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THE POLITICAL AND ECONOMIC SITUATION OF ICELAND IN THE CONTEXT OF EU APPLICATION WITHDRAWAL

ABSTRACT Under the influence of the crisis of 17 July 2009, Iceland presented its application for accession to the European Union, and a year later began accession negotiations. However, a problematic issue is catch limits as instead of 200-mile fishing belt they won during the Cod Wars there would be just 12 miles of fisheries intended for Icelanders. Therefore, the accession negotiations stood at a standstill, the more that the current situation of the euro does not encourage Iceland to join the EU. Recently it turned out that Iceland does not want to join the European Union. In this article, I introduce arguments for and against Iceland joining the European Union. I introduce the economic, political and social situation in Iceland based on my own research on the island from 2010. In 2013, I completed a journalism internship in the editorial team of the Icelandic weekly *Reykjavik Grapevine*.

Key words: Iceland, economy situation, European Union application withdrawal

Słowa kluczowe: Islandia, sytuacja ekonomiczna, wycofanie wniosku Islandii o członkostwo w UE

Iceland was settled by the Vikings, emigrants from Norway and former slaves from Ireland. The society flourished for a few centuries, both in terms of economy and culture. However, this golden age was followed by centuries of poverty, degradation and domination of foreigners, first the Norwegians and then the Danes. Moreover, the harsh natural conditions such as volcanic eruptions and earthquakes were detrimental to the social and political growth of the country at that time.

The important steps towards national independence were taken in the second half of the 19th century and resulted in the rule of the sovereign state joined in monarchy with Denmark in 1918. Iceland would not have regained independence without the awareness that the Icelanders have the oldest Parliament in Europe – Althing and that the country boasts a very rich history and culture. Stability of the political system was maintained until World War II. After Denmark was attacked by Germany, Iceland came under the sphere of the British influence. Neutrality during the war, even though declared by the Icelanders, proved impossible due to the specific location of the island which enabled control of the navigation in the Atlantic Ocean. The British established a naval and aircraft base in Iceland. The presence of American troops was very profitable for Iceland as well. For granting access to its territories, Iceland received from the USA 20 million USD per year. Thus, the country started to get rich quickly and as a result independence tendencies began to increase. The inhabitants of the island used the situation of the ongoing war to publicly declare Denmark's inability to fulfil its obligations resulting from earlier agreements. In 1943, Iceland began organizing its own diplomatic service.¹ In their independence efforts, the Icelanders were strongly supported by the Americans.² On 17 May 1943, Althing proclaimed complete autonomy of Iceland from Denmark. However, it took Denmark six years to acknowledge Iceland's independence.

In 1944, Iceland became a republic, declaring full independence from the Danish Kingdom. The standard of living in Iceland has been quite good in the recent decades and the country has ranked high in terms of GDP.

The population of Iceland is currently about 320 000 people. Icelanders speak their own language: Icelandic, descended from medieval Old Norse used already by the Vikings. The capital city of Reykjavik has about 112 411 inhabitants and including the metropolitan region – around 180 000 people. It means that over 60% of the Icelanders live in the capital city and its close surroundings.

Over a half of the population reside in the south-western part of the country. Others live in the towns, villages and valleys along the coastline of the island. The largest city besides the metropolitan region is Akureyri in the north. The area of Iceland covers 103 000 km².

Apart from fishing, a very important economic sector is tourism. Another significant branch of economy is aluminium production, which is highly profitable as it

¹ See *Konstytucja Republiki Islandii*, Rzeszów 2006.

² See E. Rosenblad, R. Rosenblad, *Iceland from Past to Present*, transl. by A. Crozier, Reykjavik 1993, p. 15.

makes use of energy from waterfalls and hot springs. However, the most precious treasures of Iceland are its fisheries in the ocean. The British, who in 1958 wanted to take over these fishing grounds, could experience it first hand. The skirmishes on sea lasted for two and a half years until the Icelanders drove the intruders off the fishing areas. It was the so-called 'cod war'.³ For Icelandic people, their own fisheries in the ocean mean independence.⁴ Currently, Iceland is in dispute with Denmark and Great Britain over Rockall continental shelf. Moreover, Iceland argues with Denmark about the boundaries of the Faroe Islands continental shelf and the dividing zone between fisheries.

Iceland is a state which is highly developed economically and socially due to its skilful management of natural resources. The country's advantages are: stable marine economy, aluminium production and tourism. Iceland ranks second in the world in terms of Human Development Index.⁵ Furthermore, the state invests in research and development projects.⁶

In 1944, Iceland became an independent republic and also one of the most developed global economies. However, the banking system crisis in 2008 raised doubts about safety of the Icelandic economic model.

When Iceland was hit by the financial crisis, the country's three largest banks went bankrupt. The country reacted to the recession with huge cuts in public spending, external debt and unemployment reaching 8% at the beginning of 2010. Furthermore, the economic problems strongly influenced the local and national media in Iceland. There were even suggestions that not only public but also private media should be supported due to their financial difficulties.⁷

Since 1949, Iceland has been a NATO member although it does not have its own military forces. In the second half of the 20th century, Iceland had special relations with the USA, mostly owing to the American military base in Keflavik which started to lose its significance in the 1990s and was finally closed down in 2006. Along with the changes in international relations after the collapse of Communism, contacts with the USA became more limited. At the same time, Iceland got gradually closer to Europe, becoming an EFTA member in 1970 and entering the European Economic Area in 1994. In 2009, Iceland made an application for the EU membership even though it gave rise to political debate and controversy. *Iceland first applied for EU membership*

³ Fishing is a key industry in Iceland. In the 1950s and 1970s, Iceland and the UK had a fierce dispute over fishing rights (known as the 'Cod Wars'). Since 1983, Icelandic fisheries have been regulated by a system that sets quotas for the amount of fish a vessel is allowed to catch, based on advice from marine scientists. Many in Iceland argue that this system has been more successful than the EU's Common Fisheries Policy (CFP), which is often criticised for resulting in overfishing, inefficiency and low profits. See "Iceland", Civitas, at <<http://www.civitas.org.uk/content/files/MS.22.Iceland.pdf>>, 10 May 2015.

⁴ See Ł. Bukowiecki, M. Czermarmazowicz, W.K. Pessel (eds.), *Islandia. Etos amatora*, Warszawa 2011, p. 84.

⁵ UNDP, *Human Development Report*, Oxford 2006, p. 5.

⁶ See Ministry of Foreign Affairs, *Basic Statistics of Iceland*, Reykjavik 1998.

⁷ See C. Bergener, C. Mayas, *Iceland. Keynotes of the Country*, Reykjavik 2008, pp. 4-5.

*under a leftist government in 2009, when the country was badly shaken by an economic crisis that saw the Icelandic krona lose almost half its value, making Eurozone membership an attractive prospect.*⁸

POLITICAL SITUATION

The political system of Iceland seems to be stable, based on cooperation among particular political parties. An analysis of the political situation of Iceland leads to a conclusion that the country has an orderly political system which has been shaped throughout the years since regaining of independence in 1944. However, it appears that the centuries of dependence on Norway and Denmark (fear of losing autonomy), as well as a very small population of Icelanders, who got used to a comfortable life in the recent years, have a major impact on the current political situation of the country. The reluctance to the EU accession and to anti-crisis measures imposed top-down may be due to historical reasons.

Although political parties in Iceland have a loose organisational structure, they can also resemble oligarchic forms, dominated by the leader, with quite frequent changes of statutes. There are no membership fees: the parties raise their funds from regularly organized lotteries and receive financial means from sponsors, that is interest groups and individuals. More and more frequently, parties are co-financed by the state budget. A characteristic feature of Icelandic parties is very close contact with voters. The activity of particular groups is socially approved. Most importantly, it is the voters who decide at nomination conventions about the order of parties' candidates in ballot papers, thus depriving leaders of particular groups of this privilege.⁹

Similarly to other Nordic states, the party system of Iceland has two wings: the centre and centre-right. In the years 1946-1979, the Icelandic system had a fairly multi-party character, with balance among particular parties. In 1944, a coalition was formed between the Independence Party and the Labour Party, with the dominant independence option. This government was called innovative because it modernized the fleet of trawlers and set up the social security system. Even though the cod war marked the end of this government in 1947, this coalition signalled that a consensus in economic matters is possible. Both parties acknowledged that business (private and state-owned) should be supported. As a result of the consensus, Iceland began to be perceived as a welfare state, modelled on the Scandinavian countries. In the years 1947-59, coalitions were unstable, in different variants (Independence Party, Progressive Party, Labour Party). After this period of unstable governments, subsequent coalitions focused on the stability of the economic situation and especially on anti-inflation measures. In

⁸ See "Iceland Drops EU Membership Bid: 'Interests Better Served Outside' Union", *The Guardian*, 12 March 2015, at <<http://www.theguardian.com/world/2015/mar/12/iceland-drops-european-union-membership-bid>>.

⁹ See *Konstytucja...*, p. 35.

the years 1959-71, the Independence Party and the Labour Party formed a firm coalition called the restoration government. Customs controls were lifted at that time with a view to introducing the free market. The last years of that government were difficult due to poor herring catch and a drop in cod price in the USA. These events, coupled with fish catch limits disadvantageously calculated by the government, brought about the end of the restoration government in 1971. It was followed by another wave of rather unsteady coalitions until the Independence Party took over the leadership. The dominance of this party lasted throughout another two decades. The years 1983-95 were a period of an extremely multiparty system with one dominant party. An important year was 1990 when the Icelandic trade unions agreed to severe cuts in remuneration levels in order to avoid a vicious circle of increase in wages and prices.¹⁰

The 1999 elections marked a return to the multiparty system. Currently, the most interesting political party in Iceland seems to be the Pirate Party (Píratar) formed on 24 November 2012. In the 2013 elections, the Pirates won 5.1% of votes and 3 seats in the Parliament. Even though the Pirate Party is the smallest fraction of the Icelandic Parliament, it is currently almost as popular as the ruling coalition. Píratar is a mutation of the Swedish Pirate Party founded in 2006 by Richard Falkvinge. The motives behind creation of the Party were the unreasonable and burdensome legal regulations in his country, especially regarding copyright and intellectual property. Since then, Pirate Parties have been formed in the United States and in many countries of the Western Europe. Nowadays, these parties are regarded as a symbol of the fight against political establishment.

Since 2013, Iceland's coalition government has been fervently against joining the EU, but it came to a halt because of people taking to the streets in protest at the decision made without a referendum. Thousands of protesters thronged the streets of Reykjavik in 2014 to demand a referendum after the government said it was dropping its EU membership bid without a popular vote, *but opinion polls more recently began to show growing resistance among Icelanders to EU membership. The head of the Social Democratic opposition, Arni Pall Arnasson, however, lamented that the government had taken the decision without approval from a majority in parliament. But in 2015 the Icelandic government says the country is already enjoying most of the benefits of the full EU membership, so the government of Iceland had decided that it did not intend to restart accession negotiations. However they stressed the importance of continued strong relations between Iceland and the EU.*¹¹

THE ECONOMIC SITUATION

According to the data of the Statistics Iceland, the economy of the state was thriving for over a decade but since 2008 problems have emerged. In the course of time, gross external debt increased to over 600% of GDP while households and businesses incurred

¹⁰ See Gunnar Karlsson, *A Brief History of Iceland*, transl. by A. Yates, Reykjavik 2013, pp. 60-61.

¹¹ See "Iceland Drops EU Membership Bid..."

substantial debts. Long-term dependence of Iceland on foreign funds led to serious problems when global liquidity started to dwindle during the recession. The government was forced to borrow 10 billion USD to prevent an economic downfall. This sum is roughly equivalent to total GDP.¹²

Thousands of Icelanders lost their savings and workplaces as a result of the slump in the financial sector which used to develop dynamically. Unemployment soared and real GDP decreased both in 2009 and in 2010. Nevertheless, owing to a number of factors such as investments of the private sector, private consumption and export, economic results surpassed expectations in 2011 when real GDP rose by 3.1%.¹³ The financial crisis of 2008 was connected with the downfall of three big international banks. The banks operating in Iceland became a part of the international structure and were unable to pay off their creditors in Great Britain, Germany and the USA.¹⁴ Problems began in 2002 when a huge dam was built in eastern Iceland, which doubled energy production. Banks, which readily rendered loan services, were privatized and the financial sector became deregulated. There was also a rapid growth of the aluminium industry connected with the fact that politicians discovered high profitability of aluminium production in Iceland due to low energy costs.¹⁵

Iceland has, certainly for the second half of the 20th century, been in most respects successful economically. It had a GDP per capita that was on a par with the rest of Scandinavia, maybe in the top 20 in the world, though its economy was somewhat different because it was resource-based to a large degree – on both fisheries and energy-intensive industries. Despite having this fairly successful economy, Iceland never had a very well developed banking sector. Gylfi Magnússon writes about this aspect: *The banking sector was almost purely local. It was to a large extent government owned and somewhat politicized. It was fairly costly, but it was sound in the sense that it wasn't very adventurous. They weren't taking any great risks. They weren't highly leveraged, and they were basically serving the needs of the economy. We didn't really have a stock market until about 20 years ago. We also had, historically, problems with monetary policy. The currency was unstable. Both the exchange rate and inflation were problems, so it was very much an underdeveloped financial sector, whether you looked at the monetary side or the banking side. [...] But this didn't have much of an effect initially, because the banks were still more or less government owned and run, and they weren't very adventurous. Then, between 1998 and 2002, the picture changed dramatically when the banks were privatized. And they were basically privatized without putting in place any sort of controls beyond what was the practice in Western Europe at the time, so they were given free rein. There was, of course, a financial supervisory authority and the Central Bank had a role in insuring systemic stability and*

¹² See Ásegir Jónsson, *Why Iceland? How One of the World's Smallest Countries Became the Meltdown's Biggest Casualty*, New York–Chicago 2009, pp. 30-37.

¹³ See *Iceland: Country Profile*, Euromonitor International, 2012, p. 6.

¹⁴ L. Baj, E. Olszewska, "Islandia – gospodarczy raj zamienia się w piekło", *Gazeta Wyborcza*, 7 October 2008, p. 7.

¹⁵ J. Smoleński, "Islandia wraca do normalności", interview with A.S. Magnason, in *Islandia. Przewodnik nietyrystyczny*, Warszawa 2010, pp. 166-168.

liquidity, but there were no controls put in place that took into account the fact that this was a very small economy that didn't have the resources to back up great international expansion of the banking sector.¹⁶

In 2008, Iceland received a loan of 4 billion USD from Russia and 6 billion USD from the IMF. The state also decided to borrow 639 million EUR from Denmark, Finland, Norway and Poland.. The development of the financial sector in Iceland had led to the emergence of banks which were too big for the country's capacities. In 2008 and 2009, Icelandic banks, including Glitnir, Kupthing and Landsbanki, were nationalized.¹⁷ The reforms were not easy: *The restoration of the banking system has been delayed. Ongoing negotiations with the United Kingdom and the Netherlands concerning a government guarantee for the Icesave accounts of Landsbanki have delayed the loan disbursements of the IMF and others. While a resolution of these matters is expected shortly, the recovery program is otherwise on schedule. The foreign exchange restrictions have succeeded in ensuring stability in the foreign exchange market, although the exchange rate is still low. The 2010 fiscal budget is based on targets set out in the recovery program.*¹⁸

By 2007, within five years, the assets of the three largest banks in Iceland reached a value nine times bigger than total GDP of the island. Under the influence of the crisis, the Icelanders became less cosmopolitan and very sceptical towards politicians.¹⁹

Furthermore, the crisis motivated people to look carefully at the political scene and no longer believe blindly in the right wing which used to win all elections. At the beginning of the crisis, loan interest rates soared and some Icelanders lost their jobs. The citizens went into panic but they also noticed that privatization of banks was based on corruption. The bankruptcy of banking institutions made people protest in the streets. Nevertheless, the crisis had one more aspect: the Icelanders began to take the matters into their own hands and started to open their businesses.²⁰ Thus we read in official sources: *The Icelandic economy suffered a major setback with the collapse of its banks in the international financial crisis of 2008. Activity in the financial market came to a standstill, the exchange rate dropped, interest rates increased and asset prices declined. The economy contracted sharply, unemployment increased and so did bankruptcies. Treasury finances went into deep deficit and the debt soared. With the help of the IMF, the government set up a three-fold economic program to: 1) restore the banking system, 2) reopen the foreign exchange market and 3) improve public finances over the medium term.*²¹

Since October 2008, the Icelandic economy has gone through dramatic changes due to the collapse of its financial sector. Because of a lack of external information flow,

¹⁶ Gylfi Magnússon, "What's the Lesson of Iceland's Collapse?", *Yale Insights*, 22 May 2009, at <<http://insights.som.yale.edu/insights/whats-lesson-icelands-collapse>>.

¹⁷ See R. Woś, "Gorzkie życie w upadłym kraju", interview with H. Helgason, *Dziennik. Polska – Europa – Świat*, 2 January 2009, p. 24.

¹⁸ See *The Icelandic Economy*, 2009, at <<http://www.hartford-hwp.com/archives/61/266.htm>>.

¹⁹ See R. Woś, "Gorzkie życie...", p. 24.

²⁰ See P. Bagus, D. Bowden, *Deep Freeze. Iceland's Economic Collapse*, Auburn 2011, pp. 96-97.

²¹ See *The Icelandic Economy*...

a lot of misconceptions have developed concerning the chain of events in the recent scenario and the current status of the Icelandic economy. This Status Report is meant to give a better insight into the chain of events and the current economic, business and political landscape in Iceland. Despite substantial difficulties, general economic activity is well functional and many Icelandic businesses remain strong and prosperous. A globalized economy and an active participant in the EU's common market through the EEA, Iceland was among the first nations to be seriously affected by the global financial turmoil.

The situation has hit Icelandic households hard and many have lost a sizeable portion of their savings and purchasing power. Inflation was in double-digit numbers in late 2008 and early 2009, but was around 6% in April 2012. Unemployment rose close to 9.1% in early 2009 but in 1st quarter 2012 is around 7.3% and stable. The domestic currency, the Icelandic Krona (ISK), depreciated significantly after the economic collapse, but has now stabilized due to capital controls. The large size of the banking sector in comparison to Iceland's overall economy is undoubtedly a driving factor behind the current economic turmoil. Their balance sheets and lending portfolios expanded beyond the capacity of their own infrastructure. The Financial Supervisory Authority (FSA) and the management and supervision within the banks did not keep up with the rapid expansion of lending. The banks' rapid lending growth had the effect of their asset portfolios becoming fraught with high risk and the quality of portfolio was considerably worse than originally estimated. However, it should be underlined that the Icelandic banks operated under Icelandic and European banking legislation and the strictest of international regulatory standards. Nevertheless, as the liquidity crisis deepened, Iceland's three largest banks, Glitnir, Landsbanki and Kaupthing, whose balance sheets were several times larger than the total output of the Icelandic economy (around 10 times its GDP), were no longer able to re-finance their operations.²²

But GDP grew year on year mainly driven by a large increase in the gross domestic final expenditure (5.3%). Growth prospects are good, with average around 3%, and private consumption has been growing since 2011. Investment grew by 13.7% in 2014. Conditioned based removal of controls macroeconomic developments, potential balance of payments and foreign exchange effects and financial stability decided better economic condition of the country.

Authorities have expressed preference for simplicity over complexity, time efficiency for liberalization for the real economy, minimizing legal risks and finality of the crisis related legacies.²³ In 2015, Bloomberg²⁴ said that from the crisis in 2008 to 2015 the Icelandic economy managed to return to the group of the richest countries in the world. According to forecasts, Iceland's economy is expected to grow by 4.2%. The

²² See *The Icelandic Economic Situation. Status Report – April 2012*, Iceland Chamber of Commerce, at <http://www.vi.is/files/2012.04.03-ICoC-Status-report-v15_1424951660.pdf>.

²³ See Ministry of Finance and Economic Affairs, *Icelandic Economic Situation. Overview*, Reykjavik 2015.

²⁴ Bloomberg is financial news and media company.

growth rate of the economy is three times higher than in the euro zone, according to preliminary estimates from the European Commission. Unemployment is below 3%, and the country has a 'healthy' trade surplus.

EU ACCESSION NEGOTIATIONS

In connection with the crisis, on 17 July 2009 Iceland made an application to join the European Union and the accession negotiations started a year later. However, the issue of fish catch limits was a problem, and instead of a 200-mile fishing zone won during the cod war the Icelanders would be left with only 12 miles of fisheries.²⁵ Therefore, accession negotiations came to a standstill, especially due to the fact that the euro condition did not encourage Iceland to join the EU.²⁶

Other contentious issues included whale hunting and Iceland's pressure to maintain fish catch quotas – the latter has been a problem since the times of cod wars of 1950 and 1970. The development of fishing, construction and aluminium industries in Iceland is accompanied by a rapid growth in the number of immigrants. This is reflected in ambivalent attitudes of the Icelanders who worry about their own jobs after the crisis. Furthermore, the construction of successive hydroelectric power stations arouses strong emotions among the citizens due to progressing devastation of the natural environment, while 2/3 of households in Iceland are engaged in agriculture.²⁷

The repair programme of the financial situation in Iceland consisted primarily in: rejection of claims of bankrupt banks' creditors, devaluation of Icelandic króna, limitation of the influence of home capital and increased financing of basic economic sectors by the state (at the expense of banking).²⁸

The EU accession negotiations were launched in July 2010 and the detailed talks started in June 2011. Common stances on many issues were adopted, but the most controversial ones such as movement of services and capital, agriculture and development of rural areas, food and veterinary safety as well as fisheries, which is the basic matter for the Icelanders, remained to be settled. Trust of foreign investors was restored by the pro-European government of Jóhanna Sigurdardóttir which implemented a repair programme of the International Monetary Fund. However, the better the economic situation of the state and the more advanced accession negotiations, the more pronounced eurosceptical attitudes. During the 2008 crisis, 65% of Icelanders were in favour of joining the EU, but in August 2011 only 27% supported accession. The citizens started to believe that they would cope with the crisis themselves, so there is no need for any declarations that could lead to limitation of autonomy. In 2012, negotiations with the EU

²⁵ "Makrele na drodze Islandii do UE", *Gazeta Wyborcza*, 26 August 2010, p. 5.

²⁶ See "Iceland Hunts the Euro", *The Economist*, 22 January 2009, p. 8.

²⁷ Ł. Bukowiecki, M. Czernomazowicz, W.K. Pessel (eds.), *Islandia...*, pp. 81-83.

²⁸ J. Osiński, "Przemiany polityczne na Islandii w warunkach kryzysu bankowego i gospodarczego", *Kwartalnik Kolegium Ekonomiczno-Społecznego Studia i Prace*, no. 1 (2011), p. 36.

were suspended. The biggest threat for Iceland was the introduction of the common fisheries policy, agricultural policy funding and the adoption of sustainable development guidelines. Since 2015, it has been officially known that Iceland will not attempt to join the European Union.

This is a result of the two-year rule of the eurosceptical, centre-right government. In a special communiqué, the Icelandic Ministry of Foreign Affairs announced that *Iceland's interests are better served outside the European Union [...] However, Iceland wants to maintain close ties and cooperation with the EU*. Negotiations with the EU began in 2010 when a coalition of social democrats and the Left-Green Movement ruled. Everything changed in April 2013 when the Independence Party and the Progressive Party came to power. They declared that they would hold a referendum on the EU membership and the negotiations with the European Union would not be resumed. However, voting was not organized. The position of the radically anti-EU Progressive Party of the Prime Minister Sigmundur Davíð Gunnlaugsson prevailed.²⁹ According to Sigurdardottir, *The European Commission said Iceland remained an important partner of the 28-country EU, notably through its membership of the European Economic Area, a single internal market, and of the Schengen Area allowing passport-free travel. They, when things went tough for them, wanted to join. Now they want to take a break. That's fine. That's their sovereign decision. Our door is open. We continue to be in business, said European Commission spokesman Margaritis Schinas.*³⁰ Iceland has said it wants to maintain 'close ties and cooperation' with the EU.

As part of the European Economic Area, Iceland gets probably 90% of the economic benefits of being an EU member. Icelanders have free trade, free flow of capital, free flow of labour, and they have to have more or less the same regulations on all things commercial as the European Union. That used to be more or less what they wanted. What was very important for Iceland was that they kept sovereignty over their natural resources, in particular the fishing grounds. If they become a full-fledged member of the European Union, they have to adopt the European Union's common fisheries policy, which basically makes various major decisions on fisheries policy in Brussels. For most Western European countries, fisheries are a side issue, so having a common fisheries policy is not a big deal, but for Iceland it is a very big deal because fisheries have contributed something like 30% to 40% of export revenues, maybe 10% of GDP. The people involved in the fisheries industry do not want Spanish or British vessels fishing in Icelandic waters.³¹

The North Atlantic island is already a member of Europe's border-free Schengen area and the European Economic Area. Macroeconomic conditions in Iceland are now

²⁹ See M. Gašior, "Islandia się rozmyśliła – nie chce być w Unii Europejskiej. 'Lepiej służy pozostanie poza UE'", 13 March, 2015, Na Temat, at <<http://natemat.pl/136437,islandia-sie-rozmyslila-nie-chce-byc-w-unii-europejskiej-lepiej-sluzy-pozostanie-pozza-ue>>.

³⁰ See Ragnhildur Sigurdardottir, "Iceland Confirms Will Not Enter EU Membership Talks", 13 March 2015, Reuters, at <<http://www.reuters.com/article/2015/03/13/us-iceland-eu-idUSKBN0M82NQ20150313>>.

³¹ See Gylfi Magnússon, "What's the Lesson of..."

at their best since the 2008/9 crisis. Iceland has been one of the top economic performers in Europe over the past several years in terms of economic growth and has one of the lowest unemployment rates. A particular bright spot for Iceland has been the booming tourism industry. Other factors of Iceland's successful trajectory are its low inflation, stable exchange rate and ready market access. Iceland has made good use of its natural resources, including the traditional fishing industry, but also the energy sector and most recently tourism. Iceland's geothermal clean energy has attracted energy-intensive industries. Since 2010, Iceland's tourism industry has boomed with promising prospects. The quick restoration of the domestic banking system and early steps to facilitate domestic debt restructuring were important. Central bank policies have helped steer inflation close to target while capital controls continue to provide breathing room to address remaining vulnerabilities. A key economic policy challenge is to re-integrate Iceland's financial markets with the rest of the world through removal of capital controls. These controls continue to provide stability but have a distorting effect. The authorities are now updating their capital account liberalization strategy and expect to make significant progress this year and they should remain stable.³²

Iceland's economy has been increasingly diversified in recent decades. Historically, fishing and agriculture used to be the main sectors of the economy. However, industry, tourism and services have grown fast in the past decades and now all exceed the former two, both in terms of workers and contribution to GDP. Despite the declining emphasis on the fishing industry, it remains to be one of the foundations of the Icelandic economy. Many of the nation's most prominent companies developed from a strong relationship with the industry, e.g. Marel, a leading global provider of advanced equipment to the fish, meat and poultry industries.³³

Some of Iceland's fastest growing sectors are tourism, energy utilization and industry. Iceland has seen a tenfold increase in the number of foreign visitors in about 40 years. In 2011, the total number of tourists was 565 thousand according to the Icelandic Tourist Board, around 177% of the inhabitants. Based on the trend for the last decade, more than 700 thousands of tourists visited Iceland in late 2014. Furthermore, a number of large hydropower and geothermal constructions have increased energy utilization and the size of the energy-intensive industry.³⁴

A large part of the problems of Icelandic companies today is related to unclear public policy. Since 2007, over 100 changes to the tax system have been introduced, mostly constituting increased taxation. This has created uncertainty as to what the future tax environment of business and households will look like, a problem compounded by the lack of clear governmental policy in many of Iceland's key industries. Despite these

³² See K. Hammar, *IMF Survey: Iceland Makes Strong Recovery from 2008 Financial Crisis*, 13 March 2015, International Monetary Fund, at <<http://www.imf.org/external/pubs/ft/survey/so/2015/car031315a.htm>>.

³³ See P. Tulip, *Financial Markets in Iceland*, Economics Department Working Paper, No. 549, 2015, at <[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp\(2007\)9](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp(2007)9)>.

³⁴ See *The Icelandic Economic Situation. Status Report...*

home-grown problems, key economic indicators show that the situation in Iceland is much better than what could have been expected immediately after the banking collapse. Now Iceland's economic situation has stabilized. Access to foreign capital markets by Icelandic financial undertakings is improving slowly although their premium interest rate is high. *Fitch Ratings has changed Iceland's sovereign rating outlook from stable to positive. Low interest rates on international markets also facilitate relaxing controls with a high domestic-foreign interest rate differential. Uncertainty concerning developments on markets abroad, not least the Greek difficulties, however, could make removal of controls more risky than otherwise. The amendments to the bonds issued by Landsbankinn to the old bank's estate will also facilitate the former bank's long-term financing and contribute to more stable payment flows.*³⁵

Due to the long-lasting dependence of Iceland on Norway and then on Denmark, autonomy is the most precious value for Icelandic people. What is more, they identify it with the fishing areas which contributed to the economic independence of the country. Despite many years of dependency on Denmark, Iceland has upheld its cultural traditions and books, newspapers and magazines published in the native language have been widely popular among the citizens. With its inexpensive geothermal energy, the island became a very attractive location for investment of foreign corporations connected with aluminium smelting plants. However, the progressing industrialization of Iceland can exert a negative impact on the natural environment. In order to counteract this, special provisions were included in the Constitution, with a view to preserving nature for future generations. The Icelandic society seems to be very active in shaping the law. Owing to the internet, Icelanders regularly take part in social consultations and even though they seldom get actively involved in political life, they increasingly participate in campaigns aimed at amending legal regulations. Moreover, they are active on a local scale, support charities, keep an eye on local authorities and replace them if they do not fulfil their expectations. The Icelanders protect their autonomy and are not willing to relinquish even a portion of it. They seem to be a very active society, but typically when they experience some negative influence on the current standard of their life.

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³⁵ See *Progress of the Plan for Removal of Capital Controls. A report by the Minister of Finance and Economic Affairs*, Reykjavik, 18 March 2015, at <<https://www.ministryoffinance.is/media/frettatengt2015/Progress-of-the-Plan-for-Removal-of-Capital-Controls-March-2015.pdf>>.

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