

Enlargement - Iceland

The Republic of Iceland is an island country in the North Atlantic. The country was ruled by Norwegian and Danish monarchies until it gained independence from Denmark after the Second World War.

Iceland 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 already adopted approximately 75% of EU legislation on the internal market. It is currently an EU candidate state.

Recent History

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 the current Coalition Government took office in April 2009.

In July 2009, after intense debate, Iceland formally applied for EU membership and it began official negotiations with the EU in June 2010. Under a 'fast-track' membership process, Iceland could join the EU as early as 2013.

Government Structure

Iceland is a representative parliamentary democracy. The present Government is a coalition between the Social Democratic Alliance (SDA) and the Left-Green Movement (LGM). The Government is led by the Prime Minister, currently Jóhanna Sigurðardóttir (SDA). Iceland also has a President, currently Ólafur Ragnar Grímsson, who has a mainly ceremonial role.

Issues concerning Icelandic membership

Iceland's accession to the EU could be 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. In addition, before the financial crisis of 2008, its GDP per capita had been similar to the highest levels in the EU. Key issues for Iceland's EU membership negotiations could include:

Iceland is firmly independent and has a long history of defending its sovereignty. Iceland's EU accession would be subject to a referendum in Iceland, and it is unclear whether the Icelandic people support such a move.

'Fast-track' EU membership might be opposed by Turkey and the Western Balkan states (e.g. Serbia and Croatia). Turkey, in particular, has been an official candidate for EU membership since 1999 but its accession negotiations have been slow. The EU will 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.

Ongoing Icelandic bank (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 €3.8 billion (£3.4 billion). 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. A resounding No vote (60% opposed the £3bn repayment plan) means the dispute will be referred to the court of the European trade body. It is unlikely Iceland will become a member of the EU until the issue is 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. To do this, Iceland will need to achieve many years of economic and currency stability. By the time this is achieved there will be less incentive for Iceland 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 be 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.

Facts and Figures

- In 2008, Iceland received a \$6 billion (£3.49 billion) economic rescue package led by the International Monetary Fund (IMF).
- In 2009, unemployment in Iceland rose to nearly 10%, compared to 1.9% in 2008.

Quotes

'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.

Links

http://ec.europa.eu/external_relations/iceland/index_en.htm