



# BULLETIN

No. 40 (116) • March 5, 2010 • © PISM

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## Issue of Iceland's Membership of the European Union

Adam Szymański

*In an opinion issued in February the European Commission recommended commencing accession talks with Iceland. Although Iceland is to a great extent integrated with the EU through its membership of the EEA, a successful outcome will depend on finding a solution to problems arising due to the economic crisis and adoption of EU legislation outside of the areas covered by the EEA. Iceland's membership of the EU, which Poland should support, is possible three years from now at the earliest.*

When it was ruled by the center-right Independence Party, Iceland was not seeking EU membership. This was changed by the economic crisis, which hit Iceland particularly hard, and led to the collapse of the banking system in October 2008. This in turn triggered a fall in the Icelandic crown and severe recession. Due to public protest against the government, which was blamed for bad handling of privatization of banks, parliamentary elections were called early. The Social Democratic Alliance won the elections in April 2009. The new government, which the Social Democratic Alliance formed with the Left Green Movement, applied for EU membership on 16 July 2009, after obtaining parliamentary consent. In the same month the Council of the European Union asked the European Commission (EC) to prepare an avis regarding the application. The opinion issued by the European Commission at the end of February recommended commencing accession negotiations with Iceland. The Council of the European Union must give unanimous consent.

**Factors Conducive to the Efforts to Obtain Membership.** The ruling social democrats are determined in their efforts to gain accession to the EU, as they see this as a way of strengthening Iceland's economy. The leader of the Alliance, Prime Minister Jóhanna Sigurðardóttir, has said that EU membership and entry to the Eurozone (within the next four years) are priorities of the government. The efforts for accession are also helped by the fact that Iceland is a small country, with a population of approximately 320,000 inhabitants. In addition, Iceland's membership could be beneficial for the EU, as the EC mentions in the lengthy report prepared with the opinion. The Commission has said that Iceland's accession would contribute among other things to the EU's status as the world's third producer of fish and to development of the Northern dimension of the EU and the EU's policy with regard to the Arctic. Accession negotiations might be relatively simple: Iceland is a country with a long tradition of democracy and largely integrated with the EU through its involvement in EFTA, and since 1994 in the EEA. This means that it is already integrated into the EU's internal market, has already adopted a large portion of the legislation, and plays a role in EU programs and agencies. It is also active in the Schengen zone and is subject to the Dublin and EURODAC regulations concerning EU asylum policy.

**Issues to be Resolved Prior to Accession.** Iceland's traditionally close relations with the EU are the reason why Iceland waited such a short time for the EC's opinion, but Iceland's accession to the EU can take place no earlier than three years from now. Although in the Commission's view Iceland meets the Copenhagen political criteria, and the Union has the capacity to take in the country, it will be able to meet the economic criteria in the medium term. It will also have to adopt the *acquis* in areas not covered by the EEA.

The accession negotiations will be slowed down by the need to counteract the effects of the economic crisis. In the EC's view, first and foremost Iceland will have to rebuild the financial sector. It has already taken the first steps towards this by conducting an enquiry into the bankruptcy of three of

Iceland's main banks and passing legal regulations increasing the powers of the central financial supervision authority and changing the way the central bank operates. The question of Iceland's refunding of costs incurred by the United Kingdom and Holland in connection with payment to their citizens—individual customers of the internet bank Icesave, a branch of the bankrupt Icelandic Landesbanki—of minimum deposit guarantees could be a major obstacle. The act of law adopted by the Althing at the end of 2009 authorized the state of Iceland to grant guarantees for repayment of a loan that the UK and Holland were to grant to the Icelandic guarantee fund (£ 2.35 billion and € 1.33 billion respectively). It was vetoed however by the president of Iceland in January 2010. This was due to 25% opposition, expressed in the form of a petition. The act ceased to be binding due to the negative result of the referendum held on 6 March 2010 (with a vote of more than 90% against). At the same time the agreements entered into with the United Kingdom and Holland, specifying the conditions for the granting and repayment of the loan, became irrelevant. Up until the moment a new agreement is signed the United Kingdom and Holland can veto the commencement of talks regarding membership or hinder progress in the negotiations by not giving consent to potential opening of the next negotiation chapters. The EC is appealing for resolution of this issue at a bilateral level.

Implementation of the economic program supported by the International Monetary Fund to stabilize the crown, consolidate fiscal policy and restructure the banking sector, and the loan granted under that program (altogether approximately \$ 4.75 billion) are gradually starting to stabilize Iceland's economy. The challenges hindering progress in the negotiations remain how to improve macroeconomic indicators (above all reduction of foreign debt and averting a further increase in unemployment) and meet the IMF requirement of substantial reduction in budget expenditure.

It will be difficult for Iceland to adopt the *acquis* with regard to the fishing industry, which is key for Iceland's economy. In its report the EC concentrates on the need for legislative changes to allow entities from other countries to fish in Icelandic waters without restrictions that arise in connection with the requirement to obtain licenses and to allow foreigners to gain majority stocks in Icelandic fishing firms. Talks on this issue could last a long time due to Icelanders' fears of excessive exploitation of fishing grounds once the EU rules are introduced and strict regulations of a common fisheries policy, which are hard to accept. These fears go beyond the economic sphere due to this issue being linked with national sovereignty.

The EC has also pointed to the need to adapt Iceland's agriculture to the common agricultural policy and to ensure greater independence of the judiciary. Iceland's minister for justice and human rights has too many powers with regard to the appointment of the judges and prosecutors and of appointments to supreme judicial authorities. Under the new EU enlargement strategy, the justice system is one of the areas to which the EU is paying particular attention even at the early pre-accession stage.

Even if membership negotiations are completed successfully there is great uncertainty as to the result of the referendum to ratify the accession treaty. Currently the Icelandic public is almost equally divided with regard to the question of EU integration. It is not clear whether the social democrats will be able to change those proportions, especially as not only the Independence Party but also the Left Green Movement is sceptical about EU accession due to fears of loss of sovereignty. It cannot be ruled out that it will conduct a campaign against EU accession prior to the referendum.

**Conclusions for Poland.** Poland does not have highly developed relations with Iceland—in 2008 trade with Iceland came to just above € 150 million. Iceland's EU membership will not have a significant impact on Poland's fishing industry, whose fishing concentrates mainly on the Baltic Sea. Poland needs to support Iceland's entry into the EU, however, once it fulfils the membership criteria. Iceland's accession will not mean large costs for Poland, but it may enliven the enlargement process. This will demonstrate the continued relevance of the geopolitical argument that Poland often raises regarding the role of the EU in economic and political stabilization of the new members. This is very important in the context of the European aspirations of neighbours to the east.