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Iceland's "Choice for Europe"- a Liberal Intergovernmentalist
Explanation of the Icelandic European Bid

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Abstract

The respective work analyses the factors that led Icelandic Government to apply for the European Union membership. The key unit of analysis is the interaction between the pro-European and Euro-skeptic groups and the government during the elaboration of the EU integration policy. Study is based on the analysis of the arguments used for and against of EU integration before and after the 2009 application. The research overviews impact of the economic crisis on Icelandic economy, domestic political situation, and Icelandic government's interaction with the European institutions. The interest groups' interaction with the government has been defined as considerable one. Arguing this, liberal intergovernmentalism and the advocacy coalition theoretical frameworks are employed through the thesis based on the detailed examination of the two test cases.

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| Introduction | |

When in 2006 former Icelandic Prime Minister Halldór Ásgrímsson predicted Iceland's membership of the European Union by 2015, it caused negative resonance even among the members of his political party.¹ Iceland, a country rich in natural resources, with GDP per capita above the EU average, for several consecutive years had been led by the euro-skeptic political elite, which would resort to the traditional toolbox of the sovereignty-based arguments to oppose to the EU membership. Iceland had demonstrated an aloof position towards the Continental integration processes that started after the Second World War, marked by the founding of the European Communities (ECSC, Euratom, EEC). As Iceland did not seek membership of the European Communities from the outset of their formation, neither it did in times of the so-called EFTA enlargement in the mid-90s, and for a long time it would be the only Nordic state that had never applied for the EU membership. However, the global economic interdependence made it inevitable for Iceland to participate in the vitally important projects in connection with, and beyond the European Union, and therefore, it became a party to the European Free Trade Association (EFTA), European Economic Area (EEA), and the associated member of the Schengen Agreement on visa-free movement. Iceland has been participating in the European Union's Single Market, with adoption of the Single European Market legislation (except for CAP, EMU, CFP). Nevertheless, up until recently the formal EU membership has never been articulated as a dominating preference to have stemmed from Icelandic societal groups, and which would be aggregated and advanced by the political elite. Iceland would traditionally evade from the undesirable EU regulatory norms and enjoyed a liberal market economy, which was based on the use of the natural resources. In the rise of the global financial crisis this stubborn state submitted the application for the EU membership in July 2009, shortly after the public protests, which led to the parliamentary elections and the change of the government.

Icelandic bid for the European Union membership is an interesting object of study for explaining puzzling reluctance of this country to join the European Union during the four EU enlargement rounds before 2009. The case of Iceland also refers to the very core of

¹ Address of Prime Minister Halldór Ásgrímsson at the annual meeting of the Icelandic Chamber of Commerce, (2006), (accessed 10 June 2011)
http://eng.forsaetisraduneyti.is/minister/Speeches_HA/nr/2242

European integration - internal incentives for the individual countries, especially with the high degree of economic integration, to join the European Union. The innovation of the research stems from the fact that the case itself is quite recent and there have been few contributions made in the respective direction so far.

In this work Iceland's government's decision to apply for the EU membership will be analyzed by inquiring the reasons behind it, and identifying the substantive factors in the negotiations process. The research is mainly focused on the time period from the outset of the global financial crisis to the point, whereas the European Commission gave accord to the accession negotiations with Iceland in 2011. Along with this, Iceland's position in regard to the European Union's enlargement rounds and the evidences brought in the argumentations will be examined, once relevant. The key object of this research is the domestic situation in formation of the European Policies and how the societal groups participated in shaping of the national preferences, mostly through the coalitional configuration. The research also outlines the interaction between the Icelandic government and the European institutions, and the advancement of the European Policy domestically and abroad.

The main question tested on Icelandic case is formulated as follows: *which factors Influenced Iceland's decision to join the European Union in 2009? Why Iceland was reluctant to apply for the European Union² membership during the previous rounds of the European Union enlargement?*

I try to explain the way interest groups and various actors in the advocacy coalition managed to advance the policy decision regarding the European Union membership.

The hypothesis elaborated hereby is based on Liberal intergovernmentalist theory and proposes that the European Union membership became a priority for Iceland because of the impact of the economic crisis on Icelandic economy, which forced the societal interest groups to advocate for the European Union membership.

² Before 1993 the EU was referred as the European Community /the European Economic Community

To break down the hypothesis, it is necessary to differentiate between the independent and dependent variables. In this study the dependent variable is Icelandic elite's decision to apply for the European Union membership. The independent variables are the economic crisis and the societal interest groups' influence on the preferences formation. Coalitional system is an intervening variable, because Iceland has been a competitive democracy since its independence, and this factor is stable in this case as well.

The term political elite employed in this paper denotes to the members of Icelandic parliament, Althingi (MAs), and the government of Iceland. As regards the societal interest groups, they represent all associations, particular organizations, etc. The coalitional behaviour of the organized interest groups will be explained and the advocacy coalitions will be classified in accordance with Sabatier's Advocacy Coalition Framework.

In this research the theory of Liberal intergovernmentalism is employed as a general theoretical framework, which is based on the rational actor behavior analysis, Liberal theory of domestic preferences formation and the theory of international bargains. In order to fill those gaps that the Liberal intergovernmentalism entails with regard to the coalitions' competition in the domestic preferences formation, the coalitions will be identified which try to influence the policy preferences according to Paul A. Sabatier's Advocacy Coalition Framework.

The paper consists of five chapters. The chapter one is dedicated to the outline of the case of Iceland and the general overview of the literature existing and available in the field of the EU-Iceland relations. The chapter will also review Iceland as a member of the European Free Trade Association (EFTA), the European Economic Area (EEA), the Single European Market, and the Schengen Agreement, with focus on the decision-making inside the EU in the framework of its entitlements, as well as how the European legislation reaches Iceland. The supranationalism of the European Union legislation and the mechanism of the commercial disputes-solving will be touched upon in connection with the formal restriction on the law-making within the Single Market for the non-members of the European Union. The respective issue will be considered in the prism of legal, democratic deficit concerns and economic costs for Iceland. The chapter two discloses the theoretical framework – Liberal

Intergovernmentalism and examines its vision of the role of the political elites, interest groups and the grand/substantial bargains. The special attention is paid to the preferences formation, international bargaining and the role of the supranational institutions within the EU. The chapter three seeks to explore the place of the interest groups in Icelandic state and their traditional influence over the policy outcomes; Iceland as a consensual democracy with its social and economic policy, which requires counseling with the various stakeholders of the society. It will examine the arguments of the pro-European and Euro-skeptic groups. The fourth chapter looks in detail into how economic crisis influenced change of the government and the creation of the window of opportunity for the Social Democratic Alliance, with the focus on its European Policy. Next to that the outset of Iceland's formal application regarding the EU membership and the major conclusions of the European Commission over Icelandic bid are reviewed. In considering this, I analyze the empirical evidence of the Social Democratic Alliance's support for the European policy and its domestic legitimating of the European targets via gaining public consent for the particular policy options. The concluding fifth chapter measures the summary of the findings, which are generalizable and useful for the further research of European integration, interest groups' calculations and the governmental choices for the membership of the economically profitable unions.

Methodology and Techniques:

The respective paper for a great deal is based on a case study of Iceland's European policy. The qualitative research method is applied for the collection of data. The research is based on the deductive logic, where the hypothesis is tested on the case through applying the theory as an analytical tool for identifying linkages between the independent and dependent variables; for this purpose the empirical evidences gathered through the exploration of the secondary and tertiary data related to the topic of the research, such as books, articles, scholarly magazines, interviews and speeches of the Icelandic officials, the EU reports, etc, are employed. The study also uses the special statistical data (secondary), relevant to the research for the empowering of the qualitative reasoning with the new tangible facts and figures.

This paper is focused on the study of the coalitional behaviour of the interest groups and the Government of Iceland, and the advocacy coalitions in support and against the EU membership are identified. The basic object of research, Iceland's EU membership bid is observed before and after the submission of the application. The pre-application and post-application observation enables a better insight into the variation of the variables of the research. It also sketches out the strength of the advocacy coalitions in 2009. The part of the research that deals with the pre-application argumentation is a literature review, and the arguments are generated on the basis of their frequency. As regards the post-application part, the case of Icesave dispute and the fisheries sector preferences are given as the tests for the hypothesis elaborated on the basis of the liberal intergovernmentalist theory in regard to Iceland's EU membership application.

Chapter 1

Iceland amidst the Global Financial and Economic Crisis

The global financial crisis, which allegedly started from the housing bubble in the United States, spread across the whole world and it, inter alia, affected a small country - Iceland. The economic development of Iceland had been a model to follow for a long time (*"Iceland experienced growing economic prosperity and became one of the wealthiest countries in the world, with a GDP per capita in purchasing power standards at around 120% of the EU-27 average in 2008"*)³, and the banking sector of the country was considered one of the most successful in the world, until it failed to serve the majority of their continental customers in a good faith as the result of the financial turmoil and liquidity crisis in 2008. Ineffectiveness of the banks to stand against the crisis caused devaluation of the Icelandic currency, Krona. The foreign debt for 2008-2009 amounted over the 900% of the GDP.⁴ The overall economic havoc caused political unrest and people rallied against the government. In a country with

³ "Commission Staff Working Document -Iceland 2010 Progress Report, Accompanying the Communication from the Commission to the European Parliament and the Council, Enlargement Strategy and Main Challenges 2010-2011." EUROPA - the official EU website. http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/is_rapport_2010_en.pdf (accessed May 30, 2011).

⁴ Ibid. p.43

traditional social welfare services and a low level of unemployment, the economic crisis endangered the capability of the government to execute its long-established functions, and the legitimacy of the ruling party was questioned. In the presence of the ineffective measures of combating economic crisis and the nationalization of various enterprises, the downfall of the economy of Iceland commenced. The crisis contributed to the uneven distribution of the welfare there appeared the “new millionaires”, while the country experienced a shattering growth of emigration.⁵ Icelandic economic crisis in facts and figures is quite striking: inflation rose to 18.6 percent and unemployment rate increased over 9 percent for 2009; simultaneously GDP of the country was reduced to 6.8 percent.⁶ Moreover, Iceland became the first developed country to ask aid from the International Monetary Fund since 1976 and a country against whose banks the United Kingdom enacted the counter-terror legislation drafted in response to the 2001 terrorist attack on the US. The crisis situation gave a way to the public debates about the salvation and recovery of the country’s economy. Since the key internal causes of the financial crisis in Iceland were the foreign-currency denominated loans that skyrocketed after the depreciation of the Krona, and which contributed to the dramatic growth of the total foreign debt, measured in Kronas, these results had to be overcome and the created situation raised voices in support of joining the European Union. The arguments were presented in favour of the Eurozone membership, that adoption of Euro would make it easier to repay the debts denominated in the same currency. The inability to tackle with the economic crisis resulted in the anti-government rallies and the coalition government, which was composed by the conservative Independence Party and the Social Democratic Alliance, collapsed in January 2009.

⁵ “ICELAND PRE-ACCESSION ECONOMIC PROGRAMME 2011, the Ministry of Economic Affairs. p16, http://eng.efnahagsraduneyti.is/media/ Acrobat/Pre-Accession-Economic-Programme-2011_Iceland.pdf (accessed May 30, 2011).

⁶ Magnus Bjarnason, The Political Economy of Joining the European Union. Iceland’s Position at the Beginning of the 21st Century (UvA Proefschriften) (n.p.: Amsterdam University Press, 2010)

1.1 Arguments for and Against the European Union Membership before the economic crisis

The membership of the European Union was a subject of the public debates before 2009. However, there has been modest valuable scholarly contribution in this regard, because of long-lasting peculiarity of Icelandic choice of non-alignment with the European institutions. Iceland's interaction with the European Union has been moderately researched by the major scholars who study the European Affairs, as they attributed greater attention to the place of Iceland in European Free Trade Association (EFTA), and due to the sectoral approach concerning Iceland's resilient stubborn position towards the EU membership. Nevertheless, Iceland's involvement in the European projects, such as the associated status of the visa free Schengen Agreement and the adoption of the 80% of the European Union Single Market legislation, has inspired some researchers to concentrate on the non-alignment of Iceland with the European Community via choosing the alternative form of the economic cooperation, instead of the political integration. As regards the Icelandic decision to move forward the application bid for the EU, so far the existing literature is confined to the several scholarly articles and media reviews.

1.2 Iceland's Relations with the European Communities during the Four Enlargement Rounds

The European Economic Community and the Euratom were the first organizations established under the Rome Treaties (1957). Iceland was not among the six founding members of the respective entities. The initial abstention of Iceland to join the economic bloc has been explained based on the arguments stemming from the sovereignty issues. First, Iceland gained independence from Denmark in 1944, and considering the legal basis for superseding of sovereignty to the supranational authority, membership was unacceptable to Iceland. When it came to the first enlargement of the European Communities, Iceland privileged the alternative option - membership of the European Free Trade Association (EFTA). Neil Nugent, a scholar of European integration advances the vision that Iceland,

“considered” possibility of membership along with the fellow states but declined the idea because of the probable perils in the fisheries sector.⁷

Iceland did not join the European Union during the second round of enlargement, when Portugal, Spain and following to that Greece found their place in the European Community. What is even more striking, unlike any other EFTA partners; Iceland did not apply for the membership of the formal EU institutions during the so-called “EFTA enlargement”. Desmond Dinan, in his voluminous book “Ever Closer Union”, European integration historian, refers to the case of Iceland only for the three times: twice in the context of EFTA, and on one occasion, in the context of the Schengen agreement . The author explains why some EFTAs decided to apply for the EU membership, arguing that it was determined by the overall dynamics of the closer integration of the respective states with the Community and the launch of the single market program. Dinan further states that the membership decision was determined by the economic stagnation in the countries concerned, zest for a better decision-making power, and finally, by the exclusion of the latter from the Economic and Monetary Union. As regards Iceland, the author states that until the last moment Iceland demonstrated reluctance to sign even the European Economic Area agreement which channeled the access of Iceland to the Single European Market.⁸

The fourth wave of enlargements 2004 and 2007 brought to the EU the 12 new members from the Central and Eastern Europe and the Mediterranean. Iceland strictly held aside from the engagement in the formal European Institutions. According to Ingebritsen’s sectoral approach, it is the economic interests of Icelandic fishing industry that have kept Iceland outside the European Union, as it is believed that the EU’s Common Fisheries Policy does not fit with Icelandic interests.⁹

⁷ Neil Nugent, ed., *European Union Enlargement*, ed. Neill Nugent (Houndmills, Basingstoke, Hampshire.: Palgrave Macmillan, 2004), 3.

⁸ Desmond Dinan, *Ever Closer Union: An Introduction to European Integration*, 3 ed. (n.p.: Palgrave Macmillan, 2005), 138.

⁹ Christine Ingebritsen, *The Nordic States and European Unity* (Cornell Studies in Political Economy) (n.p.: Cornell University Press, 2000), found in Eiríkur Bergmann, “Sense of Sovereignty How National Sentiments Have Influenced Iceland’s European Policy,” *Stjórnámál og stjórnsýsla vef tímarit (fræðigreinar)* 2, no. 5 (2009): 5., <http://skemman.is/stream/get/1946/9112/23980/1/a.2009.5.2.1.pdf> (accessed June 25,2010)

As analyzed by Baldur Thorhallson, a political scientist from Iceland in the book "Iceland and European Integration On the Edge", "Approaches need to dig deeper into each individual state's domestic structure in order to explain its reactions to the EU." According to him, many specific characteristics of the Icelandic political system which had also been named as reasons for Iceland's exceptional EU skepticism were still in place, such as its politicians' belief in realism, the blocking power of the fishing industry, the over-representation of rural regions (where the dominant interests were those of fisheries and agriculture) in the *Althingi*, the lack of decisive policy making by the small national administration and the defence relationship with the United States.¹⁰

When analyzing the politics of Scandinavian countries and Switzerland aimed at accession of the European Union, Sieglinde Gstohl tries to explain their stubbornness to join the European Union, and provides a constructivist alternative to the previous analyses of the European Policies of the EFTAs. As regards Iceland, the author states that Iceland's economic interests would never be influential to the extent to make a decision alike.¹¹ The same line of thought suggests that Iceland's cautious attitude towards the EC membership was caused by the sovereignty and economic concerns in particular over fishing sector, and the formation of the Common Fisheries Policy sidelined EC membership from Icelandic priorities.

In my research I analyze Icelandic government's European accession bid and the factors which have influenced that decision. These factors of influence act as the independent variables, while the application for the formal membership of the EU is the dependent variable. The basic assumption of this research is based on the liberal hypothesis of the national preferences formation and the role of the national governments as Moravcsik theorizes. To restate the hypothesis introduced in the introduction, Icelandic application for the EU membership would have been otherwise impossible, if there were no economic

¹⁰ Baldur Thorhallsson, ed., *Iceland and European Integration: On the Edge* (New York: Routledge, 2004)

¹¹ Sieglinde Gstohl, *Scandinavia and Switzerland: small, successful and stubborn towards the EU*, ed. Frank Schimmelfenning and Ulrich Sedelmeier, vol. 2 of *The Politics of European Union Enlargement: Theoretical Approaches* (n.p.: Palgrave Macmillan, 2005), 35.

incentives from the side of the major interest groups. To operationalize the variables which I introduced, Iceland in this case refers to the political elite, and the government of Iceland. As regards the major interest groups, they are defined according to their size and interaction with the Icelandic government, among them the business associations, labour and professional unions. I apply the Liberal Intergovernmentalist theory; therefore, I presume that the interest groups have significant influence over policy preferences aggregated by the governments; that the government chooses the policy option out of the ones advanced by the powerful interest groups.

1.3 Iceland's Interaction with the EU within the EFTA/EEA – a Democratic Deficit?

The economic crisis had effect on Iceland's banking sector as the three major banks collapsed. Iceland was held responsible for reimbursing deposit accounts for British and Dutch savers. This became possible because Iceland is a member of the European Economic Area which is a channel via which the European Union Single Market legislation reaches Iceland. This chapter critically reviews Iceland's role in EFTA and EEA, by stressing deficiencies of the decision-making capabilities and democratic deficit. It is important to explain the basic form of interaction of Iceland and the European Union as background information for the further analysis of Icelandic case, because the EFTA membership has caused major debates around the financial dispute on the so-called Icesave issue, which is explored in this paper in a separate subchapter for testing the basic research hypothesis.

Iceland's place in the European Economic Area has raised democratic deficit doubts. Codecision was the major legislative procedure in times of Iceland' application to the EU membership (after the adoption of Lisbon Treaty it was renamed after "the ordinary legislative procedure). Codecision, basically is a legislative process with involvement of the European Commission, the European Parliament and the Council of the European Union. This scheme is below, explained in accordance with Simon Hix' book.

Table 2¹²

¹² Simon Hix, *The Political System of the European Union*, 3rd ed., ed. Neil Nugent and William E. Paterson (Basingstoke: Palgrave Macmillan, 2005), 100-1

Commission
Proposes legislation

First Reading

Parliament
Either proposes amendments, or adopts text unmodified (simple majority)

Commission
Issues opinion, either incorporating or rejecting EP amendments

Council

Co-Decision either: - adopt law (Qualified Majority Voting) if no EP amendments and no Council Amendments -> law

- accept all EP amendments (QMV)-> law
- adopt common position (CP) (QMV), amending the Commission proposal

Second Reading

Parliament (within 3 months)

- amend Common Position (CP) of the Council of Ministers (absolute majority)
- adopt CP (absolute majority) or fail to act -> law
- reject CP (absolute majority) -> law fails

Commission
- issue opinion, either incorporating or rejecting any new EP amendments

Council

(within 3 months)

Either:

Accept EP amendments (QMV for those accepted by Commission, unanimity otherwise)->law

Fail to accept all EP amendments or fail to act -> convene Conciliation Committee(within 6 weeks)

Conciliation Committee
(EP, Council of Ministers and 1 from Commission)

Within 6 weeks

- adopt joint text (QMV of Council members/simple majority of the European Parliament members)
- - fail to adopt JT or fail to act-> law fails

Third Reading

Council

Within 6 weeks either:

- adopt JT (QMV)
- fail to adopt JT (QMV) or fail to act - > law

(or in co-decision I, if no Joint Text agreed, then Council can reconfirm Common Position (QMV)

Parliament

Within 6 weeks either: - adopt Joint Text (simple majority) -> law

Fail to adopt Joint Text (simple majority =) or fail to act - > law fails

(or in co-decision I, if Council reconfirms CP then EP can reject CP (by absolute Majority] → law fails

As a non-member of the European Union, Iceland has no representatives in the major legislative decision-making bodies: the European Parliament and the Council of the European Union. All three readings in the Council and the Parliament configuration bypass Iceland's voice.

After the EU law is issued, it needs to be implemented. The vast majority of measures with legal consequences in the European Community are not adopted by the principal legislative authorities (the Council and the European Parliament), but by the European Commission after the Council and, when applicable, the European Parliament have conferred implementation powers on it. Once the legislative act is adopted, it starts the second procedure, which was referred as comitology.¹³ In brief, comitology committees assisted the Commission in the exercise of its executive powers. The EEA/EFTA States are involved in the work of both expert committees and comitology committees, but with no right to voting. The comitology committee system has raised questions about the democratic legitimacy of the EU policy-

¹³ Under the Lisbon Treaty which entered into force on December 9, 2009, this procedure is referred as "delegated acts" which come under parliamentary control.

making, because most of the committees are not mentioned in the Treaties, their proliferation is sometimes seen as a deviation from the “constitutional” rules of the European Community.¹⁴ They are also seen as the “democratic deficit” and “bureaucratic and technocratic bias” of the EC system, since their members are not elected on a democratic basis and the meetings take place behind closed doors.

The Lisbon Treaty replaced comitology with “delegated acts,” which come under parliamentary control. This is in call of increasing transparency of the EU decision-making; however, for the lobbyists from Iceland, this is a lesser chance of influencing the outcomes of the implementation measures outlined by the commission. Only after these long procedures the EU law reaches Icelandic parliament.

The basic problem with this system of generating laws is that Iceland is not able to influence as Iceland does not have a legal access to the European Parliament and the Council’s legislative activities; second, freedom of action is challenged by the increased powers of the European Institutions at the level of the implementation of the EU laws. And if Iceland fails to implement the EU law, the EFTA surveillance authority and EFTA court come in the play. The EFTA court interprets the laws in accordance with the EU Single Market rules. Therefore, Iceland is potentially accountable for the laws which it did not write.

2. The Theoretical Framework of the Research

The European Integration has been theorized by a number of scholars. The functionalists pay attention to the role of the functionality and see no limits to integration. Federalists looked for the political structure of the emerging Community and advocated that the final end of the Union would be a European Federation. The intergovernmentalists opposed to that by citing to the crises that the national governments created for the European integration, such as the empty chair crisis and the British rebate. During 70s Neo-functionalism developed out of the works of the authors Haas and Lindberg. The respective theory rethought the functionalism,

¹⁴ EC comitology and the EEA (2001). www.efta.int/~media/Documents/.../jpc.../20Jun2001ECCComitology.doc (accessed: June20, 2011)

adding to that the political integration perspective, the limit of the European integration and the logics of spillover as the guiding principle. The reflectivist theories of the European integration are quite recent and derive from the works of the constructivists. Along with them, there are studies about the institutionalism, EU as a supranational polity and the multilevel governance models that derive from the public policy and the EU law.

I chose Liberal Intergovernmentalism to apply in the respective thesis, as far as I presume that the hypothesis of the LI may be tested on the case Icelandic EU membership bid. This theory is relevant to analyze Iceland's EU membership application, as far as it is concentrated on the study of the interest groups and coalitions' influence on the adopted policy goals. The process of articulation of the policy preferences by the dominating interest groups via interaction with the political elite and aggregation thereof described by the LI theory is a helpful tool to analyze the developments in Iceland. The other theories of European Integration mainly concentrate on such issues as the economic "spillover", role of the bureaucrats, the EU as a sui-generis actor, the role of the European values within the European integration, which are not the most puzzling issue of Icelandic EU membership. On the other hand, the LI pays the utmost attention to the economic interests and the interaction of the government and the pressure groups that makes sense for Icelandic membership case, considering the presence of the global economic crisis and the abundant rights that the interest groups enjoy in Iceland.

§ 2.1 Liberal Intergovernmentalism as a Theory of European Integration

Liberal intergovernmentalism is a theory of European integration which developed from the works of American political scientist Andrew Moravcsik. The respective theory investigates the interaction between states and international organization, and the relationship between national preference formation, coalitional behaviour and interstate bargaining.¹⁵ Liberal Intergovernmentalism is based on the three important subfields of international relations theory: regime analysis, negotiation theory and intergovernmentalism. The Liberal Intergovernmentalism sees the governments as the rational actors, which pursue their interests. As Moravcsik argues, the EU can be explained as a “successful international regime of coordination”. Thus, the Liberal Intergovernmentalism outlines the aspiration of the states to join the European Union and argues that there is a three-stage process that results in the final membership of the community.

2.1.1 Preferences Formation

The first stage of the European integration choice is based on the liberal theory of preference formation, where Moravcsik provides conditions as to how the domestic pressure groups influence the national governments to embrace a particular policy alternative. According to Moravcsik, the national interests are not given and they are formed via interaction of the governments and the interest groups within the society. In his work the author states: the state preferences are not given, they are not “billiard balls” per se, however are formed as the result of interaction of the government and the societal groups.¹⁶ Therefore, the preferences which are articulated by groups become aggregated by the government.¹⁷

“A domestic preference formation process identifies the potential benefits of policy coordination perceived by national governments (demand), while a process on interstate

¹⁵ Dimitris. N Chrysochoou, *Theorizing European Integration*, 2nd ed. (n.p.: Routledge, 2009), 57.

¹⁶ Andrew Moravcsik, “Preferences and Power in the European Community. A liberal intergovernmentalist approach”, *Journal of Common Market Studies*, no.4 (December 1993): 492

¹⁷ *ibid*

strategic interaction defines the possible political responses of the EC political system to pressures from those governments (supply)".¹⁸

According to Moravcsik, the states are subject to "construction and reconstruction by the coalitions of societal actors".¹⁹ However, in his theory of European integration he states that all groups and individuals do not exercise the same influence on the state policy, as opposed to the narrowly defined pluralist theories. According to the author, the core interests of the states or so called "state preferences" are not nested and they are rather subservient to the societal pressures.²⁰ Moravcsik also argues that some interest groups and individuals are represented at more or less extent in the political institutions and the "state preferences" are altered by the most influential societal groups. Societal pressures transmitted by representative institutions and practices alter "state preferences."

Moravcsik distinguishes between national preferences and the national strategies, tactics and policies, which are pursued on the international level. In accordance with the line of thought of the Liberal Intergovernmentalism, the economic and macroeconomic preferences of the interest groups and the leading elite are determinants of the policy choices.²¹

§ 2. 1.2

International Bargaining

The Second stage of the European Integration as the LI theorizes is international bargain, where the bigger states hold better bargaining conditions than the smaller ones. According to the LI, the bargaining process reveals asymmetrical interdependence of the participants, because the state which seeks membership has less leverages and it has to agree to the unfavourable conditions for the superior goal of membership. At the bargaining stage the main actors are considered to be the national governments, since they hold the highest authority to advance the state preferences at the international level.²² According to Moravcsik,

¹⁸ ibid 481

¹⁹ ibid 518

²⁰ "Liberal Intergovernmentalism," in Antje Wiener and Thomas Diez, eds. *European Integration Theory* (Oxford: Oxford University Press, 2009). (with Frank Schimmelfennig), p 69

²¹ Andrew Moravcsik, "Preferences and Power in the European Community. A liberal intergovernmentalist approach", *Journal of Common Market Studies*, no.4 (December 1993): 493

at the international bargaining level the governments bring winsets, which represent their agreed policy areas, where the winsets of the two governments overlap, the bargain is struck.

§ 2.1.3 The Role of the Supranational Institutions

According to the Liberal intergovernmentalism, the supranational institutions of the European Union augment the power of the governments because of the two arguments: the first stems from the theory of the functional regimes, which assumes that the institutions decrease transaction costs for the cooperation, and second, that the EC institutions strengthen the national governments against the societal pressure groups. Since the EC gives the national governments wider agenda setting possibility vis-a-vis the national pressure groups.²³ Moreover, Moravcsik brings in the two-level game analysis to argue that the national governments use supranational institutions to offset the pressure from the domestic interest groups.²⁴ According to Moravcsik, the supranational institutions serve the states and they are created to advance the interests of the governments. Moravcsik argues that the supranational institutions held the domestic elites to hold better powers against the pressure groups inside the country and advance their political interests referring to the supranationality of the regulations and laws issued by the respective institutions.

The enlargement of the European Union has drawn attention within the field of European Studies and there are many works related to theorizing the EU enlargement. Moravcsik states that Europeanization is primarily driven by the leaders of national governments responding to demands from national constituencies and reacting to imperatives from the global economy.²⁵

The theory of Liberal intergovernmentalism makes a good analyzing framework for the overall European Integration developments, especially with regard to the cases, where the economic variables play important role.

²³ Ibid., 507

²⁴ Ibid., 515

²⁵ DONALD J. PUCHALA, "Institutionalism, Intergovernmentalism and European Integration: A Review Article", *Journal of Common Market Studies*, no.2 (June 1999):327

2.4 The Advocacy Coalition Framework

Andrew Moravcsik states in his article, the LI theory (liberal intergovernmentalism) postulates the domestic coalitions' struggles as highly considerable. However, while Moravcsik talks about the intensity of domestic interests etc, he pays little attention to the coalitions in depth, and I decided to employ the Advocacy Coalition Framework developed by Paul Sabatier which is concentrated on interest groups and competing coalitions, in order to supplement the LI with a valuable analytical tool.

The advocacy coalition's framework is relevant to the research because of its focus on the leading forces of domestic interest formation and on the other hand it allows tracking of the changes of the variables. I apply Liberal intergovernmentalism as a major framework and the advocacy coalitions to see the inter-coalitional behaviour and to identify the key preferences within the coalitions. According to Sabatier, advocacy coalition encompasses various interested sides from various backgrounds. He states that the policy subsystem analysis gives important implications for the political change in the democratic governments.²⁶ These subsystems groups may involve actors from private and public organizations, national and international. In Westminster-style systems where the majority party can change any law any time it wishes, coalitions are more likely to rely upon a variety of more informal, and longer-lasting, arrangements.²⁷ The ACF argues that they are a critical prerequisite to major policy change. They include: (1) major socio-economic changes, such as economic dislocations or the rise of social movements; (2) changes in public opinion, particularly regarding governmental spending priorities and the relative seriousness of various problems; (3) changes in the systemic governing coalition, including 'critical' and/or 'realigning elections'; and (4) policy decisions and impacts from other subsystems. Within the subsystem, the ACF assumes that actors can be aggregated into a number (usually one to four) of 'advocacy coalitions,' each composed of actors from various governmental and private organizations who both (a) share a set of normative and causal beliefs and (b) engage in a non-trivial

²⁶ Paul A. Sabatier, "The Advocacy Coalition Framework: Revisions and Relevance For Europe," *Journal of European Public Policy* 5, no. 1 (March 1998): 103

²⁷ *Ibid*

degree of co-ordinated activity over time.²⁸ The ACF explicitly argues that most coalitions will include not only interest group leaders, but also agency officials, legislators from multiple levels of government, applied researchers, and perhaps even a few journalists.

In this research I employ advocacy coalitions in terms of their formation after the economic crash which brought at stake European Integration and I will identify supporter and the opponent coalitions of the EU membership and what happened before that.

3. Application of the LI Theory and ACF Model to the Societal Groups and the European Policies of Icelandic Political Parties

This chapter seeks to analyze the European Policies of the major Icelandic political parties and the interest groups that stood with them in the coalitions before the economic crisis. Considering the logics of the Liberal intergovernmentalist theory, I presume that the economic factors matter, therefore the economic crisis has influence on formation of the preferences advocated by the diverse actors of society. Paul A. Sabatier's method described above is relevant in the framework of defining coalition dynamics within Icelandic society, the pressure groups' and the Icelandic government's interaction. Sabatier's model will be applied in this chapter to help explain the potential coalitions and their support to the European Policy as well. The interest groups and the political parties will be grouped in accordance with the identified coalitions.

The industrial groups, business associations and the labour unions are the primary interest groups that favour the European Integration. The interest groups in Iceland influence the Parliament via a number of avenues of influence, among them individual lobbying, working in the committees, pushing for the representation of the favourable political parties and with support of the individual MPs linked to the certain constituency. The influence of the groups is changeable and it is related to the relative distribution of power, national representation and

²⁸ Ibid

the general macroeconomic situation. Iceland is a consensual democracy and pays strong attention to the interaction with various stakeholders of the society, channeled through the frequent meetings. As in other Nordic countries, in Iceland they enjoy wide range of freedoms. According to Article 74 of the Constitution, “associations may be formed without prior permission for any lawful purpose, including political associations and trade unions. An association may not be dissolved by administrative decision”.²⁹

The opinion of the European Economic and Social Committee on “Iceland as a candidate country” evaluates Iceland’s overall performance and contains valuable information concerning Iceland’s domestic pressure groups. The business-related and other types of associations are required to be enlisted in the National registrar. The act on “Trade Unions and Industrial Disputes” describes the rights and obligations of the Labour Unions of Iceland.³⁰ The report further says that the Nordic system of economic and social welfare applied in Iceland rests on the high spending for the public goods. The role of the social partners is evaluated as very active with the high level of engagement in the social and economic disputes. Social regulations are not codified, however the industry and labour groups do not oppose to this legal issue.³¹

The government and the associations exchange the strategic information in regard to the European Economic Area issues. The government of Iceland is dependent on the valuable data provided by the various lobbyists and experts which have access to the EU/EEA.³² Nongovernmental interests associations such as the Confederation of Icelandic Employers (SA), the Icelandic Confederation of Labour (ASÍ), the Federation of Icelandic Industries (SI) and Iceland’s Chamber of Commerce have access to the Economic and Social Committee of

²⁹ Constitution of Iceland , www.government.is/media/Skjol/constitution_of_iceland.doc (accessed 30 May,2011)

³⁰ Ms CARR, “*Opinion of the European Economic and Social Committee on ‘Iceland as a candidate country’*” Official Journal of the European Union No C 54/8 (February 2011): C 54/1 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:054:0008:0014:EN:PDF> (accessed 20 June, 2011)

³¹ Ibid: C 54/12

³² (Thorhallsson and Vignisson 2004: 179) Gudmundur Hálfðanarson, ed., “Discussing Europe: Icelandic nationalism and European integration,” in Iceland and European Integration: on the edge, ed. Baldur Thorhallsson (publication place: publisher, 2004), 179.

the EU.³³ The Association of Local Authorities in Iceland, which is a common forum for Icelandic Local authorities, at the European level operates an office in Brussels which promotes Icelandic interests in the EEA/EU.³⁴ The association gathers necessary data for Icelandic authorities and works in close cooperation with the EEA consultative committee, the Council of European Municipalities and Regions (CEMR) and the European Local Authorities Network, (ELAN).³⁵

The economic crisis has increased vulnerability for the business associations, as well as for the trade unions. The former sought for the rescue of their financial activities, whereas the latter were concerned with the social security system, endangered by the economic crisis. The Political parties of Iceland had long enjoyed their connection with the societal groups. Their cooperation system was based on the mutual benefits recognition.³⁶

3. 1 Icelandic Political Parties and Interest Groups

To identify the potential coalitions for and against European integration, it is necessary to have a look into the domestic political arena of Iceland and the major groups of influence. It is rather interesting to inquire the effect of the economic crisis on these groups. The economic crisis highlighted three coalitions with regard to the European policy: 1. Group supporting the European Union membership 2. Group supporting the adoption of the Euro without the EU membership 3. The group against the European Union membership and against the Euro (formed later as a result of the change of opinion within anti-EU group). Considering the pre-application debates, and the European Policies of the Icelandic major political parties and the societal groups and public opinion, it is possible to divide them between these three coalitions. The first coalition is pro-European, the second advocates for joining the Economic

³³ Eiríkur Bergmann, "Iceland and the EEA", 1994-2011 (2011), <http://www.europautredningen.no/wp-content/uploads/2011/04/Rap7-island.pdf> (accessed 20 June, 2011)

³⁴ The Association of Local Authorities in Iceland : <http://www.samband.is/um-okkur/english/> (accessed 30 June, 2011)

³⁵ *ibid*

³⁶ Paper by Baldur Thorhallsson, Jean Monnet Professor of Political Science and Chair of the Institute of International Affairs and Centre for Small State Studies, University of Iceland, The Committee on Foreign Affairs at the European Parliament in Brussels Workshop - Iceland in the EU: Challenges and Prospects, 13 January 2011. Available from: www.hi.is/files/skjol/.../Baldur-publication-Paper-EP-Iceland-EU.doc (accessed: 30 June, 2011) p.2

and Monetary Union of the EU and adopt Euro, and the third coalition is Euro-Skeptic. Below these coalitions are considered, and how the social-democrats became able to move the application forward analyzed. Therefore, in this chapter I will analyze the European Policies of the major political parties before the economic crisis and afterwards.

3.2 The Pro-EU Coalition

The surveys conducted by the several research institutions have revealed that the most pro-European in Icelandic society for the long time had been public opinion.³⁷ The leading forces of the Pro-European Coalition have been the trade unions, as the former Primer Minister Ásgrímsson admitted that Labour unions have been the first and most driving forces of the European integration in Iceland. From the political powers, the unions were supported by the Social Democratic Alliance. The respective political alliance held a strong pro-European stance since it was formed in 1999 as a merger of four political parties: Social Democratic Party, the People's Alliance, the Women's Alliance and the National Movement. The Social Democratic Party, a member of the SDA held pro-European standpoint, however was reluctant to advance the European Union membership, because of the disagreement with its coalition partner.³⁸ In the middle of the economic crisis in Iceland, the SDA was in the coalition government with the Independence party and declared that it would break the coalition on the grounds of disagreement with the partner on the European Union membership and later did so in January 2009. The European Union membership was a subject of consideration within Icelandic public. The survey conducted by the Capacent Gallup showed that the majority of Icelanders supported the start of the negotiations with the EU with 64 % in favor.³⁹

The economic crisis acted as a window of opportunity for the social democratic party to embrace the European Union membership in the pre-election manifesto, which devoted a

³⁷ Capacent Gallup <http://capacent.is/> (accessed June 20, 2011)

³⁸ Baldur Thorhallsson, (2011), "*EU discussion sidelined because of the Ice-save dispute – a country preparing itself for an intensive EU debate*", Institute of International Affairs and Centre for Small State Studies, University of Iceland. <http://www.eu-27watch.org/?q=node/609> (accessed June 20, 2011)

³⁹ Capacent Gallup (2011), <http://eng.capacent.is/?pageid=25d8144e-e11f-456b-8d76-c4f56734ccd4&NewsID=52f415de-58df-4ff2-8138-8ca4dd05eaba> (accessed June 20, 2011)

separate chapter to Europe. It says once elected, the Social-Democratic party will apply for the European Union membership. Moreover, it lists the benefits the European Union membership can bring to Iceland, among them: adoption of the Euro, low level of prices on food, decrease of the interests rates, access to various EU welfare services and to the biggest labour market, security, regional development, that the democratic deficit would be overcome in the EEA and Iceland would “have a say” on the EEA legislation. The implication to the important groups’ interests goes like a leitmotif of the charter.⁴⁰ The basic arguments for the European Union membership advanced by the Social Democrats are based on these major elements. Elections were held in April, the SDA allied itself with influential interest groups, including the Federation of Trade and Services, the Federation of Icelandic Industries, the Icelandic Confederation of Labour, the Icelandic Travel Industry Association and the Icelandic Chamber of Commerce, and made a joint declaration with them, which was quoted in the report of the government committee that had been formed to assess attitudes in Iceland towards closer engagement in European integration. On 16 July 2009, after a long and intense debate, the Icelandic parliament, the *Althingi*, passed a motion approving an EU membership application with a narrow majority of 33 to 28 votes and two abstentions⁴¹. While Iceland struggled to obtain assistance from the International Monetary Fund (IMF), Britain and the Netherlands allegedly blocked such assistance on a number of occasions, with the formal and informal approval of other European states. The Europe part of the Social Democratic Alliance’s party program lists the following arguments in support of the EU membership:

- Macroeconomic Stability that would have been brought by Euro
- The prices on food would benefit importers who were largely disadvantaged
- Aiding industries via inclusion in various regional programs aimed at agrarian and fisheries groups
- Formal decision-making in the EU instead of the EFTA/EEA. This reserves a better attention in the light of the crisis development and the further negotiation process⁴²

⁴⁰ The Social Democratic Alliance National Conventionin Smárinn Kópavogur March 27th-29th Political resolution “Work and Welfare”. Available from: <http://www.samfylkingin.is/LinkClick.aspx?fileticket=ejJinQUKtoo%3D&tabid=196> (accessed June 30, 2011)

⁴¹ 2009 parliamentary elections in Iceland). Available from: <http://electionresources.org/is/althing.php?election=2009> (accessed on 30 June 2011)

All of the major priorities listed by the SDA deserve attention. First of all, the street rallies which have been described as one of the violent for 50 years, put forward the economic arguments. The protest participants demanded resignation of the incapable government, Iceland's economic stabilization and adoption of the Euro, and the EU membership. Ms. Sigurdardottir, the new Prime Minister of Iceland from the SDA promised the nation that in four years Iceland would have Euro as an official currency.⁴³ As regards the EFTA/EEA, the inability to influence the decision outcomes was clearly demonstrated by the economic crisis, whereas the EU legislation applied to Iceland. It is notable that the relations between Iceland and the EU are channeled through the EEA agreement. This is the way the EU laws reach Iceland and this was useful and in interest and pragmatic calculation of Iceland as of a rational actor for a certain time period.

There are three major movements which promote Iceland's European Union membership: "Stronger Iceland – A Nation among Nations", which has gathered proponents from the MAs of the greater Reykjavik (capital) area, the major unions of employers' and employees'. The European Movement of Iceland was established in 1995, its chairman Jón Steindór Valdimarsson chaired the Director General at Federation of Icelandic Industries in the past. The other major Pro-European movement of Iceland is Independent Europeanists. It is supported by the members of the independence party, who disagree with the position of majority in their party, who support the European Union membership, the vice-chairperson of the party is among them. The Social Democrats, European Forum, and the Independent Europeansits have been operating a joint association "Ja Iceland!", which aims at promoting of the European Union membership.⁴⁴

3.2 EURO-SKEPTIC Coalition

Davíð Oddsson, the Prime Minister of Iceland between 1999-2004, from the independence party depicted the EU as the most „undemocratic bureaucratic monstrem man has ever created. “⁴⁵ The Euro-Skeptic movement of Iceland is represented by the sector pressure

⁴³ JOHN F. BURNS, "Premier Wants Iceland to Join European Union", The New York Times, Published: 26 April , 2009 (last accessed: 28 June, 2011) available from: <http://www.nytimes.com/2009/04/27/world/europe/27iceland.html>

⁴⁴ <http://www.jaisland.is/um-okkur/>

⁴⁵ Eiríkur Bergmann 2002, quoted from Bergman Sense of Sovereignty How national sentiments have influenced

groups from agriculture and fisheries. The Euro-skeptics are supported by the members of Althingi: all Icelandic political parties represented in Althingi except for the SDA, have demonstrated their anti-EU stance. There are some key arguments that the Euro-skeptics of Iceland advance in the process of the debates on Europe. They state that joining the EU will endanger the 200 miles sovereign exclusive fishing zone and that the regulations will plummet the fishing industry. The greatest opposition has traditionally been the Federation of Fishing Vessels. The fisheries sector has traditionally been a considerable organized societal pressure group in Iceland.⁴⁶ Icelandic fishing industry has been cooperating with Icelandic independence party. Independence party actively lobbied Iceland's fishing sector and gained "porks" for their fisheries sector by allowing resumption of issuance of the licenses on the commercial whaling in 2006 (Iceland used to catch fewer than 10 a year, but in 2008, they increased their quotas),⁴⁷ not surprisingly, Iceland's whaling fleets and their top fishing company are owned by the same people.⁴⁸ Apart from that, the Independence Party has traditionally provided the fisheries with the credits with the low interest rates, etc.

The SDA became capable of pushing the EU bid after it came in the power as the result of the 2009 elections. It has contacted the basic actors from the other coalitions, among them anti-European ones. It has found the common ground of cooperation and even more, struck an agreement with the opposite coalition just on the core value of stability, as the choice of alternative was limited. As the United States was reluctant to provide the financial assistance in the peak of the global economic crisis, the alternative partner for Iceland could be China or Russia, but this idea was shortly abandoned. The basis of agreement between the SDA and LGM was ideological solidarity as well. After, the SDA concluded the bargain with the social partners and fisheries about stability, called a stability pact, and managed to secure support

Iceland's European policy 2. tbl. 5. árg. 2009

Fræðigreinar available from <http://skemman.is/stream/get/1946/9112/23980/1/a.2009.5.2.1.pdf>

⁴⁶ , Hörður Sævaldsson, University of Akureyri. Information Center of Icelandic Ministry of Fisheries and Agriculture (accessed: 17 July, 2011). Available from: <http://www.fisheries.is/economy/fisheries-impacts/nr/275>

⁴⁷ Statement on responsible fisheries in Iceland (2007), <http://www.fisheries.is/management/government-policy/responsible-fisheries/>, (accessed: 17 July, 2011)

⁴⁸ "Iceland Ignores International Anti-Whaling Agreements" (2010), <http://news.change.org/stories/iceland-ignores-international-anti-whaling-agreements>, (accessed: 17 July, 2011)

for its economic rescue plan. It is interesting to consider the basis for cooperation between the Social Democratic Alliance and the Left Green Movement, outlined in their document of cooperation.

As the social democratic party ran with the Left Green Movement, it is interesting to research their official background for the coalition formation: *Government Coalition Platform of the Social Democratic Alliance and Left-Green Movement (Government Coalition Platform⁴⁹)*. This platform deploys the basics of their coalition government's principles and the core interests. The basic aims of the coalition government are "to ensure economic and social stability, and to seek national unity on Iceland's path to reconstruction – a new stability pact".

It says that the new government, guided by these values, aims at creating a Nordic welfare society in Iceland, where collective interests take precedence over particular interests. Foremost among its tasks is to revive confidence in the domestic community and rebuild Iceland's international reputation. The agreement further adheres to the principles of the Nordic 'sister' states and pledges to promote social values such as equality, etc and to protect the collective interests and not particular interests. It would give the opponents of the LI theory a basis to say that the document targets no special group interest. However, when reviewed the priorities in details, it is possible to distinguish "beneficiaries" and the interests it addresses.

The economic priorities are the most important ones and they take the privilege despite the overall socialist flavour of the document. Once they come first, it denotes to their importance for the governmental coalition partners. The basic economic issues at the first place are of macroeconomic character: "to regain fiscal balance, rebuild the financial system, reach a national consensus on key objectives and wide-reaching economic measures, and negotiate a settlement with neighbouring countries following the collapse of the Icelandic financial system. These tasks need to be accomplished to bring the economy and industry out of the current economic trough, create macroeconomic stability once more and instill confidence in Iceland once more in the international community. It is also important to conclude as soon as

⁴⁹ Government Coalition Platform of the Social Democratic Alliance and Left-Green Movement,), available from: <http://www.government.is/government/coalition-platform/>, (accessed June 30,2011).

possible agreements on deposit guarantees with neighbouring countries as soon as possible and the settlement between the old and new banks. These matters are a prerequisite for Iceland once more gaining access to foreign credit markets.” The text reveals that the reconstruction of the international prestige shaken by previous government’s decisions with regard to the British and Dutch savers proved to be considerable. The cornerstones of the government’s economic policy are the credible economic programme and the four-year fiscal strategy which aims at balancing the budget within an acceptable period, together with co-operation with the social partners on a new stability pact. The manifesto further proceeds that the Financial Supervisory Authority (FME) needed to be reinforced, given more authority to enforce its objections and recommendations, and both FME and other regulatory bodies needed broader authorization to make their suggestions public. The coalition expressed will to the open cooperation with the academic and expert field.

According to Sabatier’s model, it can be considered that the “primary value” of all interest groups organized in the advocacy coalitions was a “broad consensus on the goal of stability” and the document says exactly so. That document also puts forward the initiatives of cooperation among the different stakeholders. It spoke about the future stability pact which was struck after that. The basic stakeholders identified under the document are: the social partners, the public employees’ associations, the state and the local authorities. The document pledges to guarantee the favourable operating conditions for businesses, in order to safeguard jobs and create the premises for their increase even more; boost confidence and trust in Icelandic business and industry; stimulate domestic investment in industry; encourage foreign direct investments; restore normal credit relationships with foreign banks. These priorities have nothing in common with the socialist perception of economy. Explanation for that may be that Iceland was a liberal neo liberal economy before the crisis.

The second priority on the agenda regards the fiscal issues. One more time, it is the neo-liberal economy issue and far beyond socialism. Further it instills that all decisions, in each expert field, must be based on best practice and consultation with both experts and consumers in cost-containment measures.

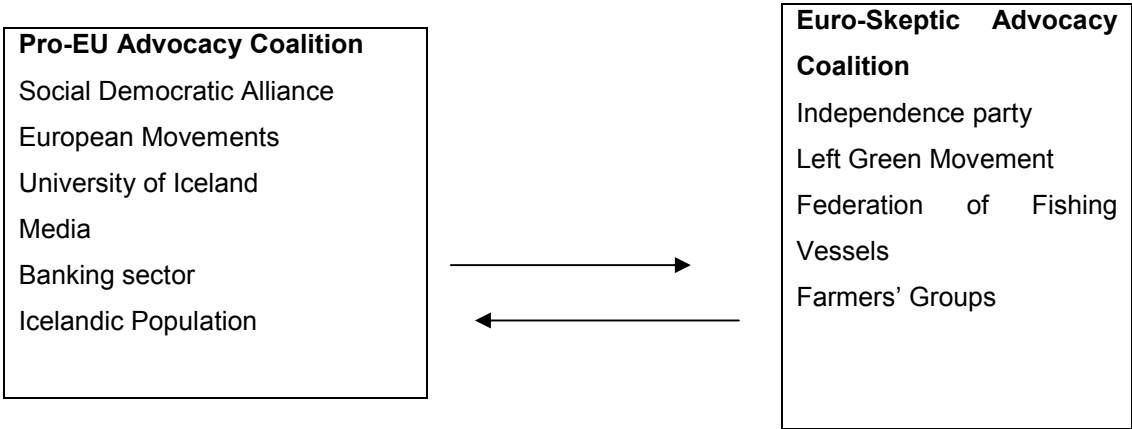
It is interesting that the fisheries sector did not take the forefront of the document. According to the manifesto, the objective of the government's fisheries policy is to ensure cost-efficient fisheries in Icelandic waters which create value and jobs while also being sustainable and environmentally friendly, and to protect ecosystems, the biosphere and the seabed in compliance with international commitments. These requirements look like close to Europeans'. After that come the environment and democracy parts. As regards the foreign affairs, it comes last and it says that the foreign policy requires a new vision which stems from the steps in environmental and other policies. In the foreign relations, the Nordic cooperation is prioritized. As a document says, "the decision on Iceland's accession to the European Union will be in the hands of the Icelandic nation, which will vote on the accession treaty following the conclusion of accession negotiations." It said that the Foreign Minister would present a parliamentary resolution to the spring session of the Althingi proposing an application for EU membership. The document *states* "support for the eventual treaty once it is available will depend on various conditions concerning Iceland's interests in fisheries, agriculture, regional policy, currency matters, environmental and resource issues, and public service", which means that these sectors play important role in the overall processes. In the end the document provides a list of the administrative reforms for better governance.

3.4 The Structure of the Advocacy Coalitions and the Interactions between Them

According to Sabatier, the coalitions involve representatives of various strata of society. They include representatives of the central and local government, media, various sector interest groups, etc. The case of Iceland, as stated above, has revealed existence of the pro-EU and anti-EU advocacy coalitions. The composition of the advocacy groups is defined above as well. This subchapter outlines the structure of the coalitions. As regards the Euro-Skeptic groups, they dominated Icelandic parliament and public before 2009, but remain powerful still. This was caused as Iceland was governed by the majority governments with conservative ideology, which opposed to loss of sovereign rights. In the presence of the high economic development, Iceland did not want to concede its fishing sector to the EU fishing companies. Common Agricultural Policy also threatened Icelandic farmers with the EU competitors, the state subsidies would be eliminated and considering arctic areas, farming would be with no

benefit. Over time rural residents had uneven representation in the parliament, which sidelined Iceland's EU membership option.

The pro-EU groups emerged as the result of debates about the economic benefits and the social policies of the EU. The EU membership attracted the trade unions, media and the Social Democratic Alliance. After the crisis the arguments for joining the EU and the EMU have been political and economic. The economic rationale has to do with the benefits of increased efficiency for living standards stemming from closer integration with the rest of Europe – through lower food prices, lower interest rates, keener competition, a stable currency, among other things. The political rationale for EU membership arguments deals a better international prestige of Iceland, as a member of the EU and better decision-making capabilities. The advanced economic situation of Iceland before the crash made impossible to advance the EU membership policy. However, after the economic crisis and a change of the government, the EU membership became at stake. The avenues of interaction between the coalitions represented the governmental structures of Iceland and media. However, the long-established political parties have enjoyed better media support.⁵⁰



⁵⁰ ODIHR Report, Office for Democratic Institutions and Human Rights ICELAND EARLY PARLIAMENTARY ELECTIONS, 25 April 2009, OSCE/ODIHR NEEDS ASSESSMENT MISSION REPORT, 3 – 5 March 2009 Warsaw, 18 March. (accessed on 20 June 2011). Available from: www.osce.org/odihr/elections/iceland/36560

4. A New Policy Output – Application for the EU Membership

Iceland submitted the application for the European Union membership on July 16, 2009, during the Swedish presidency of the Council of the European Union. There are some scholarly articles from the field of Scandinavian studies which try to explain why Icelandic government opted for the EU membership. Along with the scarce academic sources, several magazine articles and the speeches and interviews are available, which qualify as the data to be used in an academic research.

Magnus Bjarnason in his book “Political Economy of Joining the European Union – Iceland’s Position at the Beginning of the 21st Century” analyzes the choice of Iceland to join the European Union as the option for the alternative economic regime to the European Free Trade Association. He further provides analysis of the shift from the EEA to the EU policies and tries to identify the macroeconomic consequences for Iceland. The book is based on the impressive calculations of the prospective costs and benefits Iceland might incur by the membership of the European Union. The major arguments advanced are based on the economic indicators.⁵¹

Scandinavianist scholar Julia Kaute developed a book out of her Master’s Thesis regarding Icelandic EU membership bid. She put forward three hypotheses and tested them on Icelandic case. According to Kaute, constructivist theory explains the decision of the Icelandic elite towards the integration with the EU, and that in spite of the economic interests that are prevalent in the debates on Icelandic decision to join the EU in the media, the roots of the Icelandic elite’s decision stem from the attitudes towards the policy options. Further, Kaute underlines the importance of the Icelandic national identities, the perception of the sovereignty and the traditional values. She argues that the European Commission’s declaration about the necessary reforms of the Common Fisheries Policy coupled with the perception of the economic crisis by the elites led to Iceland’s decision to join the European Union.⁵² The constructivist explanation of the European integration is one of the most popular and recent trends in the European Studies. But in my opinion, considering the case of

⁵¹ Magnus Bjarnason, “Iceland’s Position at the Beginning of the 21st Century”, (Amsterdam University Press 2010)

⁵² Julia Kaute, “Warming up for the EU: Iceland and European Integration “ Master’s Thesis 2010, pp: 5-8

Iceland's EU membership bid shows that Constructivism is less relevant in this case. While nobody doubted that Iceland was geographically Europe, and shared European values (as it was underlined in the speeches of Icelandic officials about being culturally European and contributing to the common European cultural heritage), Iceland was Europe before 2009 too, however demonstrated strong resistance against the EU ascension.

The political scientists Baldur Thorhallsson and Christian Rebhan have developed a scholarly paper: "Iceland's Economic Crash and Integration Takeoff: An End to European Union Scepticism?", which explains Iceland's decision to join the European Union. The authors analyze the European Policies of the major political parties of Iceland, largely based on the previous studies by Thorhallsson and Ingebritsen, and state that the concerns about the national interests stayed still in the place. The authors state that the Liberal Intergovernmentalist economic-led arguments cannot fully explain Iceland's choice. The authors review the preferences of the political parties and argue that they stayed stable. Thorhallsson and Rebhan conclude with the argument close to the realist vision of the international relations that the decisive role in Icelandic case played the domestic decision-making peculiarities "to which the liberal intergovernmentalism pays much attention", and not the macroeconomic factors and the pressure groups. While Thorhallsson and Rebhan paid attention to the economic preferences of the Icelandic Political elites, it is important to underline that the economic preferences are formed via constant pressure from the societal group. The fact that the proponent of the European integration of Iceland succeeded to file the application shows that the pro-European groups won over Euro-skeptic ones, at least for the time of application. According to the LI logic, the political parties just aggregate the articulated interests of the societal pressure groups. Therefore, the economic preferences advanced by them may change or remain stable in accordance with the relative influence within the powerful domestic interest groups. Therefore, there is nothing unusual, if the economic preferences of the political parties stay stable or change. In order to explain how the interest groups contributed to the advancement or the slowdown of Iceland on the European path, it is necessary to consider the process of Icelandic application. Below this process will be examined from the application to the ending of the screening and the matter of fisheries and Icesave dispute will be used as tests for the reorganization of interests within Icelandic

pressure groups. It is notable that the fact of the application had place. In this situation, Liberal Intergovernmentalism also suggests that the European Union membership as a preference should be on the grassroots, so that the government aggregated it in a policy.

Social Democratic alliance used the opportunity created by the economic crisis and withdrew from the previous coalition government, which it formed with the independence party on the grounds that they disagreed about the EU membership as a country's relief from the crisis (which Icelanders call *kreppa*). The social democratic alliance's key support was based in the trade unions, and the banking sector which was obliterated as the result of the economic crisis. The basis for the formation of the pro-European Advocacy Coalition may be defined considering the interests of each group. The SDA's program targeted the industry groups, trade unions and business at the same time. SDA's program advocates for better rights in the EFTA. It really made sense for the bankers to support the EU membership cause, which would not have survived without the foreign financial inflow. The almost 85 % of Icelandic population is unionized and the trade unions have also interest in the EU bid. Whereas in the interview the bankers say that they felt they did not have much time because of being the associate member. Further more, the pre-election campaigns are largely supported by the major finance groups. The program of the SDA was acceptable for the population and the Capacent Gallup showed that the population support for the EU membership ascribed to 60 per cent in times of a deep crisis. The most severe demonstrations in Iceland major demands were that the government was corrupt and that it was necessary to adopt the Euro and join the European Union. Along with the population the protesters were trade unions who harshly criticized them. Icelandic Federation ASI has traditionally enjoyed share of policy-making in Iceland. Icelandic interest groups that are peculiarity and specificity of Icelandic system, have influence at the stage of international bargaining as well. Due to the small size of Icelandic bureaucracy, interest groups have acted in the EEA sector actively.

Iceland's EU membership application says: "the Government of Iceland is honoured to present hereby, in conformity with Article 49 of the Treaty on European Union*, the application of the Republic of Iceland for membership of the European Union. (Iceland's

application for the European Union membership) To become a member, a country must first apply and then be recognized as a candidate country. For that to happen, the country must satisfy the first of all, the Copenhagen criteria by having:

- stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including support for the aims of the Union.

Table 2. 2009 Parliamentary Elections in Iceland⁵³

| Political Party | Number of Votes | % | Seats |
|----------------------------|-----------------|------|-------|
| Social Democratic Alliance | 55,758 | 29.8 | 20 |
| Independence Party | 44,371 | 23.7 | 16 |
| Left-Green Movement | 40,581 | 21.7 | 14 |
| Progressive Party | 27,699 | 14.8 | 9 |
| Citizens' Movement | 13,519 | 7.2 | 4 |

Relative distribution of votes in the 2009-elections

| Parties | Progressive Party | Independence Party | Liberal Party | The Civic Movement | The Democratic Movement | Social Democratic Alliance | Left-Green Movement | The Icelandic Movement (candidated in 2007) | Totals |
|------------------|-------------------|--------------------|---------------|--------------------|-------------------------|----------------------------|---------------------|---|--------|
| Party symbol: | B | D | F | O | P | S | V | I | Totals |
| Northwest | 22.5% | 22.9% | 5.3% | 3.3% | 0.4% | 22.7% | 22.8% | | 100.0% |
| Northeast | 25.3% | 17.5% | 1.6% | 3.0% | 0.3% | 22.7% | 29.7% | | 100.0% |
| South | 26.0% | 26.2% | 3.1% | 5.1% | 0.5% | 28.0% | 17.1% | | 100.0% |
| Southwest | 11.6% | 27.6% | 1.5% | 9.1% | 0.6% | 32.2% | 17.4% | | 100.0% |
| Reykjavik South | 5.7% | 23.2% | 2.0% | 8.7% | 0.6% | 32.9% | 22.9% | | 100.0% |
| Reykjavik North | 5.6% | 21.4% | 1.6% | 9.6% | 0.9% | 32.9% | 24.0% | | 100.0% |
| Iceland in total | 14.8% | 23.7% | 2.2% | 7.2% | 0.6% | 29.8% | 21.7% | | 100.0% |

It is interesting to pay attention to the nature of the constituencies in Iceland. Historically, agricultural and fisheries interests have been predominantly represented. The Icelandic government introduced changes in 2000, which suggested that the National Elections Commission would calculate whether the number of voters on the voter register per seat for

⁵³ 2009 parliamentary elections in Iceland (accessed on 20 June 2011). Available from: <http://electionresources.org/is/althing.php?election=2009>

any constituency was less than half the number of voters for a seat in any other constituency.⁵⁴ However, the ODIHR report further calls for the changes for a better representation. As regards the political parties, progressive party was formed as a merger of two agricultural parties. Independence party has traditionally supported fisheries sector. Left green movement supports environmentalist organizations and the Social Democratic Alliance is a centrist one. The weight of votes of the rural regions is still in place. Many MPs have experience with fishing sector; some of them come from the families of fishers.

The Social Democratic Alliance advanced the EU application and as the standard EU application process requires, after submission of the application, the European Commission sent to Icelandic governments a preliminary questionnaire about Iceland's readiness to join the European Union. The approximately 2,500 questions from the Commission were aimed at obtaining a comprehensive overview of Iceland's legal system, administration, organization of government structures and a host of legislative and other issues. The answers are descriptive in their nature and do not reflect negotiating objectives.

Questions and answers are divided into a general part - political criteria and economic criteria - and 33 separate parts based on 33 chapters of the EU enlargement; first chapter on free movement of goods, second chapter on freedom of movement for workers, etc.

The Icelandic government has delivered its answers to a total of 2,500 questions about Iceland, its economy, politics and society in general to the European Union. The answers are a part of the Iceland's accession process. The government was in a great hurry to deliver the answers and denied a popular demand in Iceland that the questions and the answers to them would be translated into Icelandic so all Icelanders could examine them regardless of knowledge in languages. The questions and answers were in English but according to critics not in any ordinary English but a kind of a Brussels-bureaucratic version of it. European Commission prepared questions and answers for Iceland on which Iceland answered in November. The negotiations started in 2010 February and ended in 2011 June. In delivering

⁵⁴ ODIHR Report, Office for Democratic Institutions and Human Rights ICELAND EARLY PARLIAMENTARY ELECTIONS, 25 April 2009, OSCE/ODIHR NEEDS ASSESSMENT MISSION REPORT, 3 – 5 March 2009 Warsaw, 18 March. (accessed on 20 June 2011). Available from: www.osce.org/odihr/elections/iceland/36560

answers Social Democrats tried to hurry up and override the interest groups in the Euro-skeptic camp. The respective quick reaction of the SDA can be explained as a technical leverage in the hand of the Pro-EU coalition, to override the opposition from the EU-skeptic camp.

The negotiation committee was established after the Commission gave green light to Iceland's application for the EU membership. The negotiation committee is a leading diplomatic organ in delivering Icelandic progress and negotiating technical details of the EU membership and therefore, it is very important to look into its composition and basic statements, how the Government of Iceland represented the candidates and it will help to identify which interest groups are represented. They still continue debates before the completion of all chapters of the of the EU policies in the European Legislation (called *acquis communautaire*).

The negotiation committee is comprised of the chief negotiator, 2 deputy chairpersons of whom one also chairs a negotiation team, 9 other chairpersons of individual negotiation teams and 6 additional members. The negotiation committee is representative and it includes the negotiators from many fields of life of Iceland. The Chief Negotiator: Mr. Stefan Haukur Johannesson, is Ambassador of Iceland to the EU. There are several participants from academia, such as Deputy Chairperson Ms. Bjorg Thorarensen, Professor, Faculty of Law, University of Iceland and Chairperson of the negotiation team on legal affairs Mr. Thorsteinn Gunnarsson, former Rector of the University of Akureyri. The expert-members include the representatives of various government bodies of Iceland. The first annual report on negotiations was published in November 201. The main issues at stake remain the fisheries sector and whale hunting, while progress has been done concerning the Icesave deal. The first remarks outlined by the European Commission concerned implementation of the deposit guarantee under the EEA legislation, in order to ensure payment of the minimum compensation to Icesave depositors in the United Kingdom and the Netherlands. It is notable that various representatives of pro-EU and anti-EU groups are there in the negotiation committee.

According to Liberal Intergovernmentalism, the states during the international bargaining are in an asymmetrical situation, because small states vis-à-vis big states have less levers. In the case of Iceland it is visible that the Government of Iceland interacts with other governments of the EU member states and the European Commission. It is notable that both parties can advance or suspend the negotiations. Any of the EU member states is able to block Iceland from the final membership, as well as Iceland may decline the application through the Parliamentary procedure or the referendum. However, Iceland is in a weaker position, since it is opposed to 27 EU member states. The core issues of discussions are the chapters of Acquis, out of which Iceland managed to close several. The most vulnerable chapters as recognized by the European Commission are related to the fisheries, agriculture and the monetary and fiscal sectors.⁵⁵

As the literature generated that the liberal intergovernmentalist approach stresses importance of the sectoral interest groups, I think it is necessary to follow up the post- EU membership application period in order to test the strength of the hypotheses of the research. The two most prominent after the membership application test cases for Iceland's decision to join the EU are the situation concerning the Common Fisheries Policy and the financial and diplomatic dispute - Icesave.

4.1 Icelandic Fishing Sector's Standpoint toward the EU Membership

The case of overarching fisheries sector lobby in advancement of the EU bid is interesting to test in order to prove relevance of Liberal intergovernmentalism hypothesis about the influence of the pressure groups on the government's work.

The fishing industry is a fundamental and long-established sector of Icelandic economy. Iceland has traditionally defended the 200- mile exclusive economic zone, which it would not like to share with any other state. In 2008 fishing industry accounted for the 37% of merchandise exports, 26% of total exports and 8% of GDP, the total catch in Icelandic waters was close to 1.3 million tones of fish products worth ISK 171 billion; EUR 1.4 billion in export

⁵⁵ Commission Screening Report: http://ec.europa.eu/enlargement/pdf/iceland/key-documents/screening_report_08_is_internet_en.pdf (accessed: 17 July, 2011).

value. At the same time, the nation's total population was 319,000 people and the workforce 178,600. The fishing industry employs 4.1% of the total workforce; fishing 2.4% and fish processing 1.7%.⁵⁶ The Common Fisheries Policy of the European Union has been perceived as a threat on the sovereignty of Iceland, challenging the rights of the Fishermen, and Iceland's national economy. Nevertheless, Iceland filed the EU membership application. It is interesting to explain how it became possible for Icelandic government to move forward the EU bid in the presence of the opposition from the fisheries sector.

The sectoral approach towards the European integration remains still relevant, as far as the fisheries' lobby exists. However, the relative weight of interests is considerable as well. According to Liberal intergovernmentalism, there are preferences which become the first priority for the governments to embrace and they belong to the leading societal pressure groups. As the EU application itself was advanced, it proceeds that the fisheries groups failed to influence the government at the initial stage. The obstacle for adjustment to the new situation was the economic crisis, as far as it invoked the factors like decrease of catches, depreciation of currency, and the pressure from the trade unions concerning unemployment growth. The other argument why the fisheries sector failed to act as a major drawback for Iceland's application for the EU membership from the beginning is that the fishing industry has been traditionally relied on the anti-EU groups in the Parliament of Iceland. Proceeding from the statements of the members of the Parliament and the general framework, the major supporters of the fisheries interests – the Independence Party, and the Left Green Movement, a minority partner of the Social Democratic Alliance, opposed to the membership of the EU. Therefore, the fishing sector assumed that the application would not have overcome the parliamentary opposition. This hope was put to the first test in March 2009, when all parties represented in the *Althingi* – except for the Independence Party – introduced a proposal that envisaged four amendments to Iceland's constitution. However, the Independence Party managed to stall the debate so that the amendments were not approved before the forthcoming elections. Nevertheless, the application bid proceeded, considering the leverages and the powers that the Prime minister enjoys in Icelandic political system, the Prime Minister

⁵⁶, Hörður Sævaldsson, University of Akureyri. Information Center of Icelandic Ministry of Fisheries and Agriculture Available from: <http://www.fisheries.is/economy/fisheries-impacts/nr/275>, (accessed: 17 July, 2011).

mobilized its support in the Parliament and the fishing sector did not manage to lobby it at the initial stage.

The lesson learnt acted in reconsideration of the lobbying capabilities for the fishing sector. Common fisheries policy did not become the major hindrance on the way to application for the European Union membership of Iceland in 2009. The past experience made Icelandic fishing lobby to reconsider lobbying tactics and the later developments like increase in mackerel catches and the appointment of the representatives of the fishing sector interests to the Iceland negotiation group, as well as the statements of the European Officials and the Foreign Minister of Iceland ("My logic tells me we will come to a deal... but based on my experience, those negotiations will be difficult, drawn out and might postpone the final outcome... I assume fisheries will be the last chapter to be finished") regarding the "vital fishing sector" prove this.⁵⁷

4.2 Icesave – another Test for Icelandic EU Membership Bid

The Icesave dispute is a valuable case to check relevance of the hypothesis of this research, as it measures the attitude of the Pro-European elite to the advancement of the policies that will facilitate the relations with their counterpart negotiators within the EU enlargement process.

After the bankruptcy of the three major Icelandic banks: Glitnir, Landsbanki and Kaupthing, and the political fraud allegations related to that, the Icelandic media became preoccupied with scapegoating regarding the so-called "Icesave" issue, the negotiations regarding which shortly after Icelandic EU bid has developed a separate line of arguments.

Icesave dispute has been the diplomatic scandal between Iceland, the United Kingdom and the Netherlands, which originates from the economic crisis that hit Iceland during 2008-2009. Icesave was a branch of Landsbanki, Icelandic bank, which operated under the EU/EEA regulations in the UK and Iceland. In October 2008, after the collapse of the three major

⁵⁷ BBC, EU Iceland accession: Tough talks ahead on fisheries (accessed: 15 July 2011). Available from: <http://www.bbc.co.uk/news/world-europe-13940026>, (accessed: 17 July, 2011).

banks of Iceland, Landsbanki went into receivership and Icesave depositors found that they were unable to access their accounts.⁵⁸ British and Dutch governments repaid their nationals. However, the economic situation of Iceland elucidated that Icelandic Deposit Guarantee Fund could not cover more than a part of the losses to the Icesave depositors.⁵⁹ Therefore, British and Dutch authorities began negotiations with Icelandic counterparts regarding coverage of the minimum deposit guarantees. The negotiations started with mediation of France, as it presided over the European Council.

In the public debate, the EU and its member states have been blamed for the IMF blockage and for standing in the way of Iceland's economic recovery, despite the fact that the EU has on several occasions stated that the Icesave dispute is a bilateral matter for the states concerned. Through its membership of the EEA, Iceland is party to the EU regulations on banking, on which the British and Dutch claims are based, and has requested that the EU should step in to settle the dispute – but without any success.

To put aside the political and diplomatic implication of the Icesave case, it is rather troublesome for the lawyers: the second part of the “Icesave Saga” concerns disagreement about its legalistic nature.

EC Directive No. 94/19 on Deposit-Guarantee Schemes became incorporated in Icelandic legislation as the result of the membership of the European Economic Area (EEA). This directive has been used against Icelandic banks, and the deposit claimants base their arguments on its interpretation. Member States have discretion as to how the object is to be reached. The European Commission has defined the protection of the depositors' wealth and ensuring financial stability by preventing bank runs as the two aims of the 94/19. The directive was adopted within the Icelandic law in 1999. As the directive is to be achieved but does not outline the specific details over the “choice of form and methods”, the key disagreement has been evolved around the issue became the measures implemented by Iceland in regard to the deposit guarantee scheme, and if Iceland was liable to distribute compensations. The

⁵⁸ Ministry of Foreign Affairs of Iceland, “*THE ICESAVE ISSUE-KEY FIGURES*”, factsheet (June 2010): 20 available from: http://www.mfa.is/media/MFA_pdf/Fact-Sheet---The-Icesave-Issue---Key-Figures-June.pdf, (accessed June 30,2011).

⁵⁹ *ibid*

Deposit Guarantee Directive states that the head office of the financial institution should apply the same guarantee scheme in any of its branches: *“Whereas in the event of the closure of an insolvent credit institution the depositors at any branches situated in a Member State other than that in which the credit institution has its head office must be protected by the same guarantee scheme as the institution's other depositors”*⁶⁰. This fact became disputed by Iceland as well, because Icelandic banks reimbursed Icelandic nationals and discriminated other savers. When Britain and Netherlands rebuked Iceland on the basis of a non-discrimination principle, Iceland attempted to justify this step citing that it was not a member state of the EU.

As the EFTA Court is entitled to adjudicate over the cases which involve the parties to the EEA Agreement, the respective organization involved in investigating Icesave dispute and the EFTA Surveillance Authority has found Icelandic banks liable of paying deposit guarantees to their British and Dutch depositors. As the banks have been nationalized, it is Icelandic state which should reimburse the losses over the coming years. While Iceland has issued a position regarding why Iceland is not obliged to comply with the directive, on June 10, 2011, the EFTA Surveillance Authority ruled that Iceland should take steps towards paying the full amount to the UK and the Netherlands within 3 months after the ruling.

From the perspective of the advocacy coalitions and the interest groups reaction, it is possible to find out how they acted in this regard. The pro-European movements and its core leading force, the Social Democratic alliance has been trying to improve Iceland's shaken international financial prestige. The attempts of the Social Democratic Party in connection with mobilization of the Parliamentary resources for passing the Icesave bill for two times shows that the pro-EU coalition does not want to have Icesave dispute as the impeding stone on the path to the EU membership. Iceland under the SDA and LGM government agreed to accept the guarantee liabilities. It is noteworthy to mention that Social Democratic Alliance brought the Icesave bill to the Parliamentary voting and managed to pass it with a narrow majority. On 28 August 2009, Iceland's parliament voted 34–15 (with 14 abstentions). The bill

⁶⁰ Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31994L0019:EN:HTML> (accessed June 30,2011).

obliged Iceland to repay 5 billion USD to the foreign depositors. Iceland rejected two Icesave bills: one in 2010 referendum, and the other consequent to the Presidential veto over the renewed Icesave bill, where the bill was defeated. Iceland's Prime Minister Jóhanna Sigurðardóttir stated that "the worst option had been chosen. And the government of Iceland declaration over referendum states that Iceland will implement its commitments regardless of the referendum."⁶¹

Icesave test case shows that the Pro-EU Group was concerned with the prestige of Iceland as of a safe country. It is notable that unless Iceland satisfies demands of joining the economic and monetary union, it will be impossible for it to adopt Euro. Therefore, the pro-EU coalition has campaigned against Iceland and mobilized its supporters from the Nordic countries. Icesave dispute caused decrease of the popular support for the EU membership.

The developments within the Icesave dispute show that regardless public being against Icesave bill, the Social Democratic government still advances it. The case reveals relevance of the Liberal intergovernmentalism, mainly its argument proposed that the interests are articulated by the societal groups and aggregated by the elite; despite the public opposition, the European Union bid is vigorously advanced by the Pro-European advocacy coalition

Chapter 5

CONCLUSION

The European Union's enlargement has been a hot subject of debates among the competing theories. There are various theories and approaches which explain the EU integration from the different perspectives. Icelandic case makes a good case for testing the EU-integration related hypotheses. This thesis sought to explain the Icelandic decision to join the European Union and the role of the domestic polity specificities in forming this decision. On the basis of the systemic research based on the liberal intergovernmentalism and Sabatier's Advocacy Coalition framework for looking deeper inside to understand the coalitional behavior, the major findings are represented as follows:

⁶¹ Statement from the Government of Iceland on the outcome of the referendum on the Icesave Agreements (last accessed June 30, 2011). Available from: <http://www.mfa.is/speeches-and-articles/nr/6250>, (accessed June 30,2011).

Iceland's decision to join the European Union was determined by the window of opportunity that became evident straight after the global economic crisis. The pro-European resource that existed in Iceland would have never mobilized unless this external pressure had taken place. The research inside the historical development of Iceland has revealed that during the outset and 4 rounds of enlargement Iceland did not seek or opted for the alternative cooperation with the European Union via structures of EFTA/EEA, Schengen/ Common Market and avoiding the formal European Institutions. The economic crisis in Iceland with its devastating effect on the country's economy had led to the collapse of the government and the Pro-Europeans had their say. The pro-European movement organized itself around the Social Democratic Alliance. The alliance advocated for the unilateral adoption of Euro, put forward the application, and tried to regain international confidence to Iceland. SDA was able to win over anti-EU coalition, since it had not enough time to mobilize and was sure that the independence party would have its influence. The domestic preference was that of the trade unions and the banking sector.

Fisheries sector with its per capita contribution to Icelandic economy still remains vital for Iceland. The fishing industry at first chose the position "wait and see"; however after the Icelandic government's concessions in regard to the Icesave case, the fishing vessels unit of the confederation of Icelandic industries expressed strong discontent and did not align its position with the pro-EU group. Further more, the fishing industry did not lobby the SDA, because of the expectation that the parties with anti-EU membership programs would have challenged the application, and they turned to be wrong in their calculations. For the after-application period the independence party, supported by the fishing industry has been continuing lobbying with the arguments against the EU membership.

As regards the strategic level of interaction, the negotiation with the European Commission at its early stake has revealed major drawbacks and the key issues of concern. Deposit guarantee directive implementation faces major problems because of popular negligence and Iceland's interpretation of its responsibility and commitments before crisis, The SDA's strife to take the Icesave to be an issue was shadowed by unpopularity of the issue and imposed a

constraint on it. However, the Fisheries group realized where to find a needed group and started to campaign in favour of its interests and in the final the negotiators admit that the “Fisheries superpowers” have the veto right on the Iceland’s application.

To generalize the given findings, it is possible to say that the economic crisis may lead a country with a substantial economic integration with the European Union to adopt the decision to join if it is supported by the interest group which is in coalition with the government in a Westminster like democracy with coalition behavior. It has more leverages to do politics, however, it is more dependent on the interaction with the societal pressure groups which constrain their behavior. The tests for the European Policy involved two major coalitions and their priorities. It turned out that the demands of the Euro-Skeptics have a great influence of the domestic GDP and economy, and therefore will be subject to speculation every time their membership. The key factors that were there are as follows: The country’s negotiation therefore, may be distorted if these factors are not present any more.

The given research puts forward some of the core problematic issues of the EEA-EU relations, provides the analysis, and maps out the way of the individual country towards the European integration. The further research may be done in the direction of the European Free Trade Association, EEA and the EU relations, with focus on the decision-making leverages and the lobbying capabilities of the non-member states of the EU, which are obliged to implement its Single Market regulations.

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List of Abbreviations

| | |
|---------|---|
| ACF | Advocacy Coalition Framework |
| ASÍ | Icelandic Confederation of Labour |
| CAP | Common Agricultural Policy |
| CFP | Common Fisheries Policy |
| CEMR | Council of European Municipalities and Regions |
| EC | European Community |
| ECSC | European Coal and Steel Community |
| EEA | European Economic Area |
| EFTA | European Free Trade Association |
| EEC | European Economic Community |
| ELAN | European Local Authorities Network |
| EMU | Economic and Monetary Union of the European Union |
| EU | European Union |
| Euratom | European Atomic Energy Community |
| FME | Financial Supervisory Authority |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| ISK | Icelandic Krona |
| LGM | Left Green Movement |
| LI | Liberal Intergovernmentalism |
| LIU | Federation of Icelandic Fishing Vessels Owners |
| MAs | Members of Althingi |
| SA | Confederation of Icelandic Employers |
| SDA | Social Democratic Alliance |
| SI | Federation of Icelandic Industries |