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Chair, dear guests – welcome to Iceland, and thanks to the organisers and all of you for the opportunity to speak at this distinguished gathering.

I have been asked to explain why some Icelanders are in favor of joining the European Union and why the present outgoing government is engaged in the accession process. This is a good and interesting question in these turbulent times in the European Union.

That said, I am most often asked to explain why Icelandic politicians are reluctant to participate actively in the European project.

I have given a number of lectures to explain Euroscepticism in Iceland. There are two things that are most important: Fish and identity.

Euroscepticism in Iceland has mainly to do with control over our waters (the exclusive economic zone) and control over our resources (fish and energy). There is also the issue of national identity (many Icelanders are very nationalistic) and therefore opposition to the transfer of power from Reykjavik to Brussels.

Fish and identity are very much interlinked in this sense.

Iceland has, in fact, been the only country in Europe where the political elite has been relatively more sceptical towards European integration than the country's electorate.

Iceland's electorate is not that sceptical towards membership of the EU – if we look at opinion polls from the last 25 years.

In the period from 1988 to 1996 the public in Iceland was divided into roughly three equal parts. 1/3 was against membership, 1/3 was for membership and 1/3 was undecided. In the 12 year period from 1997 to 2008, all Gallup opinion polls (11) showed a majority in favour of membership, except for one.

However, from mid 2009 the majority of Icelanders has been against membership of the EU. This is largely due to Icesave and partly because of the economic crisis in

Europe. More on that later in the discussions.

On the other hand, in the past nearly all Icelandic politicians were convinced that EU membership would place constraints on the country, particularly in the fisheries and agrarian sectors, rather than provide benefits. They firmly opposed any transfer of power from Reykjavik to Brussels.

Iceland only engaged within the framework of European integration in order to guarantee access to the European market and to avoid the collapse of the Nordic Passport Union through membership of Schengen.

At present, there is only one political party on favour of EU membership: The SDA. The Social Democrats are the driving force behind the application. Other parties are not in favour of membership – although some of the newly formed parties tend to be more open to accession than the old established parties.

The other main political parties – the Independence party (conservatives), the centre agrarian Progressive party and the Left Green movement – all oppose membership. That said, there are pro-European forces within all these parties. However, the Eurosceptics have the upper hand in the power struggle between these two forces at the moment.

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Lets now look at the pro European forces in order to answer the question: What happened in 2009? Why did Iceland suddenly and unexpectedly apply for membership of the EU in the summer of 2009?

Broadly, speaking there are two things we need to consider in order to answer this question.

First, we need to look at the Icelandic economy.

Second, we need to consider the position of Iceland in the international system.

I think that these two points will help us to understand why the Social Democrats are in favour of EU membership – and how they managed to convince others to follow their lead and apply for membership four years ago.

Basically, what we need to do is to explain why the SDA is in favour of membership of the EU.

I could of course talk about the inbuilt double democratic deficit of the EEA and the fact that Iceland does not have any chance at all to influence EEA regulations.

I could also speak about how some Icelanders – especially some Social Democrats – identify themselves with Europe and have adopted some form of European identity, but I think that the previous points mentioned are more important when it comes to explaining why Iceland is engaged in the accession process.

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So lets start by focusing on the economic crash of 2008.

As you know small states rely heavily on exports and imports. Their foreign trade is often concentrated on one particular market – around 82 per cent of Iceland’s exports go to the EU and 60 per cent of our imports come from there.

Iceland was even more exposed to the fortunes of the international economy than other small states due to the dramatic rise of the banking sector in the first decade of the twenty-first century. In 2007, the banking sector, for the first time, contributed more to gross domestic product than the fishing industry. It had assets valued at over ten times Iceland’s GDP in the autumn of 2008. The Icelandic financial sector was the only financial sector which collapsed entirely in the 2008 financial crisis.

Moreover, Iceland’s currency, the króna, fell around 50% between 2007 and 2009. Iceland and South Korea were the only states out of 46 medium to high income countries to experience a currency crisis.

The international financial risk to the country, not only led to an economic crash overnight, but even more dramatically, for the first time in Iceland’s history, there were weeks of violent protests in the streets of Reykjavik. This resulted in the collapse of the ruling government, which led to general elections in the spring of 2009.

The unexpected and swift crash created a deep wound in the core function of the state and society. Public confidence in politicians, political parties, the government, the state’s national bureaucracy and the media fell dramatically.

When the international financial crisis plunged Iceland into one of the worst economic collapses in recent history, the traditional reluctance of most of Iceland's political parties to engage with the European project came under increased scrutiny.

Opinion polls showed that a clear majority of Iceland's population wanted to start membership negotiations with the EU, with an all-time high of 70 percent in favour of negotiations in 2008 and early 2009.

This relatively hasty membership application in the summer of 2009 made it obvious that the economic crash had a profound – short-term – influence on the European policies of Iceland's political parties.

EU membership became the main election issue in the 2009 elections and the SDA for the first time became the largest party.

Until the general election in 2009, the Social Democrats had refrained from making EU membership their main campaign issue in general elections. The party first started to advocate EU membership in 1994 – thirty years after the Social Democratic parties in Denmark and Norway became pro-EU.

The financial crisis reconfirmed the position of the SDA, which had for a long time been the only party to argue that Iceland's economy would fare better within the EU. The crisis provided an unprecedented opportunity for the party to put EU membership on the political agenda.

Thus, the SDA was able to justify breaking up its coalition with the conservative Independence Party in January 2009 on the grounds that the latter did not adopt a pro-European policy. Moreover, it was hopeful that its new coalition partner, the Left Green Movement, would not stand in the way of an EU application.

In the campaign before the election, the party focused mainly on the potential economic benefits of membership and the adoption of the euro, aware of the fact that supporters of a closer engagement with the European project had won approval by emphasising economic benefits during the debates on both European Free Trade Area (EFTA) and EEA membership.

The party's plan for economic recovery was based on EU membership, emphasising the benefits for consumers and enterprises of lower prices of goods, the adoption of

the euro within the EU. They also pointed out the opportunities of aid for rural areas, agriculture and the tourist industry from the EU's Structural Funds.

In order to achieve its goal, the SDA allied itself with influential interest groups, including the Federation of Trade and Services, the Federation of Icelandic Industries, the Icelandic Confederation of Labour, the Icelandic Travel Industry Association, and the Icelandic Chamber of Commerce – and issued a joint declaration with them.

We also need to mention that the Icelandic business community and some of the main labour unions have demanded the adoption of a new currency for a considerable time. The Federation of Icelandic Fishing Vessels Owners even demanded a new currency.

There had long been much talk of the unilateral adoption of an other currency. However, in early 2008, the European Union ruled out that Iceland could unilaterally adopt the Euro: Iceland had to join the EU in order to do so. This helped to put the EU membership issue firmly on the political agenda. There was no point in discussing the unilateral adoption of the euro any longer.

The general election rewarded the pro-European approach of the SDA, which became, for the first time, the largest political party – and formed the first ever left of centre government in Iceland's history.

The financial crash provided a short-term opportunity for the party to place the EU question on the political agenda and its strong negotiating position after the general election made it possible for it to carry the membership application through parliament. In other words, the economic crash opened a 'window of opportunity' on which pro-European forces were able to capitalise.

And the EU application is still all about the economy despite the economic difficulties within the Union.

Lets now turn to the second point; on the position of Iceland in the international community.

The Icelandic government was defenceless against the economic turmoil that ensued when the small economy was hit by the international financial crisis.

The government had been unable to seek substantial external assistance from neighbouring countries and international organisations prior to the crisis in order to strengthen the foundation of the economy, particularly the overgrown financial sector and its currency.

Moreover, the government had severe difficulties in guaranteeing external assistance when the financial crisis hit the country with full force. Iceland's economy came to a standstill and the Icelandic Central Bank only provided foreign currency for the import of food, medicine and petrol.

The British government used its anti-terrorist laws to take control of assets held in Britain by the beleaguered Icelandic banks and demanded full compensation from the Icelandic government to British account holders. Tense relations followed between the two countries. To Iceland's dismay, all member states of the European Union, including the Nordic states, stood by Britain, delaying much-needed external assistance.

Iceland faced challenges on all fronts since the governments of Germany, the Netherlands and Luxembourg also demanded full guarantees of their citizens' savings that were 'lost' in the branches of the Icelandic banks in these states.

The International Monetary Fund finally came to the rescue a few weeks into the crisis – after Iceland had accepted preconditions for settling the dispute with Britain and the Netherlands, in other words given in to their demands. However, this so-called 'Icesave' dispute dragged on and the IMF did not initiate a two-year Stand-By Arrangement for Iceland to support the country's programme to restore economic stability until November 2009 – over a year after the crisis hit – when Iceland had finalised a deal with Britain and the Netherlands.

However, in January 2010, Britain, the Netherlands and the Nordic states yet again blocked IMF assistance after the President of Iceland referred the Icesave deal, which the government had struck with Britain and the Netherlands and the Icelandic parliament (the Althingi) had narrowly approved, to a referendum.

These events raise the question of whether the Icelandic government failed to guarantee its citizens sufficient economic and political shelter in order to prevent the economic crash, get assistance after the crisis hit and clean up after the event.

Historically, one could argue that Iceland has always enjoyed shelter provided by its more powerful neighbours from its settlement in the 9th century to the early twenty-first century.

Close economic and political ties with Norway provided economic shelter from the beginning and Iceland became part of the Norwegian kingdom in 1262. One reason for this was the king's promise to guarantee annual supplies to the country.

In the following centuries, Iceland had some economic shelter from European sailors and merchants, who provided important trade links with Europe in times of a limited or non-existent domestic fleet. For instance, Icelanders refer to the 15th and the early 16th century as the English century and the German century.

However, Iceland was part of the Danish Kingdom until the mid-twentieth century - after a merger of the Norwegian and Danish Kingdoms in the late 14th century.

Iceland became a sovereign state in 1918 but still enjoyed a measure of cover by the Danish government. For instance, the Danish Foreign Service handled Iceland's external relations until 1940 – despite foreign affairs being in the hands of the Icelandic government – due to the non-existence of a foreign service in Iceland.

The US government took over from the Danes early in the Second World War and provided substantial economic and trade shelter until the late 1960s and defence in the form of a military presence in the country until 2006. The US government, from the beginning, provided Iceland with considerable aid (much higher than other European states received, per capita), beneficial loans, monetary donations and favourable trade (most favoured nation) deals with US companies.

Moreover, the US built up Iceland's infrastructure, such as the Keflavík International Airport, paid the cost of running it and for the expensive military and civil radar surveillance system until 2006. Its military base – which closed in 2006 – also contributed considerably to Iceland's GDP and provided much-needed foreign currency earnings.

The political shelter provided by the US was also a decisive factor in Iceland's success in extending its exclusive economic zone. Britain and other European fishing nations hesitated to use their full force against Iceland's extensions of its economic

zone due to the US government's and NATO's concerns about the future of the military base in the country.

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Iceland sought shelter in the European integration process in 1970 when it joined EFTA. EFTA membership also paved the way for a bilateral free trade agreement with the European Economic Community signed in 1972.

Iceland sought further economic shelter within the EU framework by joining the Common Market through membership of the European Economic Area. Iceland took full part in the liberalisation of its financial sector through the EEA Agreement.

The EEA gave Iceland nearly tariff free market access to its most important market and Iceland reaped economic gains from this. At the same time, the EEA exposed Iceland to economic instability, i.e. it created the conditions for the economic boom from the mid-1990s, the overvaluation of the króna and the economic collapse.

The EEA is a lopsided multilateral agreement. It increases growth and risk exposure in new ways and is not the kind of multilateral agreement which provides economic shelter such as currency stability and backup for a small central bank.

In other words, Icelandic businessmen found it easier to assume risk abroad and used the agreement's advantages to the utmost. At the same time, Icelandic governments failed to seek the shelter needed to deal with this new and unknown exposure.

Iceland joined the Schengen scheme in 2001. Membership of Schengen has provided Iceland with more shelter than was anticipated in the beginning due to the importance of police collaboration as increased international crime has affected the country.

If we compare Iceland with the three Baltic states, which were also badly hit by the 2008 crisis, one can say that engagement in the European project, including the free movement of capital, made both the Baltic states and Iceland particularly vulnerable in the financial crisis.

However, while Iceland found itself stranded in the middle of the North Atlantic without any shelter, the Baltic countries received immediate political and economic assistance from the European Union in order to cope with the crisis and its consequences, domestically and internationally.

The Baltic countries' problems are EU problems which have to be solved within the EU framework. The EU helps its member states to get IMF assistance – it does not hinder them from receiving outside help.

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In conclusion

What lessons did the Icelandic Social Democrats draw from the financial crisis?

First, the experience of the neo-liberal international economy of today, characterised by the free flow of capital, indicate that external threats cannot be managed solely by domestic arrangements.

Second, Iceland as a small state needs economic and political shelter to prevent risk from emerging and turning into catastrophe. Iceland needs external economical and political shelter to reduce risk before a crisis event, assistance in absorbing shocks when risk goes bad, and help in cleaning up after the crisis event.

It may look odd to some Europeans today, but here in Iceland the Social Democrats still see the European project as a provider of economic and political shelter.