

THE DISTINCTIVE DOMESTIC CHARACTERISTICS OF ICELAND AND THE REJECTION OF MEMBERSHIP OF THE EUROPEAN UNION

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This article examines the reasons for Iceland's refusal to follow other Nordic states in their movement towards European integration. It applies the approach of Peter J. Katzenstein, in his work on characteristics of smaller states, and compares the domestic features of Iceland with those of the remaining Nordic states. It argues that, by comparison with these Nordic states, the three defining characteristics of smaller states – economic openness, corporatist structure, and political party systems – are different in Iceland. Furthermore, in order to understand this cautious policy towards European integration, consideration has to be made of Iceland's special security experience. Also, the special characteristics of the Icelandic administration have to be examined. Iceland's membership of the European Economic Area (EEA) reduces European and international constraints on Iceland. On the other hand, the Icelandic political élite does not regard membership of the European Union (EU) as a means of further easing these constraints. On the contrary, it considers that membership will have unbearable constraints on Iceland's fishing interests and farming community.

Keywords: Small states; Nordic states; Iceland; European Union; European integration; Fishing interests

INTRODUCTION

This article examines the reasons for Iceland's refusal to follow the other Nordic states in their attempt to join the EU. This is of particular importance

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as Iceland is the only one of these states which has not applied for membership of the EU, and, furthermore, is not considering doing so.

Since the fall of the Berlin wall and, in particular, the collapse of the Soviet Union, all the Nordic states except Iceland have moved towards the adoption of a similar policy with regard to European integration. Sweden and Finland, for example, have already joined Denmark in the EU, and the political élite in Norway is also eager to join, despite the fact that a majority of its electorate oppose membership. By contrast, the government of Iceland has not even considered EU membership. An explanation is thus called for.

It is also apparent that, while support for EU membership has been greater among Iceland's general population than among its political élite, this is contrary to the case in the remaining Nordic states, where support for EU membership has been greater among the political élite than among the general populace.¹ In Iceland, the Social Democratic Party – traditionally a much smaller party than its counterparts in Scandinavia – is the only political party which has adopted a pro-EU policy. In the 1999 general election, however, it formed an electoral coalition, as the 'Alliance', with two left-of-centre parties, the People's Alliance and the Women's Alliance, both of which have rejected membership of the EU; their policy is to refrain from applying for EU membership during the current parliamentary term, which will end in 2003. Which policy the Alliance will adopt towards Europe in the future remains to be seen. Similarly, the Independence Party – the united right and the largest party in the parliament (*Althing*) – together with its coalition partner, the Progressive Party, both rule out membership for the present. However, the policy of the newly founded Liberal Party – the smallest party – is to consider an application to the EU, albeit emphasizing that membership would be conditional on Iceland retaining full rights to its fishing grounds. Indeed, all the political parties in Iceland, except for the Social Democratic Party, have stated that Iceland will refrain from joining the EU so long as its Common Fisheries Policy (CFP) is unchanged and remains unfavourable to Icelandic fishing interests. As Ingebritsen argues, "Fish are at the heart of Iceland's EC opposition".²

Other variables must also be considered in order to explain the opposition of the Icelandic political élite, alone of all Nordic elites, to European integration. The importance of the fishing industry is a major contributor to this scepticism but it is debatable whether the upholding of CFP has not been used, in part, as an excuse to limit discussion on membership. In order to develop our understanding, for instance, we have to look at the special

relationship between Iceland and the United States, since this influences the attitude on the part of the élite to the Common Foreign and Security Policy (CFSP) of the EU. We also have to analyze the policy-making process in Iceland, the lack of corporatism, and the less centralized interest groups, and compare them with those in the other Nordic states. The important role of the agrarian lobby must similarly be taken into account. A further consideration is the question of the distinctive party system in Iceland, in which the united right, the Independence Party, dominates, by contrast to the Social Democratic Parties in Scandinavia. The unequal distribution of seats in *Althing* with regard to the rural areas *versus* the capital, Reykjavík, and its immediate environment, must similarly be considered. We also have to focus on the weak administration and its close cooperation with the fisheries' and farmers' interest groups.

Katzenstein has identified a number of common domestic characteristics of smaller states in Europe.³ This paper tests whether his approach, based on characteristics of smaller states, applies to Iceland; it also compares domestic characteristics of Iceland with those of four Nordic states: Denmark, Norway, Sweden, and Finland. Katzenstein's description of the political environment of smaller states contains many elements normally considered 'Scandinavian'.⁴ Strong welfare states and large public sectors, centralized bargaining and a high level of domestic consensus have all been hailed, not least by Scandinavian scholars, as characteristics and exclusive features of the Scandinavian countries. Katzenstein's thesis, which states that these can be attributed to elements of size rather than to other vague historical explanations, places them in a rather interesting new light.⁵ We would also expect smaller states to have various economic and political characteristics in common which influence their behaviour.⁶ To date few attempts have been made to link these together. Katzenstein, however, has done so: he "tries to create a synthesis between the analysis of economic vulnerability and political flexibility via consensus".⁷ It is, therefore, of considerable interest to test his hypothesis on the Icelandic situation.

The paper argues that Katzenstein's findings on the characteristics of smaller states in Western Europe are not applicable to Iceland. It argues that Katzenstein's defining characteristics of smaller states, which he divides into three features of economic openness, corporatist structure, and political party systems, do not compare to the other Nordic states. As a result, Iceland has not followed the same pattern of progress towards European integration as the other Nordic states.

THEORETICAL FRAMEWORK

The end of the Cold War opened up the possibility of membership of the EU for a number of smaller states. For the neutral states, such as Sweden and Finland, the situation in Europe changed with the collapse of the Soviet Union, since their neutrality during the Cold War, and the close relationship between Finland and the Soviet Union, had apparently been an obstacle to membership of the EU. Thus, the new situation in Europe allowed all the European Free Trade Area (EFTA) states to progress towards EU membership in the early 1990s. Similarly, the neutrality of Austria and Switzerland was no longer seen to inhibit EU membership. The smaller states in central Europe also sought membership, along with smaller states in southern Europe. Ingebritsen points out that the Nordic states faced new choices as the international political system was transformed between 1985 and 1995 but, she continues, "The European option was not the only one available – nor was it inevitable".⁸ Nevertheless, except for Iceland, all smaller states in Europe worked towards obtaining membership of the EU in order to seek help with problems which could no longer be solved within national boundaries, since European integration has proved "to be remarkably resistant to inevitable national pressures against often painful liberalisation measures".⁹

Katzenstein argues that the EU offers smaller states "political opportunities to 'tie down the Germans', and thus to diffuse growing bilateral dependence in a variety of multilateral arrangements".¹⁰ This coincides with Wallace's argument that multilateral institutions protect and promote the interests of small states and give them greater leverage over large states,¹¹ and that, as a consequence of the economic dependence of the smaller states on Germany, "all of the smaller European states seek to diffuse and reduce their dependence through closer European integration".¹² Smaller states in Europe experience the effects of ties with the EU and Germany according to the duration and depth of their participation in European integration. Smaller states which are deeply involved in European integration, such as the Benelux countries, experience these effects as soft constraints. On the other hand, smaller states whose participation in European integration is still very limited and restricted to few issues, as is the case of the central European states, experience the effects as hard constraints.¹³ As a result, smaller states have moved towards EU membership, their intention being to minimize the international effects which subject them to constraints. This

is apparent in the case of the other four Nordic states, despite their division on the question of the depth of European integration. Ingebritsen argues that three of them – Denmark, Norway and Iceland – align themselves with British intergovernmentalism as a vision of European unity, preferring power to be located at the state level, and that decisions in security matters are made with the Americans. The remaining states of Finland and Sweden align with German multilateralism, where power is vested in supranational authorities and European, rather than Atlanticist, solutions are preferred.¹⁴

Membership of the EU offers smaller states the ability to remain firm on their own issues while having an opportunity to influence decisions taken within the institutional framework of the EU.¹⁵ Thus, these smaller states adopt policy objectives similar to the remaining EU members, while seeking to retain much of their own identity, as well as attempting to gain the maximum economic and political benefits. Smaller states outside the EU, however, do not have the same opportunities to influence those decisions made by members of the EU that will eventually affect them. We would therefore expect smaller states to support stronger multilateral institutions and “play an active and constructive role within them”.¹⁶ Denmark, Sweden and Norway have, however, “hesitated to accept this logic”.¹⁷ Nevertheless, after considerable debate, all have aimed for full participation in the integration process. Thus Iceland stands alone. It has become “the marginal player, half-engaged in regionally integrated politics while preferring autonomy to full commitment”.¹⁸ As yet this is also the case for Norway, since the general public has blocked decisions made by the political élite.

When we question why Iceland has not followed the example of others in order to minimize European and international constraints, we find that the answer lies in the distinctive domestic characteristics of Iceland, which influence policy-makers into seeking to join in the European project without offering any commitment. The European Economic Area agreement is regarded as alleviating the European and international constraints on Iceland and full membership of the EU is not seen as a further means to ease these constraints. Rather, membership of the EU is considered to lead to unbearable constraints for Icelandic fishing and farming interests. Our findings concerning Iceland coincide with those of Katzenstein: that international effects “do not force differing domestic politics and policy choices into a uniform mould”.¹⁹ It would appear that the Icelandic policy towards European integration stems from both the distant past and present choices.

FOREIGN POLICY: THE SPECIAL RELATIONSHIP WITH THE US

The four principal strands of Iceland's foreign policy are membership of NATO, a defence treaty with the US which has a military base in Iceland, membership of the EEA, and the 'wait and see' policy approach to the question of membership of the EU.²⁰ The first three of these are now hardly questioned, and there is almost no debate at all on whether Iceland should apply for membership of the EU: certainly no considerable debate on this issue has ever taken place. Indeed the Prime Minister, Davið Oddsson, the leader of the Independence Party, has stated on several occasions that, for the present, membership of the EU is not on the agenda. There is general consensus between the coalition partners in government concerning this policy towards Europe and the governmental agreement states that it will closely follow the integration process in Europe. Thus the 'wait and see' policy approach prevails. The parties in opposition, however, differ somewhat in their foreign policy but have been unable to develop a national debate either on EU membership or on the US military base in Iceland. They are, therefore, far from being able to challenge the foreign policy of the coalition government.

The reluctance of the government of Iceland to form an active integration strategy has to be explained by looking at the background of both its security policy and its economic policy. The government has stated, for example, that foreign economic interests are satisfied with the EEA agreement. This is also the common opinion among most interest groups in Iceland. The opinion of the government is that EU membership would not contribute to the economic benefits which Iceland already obtains through the EEA agreement.

With regard to the Icelandic security policy, its relations with the US are different to those of all other member states of NATO, and are based on a defence treaty signed in 1951. Since then, this treaty and membership of NATO have been the main basis for the Icelandic security policy.²¹ It is also clear that this special relationship between Iceland and the US influences Iceland's approach to European integration. The government's opinion is that, as long as Iceland has this relationship with the US, it need not look to European integration to strengthen its security.

The foreign minister of Iceland has stated that it is necessary to reconsider the security and defence policy of Iceland. He argues that there are three fundamental aspects of this policy: first – and most important – NATO

membership and the defence treaty with the US; second, Iceland's future contribution to cooperation within NATO itself, and within its wider security framework; third, Iceland's undefined role within international organizations such as the Organization for Security and Cooperation in Europe (OSCE) and the United Nations. His main emphasis, however, is on the means by which Iceland can link the organizational structure surrounding the security policy with responses to national disasters. He also raises the question of the means by which, in cases of national disasters, Iceland's Public Security System and its Coast Guard can contribute to the security order in Europe, by participating in exercises which are outside the framework of traditional defence cooperation.²²

When, in October 1999, the European Commission recommended that negotiations should be opened with six new applicants, the foreign minister used the opportunity to point out that an enlarged Union in the future would alter the position of Iceland in Europe. He stated that Iceland would need to consider its policy toward the European integration process, and announced that the Ministry of Foreign Affairs would make a detailed report on Iceland's position in Europe. The political parties in opposition welcomed this announcement, particularly the Alliance, and demanded more discussion on the possible approaches of Iceland in its response to the integration process.²³

Governments in Iceland, unlike those in the other Nordic states, have never shown any serious interest in participating in the foreign policy and security aspects of European integration.²⁴ The Labour government in Norway, supported by the Conservatives, for instance, gave the CFSP as a reason for joining the EU; however Archer and Sogner argue that the Norwegian response to the uncertainty after 1989 was threefold: first, the government re-confirmed its belief in NATO; secondly, 'liberal institutionalisms' ran parallel to this and involved the need for a collective approach to security threats – that is, a multilateral institutional response which did not involve military action; thirdly, the EU was reconsidered as a source of security, and for Norwegian policy-makers it appeared an attractive option "purely in security terms".²⁵ With regard to Iceland, policy-makers focus solely on NATO and the role of the US in the security of Iceland.

Foreign policy is traditionally a sensitive issue in Icelandic politics.²⁶ Icelandic governments have approached this cautiously and are likely to continue to do in the near future. NATO membership and the military base in Iceland have caused considerable conflicts both within and between political

parties. Indeed the policy of the parties towards NATO membership has been a key factor in the formation of any coalition. At present, there is little hint of any change in the approach to EU membership on the part of the political élite: an application to join is not on the agenda.

THE RELUCTANT ECONOMIC OPENNESS

The economy of Iceland can be regarded as 'open' in a number of respects. The characteristics of the economy, for instance, are consistent with the less diversified industries of other smaller states, since it relies mainly on the one export of fish. In fact, the reliance of Iceland on fish exports is extreme, as it constitutes around 65% of its exported goods.²⁷ This fits precisely into Katzenstein's framework as he argues that smaller states specialize in their exports. Furthermore, in common with other smaller states, due to the small scale of its economy, Iceland is heavily dependent on the import of other goods. Membership of the EEA also contributes to the openness of the economy.

Exports in Iceland are mainly concentrated on the two markets of the European Union and the United States; the EU being of greater importance, accounting for nearly 70% of Icelandic exports, while the US market accounts for just over 13%.²⁸ The government of Iceland has, therefore, made particular attempts to promote trade agreements with EU member states. No such attempts have been made to open the international markets, however, since the government has been very reluctant to open up Iceland's boundaries for foreign goods and foreign capital; indeed, all attempts to open up the domestic market to foreign goods have met with strong resistance.

Political parties themselves have been very reluctant to open up the economy because major interest groups have campaigned against it, the main constraint being the strong hold of the fisheries and farmers pressure groups; and Icelandic governments have only opened the domestic economy to imports in return for, or in the expectation of, access to markets for its fish. It joined EFTA, for instance, in the hope of a free trade agreement with the EU, and in 1972 an agreement was finalized which gave substantial tariff concessions to Iceland's fish exports to the EU.²⁹

The most recent example is that of the EEA agreement, which was promoted on the grounds of there being an unlimited, and almost tariff free, access for fish products to the EU. Despite this, the agreement met with

very strong resistance both from within the *Althing* and from some pressure groups, since it upset the consensus on foreign economic policy which had existed since the debate on the membership of EFTA. In 1993 the agreement caused a debate to be held in parliament such as had not been seen for decades. The People's Alliance and the Women's Alliance voted against the EEA as did a majority of the Progressive Party MPs. The Independence Party, when in opposition, preferred a bilateral agreement with the EU, although, when in government with its coalition partner, the Social Democratic Party, it guaranteed a majority in favour of the EEA agreement. Such was the feeling that the President of Iceland, Vigdís Finnbogadóttir, even considered refusing to sign the agreement; and ultimately made an announcement to explain why she did in fact do so – a very unusual step for the President in Iceland to take – saying that she did so because of the traditional non-political role of the presidential office.³⁰

While there is an overall consensus on the EEA agreement today, most politicians have made it clear that they are not prepared to undergo such a heavy debate again, which might split the nation, in order to join the European Union. The Norwegian negative vote on EU membership also strengthened those opposing Icelandic membership of the Union and restated this view.³¹ Due to its heavy reliance on exports, Icelandic governments have, in fact, opened up the economy, although this has not happened automatically. Until the 1960s, for example, the economy of Iceland was characterized by restrictions, import duties and export subsidies. These changes have occurred more slowly than in other Nordic states. Iceland, for instance, joined EFTA in 1970, ten years later than its Nordic neighbours, Norway, Denmark and Sweden.

The main reason for these distinguishing characteristics of Iceland's economy is that industrialization began later in Iceland than in other Nordic states. At the turn of the century, for instance, it was still predominantly a farming community, and, while the fishing industry had been developing slowly, other industrial production was almost non-existent. When industrialization in Iceland finally expanded, the public sector and banks were the leading forces; and, to date, to a far greater extent than in the other Nordic states, the private sector's access to finance is still through publicly owned banks and funds which are under government control. Furthermore, the primary economies of farming and fishing dominate the economy of Iceland to a far greater extent than in the Nordic countries because the production in other Icelandic industries has not reached the levels of neighbouring countries. This is a very distinctive characteristic of the economy

of Iceland,³² which affects both the domestic policy-making of the government in Iceland and its reaction to European integration. Opposition to EU – membership is strongest in the primary economy, and the powerful organizations of farmers and fisheries are very reluctant to consider the membership alternative. The Icelandic Federation of fishing vessel owners seeks to protect its sole right of fishing; and the farmers' lobby rejects membership because "[a]s a consequence of joining the EC, the Nordic states must reduce agricultural subsidies to be compatible with the Common Agricultural Policy (CAP)".³³

Furthermore, since 1994, an economic boom has swept Iceland, and thus there have been no economic difficulties to force the government to consider the membership alternative, as has been the case in Finland and Sweden. Iceland, for instance, has for years fulfilled all economic requirements for joining the European Monetary Union (EMU). This is particularly noteworthy since Luxembourg was, for a considerable time, the only member state of the EU to fulfil these requirements. The Gross Domestic Product (GDP) in Iceland has been more than 5% since 1996 and the general governmental budget deficit has been reduced from 3% of GDP in 1995 to plus 1.6% above GDP in 1998.³⁴ Furthermore, inflation remained around 2% between 1995 and 1997, and was only 1.3% in 1998. Similarly, unemployment has been low compared to other West European states, and was only at 2.8% in 1998.³⁵ Fishing quotas have also been increased in the last five years and important investments have taken place, especially in the aluminium industry and the fishing sector.

THE POLICY-MAKING PROCESS: CONFLICT-ORIENTED RELATIONSHIPS BETWEEN COMPETING INTERESTS

The corporatist structure of Scandinavian states differs from the co-ordination structure in Iceland. Katzenstein argues that the corporatism of smaller states is one of the fundamental characteristics which differentiates them from larger states.³⁶ Katzenstein's findings do not apply to the decision-making system and the conflict-oriented relationship between employers and employees' organizations and the government in Iceland. Similarly, employers and employees' organizations have traditionally been more divided amongst themselves in their response to each other's initiatives. In addition, the

level of their cooperation with the government differs widely. Furthermore, Katzenstein argues that the strong welfare system of Scandinavia is paramount to the consensus. In the case of Iceland, however, the welfare state differs from those of the other Nordic states in the sense that its scope has been more limited.³⁷

The fact that the economy of Iceland is concentrated in one sector has not made it easier for opponents to reach a compromise and consensus. Iceland fits into Katzenstein's framework in the sense that the decision-making network is small, interest groups are influential and political parties are strong. Although interest groups are most influential in Iceland, the balance between the influences of interest groups is different to that which can be found in the other four Nordic states. Pontusson has, for instance, demonstrated the way in which the business sector in Sweden is integrated into its corporatist framework along with labour unions³⁸ and how that helped the Swedish government to pursue its pro-European policy.³⁹

Furthermore, labour market organizations in Iceland have not been willing to form alliances with each other in order to solve particular problems; thus their relationship is characterized by conflict. This is particularly true with regard to the relationship between employers' and employees' organizations. It is also the case that the latter compete with each other and have, in point of fact, sometimes worked against each other's interests. When, for instance, the Icelandic Federation of Labour (ASÍ) and the Federation of State Employees (BSRB) demanded that the government should take back the pay increase of members of the Federation of University Educated Employees (BHM), it resulted in legislation preventing the implementation of the pay increase. It is also the case that the views of farmers', fisheries' and industrial and service employers' organizations are often far from similar, so that a common coherent employers' policy cannot be presented. Furthermore, the Federation of Icelandic Labour (ASÍ) is not as centralized as its counterparts in the other Nordic states. On each occasion it has to obtain authority from individual labour movements to negotiate on their behalf and individual labour movements have to agree to bargaining deals with employers' organizations.⁴⁰

Contrary to the case in the four Nordic states, where there has been considerable success in preserving industrial peace, the relationships within the Icelandic labour market, and thus the process of bargaining, are characterized by conflicts. Such conflicts go much deeper in Iceland than in Scandinavia, as indicated by the number of working days lost through strike

action. According to a survey of one thousand workers, for instance, over a five year period between 1986 and 1990, the average number of working days lost through strikes totalled 433; while in the four Nordic states the average was only 167. In the period between 1991 and 1995 the average number of working days lost through to strike action was again considerably higher in Iceland than the average for the four Nordic states. In fact, Iceland ranks highest of all countries in Western Europe with regard to working days lost through strikes, and by far surpasses Italy (traditionally assumed highest), where, in the period between 1986 and 1990 for the same number of workers, the average number of working days lost through strikes was 218.⁴¹

The intervention of the state and the political parties in the cooperation process between employers and employees has been more limited in Iceland than in the other Nordic states.⁴² However, the state has had to 'rescue' the economy by intervening to enable employers to fulfil their commitments to the unions, while, due to their strength, employees' organizations have not had to take into account the implication of pay increases.⁴³

Conflicts between political parties have added to the lack of consensus in the labour market in Iceland. Furthermore, politics in Iceland, as well as relationships between organizations, are based on personalities, which increases the diversity of conflicts and does not lead to consensus, as Katzenstein would argue. As Griffiths and Pharo argue, Katzenstein "is at his weakest . . . when explaining the political consensus as a result of the economic environment".⁴⁴ The tendency of smaller states towards oligarchy, noted by Katzenstein, has been mainly in the form of direct state intervention in the case of Iceland, insofar as there was direct centralized state intervention in the economy of Iceland until the 1970s.⁴⁵ Furthermore, he argues that corporatism in smaller states is characterized by a voluntary and informal co-ordination of conflicting objectives. The major producer groups, state administrations and political parties co-ordinate policy-making through political bargaining. All important interest groups are systematically included in the bargaining process and participate in policy formulation and implementation which includes broad policy objectives.⁴⁶ This, however, as stated above, is not the case for Iceland.

Industrial relations in Iceland have been changing slowly over the last ten years, and both formal and informal relations between employers' and employees' organizations have increased. Co-ordination and consultations have been more common in the labour market, as the agreements

between employers, employees and the government in 1986, 1989 and 1990 demonstrated. The labour market in Iceland has slowly adopted some of the corporatist characteristics of labour markets in neighbouring states; however, continuing strikes give no indication that corporatism will take the place of the conflict-oriented relations between employers and employees and the state.

On the other hand, the EEA agreement has increased cooperation and consultation between employers' and employees' organizations and the state in discussions on how to implement law and regulations from the EEA. Employers' and employees' organizations have been invited to participate in committees within ministries, in which they and the state reach an agreement on methods of implementing particular regulations; and this, in turn, has also increased the labour organizations' knowledge of the EU. As a result of its experience in the implementation process, and because of indications of possible benefits of EU membership, the main labour organization – the Icelandic Federation of Labour – has changed its policy and become partially pro-European. Nevertheless, the Federation of State Employees is still very much against EU membership. A similar distinction can be made between employers' organizations, since the Federation of Icelandic Industries and the Chambers of Commerce are in favour of EU membership, while the farmers' and fisheries' organizations are against it. Thus, conflicting views on EU membership between the organizations clearly create tension among members of alliances in the labour market.

Iceland does not possess the framework of corporatist structure, which Katzenstein identifies, within which the issue of EU membership can be discussed. There is no forum for reducing conflicts such as this, or indeed any other conflicts, between the major policy-makers. The corporatist model in other Nordic states, however, provides such a forum for major policy-makers to discuss the issue of EU membership. Ingebritsen's findings support this, as she argues that "[t]he political process of integration was . . . decided by a partnership between governments and economic interest groups in which the public had a limited voice in the outcome."⁴⁷ In Iceland, the close relationship between the fisheries' and farmers' interest groups and the government forms this partnership and influences the government's response to the question of European integration. The government is unlikely to take any action which will lead to a debate on the issue of membership as long as important decision-makers in the country, such as those found within the employers' organization, will not unite.

THE DISTINCTIVE ELECTORAL AND PARTY SYSTEM IN ICELAND

The importance of votes in rural areas plays a significant part in limiting discussion on EU membership in Iceland. The electoral system is characterized by an unequal distribution of seats in favour of the rural areas and to the detriment of the capital, Reykjavík, and its immediate surroundings. A minority of the electorate (32%) in the rural areas holds the majority in *Althing*. Opponents of membership of the EU are strong in the politically dominant regions outside Reykjavík and the surrounding areas, where the dominant interests are those of fishing and agriculture. It is clear that there is a huge urban-rural divide on this issue.⁴⁸ Parliamentarians from the rural areas are therefore less likely to challenge the status quo and support EU application.

Althing, however, has recently made changes to the constitution of Iceland in order to redress the balance in this distribution of seats. The details of the changes, which will be determined by forthcoming electoral law, will give the population of Reykjavík and its immediate surroundings thirty-three MPs out of sixty-three; thus 62% of the electorate will elect 52% of MPs. These changes will be implemented at the next general election, which is due to take place not later than the spring of 2003.

Katzenstein argues that the corporatism of smaller states is a result of the fact that "[p]olitical opponents tend to share power and jointly influence policy."⁴⁹ Furthermore, he argues that the distinctive party system of smaller states distinguishes them from the larger states, as political parties of the right are divided and proportional representation encourages a system of coalition, or minority, governments. This, in turn, he argues, allows political parties in opposition significant influence over policy formation in smaller states.⁵⁰ Political parties have been obliged to join forces in an attempt to gain office, since no single party has won enough support to form a majority government. Nevertheless, Iceland, does not have a tradition of minority governments or grand coalitions as do other corporatist states in Western Europe. Thus, in order to limit conflict, political parties in office do not consult, and thus bring the opposition in parliament into its decision-making framework, to the same extent as in the other Nordic states. In Iceland, therefore, minimal winning coalitions are the norm; and the political parties in opposition are not consulted at all, and therefore have very little influence, if any, on the final decisions of parliament. By contrast, in

Scandinavia, over the last two or three decades, minority governments have found it necessary to consult with their opponents in parliament in order to succeed, thus bringing different forces together; and cooperation and consultation becomes the norm. In the case of grand coalitions in other corporatist states such as in the Netherlands, Switzerland, and Austria, the working procedure between opponents is similarly characterized by cooperation and consultation. In Iceland there has not been a grand coalition since the late 1940s. Opponents make alliances in order to form a government but these alliances are fragile. Moreover, when a particular alliance has been formed, it distinguishes itself from the political parties in opposition and does not cooperate with them in solving problems associated with the economy, or indeed anything else.

Furthermore, by far the largest political party in Iceland is the party of the right, the Independence Party, while in Scandinavia the largest parties are formed by the Social Democrats. The party system in Iceland is therefore fundamentally different to those in other Nordic states, since it is characterized by a united right, while in the neighbouring states political parties of the right are divided. Katzenstein argues that the divided right in Scandinavia leads to minority governments⁵¹ and this may well be an explanation for why there are fewer minority governments in Iceland. More importantly, however, the fact that there is only one political party of the right in Iceland, which has considerable strength – receiving around 40% of the votes – has led to the dominance of the Independence Party in Iceland since the end of the Second World War: since 1944 the Independence Party has been in office for forty-one out of the fifty-five years. Conversely, during this time Social Democrat governments have been the most prevalent in the other Nordic states. In addition to this, a small faction of the Independence Party, under the direction of its Vice-Chairman, led a government for three out of the remaining fourteen years when the Independence Party itself was in opposition. At the end of this period, this small faction, comprising four MPs, joined the main party. The Independence Party has had no stable alliance, however, except with the Social Democratic Party between 1959 and 1971. On the other hand, from the early 1970s, the participation of the Independence Party in government has been less frequent, as indeed has the participation of Social Democrats in the other Nordic states. The Independence Party itself has strong links with the influential fisheries' and farmers' interest groups in Iceland. This is also the case with one of its two most common coalition partners – the Progressive Party – which is traditionally regarded in Iceland

as the farmers' party, although it also has strong links with powerful interest groups within the fishing industry. Since 1971, the Independence Party and the Progressive Party have formed five government coalitions over a total of thirteen years, and the parliamentary term of their present coalition ends in 2003. By contrast, the Independence Party has formed only two coalitions with the Social Democratic Party over a total of five years, on one of these occasions the Progressive Party was a member of the coalition, which lasted for just over a year.

In the parliamentary election of 1999, in order to challenge the dominance of the Independence Party, the three left-of-centre parties – the Social Democratic Party, the People's Alliance and the Women's Alliance – formed an electoral coalition as the Alliance. Their aim is to unite as a single party before the next general election. This Alliance only obtained 26.8% of the votes, however, and was thus unable to challenge the dominance of the Independence Party, with 40.7% of the votes. Furthermore it was also unsuccessful in uniting the left since a faction of the People's Alliance established a new party, called the Left Green Alliance, which gained 9.1% of the votes. The Alliance is, however, the second largest party, well ahead of the Progressive Party which obtained only 18.4% of the votes.⁵²

Iceland itself fits well into the framework of Katzenstein's theory in that there is a great mobilization of the electorate in Iceland and the legislature is fragmented. Furthermore, as he argues, there are also close links between interest groups and political parties,⁵³ although there is a great variation in this closeness. In general, the unions in Iceland are in a closer relationship with parties to the left, particularly the People's Alliance (the former Socialist Party), than with other parties; and, since the Second World War, the people's Alliance has been more influential within the unions than the Social Democratic Party. Nevertheless, all parties, including the Independence Party and the Progressive Party, have some influence within the unions, which may explain some of the different factions and conflicts between the unions, and their problems at times in forming alliances. Employers' organizations have a closer relationship with the Independence Party, in particular, and with the Progressive Party; the fishing and farmers' interest groups have had privileged involvement with them, and have, in the past, played a predominant role in the decision making of the government of Iceland. An open debate on whether Iceland should apply for EU membership would create divisions within the political parties, since within them different factions represent different interests.

THE SPECIAL CHARACTERISTICS OF THE ADMINISTRATION OF ICELAND

Let us now turn to the governmental bureaucracy in Iceland in order to analyze its influence on the decision making and on the speed and effectiveness of the government. We also have to answer the question: 'do the characteristics of the administration of Iceland have any influence on its response to the changes in Europe?'

It is clear, for instance, that the administration has not taken the initiative in dealing with the integration process in Europe. Ministers have been unable to seek information within its framework to develop a pro-European policy; and the administration has not had enough staff, experts, or other resources to enable them to gather the necessary information. Furthermore, the administration is not expected to act on its own initiative with regard to European integration or any such sensitive issues, or to put forward new ideas which have not been called for. Pressure groups and political parties and *Althing* are left to deal with the formation of a policy towards Europe, as with any other policy making, while the administration is kept on the sidelines, lacking the autonomy to intervene and put forward new initiatives. These special characteristics of the Icelandic administration, together with the smallness of its size, are an important variable in explaining the approach of its government to the EU. The approach of Katzenstein, however, fails to include the variable 'administration' in its framework to explain the international behaviour of small states.

The role played by the administration in the state's approach to European integration can not be underestimated. In Sweden, for instance, since the late 1980s, there has been rapid movement towards adaptation at the governmental level: "the Swedish state joined the European Community almost a decade ago".⁵⁴ Despite the important role played by the Danish parliament in the policy-making process, its administration also plays a vital role in the state's response to European affairs; indeed its influence is very strong, due to the administrative-corporative network which exists in Denmark.⁵⁵ With regard to the Norwegian administration, the European integration process is seen by some of the institutions within it as providing "new opportunities and possibilities for increasing their influence or autonomy".⁵⁶ Access to copious amounts of data has increased the role of the administration in the policy-making process since it has "reduced the possibility and ability of political co-ordination within some fields".⁵⁷

It is noteworthy that, by comparison with the other Nordic states, the administration of Iceland is extremely small. Its development has been moulded by the strong influence of politicians and the lack of regulation of the working procedure of the bureaucratic apparatus, while its institutional structure is characterized by a minimal emphasis on long-term policy making. Institutions, units or ministerial departments have, thus, been created according to the political emphasis at particular times. The working procedure of the administration and the handling of cases or individual issues have traditionally been much less cohesive than those in other Western European states. As a result, the administration itself has not been the forum for decisive policy making in Iceland.⁵⁸

This weakness of the administration in Iceland may partly be explained by the fact that it was created late and developed slowly,⁵⁹ and that the small number of officials as well as the limited working conditions made ministries very dependent on external assistance.⁶⁰ In particular, they relied on pressure groups to provide information. The relationship with farming and fishing pressure groups was particularly close; indeed, it was not always possible to see where the role of the state ended and that of the pressure groups began.⁶¹ The ministers' autonomy merely led to interference in the daily handling of the administration of individual cases rather than to general policy making.

The limited autonomy in general policy making of the Icelandic administration can be explained by the fact that the legislature developed before the administration and the executive in Iceland: while *Althing* received limited legislative power in the 1874 constitution, the executive was not established until 1904. The strong influence of *Althing* within the administration, however, also demonstrates the latter's weakness and explains its lack of policy formation. In the 1950s, for instance, the interference of *Althing* in the work of the administration was much greater than in other Nordic states. It appointed far more committees and governing units within the administration than any other national parliament in the Nordic states.⁶²

While the administration of Iceland has not increased its capacity to such a degree that it is able to deal with the complexity of its task, it has, however, managed to increase its expert knowledge and gradually become more professional in dealing with issues. Nevertheless, ministries do not have sufficient capacity to gather information within the administration, or outside its framework.⁶³ The administration also lacks the capacity to take the initiative to form policies which are specifically relevant to Iceland, which, in turn,

leads to its being efficient in adopting policies from overseas, particularly from other Nordic states: these it can implement successfully.

The political initiative lies with a few decision makers in pressure groups and political parties: non-participants have only a limited chance of influencing the decision-making process. Elite networks, consisting of strong bonds between particular pressure groups and political parties, control the agenda; competition to gain government office is stiff, and contacts between opponents are characterized by conflict rather than cooperation. The administration itself lacks the ability to manoeuvre to intervene in this conflict-oriented process.

CONCLUSION

This paper has demonstrated that decision makers have not used the social homogeneity of Iceland to create consensus in overcoming the disadvantages associated with an open and dependent economy. Thus, the characteristics which Katzenstein identifies are not applicable to Iceland. We therefore have to look at other variables to explain why Iceland has not followed the other Nordic states in applying for membership of the EU.

A distinctive combination of domestic and international factors provides explanations for the different approach of the government of Iceland to European integration. The reliance on fish is regarded as being the main obstacle to membership of the EU, since the Common Fisheries Policy is considered to be unfavourable to Icelandic fishing interests. The importance of the agricultural sector also has to be taken into account, particularly as the majority of MPs come from the regions with their ever-present fishing and agrarian interests. Another variable, which adds to the importance of such interests and explains Iceland's euroscepticism, is the distinctive party system, i.e., the united right in the largest party (the Independence Party). This is due to the stronghold of fisheries' and agricultural interests within the party. Lack of corporatism similarly contributes to the important role which these interest groups play in policy making in Iceland; the weak administration has traditionally cooperated closely with them, and lacks the initiative to form alternative policy options. Katzenstein omits an important variable in explaining the international behaviour of smaller states, since the size and characteristics of their administrative structure need to be included in his framework in order to explain fully their international approach.

The newly-found independence of Iceland also makes the politicians very hesitant to transfer greater powers to the EU than previously through the EEA. Furthermore, Iceland's special relationship with the US – their defence treaty – affects the government's policy on the Common Foreign and Security Policy (CFSP). The latter is not viewed by Icelandic policy makers as an alternative, nor as a supplement to a more limited involvement by the US in Europe; it is not considered an option as long as the US guarantees the defence of Iceland. The special security experience of Iceland is also related to the important location of Iceland in the middle of the GIUK-gap (Greenland, Iceland, United Kingdom) in the Cold War, and the role of the US in bringing an end to the Cod Wars, thus guaranteeing the success of Iceland.

Icelandic decision makers have been less willing to adopt the strategy of multilateralism than the decision makers in other Nordic states. Governments in Iceland have remained uncommitted to amending the fishing and agricultural policies. Similarly, since they are strongly committed to close cooperation with the US over security matters, they have not sought to redefine the security policy of Iceland. Ingebritsen argues that, compared to other European states, the Nordic states have more to lose by joining the EU: "they have weaker traditions of multilateralism, and their institutions and ideologies seem incompatible with the EC".⁶⁴ As a result, participation in European integration means that the Nordic states have had to abandon some of their successful practices and programmes. Furthermore, they have had to "alter their unique policies and institutions".⁶⁵ She argues that the Nordic states have committed themselves to a "fundamental redirection in state strategy"⁶⁶ as they become more willing to subordinate national policies to the European level. However, in the case of Iceland, a redirection of strategy has not expanded to policy areas outside the EEA agreement.

As Katzenstein argues, in common with the international response of other small states, the international behaviour of Iceland can be explained by an exceptional combination of domestic and international factors. Domestic characteristics and international experiences of smaller states, however, are not necessarily the same, as the case of Iceland indicates. The distinctive features of Iceland, compared with the other Nordic states, have resulted in a negative approach to membership of the EU. Wallace, for instance, argues that smaller states in Europe have responded in diverse ways to European integration because different perceptions of interests shape their responses. These responses are determined by "[d]omestic politics, national myth and

identity, economic strength or weakness, geographical position and security constraints".⁶⁷ Some similarities exist between Iceland as a small state and the other Nordic states but Iceland does not fit into Katzenstein's approach to smaller states in Western Europe, including those of Scandinavia.

Policy-makers in Iceland have opted for membership of the EEA to alleviate European and international constraints, as Katzenstein would argue. This membership is beneficial to most interest groups in Iceland. It is synonymous with Iceland having access to the common market for its fish products and, within the fishing and farming sectors, it offers policy makers considerable leeway over their own decisions. Icelandic policy makers seek to minimize their commitment in their attempt to gain as much economic benefit as possible from European integration. Thus, they participate in the EEA but reject membership of the EU on the grounds that it would be detrimental to Icelandic interests, namely those of the fisheries and the farmers. Icelandic policy makers are willing to sacrifice the chance to influence decisions in the EU – which indeed would be the case if they had full membership – since the cost to the fishing industry and the farming sectors that would result from full membership is regarded by policy makers to be too high. While, as noted, membership of the EEA has reduced European and international constraints to manageable proportions, the advantages of EU membership are not, at present, considered to be instrumental in reducing these further.

Notes

1. Kristinsson, G. H. (1996), p. 160.
2. Ingebritsen, C. (1998), p. 129.
3. The approach of Katzenstein to the characteristics of smaller states is presented in his book (1985). He analyzes the industrial adjustment strategy of seven small corporatist states: Sweden, Norway, Denmark, the Netherlands, Belgium, Switzerland and Austria. He compares the behaviour of these smaller states with that of five larger states; Germany, France, the United Kingdom, the United States and Japan. Katzenstein has also written on Austria and Switzerland in another book (1984).
4. Griffiths, R. T. and Pharo, H. (1995), p. 36.
5. Griffiths, R. T. and Pharo, H. (1995), p. 36.
6. Griffiths R. T. and Pharo, H. (1995), p. 29.
7. Mjoset, L. (1992), p. 35.
8. Ingebritsen, C. (1998), p. 14.
9. Ingebritsen, C. (1998), p. 257.
10. Katzenstein, P. (1997), p. 254.
11. Wallace, W. (1999), pp. 11–13.
12. Katzenstein, P. (1997), p. 261.
13. Katzenstein, P. (1997), p. 261.
14. Ingebritsen, C. (1998), pp. 18–25 and 184–5.

15. Ingebritsen, C. (1998), pp. 261–4.
16. Wallace, W. (1999), p. 13.
17. Wallace, W. (1999), p. 13.
18. Wallace, W. (1999), p. 14.
19. Katzenstein, P. (1985), p. 257.
20. Kristinsson, G. H. (1996), argues that the cautious approach to European integration is “empitomised in a ‘wait-and-see’ attitude”, p. 150.
21. Ásgrímsson, H., the Icelandic foreign minister (1996).
22. *Morgunblaðið*, 6 March 1998.
23. *Morgunblaðið* (1999), “Evrópumál til umræðu á Alþingi: Unnið að gerð stöðuskýrslu í utanríkisráðuneytinu”, 15 October, and *Vísir* (1999), “Framtíðarhugmynd um sameinaða Evrópu stöðu Íslands”, 14 October.
24. Kristinsson, G. H. (1994), p. 93.
25. Archer, C. and Sogner, I. (1998), p. 127.
26. Archer, C. and Sogner, I. (1998), p. 160.
27. GATT (1994), p. 185.
28. Hagstofa Íslands (Statistics Iceland) (1999), p. 393. Also, see GATT (1994).
29. Kristinsson, G. H. (1994), p. 90. The agreement did however not take effect until 1976 when the Iceland and United Kingdom fishing dispute had been settled.
30. Harðarson, ‘O. Th. (1997), p. 393.
31. Kristinsson, G. H. (1994), p. 90.
32. For instance, see Ólafsson, S. (1996) and Ólafsson S. (1992).
33. Ingebritsen, C. (1998), p. 61.
34. Þjóðhagsstofnun (The National Economic Institute) (1999).
35. Þjóðhagsstofnun (The National Economic Institute) (1999).
36. Katzenstein, P. (1985), p. 30.
37. For instance, see Ólafsson, S. (1993), pp. 399–430 and Ólafsson, S. (1992), pp. 214–7.
38. Pontusson, J. (1992).
39. Ingebritsen, C. (1998), p. 30.
40. Snævarr, S. (1993), pp. 261–2.
41. Ólafsson, S. (1997), “Tíamót á íslenskum vinnumarkaði” in *Morgunblaðið*, 1 May. If we look at the period 1981 to 1985, the average number of working days lost due to strikes is also much higher in Iceland than the average for the four Nordic states, i.e., the average number of lost working days due to strikes is 1007 in Iceland but only 155 in the other Nordic states.
42. Kristjánsson, S. (1993), p. 398.
43. Snævarr, S. (1993).
44. Griffiths, R. T. and Pharo, H. O. (1995), p. 36.
45. Magnússon, M. S. (1993), pp. 112–214 and Snævarr, S. (1993).
46. Katzenstein, P. (1985), pp. 91–2.
47. Ingebritsen, C. (1998), p. 168.
48. Kristinsson, G. H. (1996), p. 153.
49. Kristinsson, G. H. (1996), p. 80.
50. Kristinsson, G. H. (1996), pp. 100–3.
51. Katzenstein, P. (1985), p. 101.
52. Hagstofa Íslands (Statistics Iceland) (1999), p. 30.
53. Powell, G. B. (1982), p. 103.
54. Ekengren, M. and Sundelius, B. (1998), p. 145.
55. Van Dosenrode, S. Z. (1998), p. 66.
56. Sverdrup, U. (1998), p. 159.
57. Sverdrup, U. (1998), p. 160.
58. Kristinsson, G. H. (1993), pp. 321–54.
59. Kristinsson, G. H. (1993), p. 349.
60. Kristinsson, G. H. (1993), p. 348.

61. Kristjánsson, S. (1979), p. 349.
62. Herlitz, N. (1958), p. 207, as quoted by Kristinsson, G. H. (1993), p. 350.
63. Kristjánsson, S. (1993), pp. 386–8.
64. Ingebritsen, C. (1998), p. 23.
65. Ingebritsen, C. (1998), p. 23.
66. Ingebritsen, C. (1998), p. 24.
67. Wallace W. (1999), p. 14.

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