creditors.

### **Next Steps**

Further sessions of the accession negotiations will take place in the second half of 2011, at which further chapters will be opened, and it is possible that the negotiations will be completed by the end of 2012, in advance of Iceland's parliamentary elections in spring 2013.

The biggest difficulty may well prove to be Icelandic public opinion. As the issue will have to be decided by a referendum of the Icelandic people, wide political support for membership will be crucial. Having supported membership in the 2009 elections, the Progressive Party, one of the key opposition parties, has now reverted to its former position of being against membership. Opinion polls in Iceland over the last two years have fluctuated considerably; and although a majority is in favour of continuing with the accession negotiations, there has often been a majority against EU membership. Icelandic Ministers argue that public opinion will be decided by what agreement is reached over fishing as it is the most important single issue in the negotiations. Fishing was an important issue in the EU's accession negotiations with Norway, and was one of the reasons why the Norwegian people rejected EU membership: there is a risk that the Icelanders will follow the same path, especially if reform of the Common Fisheries Policy doesn't take Iceland's interests into account.

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## Senior European Experts

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