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Iceland's contested European Policy: The Footprint of the Past - A Small and Insular Society

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Iceland's contested European Policy: The Footprint of the Past - A Small and Insular Society

Iceland's domestic politics and foreign affairs are undergoing drastic changes. After an economic crash, violent protests on the streets of Reykjavik for the first time in Iceland's history contributed to the defeat of the government. The party system has been altered. A turn has been taken towards Europe after the United States left the island, first by closing its military base in 2006 and then by its clear stance not to assist the country in its economic difficulties. The former close relations with the superpower are unlikely ever to be restored. The EU membership application is placing severe constraints on political parties which are split on the issue and has put in jeopardy the unity of the first left majority in the Icelandic parliament, the Althingi. Society is in a state of flux after an unprecedented economic downscaling and the collapse of almost its entire financial sector – which had boomed rapidly beginning in the mid-1990s. The credibility of politicians, the parliament and the media is in ruins.

Iceland's smallness and its location on the geographical map – one could also say the geopolitical map – has had a profound influence on its domestic and foreign affairs. Iceland is closely associated with the other Nordic states and has adopted many of their domestic characteristics, with important exceptions. On the other hand, the country has come under American influence – geographically, it straddles the Mid-Atlantic rift – and has limited its participation in the European project. Its geographical location in the middle of the North Atlantic has led to a notion that the country's culture is unique and should be protected by all available means. Politicians continue to play the 'nationalistic uniqueness' card with considerable success even though the country has been swept by globalization. Rapid modernization (which only really began in the Second World War with British and American occupations) and sudden engagement with the outside world (which only extended to the general public in the last quarter of the twentieth century) are still slowly but steadily making their mark on the country's foreign policy. The country's political discourse and foreign policy still bear the hallmark of the past, i.e. of a small and insular society

This paper will address the political developments in Iceland since the 2008 economic crash and place it in a historical context. The aim is to understand Iceland's present foreign policy and, in particular, the highly contested decision by its government in 2009 to apply for membership of the European Union. The paper is divided into five sections in addition to this introduction and the concluding remarks. First, it starts by explaining the importance in Iceland of a political discourse based on the concept of independence which dates back to the historical narrative of the settlement period. This section will also examine Iceland's close relations with the other Nordic states – despite important differences between it and the others. Second, the paper will analyse the importance of the party system, i.e. the dominance of the centre-right in Icelandic politics, and the changed nature of the system.

Third, it examines how Iceland further distinguishes itself from the other Nordic states in many important features. Fourthly, the paper analyses the country's three main foreign policy priorities in the post-war period, i.e. extensions of the Exclusive Economic Zone, firm defence arrangements with the US and membership of NATO, and the drive for better market access for marine products – including a partial engagement in the European project. Fifthly, the paper examines how the country's smallness, in terms of its central administrative capacity, has affected its domestic and foreign policy-making. The concluding section summarizes the main findings concerning the political and historical obstacles that the Social Democratic Alliance faces in its hard-fought battle to change the country's European Policy.

From settlement to republic: Maintaining close ties with other countries in the North

Iceland achieved Home Rule in 1904 after having been part of the Danish kingdom for centuries. Icelanders commonly refer to the first four centuries from the settlement of the country by Scandinavians (largely from Norway, but with an admixture of Norse and also Celtic elements from the British Isles) in the ninth century as the Icelandic Commonwealth. During this time, Iceland was in close contact with its neighbours in North-Western Europe, entities which are now referred to as Norway, Greenland, the Faroe Islands, the Orkney Islands, Shetland Islands, Denmark and Sweden. One could say that these entities formed a common market and were politically closely intertwined – despite ongoing violent disputes in Scandinavia.

Iceland became part of the Norwegian kingdom after the mid-thirteenth century, having maintained close ties with the Norwegian rulers ever since the settlement. A century later, the Norwegian kingdom was united with the Danish one under the Kalmar Union. It also included Sweden and the islands mentioned above and lasted until the first quarter of the 16th century. Iceland's union with Denmark lasted until 1944.

Icelandic governments have always emphasised a close relationship with the country's neighbouring states and its most important trading partners. Its closest contacts have been with the other Nordic states, particularly Denmark, as well as Britain and the US. Iceland became a sovereign state in 1918 and was in full charge of its foreign policy from that time onwards, though Denmark undertook to implement this policy. In 1940, due to the German occupation of Denmark, Iceland took full charge of its foreign relations and set up its own Foreign Service. Iceland had peacefully struggled for independence (mostly by legal means) for over a century and 1944 saw the dissolution of the union with Denmark and the creation of the Icelandic Republic. The population at the time was about 127,000.

There is a tendency to ignore the international environment which triggered various steps which led to full independence. The independence struggle is seen by many Icelanders as having been won by national unity built on Icelandic culture and uniqueness ably led by distinguished national heroes.[1] The image of Iceland being capable of achieving self-determination without the need to participate in multilateral cooperation within international institutions as a kind of protection

[1] Hálfdanarson, G. (2001), *Íslenska Þjóðríkið: Uppruni og Endimörk*, Reykjavík, Hið íslenska bókmenntafélag, pp. 45-47.

forum, led Icelandic politicians to lay more emphasis on bilateralism.[2]

Moreover, relations with the Nordic states, the states to which Icelanders feel closest[3], have been characterized by co-operation rather than integration. Iceland became a founding member of the Nordic Council, created in 1952, together with Norway, Denmark and Sweden (Finland joined in 1956). Ambitious schemes have been proposed concerning Nordic integration, but most of them have failed[4] and instead lesser schemes have been implemented, the most notable one being a passport union which Iceland joined in 1955[5], a common labour market agreed in 1952 and extended to Iceland in 1982 and the right of migrant Nordic citizens to claim social security and other social rights[6] on the same basis as the host state's own nationals. Although much has been achieved under the umbrella of the Nordic Council (such as scientific, academic and cultural activities), the success of Nordic cooperation rests more on "shared culture and common objectives and values than on integrating institutions".[7]

The changed party system: The dominance of the centre-right swept aside

Iceland has a parliamentary system of government, and all governments in Iceland since independence, with the exception of one (due to the unequal distribution of parliamentary seats) and a few temporary minority governments, have been based on party coalitions. The President of Iceland is a figurehead, though the constitution gives him considerable powers. All presidents, except for the present one, have refrained from exercising their constitutional powers, except as regards fulfilling their responsibility to oversee the formation of governments after general elections (the parliamentary term is four years) or a fall of a government. The current president has thrice exercised his constitutional right to refer legislative bills approved by a parliamentary majority to a referendum. The Prime Minister leads the government, ministers are most often chosen from among the members of parliament and the parliamentary groups are traditionally very influential.

In the last twenty years, the central government has transferred considerable powers to the local authorities, many of which have been too small to meet the responsibilities involved. Two-thirds of the population of c. 320,000 live in the Greater Reykjavik area – Reykjavik itself being by far the largest local authority. The many local authorities in the sparsely populated regions are further weakened by the lack of regional authorities

[2] Thorhallsson, B. (2005), 'What features determine small states' activities in the international arena? Iceland's approach to foreign relations until the mid-1990's', *Stjórnmál og Stjórnsýsla – A Web-based Magazine*, 1(1), pp. 107-140

[3] Harðarson, Ó.Th. (1985), 'Icelandic security and foreign policy: the public attitude', *Cooperation and Conflict*, 20(4), p. 310.

[4] Thomas, A.H. (1996), 'The concept of the Nordic region and the parameters of Nordic cooperation', in L. Miles (ed.), *The European Union and the Nordic Countries*, New York, Routledge, pp. 15-31.

[5] 'Norden 1954. Protocol Concerning the Exemption of Nationals of the Nordic Countries from the Obligation to Have a Passport or Residence Permit While Resident in a Nordic Country other than their own', at http://www.norden.org/en/about-nordic-co-operation/agreements/treaties-and-agreements/passport-affairs/protocol-concerning-the-exemption-of-nationals-of-the-nordic-countries-from-the-obligation-to-have-a-passport-or-residence-permit-while-resident-in-a-nordic-country-other-than-their-own (viewed on: 28 January 2011).

[6] e.g. health care, child benefits, social assistance, pensions or unemployment pay.

[7] Thomas, A.H. op. cit., p. 17.

The centre-right has dominated Icelandic politics since the Icelandic party system was created in the second and third decades of the twentieth century. The first left-wing government was created in 2009. The fact that the Icelandic right is united led to the dominance of the conservative Independence Party in the post-war period. The Conservatives were in office for 51 of the 69 years since the creation of the Republic, often receiving nearly 40 per cent of the vote.[8] Originally, the Independence Party leadership sought ideas and policies from the other Nordic states. American influences became evident later. Since the 1980s, the party has been highly influenced by the neo-liberal policies of the Reagan and Thatcher era. It developed relations with the British Conservative Party and was influenced not only by its liberal economic and trade polices but also by its Euroscepticism. By contrast, the Social Democratic Parties were the most prevalent in the other Nordic states during this time. The centre-agrarian Progressive Party, the country's second-largest party until 1999, has held a key position in government coalition-building partly due to its ability to work with both the left and the right.

The party system changed somewhat in 1999 with the formation of the Social Democratic Alliance (SDA) by the SDP, the People's Alliance (Socialists) and the Women's Alliance, in order to challenge the dominance of the Conservatives. The SDA became the second-largest party, receiving nearly 27 per cent of the vote, leaving the Progressives in third place with just over 18 per cent. In the general election of 2009, a fundamental change occurred and the SDA became the largest party in parliament with 30 per cent of the vote; the Conservatives scored their worst-ever electoral result, with less than a quarter of the vote. The Left Green Movement, a splinter group 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, gained over 20 per cent of the vote. Together with the SDA, they formed the first left-wing majority government. This left the Progressives in the fourth place within the traditional four-party system. However, since 1971, a fifth party has usually been represented in Althingi: the most successful one was the Women's Alliance (1983-1999). Then came the Citizens' Movement, an offspring of the 2008/2009 winter protest, who secured four out of 63 MPs elected in 2009.

One of the important features of the Icelandic proportional-representation electoral system is the over-representation of the regional constituencies in the Althingi. Until 2003, the majority of MPs came from the regions, even though most of the electorate lived in the Greater Reykjavik area during the latter half of the twentieth century. Votes in the rural regions still carry considerable more weight (proportionally) than those in the urban area – so that the disproportionality between rural and urban regions is the greatest in Western Europe.[9] As a result, the Althingi has been rather preoccupied with regional interests, particularly fishing and agriculture.

Iceland's uniqueness in the North

Iceland shares many similarities with the other four Nordic states, such as: common traditions of open democratic government; a welfare

[8] Moreover, a small minority of the party's MPs, under the leadership of its vice-chairman, led a government for three of the remaining 18 years when the Independence Party itself was in opposition.

[9] Harðarson, Ó.Th. (2002), The Icelandic Electoral System 1844-1999, in A. Lijphart and B. Grofman (eds), *The Evolution of Electoral and Party Systems in the Nordic Countires* , New York: Agathon Press, pp. 101-166.

state; an attachment to national sovereignty and strong defence; a competitive market economy and a strong regional affinity, promoting a 'Nordic identity' and Nordic cooperation.[10] Nevertheless, Iceland distinguishes itself from the others in many important features – three of which are discussed below.

First, although Iceland is a mature parliamentary democracy, consensual decision-making based on the corporatist model has not developed as it has in the other Nordic states.[11] Instead, Iceland's decision-making continues to be based on sectoral corporatism following its emergence when agricultural interest groups gained a representational monopoly and privileged access to government[12] in Iceland as in many other European states. Later, the expansion of the fishing industry gave it the same status as the agrarian lobby. These traditional leading sectors in the rural coastal regions gained sufficient strength to sideline other interests. They also achieved blocking power within the united right (the Independence Party), and the agrarian Progressive Party. Rural coastal interests still prevail, partly due to late industrialization (arriving only at the beginning of the twentieth century), export specialisation (marine products) and over-representation of rural areas in parliament. The aluminium sector (since the late 1960s) and the privatized financial sector (in the first decade of the 21st century) were granted the same status and influence as the fisheries and agricultural sectors within this Icelandic sectoral-corporatist framework. In addition, unlike in the other Nordic states, Iceland's sectoral corporatism has never been characterized by "the voluntary, cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrating political relationships between business, trade unions, and the state, augmented by political parties".[13] Hence, the conditions for economic flexibility and political stability were missing. In other words, the culture of consensus did not prevail. For instance, Iceland has continued to have the highest level of strikes among the OECD countries.[14] This is in vivid contrast to the other Nordic states which are known for low levels of industrial disputes.[15]

Second, Iceland, like the other Nordic states, has in place comprehensive welfare provisions and social and environmental standards.[16] That said, the Icelandic welfare system is not as comprehensive or generous as those of the other Nordic states. This has created greater inequality than in the other states.[17] Moreover, Icelandic governments have not prioritized environmental projection (with the exception of a successful policy, at least compared with other European states, on marine-resource sustainability). Governments have emphasised the importance of using natural resources such as hydro and geothermal electrical power and marine resources. This is manifested in their battle to continue whaling and the extent to which the aluminium industry has had privileged access to the administration. With

[10] Miles, L. (1996), 'Introduction' in L. Miles (ed.), *The European Union and the Nordic Countries*, New York, Routledge, pp. 3-14.

[11] Ibid.

[12] Lehmbruch, G. (1984), 'Concertation and the structure of corporatist networks', in J.H. Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism*, Oxford, Oxford University Press, pp. 60-80.

[13] Katzenstein, P.J. (1985), *Small States in World Markets: Industrial Policy in Europe*, Ithaca and London, Cornell University Press, p. 32.

[14] Aðalsteinsson, G.D. (2006), 'Verkföll og verkfallstíðni á íslenskum vinnumarkaði 1976-2004', *Stjórnmál og Stjórnsýsla – A Web-based Magazine*, 2(2), pp. 175-196.

[15] Miles, L. (1996), p. 7.

[16] Ibid., pp. 3-14.

[17] Ólafsson, S. (2006), 'Aukinn ójöfnuður á Íslandi: áhrif stjórnmála og markaðar í fjölþjóðlegum samanburði', *Stjórnmál og Stjórnsýsla – A Web-based Magazine*, 2(2), pp. 129-156.

the Conservatives in government, the structure of the Icelandic government's decision-making was more in line with what Katzenstein describes as the American trend toward exclusion, rather than the inclusionary nature of the small European states' corporatism.[18] Social movements, such as the new environmental movement, were explicitly, and deliberately, sidelined in governmental decision-making processes. This was the perception of most, it not all, social movements, such as the Organization of the Disabled, which became openly very critical of the government's policies.

Third, the Icelandic government, despite participating in a clear alliance with the Western Bloc during the Cold War, cannot be labelled 'internationalist' or a campaigner for free global trade like the other Nordic states.[19] Historically, Iceland was slow to adopt the liberal economic and trade policies of its counterparts in Western Europe. The Icelandic economy was characterised by trade restrictions and high tariffs until the 1960s.[20] One could say that Iceland has never opened up its borders except in return for gaining better market access for its marine exports. This was the case with EFTA membership in 1970, the free-trade agreement with the EU in 1972 and EEA membership in 1994. Iceland has campaigned for free trade in marine products but allied itself with those states within the WTO (including Norway) that have opposed further moves towards free trade in agricultural goods.[21] Furthermore, Iceland did not give high priority to humanitarian missions and development aid until the late 1990s and the first decade of the twenty-first century.[22] Participation in the work of the United Nations has not been high on the agenda of Icelandic governments, with the exception of a brief period when Iceland campaigned to win a seat in the UN Security Council, but failed. One of the reasons why it failed was its lack of a track record within the UN and a lack of enthusiasm on the part of some Icelandic ministers.[23]

Iceland's foreign policy: A quest for self-determination and direct economic gains

In the post-war period, Iceland's foreign policy prioritised three objectives: the extension of the Exclusive Economic Zone, firm defence arrangements, mainly by building a long-lasting relationship with the US and membership of NATO, and improved market access for marine products (including a partial engagement in the European project). In addition, Iceland took full part in Nordic cooperation, as already discussed, and joined most of the post-war international organizations, but without playing an active role within them.[24] In foreign policy, Icelandic

[18] Katzenstein, P.J. (1985), *Small States in World Markets: Industrial Policy in Europe*, Ithaca and London, Cornell University Press, pp. 22-30.

[19] Miles, L. (1996), 'Introduction' in L. Miles (ed.), *The European Union and the Nordic Countries*, New York, Routledge, pp. 7-8.

[20] Ásgeirsson, J.F. (2008), *Þjóð í hafti: saga verslunarfjötra á Íslandi 1930-1960*, Reykjavik: Ugla, p. 1-374.

[21] Einarsson, Á. (2007), 'Landbúnaður og Evrópusambandið – álitaefni við aðild', in S.B. Ómarsdóttir (ed.), *Ný Staða Íslands í Utanríkismálum: Tengsl við Önnur Evrópulönd*, Reykjavík, Alþjóðamálastofnun Háskóla Íslands, pp. 50-51.

[22] Haralz, J.H. (1997), *Um Þróunarsamvinnu Íslands*, Reykjavík, Ministry for Foreign Affairs, and, Ingólfsson, H.Ö. and Haralz, J.H. (2003), *Ísland og Þróunarlöndin: Álitsgerð um Þróunarsamvinnu Íslands og Þátttöku í Starfi Alþjóðastofnana*, Reykjavík, Ministry for Foreign Affairs, pp. 7-10.

[23] Thorhallsson, B. (2009), 'Can small states choose their own size? The case of a Nordic state – Iceland', in A.F. Cooper and T.M. Shaw (eds.), *The Diplomacies of Small States: Between Vulnerability and Resilience*, Basingstoke: Palgrave Macmillan, pp. 119-142.

[24] See, for instance, Alþingistíðindi B (1944) [Parliamentary record], pp. 2023-2029; Valdimarsson, V.U., Árnason, G.R. and Gunnarsson, G.Á. (1993), *Ísland í Eldlínu Alþjóðamála: Stefnumótun og Samvinna Innan Sameinuðu Þjóðanna 1946-*

governments have preferred bilateral relations to multilateral relations within international institutions/organizations.

The Cod Wars

Iceland managed to extend its fisheries zone on a number of occasions, eventually to 200 miles, despite heavy protests from powerful neighbours. This is particularly interesting because of its more limited capabilities compared to Britain, its main opponent. These 'victories' no doubt reinforced Icelandic politicians' view that Iceland could be successful on its own without having to negotiate and make compromises within multilateral international forums. This is not to say that the international environment did not contribute to Iceland's success. On the contrary, the development of the law of the sea was in Iceland's favour and the country's strategic military position played a key role in British decisions to give in on the fishing-zone issue following pressure from the US and other NATO allies.[25] Occasionally, the Icelandic government threatened to terminate the bilateral defence agreement with the US and leave NATO if Iceland did not get what it wanted.[26] Furthermore, Iceland's position as a small state, with marine products as almost its only exports, in a difficult dispute with a former world power engendered sympathy for its position.[27] A 'myth' has developed among Icelanders about 'Iceland's unilateral successes' during the Cod Wars, which has strengthened Icelandic pride and national identity. Throughout the Cold War Icelandic politicians nurtured this 'myth' and were happy to capitalize on it. Thus, the Cod Wars reinforced bilateral solution-seeking at the expense of finding solutions within multilateral frameworks.

Iceland's closest ally - no longer present

The closure of the US military base in Iceland in 2006 marked the end of an era in the country's overseas relations – and a *change* in Iceland's position on the political map. Iceland had enjoyed very close relations with its Western neighbour, the United States, since the Second World War. Until that time, the US administration had not shown any interest in forging closer relations with Iceland, despite some attempts made by Iceland.

In 1941, Iceland concluded a broad defence agreement with the US: its defence was guaranteed and the US military secured the use of facilities in the country. Iceland was now part of the US defence territory and remained so up until 2002. The agreement also included provisions on trade and other commercial benefits which laid the foundation for economic assistance – the highest, per capita, that the US provided in Europe – and flourishing trade relations between the two countries. Importantly, the US government recognized Iceland as a republic and the two allies exchanged ambassadors as provided for by the agreement.[28] Some Icelandic politicians

1980, Reykjavík, Alþjóðamálastofnun Háskóla Íslands, p. 50; Jónsson, A.K. (2004), *Stjórnarráð Íslands 1904-1964*, 2nd edition, Reykjavík, Sögufélag, p. 715.

[25] Jóhannesson, G.Th. (2002), 'Tíu spurningar. Hugleiðingar um þorskastríðin', in E.H. Halldórsdóttir (ed.), *Íslenska Söguþingið 30. maí - 1. júní 2002: Ráðstefnurit*, Reykjavík: Sagnfræðistofnun Háskóla Íslands, p. 443.

[26] Ingimundarson, V. (2001), Uppgjör við Umheiminn: Samskipti Íslands, Bandaríkjanna og NATO 1960-1974: Íslensk Þjóðernishyggja, Vestrænt Samstarf og Landhelgisdeilan, Reykjavík, Vaka-Helgafell, pp. 211-268.

[27] Jóhannesson, G.Th. (2002), 'Tíu spurningar. Hugleiðingar um þorskastríðin', in E.H. Halldórsdóttir (ed.), *Íslenska Söguþingið 30. maí - 1. júní 2002: Ráðstefnurit*, Reykjavík: Sagnfræðistofnun Háskóla Íslands, p. 448.

[28] Department of State Bulletin (1941), 'Franklin D. Roosevelt's Message to Congress on U.S. Occupation of Iceland', at http://www.ibiblio.org/pha/policy/1941/410707a.html (viewed on: 28 January 2011).

also found it appealing that Iceland was no longer on its own in the British sphere of influence in the North Atlantic.[29] This later became evident in the Cod Wars with Britain in the decades following the Second World War. However, after the end of the Cold War, the weakness of Iceland's bilateral arrangement with the US was exposed as the changed geopolitical landscape reduced Iceland's significance and eventually led to the withdrawal of US support. This was reflected in the US's refusal to help Iceland in the Icesave dispute with Britain and the Netherlands. Iceland was suddenly on its own in the middle of the North Atlantic

Indeed, when the Cold War started, Iceland found itself in the middle of rising tensions in the GIUK-gap (between Greenland and the United Kingdom) involving the superpowers. For this reason the island became an important military base for defence against a Soviet attack on the east coast of the USA and the West European coast line. Iceland became a founding member of NATO, which signalled a marked policy change from the neutrality that had been a cornerstone of its foreign policy in the inter-war period.[30]

For most of the post-war period, all Icelandic governments, except for two left-of-centre ones, prioritised good relations with the US. However, a new bilateral defence agreement with the US signed in 1951 and the presence of a US military base, were extremely controversial and overshadowed other political issues in the country during the Cold War. This dispute proved to be more divisive than the economic and social issues that had originally given rise to the longest-standing parties in the Icelandic political landscape.[31] The political discourse was characterised by concepts of nationalism and the dispute sharpened nationalistic feeling.[32]

The close relationship between Iceland and the US government is manifested by the fact that Iceland was one of the few Western European countries to participate in the 'coalition of the willing' supporting the US invasion of Iraq in 2003 and its 'war on terror'. Iceland also supported the US in the wars in Afghanistan and Kosovo, and the US government's position on the enlargement of NATO, both when it opposed the admission of more members in 1999 and when it agreed to admit new members a few years later.

Iceland's defence policy has relied entirely on policy-making within the US administration and NATO. This is because limited knowledge in the fields of defence among Icelandic politicians and civil servants prevented Iceland from developing a comprehensive defence policy. For instance, one person in the Ministry for Foreign Affairs handled all relations with NATO in 1989, and the Icelandic delegation to NATO consisted of three officials and two staff secretaries. The Norwegian and Danish delegations were much larger at this time, comprising 30 and 40 officials respectively.[33]

[29] Ingimundarson, V. (2002), 'Viðhorf Bandaríkjanna til íslenskrar hagstjórnar á 5. og 6. áratugnum', in J.H. Haralz, *Frá Kreppu til Viðreisnar: Þættir um Hagstjórn á Íslandi á Árunum 1930-1960*, Reykjavík, Hið íslenska bókmenntafélag, pp. 327-344.

[30] Ingimundarson, V. (1996), Ísland í Eldlínu Kalda Stríðsins: Samskipti Íslands og Bandaríkjanna 1945-1960, Reykjavík, Vaka-Helgafell.

[31] Harðarson, Ó.Th. and Kristinsson, G.H. (1987), 'The Icelandic parliamentary election of 1987', *Electoral Studies*, 6(3), pp. 219-234.

[32] Ingimundarson, V. (2001), Uppgjör við Umheiminn: Samskipti Íslands, Bandaríkjanna og NATO 1960-1974: Íslensk Þjóðernishyggja, Vestrænt Samstarf og Landhelgisdeilan, Reykjavík, Vaka-Helgafell, pp. 331-355.

[33] Jónsson, A. (1989), *Iceland, NATO and the Keflavík Base*, Reykjavík, Öryggismálanefnd, p 16.

Icelandic governments – with the two exceptions already mentioned - fought hard against any reduction of the US military presence in the country up until the closure of the military base. Governments have never accepted that the country's defence would be bolstered by taking part in the EU's Common Foreign and Security Policy (CFSP) and the development of the European Security and Defence Policy (ESDP). This is contrary to the case in Norway, where governments have been attracted to the EU for security reasons.[34] Nor has Iceland taken an active part in the policy-making processes of other security organizations in Europe, i.e. the Organization for Security and Cooperation in Europe (OSCE) and the Western European Union (WEU). However, in 2001 Iceland established a civil peacekeeping mission (the Icelandic Crisis Response Unit) in order to operate within international organizations, mainly NATO, following increased pressure by other NATO members for Iceland to share some of the defence burden and become more active within the alliance.[35] The decision to establish the unit was taken in the hope of attracting greater goodwill from the US and other NATO allies: it was hoped that in return, the US might be willing to prolong its military presence in the country which it had been scaling down since the end of the Cold War.

Since the closure of the US military base, Iceland has made civil security arrangements (mainly concerning its waters) with Britain, Denmark, Norway and Canada[36] and concerning airspace surveillance with various NATO member states such as France, Germany and Britain and, more radically the non NATO Nordic states Sweden and Finland, allowing the temporary presence of their jet fighters in the country.[37] Icelanders saw the US decision to close its base and, two years later, not to help Iceland out in the 2008 credit crunch, as a clear sign of a lack of willingness to provide the country with political and defence shelter. This is a sharp break with the past, when the US not only provided the country with a military presence to defend it but always came to its economic rescue up until the late 1960s. The new left-wing government, under pressure from the Left Greens, has been scaling down Iceland's activities in NATO, closing the newly-created Icelandic Defence Agency (which took over many of the responsibilities of the US military in the country – though without creating military units) and distributing its work among civilian public institutions.

Icelandic-US relations are not likely to return to what they were prior to the closure of the base – despite the existence of the defence treaty between the two states. Icelandic governments have already started to look to the East, to their European neighbours, for security and defence cooperation. Interestingly, this was not a deliberate choice. They were forced to turn to Europe after the US abandoned the country. This shift has been welcomed by the Social Democrats, but the Left Greens, now in government for the first time, reject all calls for security and defence cooperation.

[34] Archer, C. and Sogner, I. (1998), *Norway, European Integration and Atlantic Security*, Thousand Oaks, Sage, pp.128-136.

[35] Bailes, A. and Thorhallsson, B. (2006), 'Iceland and the European Security and Defence Policy', in A. Bailes, G. Herolf and B. Sundelius (eds.), *The Nordic Countries and the European Security and Defence Policy*, Oxford, Oxford University Press, pp. 328-348.

[36] Ministry for Foreign Affairs 2007a., 'Grannríkjasamstarf', at: http://www.utanrikisraduneyti.is/verkefni/althjoda-og-oryggissvid/varnar-og-oryggismal/grannrikjasamstarf/ (viewed on: 28 January 2011).

[37] Ministry for Foreign Affairs 2007b., 'Loftrýmisgæsla NATO við Ísland Hefst í Mars 2008', at: http://www.utanrikisraduneyti.is/frettir/nr/3961 (viewed on: 28 January 2011).

Partial engagement in the European project

Historically, all political parties have opposed membership of the EU, with the exception of the Social Democratic Party in the period 1994-1999 and the SDA[38] from 2002. 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.[39] Several reasons have been put forward explaining the reluctance of the Icelandic politicians to participate in the European project. The most common explanation is Iceland's insistence on unrestricted control over its waters and unwillingness to join the EU's Common Fisheries Policy.[40] Other explanations include: the political discourse on independence and sovereignty in all debates on external relations[41], Iceland's close defence and trade relationship with the US (the country had no need to seek security guarantees from the EU because of its defence agreement with the US) and the smallness of its central administration (its lack of staff and other resources until the mid-1990s to gather information on any considerable scale on the development of European integration, thus making the government rely on powerful interests groups in the fisheries and agrarian sectors when formulating its European policy).[42] Furthermore, three distinctive features of the Icelandic political elite have contributed to its reluctance to participate in the European project. First, there is an unequal distribution of seats in the Althingi, in favour of the rural constituencies. This gives the primary sectors, fishing and agriculture – which oppose EU membership – a pivotal role in decision-making. Second, Iceland's foreign relations have been concentrated on states which stand outside the core of the European Union. In other words, the outside contacts of Icelandic politicians, bureaucrats and the business community have been with their counterparts in the Nordic states, Britain and the US – not with those of the European core, i.e. the original member states and states which are most in favour of European integration. The idea and the importance of the European project are felt less strongly in the middle of the Atlantic Ocean than on the European Continent and its immediate surroundings. The same could be said until quite recently about the pattern of media, cultural and educational ties. Third, and importantly, the Icelandic political elite has had a realist conception of foreign policy. This is mainly shaped by a constant commitment to national self-determination, a search for concrete economic advantages from all overseas activities and preference for bilateral relations over multilateralism.[43]

That said, in July 2009, the Icelandic parliament narrowly approved a motion to apply for EU membership. The Social

[38] The left-of-centre parties (the SDP, the People's Alliance (the former Socialist and Communist party) and the Women's Alliance) formed the Social Democratic Alliance (SDA) in 1999.

[39] Svåsand, L. and Lindström, U. (1996), 'Scandinavian political parties and the European Union', in J. Gaffney (ed.), *Political Parties and the European Union*, London and New York, Routledge, pp. 205-219.

[40] Thorhallsson, B. and Vignisson, H.T. (2004), 'Life is first and foremost saltfish', in B. Thorhallsson (ed.), *Iceland and European Integration: On the Edge*, New York, Routledge, pp. 67-102.

[41] Hálfdanarson, G. (2004), Discussing Europe: Icelandic nationalism and European integration, in B. Thorhallsson, *Iceland and European Integration: On the Edge*, New York, Routledge, p. 140.

[42] Thorhallsson, B. and Vignisson, H.T. (2004), 'Life is first and foremost saltfish', in B. Thorhallson (ed.), *Iceland and European Integration: On the Edge*, New York, Routledge, pp. 78-86.

[43] Kristinsson, G.H. and Thorhallsson, B. (2004), 'The euro-sceptical political elite', in B. Thorhallsson *(ed.), Iceland and European Integration: On the Edge*, New York, Routledge, pp. 145-160.

Democrats found themselves in a strong position - especially after their election victory and the outlook of a majority in parliament for an EU application. The SDA even went as far as insisting on an EU application as a precondition for the continuation of its coalition with the Independence Party (late 2008) and the creation of the new majority government with the Left Greens (spring 2009).

The economic crash, which started with the fall of the ISK in March 2008, clearly stimulated the ongoing EU debate and led to a swift change of attitude towards the vulnerability of the economy and its small currency. These events made many Icelanders question the country's traditional domestic and foreign policies, including the reluctance to become engaged in the European project. This opened a window of opportunity for pro-European forces and EU membership became the main election issue in April 2009. The SDA's economic plan for recovery was based on EU membership[44], emphasising the benefits for consumers and enterprises of lower prices of goods, the adoption of the Euro within the EU and opportunities for aid for rural areas, agriculture and the tourist industry from the EU's Structural Funds. Supporters of a closer engagement in the European project have, in fact, always cited the economic benefits, and won approval by emphasising them. This had also been the case with both EFTA and EEA membership.[45]

The Social Democrats may have grasped the opportunity to apply for membership, based on their interpretation of Iceland's economic interests, but other parties have not followed them in their pro-European approach, despite the economic crash. The Left Green Movement remains steadfastly opposed to EU membership. It reluctantly permitted an EU application in order to form a government and to have an open democratic EU debate in the country at large.

The Independence Party advocates withdrawal of the EU membership application – though it is deeply divided on the issue. It advocated a unilateral adoption of the euro just before the general election in 2009 in order to appeal to its pro-European voters. While in government from 1991 to 2009, the party's opposition to EU membership became fiercer and was based on several arguments: Iceland's fisheries sector would be seriously damaged by EU membership; Iceland would not be able to conduct its own economic policy; adopting the euro would be fatal to the economy; as a small state, Iceland would be powerless within the EU and unable to defend its interests; corporate taxes might rise due to membership and regulations from Brussels would place a burden on businesses and the community at large.[46] The EU was seen as standing in the way of the government's agenda – forcing it to make more domestic and international compromises of the type it had already been obliged to make within the EEA framework.

[44] Social Democratic Alliance [Samfylkingin] 2009, 'Stjórnmálaályktun', at http://www.samfylkingin.is/Stefnum%C3%A1l/Sam%C3%BEykktir_landsfundar (viewed on 28 January 2011).

[45] Thorhallsson, B. and Vignisson, H.T. (2004), 'The first steps: Iceland's policy on European integration from the foundation of the republic to 1972', in B. Thorhallson (ed.), *Iceland and European Integration: On the Edge*, New York, Routledge, pp. 28-33; Thorhallsson, B. and Vignisson, H.T. (2004), 'A controversial step: mermbership of the EEA', in B. Thorhallson (ed.), *Iceland and European Integration: On the Edge*, New York, Routledge, pp. 38-50.

[46] Oddsson, D. (1995), *Ávarp forsætisráðherra, Davíðs Oddssonar, 17. júní 1995*, at http://www.forsaetisraduneyti.is/radherra/raedur-og-greinar/nr/986 (viewed on 2 February 2011); Oddsson, D. (2001), *Ávarp Davíðs Oddssonar forsætisráðherra á fundi Samtaka um vestræna samvinnu og Varðbergs*, at http://www.forsaetisraduneyti.is/radherra/raedur-og-greinar/nr/355 (viewed on 2 February 2011); Oddsson, D. 2002, *Ávarp forsætisráðherra á aðalfundi Samtaka atvinnulífsins*, at http://forsaetisraduneyti.is/radherra/raedur-og-greinar/nr/365 (viwed on 2 February 2011); Gissurarson, H.H. (2001), *Hvernig Getur Ísland Orðið Ríkasta Land í Heimi?*, Reykjavík, Nýja bókafélagið.

The Progressive Party also advocates a withdrawal of the EU membership application though its European policy remains highly contested. Although it formally changed its policy towards an EU application in early 2009, two-thirds of its MPs voted against an application in the summer of that year. Hence, the party's new leadership has turned the party against the EU accession process and fiercely campaigns against it. Moreover, the MPs of the Citizens' Movement remain sceptical of EU accession and three out of their four MPs voted against the EU application though they had advocated EU negotiations in the general election.

Accordingly, the Social Democrats are on their own on the path to membership, though a small number of MPs of other parties are sympathetic to the idea. The party leadership of the Left Green Movement tolerates the formal pro-European policy of the government, led by the SDA, in the firm belief that Iceland will not obtain a satisfactory accession treaty and that the treaty which will be offered to it will be rejected in a referendum. Traditional Icelandic Euroscepticism is still alive and well.

For nearly three years, 2008-2011, the political discussion in Iceland was dominated by the 'Icesave'[47] dispute between Iceland, on the one hand, and the Netherlands and Britain on the other. The dispute raised nationalist feelings and sidelined discussion of the EU application. On a number of occasions, Britain and the Netherlands, with formal and informal approval of other European states (including the other Nordic states in the beginning), blocked Iceland's IMF assistance after the economic crash.

In the public debate, the EU and its member states have been blamed for the IMF blockage and for standing in the way of Iceland's economic recovery – despite the fact that the EU has, on several occasions, stated that the dispute is a bilateral matter involving the states concerned. Iceland has adopted the EU's regulations on finances, on which the British and Dutch claims are based, through its membership of the EEA, and has requested that the EU step in to settle the dispute, but without any success. Hence, the EU is seen by many as not being able to provide Iceland with economic and political shelter, and many politicians and voters have also depicted it as a bully standing by while larger states oppress a small defenceless neighbour. As a result, the pro-European forces have had a difficult time making their case in an atmosphere of nationalism where Icelanders generally feel that all of their closest neighbouring states, except for the Faroe Islands, have deserted them in a time of great need.

The state of public opinion on EU membership has clearly been affected by the Icesave dispute. Since early 2009, the majority of voters have stated their opposition to membership in opinion polls[48], contrasting with the previous twelve-year period where nearly all polls indicated a majority in favour of membership, peaking just after the economic collapse.[49] Thus, public opinion on Iceland's approach to the European question has fluctuated considerably in the last few years. This is not surprising, since Icelandic society at large remains in flux after the

[47] The dispute was centred on whether, and under which conditions, Iceland was to reimburse Britain and the Netherlands after the collapse of the Icelandic bank, Landsbanki, which held large amounts of British and Dutch savings that were lost in the 2008 financial crisis.

[48] Capacent Iceland., Þjóðarpúls Gallup, July 2010.

[49] Thorhallsson, B. (2002), 'The sceptical political elite versus the pro-European public: the case of Iceland', *Scandinavian Studies*, 74(3), pp. 349-378; The Federation of Icelandic Industries., opinion polls conducted by Capacent Gallup for the Federation of Icelandic Industries, at: http://www.si.is/malaflokkar/althjodlegt-samstarf/evropumal/skodanakannanir/ (viewed on 1 December 2010).

economic crash, suffering both from the financial consequences of the crash itself and from political instability.

Smallness of the central bureaucracy

The lack of expertise and limited human resources in Iceland's central bureaucracy have hindered it from engaging in long-term policy-making concerning European and security affairs and foreign policy in general. The central bureaucracy cannot be blamed, however, and it is remarkable how much the Icelandic Foreign Service has achieved despite its smallness, e.g. in the EFTA negotiations in the 1960s and the negotiations leading to the EEA Agreement. However, its limitations become nowhere more obvious than in the Icesave negotiations with Britain and the Netherlands. In 2010, 160 people were employed in the Icelandic Foreign Service and Iceland had 21 embassies and missions abroad. The numbers have dropped somewhat after the financial crisis (before it, about 220 employees worked in the Foreign Service) due to drastic cuts in the Foreign Service's budget. To put these figures into perspective, only 85 people worked in the Foreign Service in 1985.[50]

Ministers and governments have obviously not given priority to developing reliable or comprehensive knowledge of European and security affairs within the bureaucracy. The Foreign Service barely had sufficient resources to concentrate on Iceland's core interests as defined by the government such as the extension of the fisheries zone and finding a suitable solution for Icelandic marine exports to the EU. Moreover, the limited focus on long-term policy-making in the central bureaucracy has made ministries very dependent on interest groups and other external assistance.[51] For this reason, the powerful fisheries and agricultural lobbies have enjoyed a privileged position in Iceland's international negotiations where these touched upon their interests as they perceived them

At present, the Foreign Service and other governmental departments still rely on these and other powerful interest groups in formulating Iceland's negotiating objectives concerning EU accession. The central bureaucracy is capable of implementing the EEA legal framework[52], which is most often implemented without any consideration being given to Iceland's unique features such as smallness.[53] Furthermore, while the Foreign Service may have the expertise to take part in international negotiations – including those on EU accession – the bureaucracy at large lacks solid knowledge of important sectors of the EU such as fisheries, agricultural, finance and rural and regional development in order to define comprehensive negotiation positions in the EU accession talks.

Iceland's limited activity within the UN and the Council of Europe provides further examples of the consequences of the lack of enthusiasm about international participation. Iceland did not take over the rotating chairmanship of the Council of Europe until 1999 because until then it argued that it did not

[50] Ministry for Foreign Affairs (2011), *Information by email provided by the Ministry's spokesperson*. (received on 7 January 2011).

[51] Kristinsson, G.H. (1993), Valdakerfið fram til viðreisnar 1900-1959, in G. Hálfdanarson and S. Kristjánsson (eds.), *Íslensk Þjóðfélagsþróun 1880-1990*, Reykjavík, Félagsvísindastofnun Háskóla Íslands and Sagnfræðistofnun Háskóla Íslands, pp. 321-354.

[52] Council of the European Union 2010, 'Council Conclusions on EU Relations with EFTA Countries', 3060th General Affairs Council meeting Brussels, 14 December, at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/118458.pdf (viewed on 2 February 2011).

[53] Rannsóknarnefnd Alþingis (2010), *Aðdragandi og Orsakir Falls Íslensku Bankanna 2008 og Tengdir Atburðir, 5. bindi*, Reykjavík, Rannsóknarnefnd Alþingis, pp. 22-23.

have the administrative capacity to tackle the duties involved. Similarly, Iceland has not undertaken the presidency of the UN General Assembly as, for instance, Malta did in 1990, Lebanon in 1958 and Ireland in 1960-61.

Moreover, Iceland was the last of the Nordic states to decide to apply for a seat on the UN Security Council in 1998. This decision was taken without any preparation and policy analysis – no documents exist about the government's decision. The financial burden of international co-operation is still employed as an argument in the debate on whether or not the country should become more active internationally. The cost of running for the Security Council seat and sitting on the Council was heavily criticised by leading politicians.[54] Furthermore, the application to join the Security Council was criticised because it did not give Iceland any direct benefits[55] and doubt was cast on the country's administrative capacity to participate in the Security Council.[56]

Conclusion

Iceland's primary foreign policy objectives throughout the twentieth century were to secure full control over its territory (land and waters), improve market access for its fisheries products overseas and guarantee its defence. All political parties subscribed to these aims, though they differed on how to achieve them. Membership of supranational institutions like the EU was seen by most politicians as contradicting these aims. However, membership of EFTA and EEA was a practical choice for economic reasons and participation in the Schengen scheme was undertaken to secure the 'continuation' of the Nordic passport union. These agreements, together with the defence agreement with the US, have been perceived by most politicians as serving Icelandic core national interests, in terms of economics and security.

Late industrialization and modernization have contributed to a steadfast belief in the uniqueness of the nation. The smallness of the society and its insularity have shaped the country's political discourse and foreign policy. Iceland's foreign policy still bears the hallmark of the past. Accordingly, the political discourse has been structured by a quest for self-determination, protection of identity and the concept of preserving the country's sovereignty and independence. This combination, and politicians' experience and perceptions about how Icelandic interests could be best served, led to an international approach which emphasized bilateralism at the expense of multilateralism.

However, the vulnerability of the small economy and its lack of political and economic shelter in the latest global financial crisis have led many to question the traditional internal and external polices. The Social Democrats have undertaken a hard-fought battle to change them by applying for membership of the European Union.

[54] See, for instance, *Morgunblaðið* 2005a, "Verra en í Eurovision", 2 March p. 4; *Morgunblaðið* 2005b, Óöruggt sæti í öryggisráði, 30 April, p. 34; Schram, A. (2005), 'Áleitnar spurningar hafa vaknað um kostnað', *Morgunblaðið*, 30 April, p. 10.

[55] *Morgunblaðið* 2005c, Öryggisráð og aðrar leiðir, 27 January, p. 26.

[56] Friðriksson, O. 2005, 'Vaxandi efasemdir eru um möguleika Íslands', *Morgunblaðið*, 24 January, p. 26f.

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