

Iceland and European Integration

On the edge

Edited by
Baldur Thorhallsson

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Iceland and European Integration

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Baldur Thorhallsson is Associate Professor of Political Science, and Chairman of the Institute of International Affairs and the Centre for Small State Studies, at the University of Iceland.

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Iceland and European Integration

On the edge

Edited by Baldur Thorhallsson

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**To my children, Álfrún Perla and Guðmundur, who never
stop asking critical questions.**

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Foreword

To outside observers, Icelandic relations with the European Union (EU) are something of a conundrum. How can a small state (or perhaps a 'micro-state') like Iceland, that is so reliant upon international trade, buck the trend followed by many others and continue to resist the temptations and attractions of full EU membership? Indeed, Iceland is regarded as somewhat of an icon among EU-sceptics. At the same time as avoiding full membership status, Iceland has tried to find methods of achieving a closer relationship with the Union – most notably through participation in the European Economic Area (EEA).

At the very least, there is much to be gained from a deeper exploration of Icelandic perspectives on European integration precisely because they explain a specific form of 'reluctance' towards the Union. Nevertheless, there have been few comprehensive studies of Icelandic relations with the European Union available in English. This book, edited by Baldur Thorhallsson, seeks to address this notable deficit.

In my view, this book represents a valuable addition to the literature on 'Europe and the Nation-State'. At one level, it examines the Icelandic–EU relationship from numerous directions – providing an historical overview and a survey of the key policy issues affecting the relationship, such as fisheries. The authors also address the nuances of Icelandic domestic debates in terms of nationalism and Euro-scepticism and discuss the challenges for the ruling elite in overcoming these various pressures.

What makes this book also distinct is the discussion of theoretical approaches. In particular, the application of Katzenstein's arguments is of interest. The country's partial engagement in economic aspects of European integration can be accounted for by the existence of greater external economic pressures when compared to those arising from the social or security aspects. Such approaches explaining Iceland also need to 'dig deep' and take account of Icelandic domestic structures to explain its reactions to the EU. Above all, the accommodation of other aspects – the size and characteristics of the national administration and the role and attitudes of particular leaders – may add insights into Icelandic policy towards European integration.

There is merit in this, especially regarding our wider studies of 'Europe and the Nation-State'. As these authors convincingly argue, Iceland can overcome the constraints on a small state by having intelligent and capable leadership. Such studies of national administration and leadership may ascertain how such 'intelligence' is utilized and judge any effectiveness. Thus, this text provides not just a comprehensive analysis of Iceland. It also represents the articulation of a pressing future research agenda for those interested in the study of small states and European integration. Please take heed!

Lee Miles
Deputy Director
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The University of Hull

Preface

This book is the outcome of a detailed analysis of the responses of political leaders and governments in Iceland to European integration since its early days. The period during which it was written, running from 2000 to just after the general election of May 2003, saw increased discussion in Iceland on whether or not to apply for membership of the European Union. When the study began, not a single political party advocated making an application to join the EU. At present, the Social Democratic Alliance advocates making an application, two parties have adopted what can be called a 'wait and see' approach and two oppose membership of the EU, one of them, the conservative Independence Party, being the country's largest.

The analysis is built on my engagement with small-state studies, which began when I started looking at small states and European integration at the University of Essex ten years ago. Small-state studies are a rapidly growing academic field, and I am grateful to all those who have contributed to the analysis of how small states have responded to the European integration process. Small-state studies have brought states that for a long time were neglected in academic circles into the centre of the research stage. Increased academic focus on small states is particularly important for a small state like Iceland: it brings a tiny country on the edge of Europe into the academic arena and may help us to understand responses of other small states to the European project. To encourage studies in this field, a Centre for Small State Studies has been created at the University of Iceland, with participation by a number of academics from elsewhere in Europe and North America (http://www.hi.is/~smallst/centre_enska.htm). I hope that this book, and also the Centre, will contribute to small-state studies by providing a 'new' theoretical approach to understanding the responses of small states to European integration.

Primary sources were extremely valuable for analysing the approaches of politicians and governments to European integration. These sources were found in the National Archives of Iceland, the National and University Library of Iceland, the Central Bank Library and the Iceland Defense Force Public Affairs Office, and material was also made available by government ministries, political parties and interest groups. Naturally,

data from EFTA and the EU was of primary importance. All discussions in the seven rounds of debates in the Althingi were scrutinized. Moreover, nearly all news and articles in the Icelandic press on European integration from 1957 onwards were analysed with a particular focus on the debates identified. Speeches on European integration by leading politicians were also examined. Interviews with civil servants in the government ministries were taken in the period from November 2000 to May 2003, mainly to seek clarification on questions that other resources raised. Information obtained in these interviews is acknowledged by the reference 'interview with officials' in the text and bibliographies of the relevant chapters. Naturally, books and academic literature on Iceland's involvement in European integration were also valuable sources.

I should like to thank the other contributors to this volume for all the time and effort they have put into their chapters. I am particularly grateful to my assistant, Hjalti Thor Vignisson, who worked on the project for two years. Gratitude is also due to all the people who read over individual chapters and made valuable comments: Professor Gunnar Helgi Kristinsson, Professor Ólafur Th. Hardarson, Assistant Professor Valur Ingimundarson, Professor Christine Ingebritsen, former Ambassador Einar Benediktsson and Counsellor Ragnar Gísli Kristjánsson. I wish to thank Jeffrey Cosser, who translated parts of the book and proofread the entire text. Finally, I wish to acknowledge, with gratitude, the enormous support the project received in the form of grants from the research fund of the University of Iceland, the research fund of the Icelandic Centre for Research and the Innovative Fund for Students in Iceland.

Baldur Thorhallsson
Reykjavík, June 2003

Abbreviations

ASÍ	The Icelandic Federation of Labour (<i>Alþýðusamband Íslands</i>)
CFP	Common Fisheries Policy
CFSP	Common Foreign and Security Policy
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECA	Economic Co-operation Administration
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
ESDP	European Security and Defence Policy
EU	European Union
FAO	Food and Agricultural Organization
ICC	Iceland Chamber of Commerce (<i>Verslunarráð Íslands</i>)
IDF	Iceland Defense Force
IFPC	Icelandic Freezing Plants Corporation (<i>SH</i>)
LÍÚ	The Federation of Icelandic Fishing Vessel Owners (<i>Landsamband íslenskra útvegsmanna</i>)
MEP	Member of the European Parliament
MP	Member of Parliament
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Co-operation and Development
OEEC	Organization for European Economic Co-operation
OSCE	Organization for Security and Co-operation in Europe
PSE	Producer Subsidy Equivalent
SDA	Social Democratic Alliance (<i>Samfylkingin</i>)
SDP	Social Democratic Party (<i>Alþýðuflokkurinn</i>)
SÍS	Federation of Icelandic Co-operative Societies (<i>Samband íslenskra samvinnufélaga</i>)
UN	United Nations
UNESCO	UN Educational, Scientific and Cultural Organization
WTO	World Trade Organization

1 Approaching the question

Domestic background and conceptual framework

Baldur Thorhallsson

Introduction

The primary aim of this book is to explore the complex relationship between a small state and European integration. There is a shortage of literature on this topic, and this book seeks to fill this gap by adding ‘new’ variables and broadening others in explaining the approach of a small state to the European integration process.

The book is a case study on Iceland, and seeks to explain why the Icelandic political elite – defined as the members of the Althingi (the national parliament) and the government – has been reluctant to participate in European integration. The primary focus is on the responses of successive governments to developments in the European integration process, and particularly on why they have not sought membership of the European Union (EU). The study covers the period from the early days of European co-operation in the late 1940s to May 2003, just after the general election in Iceland.

The study is based partly on existing theoretical frameworks that seek to explain approaches of small states to European integration. Its aim is to test various hypotheses in order to find out whether or not they help us to understand the approach of governments in Iceland to the European project. It applies Katzenstein’s theoretical framework (1997a, 1997b) on how small states have responded to European integration to the case of Iceland. Katzenstein’s thesis claims that all small states in Europe seek to minimize the economic and political constraints they experience from the international system and European integration by closer participation in European integration. The study also applies Ingebritsen’s sectoral approach to Iceland in order to examine to what extent Iceland’s leading economic sector, the fishing industry, influences its approach to European integration (Ingebritsen 1998). Furthermore, it examines the approach of Archer and Sogner, which indicates that security is an important variable in explaining states’ approach to European integration (Archer *et al.* 1998).¹ Moreover, the study analyses whether Gstöhl’s (2002) national identity variable and Neumann’s (March 2001) national identity and

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political discourse variables must be considered in order to explain Iceland's approach to the European project.

The book provides a new theoretical approach to explain a small state's response to European integration. It argues that 'new' variables, such as the size and characteristics of national administrations and particular features of the political elite, need to be taken into account in explaining Iceland's approach to European integration. It also argues that national identity and political discourse concerning independence and sovereignty need to be examined carefully in order to understand Iceland's approach to Europe. Small states have some important common characteristics that influence their international behaviour (Katzenstein 1984, 1985, 1997a, 1997b; Archer *et al.* 2002; Thorhallsson 2000), but the special features of each and every state need to be examined in order to explain fully their international approach. The distinctive characteristics of Iceland, as compared to the other Nordic states, will be used to explain the more cautious approach of Icelandic governments to European integration. The case of Iceland is of particular importance, as Iceland is in a special position among the Nordic states, being the only one that has never applied for membership of the EU. An explanation is thus called for.

EU affairs are far from having dominated politics in Iceland. However, developments on the Continent have on a number of occasions forced governments to decide whether or not to take a step towards closer integration. European integration has had a profound influence on the openness of the economy and governments' choices concerning external affairs. Debates on participation in the different aspects of European integration have differed widely. On occasion they have taken place within the closed circle of politicians and interest-group leaders, while at other times they have taken the form of a broad public debate, all depending on the interests at stake at any given time and the political circumstances in the country. The outcomes of the debates have also varied from rejection to acceptance of participation in European integration.

Seven rounds of debates

There have been seven rounds of debates in Iceland on participation in European integration. The first of these took place when Icelandic officials were actively involved in discussions within the Organization for European Economic Co-operation (OECE) on the establishment of a free trade area in Western Europe in 1957–59. However, various domestic factors, mainly connected with the policy of restrictive controls that was then dominant and had been in place for some time, were seen as preventing Iceland from participating in the free trade area. In the event, nothing came of the proposed free trade area, though it can be argued that these moves led to the foundation by some states of the European Free Trade Association (EFTA) following the discussions. Due to a serious dispute

with Britain over fishing rights, Iceland was not invited to participate in the foundation of EFTA.

The second round of the European debate in Iceland took place in 1961–63, when politicians and business leaders gave a considerable amount of attention to the question of whether or not to apply for membership of the European Economic Community (EEC). At this time, nearly all sectoral interest groups pressed for membership of the community, and the government gave serious consideration to the question. Following thorough consultation with government officials in the EEC countries, the government came to the conclusion that it was not appropriate to apply for membership at the time, since completely different circumstances were seen as prevailing in Iceland from those in its neighbouring countries, this being partly due to the smallness of the country; on the other hand, it was seen as desirable to apply for associate membership. However, the refusal by President de Gaulle to admit Britain to the EEC, which effectively excluded Denmark, Norway and Ireland as well, meant that these plans on the part of the Icelandic government came to nothing.

The third round of the debate followed at the end of the 1960s when the issue of membership of EFTA came to the fore. Long and heated discussions took place on the question of membership, and accusations of the assignment of sovereignty and the forfeiture of independence were frequently made in the Althingi. One of the reasons advanced for membership of EFTA was that it would give smoother access for Iceland's fish exports to the markets of the EFTA states, and also that it would open the way to making a free trade agreement with the European Community (EC). Iceland joined EFTA in 1970, following which it made a free trade agreement with the EC, which took effect after the end of one of the 'cod wars' with Britain in 1976.

The fourth round of the debate on European integration took place following the negotiations between the EFTA states and the EC on the establishment of the European Economic Area (EEA), reaching a climax when these negotiations were completed in the early 1990s. Heated debates took place in the Althingi over the agreement, and the electorate took an active part in the discussion by writing to the press, joining a movement against EEA membership and organizing petitions. Leaders of interest groups representing both employers and workers also took part in the discussion by making formal declarations on the pros and cons of membership of the EEA. The government piloted the agreement through to acceptance, and it took effect at the beginning of 1994. Membership of the EEA means that Iceland upholds the 'four freedoms' of the EEA Agreement, though with certain qualifications, and according to an estimate by its ministry for foreign affairs, about 80 per cent of the EU's legislation is now adopted in Iceland.

The fifth round of the European debate in Iceland began when the

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small Social Democratic Party (SDP) became the first party in Iceland to include the intention to apply to join the EU in its policy statement in 1994. The party leadership sought to harness this policy as a means of gaining support in the general election campaign the following year, but a split in the party made this difficult.² For two reasons, Iceland made no move towards an EU application in this round of the European debate. First, the rejection by Norway of the option of applying to join the EU ensured the future of the EEA Agreement and gave the anti-EU movement a boost, and second, Iceland's largest party, the conservative Independence Party, which was in coalition with the SDP from 1991 to 1995, said that EU membership was not on the election agenda. When pressed on the issue, the party followed a 'wait and see' policy, which characterized the position of most parties in the country on the integration issue (Kristinsson 1996). On the other hand, the Conservatives took a clearer position at their national congress in 1996 with a resolution to the effect that Iceland should not apply to join the EU, and have followed this line unswervingly ever since. The unequivocal position adopted by the Independence Party silenced many party members who had up to that time been advocates of EU membership.

Discussion of membership of Schengen can be seen as the sixth round of the European debate in Iceland. The issue was examined by the Althingi from 1999 to 2000, but it never assumed the same proportions in Iceland as it did in Norway, for example, where it featured prominently in public discussion. As a result of Iceland's participation in Schengen, the country has, since 2001, taken an active part in European co-operation in the spheres of policing and justice. In these areas, Iceland has become more closely involved in the co-operative process than have two EU member states, Britain and Ireland, which are not involved in Schengen.

Iceland is currently facing the seventh round of discussion of the issue of how it should respond to the process of integration that is taking place in Europe. The question is now couched in essentially the same terms as it was four decades ago: should Iceland apply to join the EU? It is virtually impossible to predict how long this round of the debate will last, and even more difficult to say what the outcome will be. On the other hand, it is clear that never before have the pros and cons of membership of the EU been subjected to such careful scrutiny. In one of the two main lines of discussion, the minister for foreign affairs and chairman of the Progressive Party has done much to promote debate of the issue since the middle of 2001. In that year the Progressive Party, historically Iceland's agrarian party and champion of the regions, dropped from its policy statement the assertion that the country should not apply to join the EU and replaced it by the 'wait and see' policy. In 2002 the party's internal committee on European affairs came to the conclusion that the EEA Agreement should be strengthened, but if this were not possible, Iceland would have to look for other means to secure its interests in Europe, negotiation on EU mem-

bership being one of the options that must be considered (Morgunblaðið 24 June 2001). The party's manifesto for the general election in 2003 stated: 'The Progressive Party wants an informed and unprejudiced discussion of the pros and cons of EU membership to continue, as it is clear that the time to take a decision on the issue may come within a few years' (Progressive Party 19 April 2003). On the other hand, there is within the Progressive Party substantial opposition to Iceland's joining the EU, even though the chairman's statements can scarcely be understood otherwise than as indicating that he is in favour of membership, though he has never actually declared as much. In the other main line of discussion, the recently formed Social Democratic Alliance (SDA), a left-of-centre coalition created in 1999 by the Social Democratic Party (SDP), the People's Alliance and the Women's Alliance, declared its view at the end of 2002 that Iceland ought to define the goals it wished to achieve in negotiations with the EU, apply for membership and submit any terms of entry that might be secured to a referendum.

Political parties and their European policies

One of the striking features of Iceland's policy concerning participation in European integration is the reluctance of Icelandic politicians to adopt a pro-European position. In the general election of May 2003, only the Social Democratic Alliance supported application for EU membership. Two parties, the Independence Party and the Left Green Movement, opposed it, while the Progressive Party advocated a 'wait and see' approach, as did the Liberal Party.

This scepticism towards EU membership is in sharp contrast to the view of most politicians in Norway and Denmark since the early 1960s and politicians in Sweden and Finland since the early 1990s (Svasand *et al.* 1996). It is also in sharp contrast to the view of politicians in the fifteen EU member states: 92 per cent of them support membership of the EU (EOS Gallup Europe 1996).

Furthermore, in contrast to the position in all the other Nordic states, the electorate in Iceland has not had the opportunity to decide the country's position on EU membership. Thus, the question of accession to European integration has been in the hands of Icelandic politicians. Also, the Icelandic electorate has had a very limited chance of voting indirectly for EU membership in general elections, since only twice have parties advocated membership in general elections: the SDP in 1995 and the SDA in 2003.

It is also apparent that support for EU membership has been greater among Iceland's general population than among its political elite. Roughly one third to over half of the electorate have supported EU membership in the last 10 years (Thorhallsson 2002; Kristinsson 1996). This is contrary to the case in the other Nordic countries, where European integration has

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had an elitist character, since support for EU membership has been greater among the political elite than among the general populace (Svasand *et al.* 1996).

The Icelandic party system, which was created in the second and third decades of the twentieth century, contains four parties: a conservative party (the Independence Party 1929–), an agrarian party (the Progressive Party 1916–), a social democratic party (the Social Democratic Party 1916–99, the Social Democratic Alliance 1999–), and a left socialist party (the Communist Party 1930–38, the Socialist Party 1938–56, the People's Alliance 1956–99, the Left Green Movement 1999–). This party system is considerably different from those in Scandinavia. First, the conservative Independence Party has been by far the largest party, receiving about 40 per cent of the votes, while in Scandinavia the largest parties are the Social Democrats. Second, the People's Alliance, named the Socialist Party and the Communist Party in the past, was from 1942 to 1987 larger than the Social Democratic Party. The SDP was in fact the smallest of the four parties, the Progressive Party being the second largest. Since the early 1970s, a fifth and on occasions a sixth party has most often been represented in the Althingi. The Women's Alliance was the most successful of these parties and was represented in parliament from 1983 until it joined the Social Democratic Alliance in 1999. The party system changed in 1999 with the formation of the SDA, in order to challenge the dominance of the Conservatives. The SDA became the second largest party, receiving nearly 27 per cent of the votes, leaving the Progressives in the third place with just over 18 per cent. In the general election in 2003 the SDA established itself as the second largest party with 31 per cent of the votes, the Progressive Party receiving less than 18 per cent. The Conservatives received one third of the votes in 2003, 7 per cent less than in the previous election.

The Left Green Movement was created by a split from the People's Alliance, some members of the Women's Alliance and environmentalists who opposed the merger of the three parties in the SDA. It gained about 9 per cent of the votes in 1999 and 2003. It is sceptical of EEA membership and opposes Iceland's membership of NATO and the defence agreement between Iceland and the USA; it is the only party to do so. It also campaigns fiercely against EU membership. The Left Greens would prefer a bilateral treaty with the EU to membership of the EEA. The party's scepticism towards political and economic integration in Europe is well demonstrated in a draft resolution that it submitted to the Althingi in November 2000. This proposed that Iceland should not be a member of any free trade area but should make special trade agreements without membership (*Tillaga til þingsályktunar um stefnu Íslands í alþjóðasamskiptum* 5 October 2000).

In the election in 1999 the Social Democratic Alliance advocated the policy that Iceland should not apply for membership in the coming election term, i.e. the next four years. This policy was a compromise between

the three parties forming the SDA. The People's Alliance and the Women's Alliance had campaigned against membership of the EU, while the SDP advocated membership from 1994, as is described above. In 2001 the SDA published a detailed report on the pros and cons of EU membership but hesitated to take a clear stand on the issue. However, in 2002 a referendum within the party decided with a huge majority to adopt the policy to apply for EU membership, as is stated above.

The Liberal Party, which was formed in 1999 with the main objective of changing the country's fisheries management policy, received just over 4 per cent of the votes that year and over 7 per cent in 2003. It has been willing to consider EU membership if Iceland were able to retain sole control of its fisheries zone (Liberal Party July 2001). The agenda approved by the party's national congress in 2003 states: 'Immediate steps should be taken to find out what position Iceland would be offered in collaboration between the countries of Europe in regard to its natural resources' (Liberal Party March 2003). Regarding closer co-operation, the party stated the proviso that all foreign encroachment into Iceland's business and financial sectors must be prevented and that collaboration with other countries in Europe must be secured on an equal footing, i.e. 'subject to the condition that Iceland's interests regarding control of its fisheries resources must be guaranteed' (Liberal Party March 2003).

Davíð Oddsson, chairman of the Independence Party, prime minister since 1991 and the longest-serving prime minister in the history of Iceland, has been one of the most outspoken critics of applying to join the EU. He has stated time and again that Iceland's fisheries interests would be hugely damaged by joining the EU. He has repeatedly rejected any transfer of sovereignty to the EU. The fact that the right-hand side of the political spectrum in Iceland is united has led to the dominant position of the Independence Party since the end of the Second World War. The Conservatives have been in office for 45 of the 59 years since the creation of the Republic in 1944. Moreover, a small minority of the party's MPs, under the leadership of its vice-chairman, led a government for three of the remaining 14 years when the Independence Party itself was in opposition. By contrast, the Social Democratic Parties have been the most prevalent in the other Nordic states during this time. The Independence Party has had no stable alliance except with the SDP between 1959 and 1971 and the Progressive Party since 1995. Since 1971 the Conservatives have formed six government coalitions with the Progressives over a total of 17 years. Their coalition since 1995 has had a clear policy towards the question of EU membership: application is not on the agenda. However, the opening of the EU debate by the party chairman of the Progressive Party in 2001 seems to have caused a considerable stir between the party leaders. Despite this, the parties formed their third government after the election in 2003.