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Commentary

Coming in from the cold

By Graham Avery

As Enlargement Commissioner Olli Rehn travels to Reykjavik this week to take the first step towards launching EU membership negotiations with Iceland, the debate is intensifying over how quickly it might join the Union - and on what terms.

Iceland already has close links with the EU: as a member of the European Economic Area since 1993, it complies with the rules of the Single Market and even makes a budgetary contribution, without applying other policies such as agriculture and fisheries.

For a long time, this 'off-shore' relationship suited Iceland well, while the main party in government was opposed to EU membership. The seeds of change were sown when Icelanders decided a decade ago to diversify their economy by moving into financial services. The foreign outreach of Icelandic banks grew rapidly - too rapidly, with their over-exposure in the 2008 financial crisis resulting in defaults to foreign lenders, the collapse of the currency, street protests in Reykjavik and a national crisis.

This prompted Iceland to look to the EU, and particularly towards the euro, as a safe haven. After elections in April 2009 confirmed Johanna Sigurdardottir as Prime Minister, with her Social-Democrat party (pro-EU) in coalition with the Left-Green party (anti-EU), the parliament voted in favour by a narrow margin of 33 to 28 and Iceland applied for EU membership on 23 July.

Prospects for membership

Iceland's application for membership has positive factors from the EU's point of view:

- with its stable democracy and developed economy, Iceland satisfies the political and economic conditions for future membership (the Copenhagen criteria). It has Europe's oldest parliamentary assembly (the *Althing*) and, even after the financial crisis, a higher income per head than most European countries;
- it can respect the obligations of membership, as demonstrated by its participation in the European Economic Area, and is also in the EU's passport-free Schengen area;
- it is a long-standing member of NATO, with a strategic location in the North Atlantic near to the increasingly important Arctic region;
- with its population of 320,000 it would be the smallest member of the EU (Malta has 410,000 and Luxembourg 480,000) and it is difficult to see how it could pose a significant problem for the EU's population of 500 million.

But other factors are less positive:

- it is recovering from an economic and financial crisis;
- it has rich stocks of fish, providing about 30% of its exports, and may be reluctant to accept the EU's fisheries policy;
- the two parties in the coalition government have different views on EU membership.

Meanwhile, the EU itself faces problems:

- it too is dealing with a difficult economic and financial situation;
- the delay in ratifying the Lisbon Treaty has created uncertainty concerning the momentum for integration;
- there is a sense of 'enlargement fatigue' following the increase from 15 to 27 members.

The EU therefore needs to reflect on the political and economic implications of enlargement in relation to other issues on its agenda.

Public opinion in the EU is generally favourable towards Iceland: a 1998 Eurobarometer poll found that 71% of respondents in the 27 existing Member States supported EU membership for Iceland. And although EU investors, particularly in the UK and the Netherlands, suffered from the collapse of Iceland's banks, the 'Icesave' dispute has now been settled and Iceland's parliament has agreed compensation terms.

Taking all these factors together, it is likely that the EU's reaction to Iceland will remain positive but cautious.

How long will negotiations take?

At the request of the EU's Council of Ministers, the European Commission is now preparing its Opinion on Iceland's application, which it will probably deliver early in 2010 with a recommendation to open accession negotiations.

Since the EU does not fix membership dates until the end of accession negotiations, Iceland would need a crystal ball to know when it might actually join. But since it already fulfils the main conditions for membership, it can certainly expect more rapid progress than the Central European countries - Hungary and Poland, for example, needed ten years from application to accession. Whether it can equal Finland's all-time record for joining the EU (two years and nine months) is, however, less clear.

The EU has to consider Iceland's application in relation to others in the enlargement process (the Western Balkan countries plus Turkey). Some commentators think that Iceland could join at the same time as Croatia, perhaps in 2012. Others are concerned that 'fast-track' treatment for Iceland would weaken the EU's insistence that all candidates must rigorously respect the conditions for membership.

However, 'differentiation' is a fundamental principle of the EU's enlargement policy. This means that each country's progress towards membership depends on its fulfilment of the accession criteria; the 'merit-based' approach implies that there is no linkage between countries, and no pre-planned group for accession. On the other hand, history shows that, for practical reasons, the EU prefers 'waves' of enlargement to year-by-year accessions. So, while Iceland's progress should not be delayed because of others, if Croatia is ready when Iceland concludes its negotiations, they could join at the same time.

The whole question is also conditioned by the progress of the Lisbon Treaty, since several European leaders have said that without Lisbon, there can be no further enlargement. But whatever the Treaty's fate, it would surely dent the EU's credibility if it said 'no' to small countries such as Iceland or Croatia which pose no problem for the Union.

The bottom line: Iceland's referendum

Satisfactory solutions to all the questions posed by membership can probably be found during the negotiations between Iceland and the EU - even for fisheries, where the Union's common policy is undergoing a fundamental review.

The biggest challenge for Iceland is the referendum on membership that will take place after the negotiations. If Iceland's leaders wish to avoid the painful experience of Norway, which was rebuffed twice by its people after entry negotiations in 1972 and 1994, they must think and plan - well in advance - for that *rendezvous* with the people.

Public opinion in Iceland has fluctuated, with polls showing that people are generally favourable to accession talks, but not necessarily to membership - the approach is: 'let's see what we can negotiate, and then decide'. Iceland's politicians need to conduct an open and transparent debate with the public and with the interest groups concerned, so that the final decision is taken on the basis of the best possible information about the EU and what membership means.

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