



*R. Schuman*

*Miami-Florida European Union Center of Excellence*

**Iceland in the European Union:  
Will it ever happen?**

*Vilborg Asa Gudjonsdottir*



Vol. 4, No. 19  
September 2007

Published with the support of the EU Commission.

# EUMA

***European Union Miami Analysis (EUMA), Special Series***, is a service of analytical essays on current, trend setting issues and developing news about the European Union.

These papers are produced by the Jean Monnet Chair, in cooperation with the Miami-Florida European Union Center of Excellence (a partnership of the University of Miami and Florida International University) as an outreach service for the academic, business and diplomatic communities.

Among the topics to be included in the series, the following are suggested:

- The collapse of the Constitution and its rescue
- Turkey: prospects of membership
- Immigration crisis and cultural challenges
- Security threats and responses
- The EU and Latin America
- The EU as a model and reference in the world
- The Common Agricultural Policy and other public subsidies
- The euro and the dollar
- EU image in the United States

These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

Miami - Florida European Union Center  
University of Miami  
1000 Memorial Drive  
101 Ferré Building  
Coral Gables, FL 33124-2231  
Phone: 305-284-3266  
Fax: (305) 284 4406  
E-Mail: [jroy@miami.edu](mailto:jroy@miami.edu)  
Web: [www.miami.edu/eucenter](http://www.miami.edu/eucenter)

**Jean Monnet Chair Staff:**

Joaquín Roy (Director)  
Astrid Boening (Assistant Director)  
Leonardo Capobianco (Research Assistant)  
Maxime Larivé (Assistant Editor)  
Cathinka Lerstad (Research Assistant)  
María Lorca (Assistant Editor)  
Rémi Piet (Research Assistant)

**Miami-Florida European Union Center**

Elizabeth Prugl (FIU, Co-Director),

# Iceland in the European Union: Will it ever happen?

Vilborg Asa Gudjonsdottir



## 1 Introduction

Relations between Iceland and the European Union date back to 1973 when Iceland signed a bilateral free trade agreement with the EU. The agreement only covered part of the trade between Iceland and EU member states at that time, and after the EU set forth the Single European Act<sup>1</sup> in 1986 the bilateral agreement was replaced by the European Economic Area Agreement (EEA), to prevent trade barriers between EFTA<sup>2</sup> countries and EU member states. The main goal of the EEA Agreement is to form a homogeneous market zone covering EU and EFTA member states Iceland, Norway and Liechtenstein. Besides giving Iceland open access to EU's common market the agreement also includes common rules in various areas to ensure fair competition, environmental protection, consumer protection and minimum social benefits. In addition the three EFTA states can participate in EU's framework programmes, on research and development, education, information services, social policy, the environment and the audio-visual sector.<sup>3</sup>

Although the EEA agreement does not cover agriculture and fisheries, Iceland has bilateral agreements with the EU covering trade with agricultural and fisheries products.

In addition the EEA agreement does not cover other aspects of the European Union, such as foreign affairs, the economic and monetary union, customs union, justice and home affairs, wildlife conservation and utilization of natural resources.<sup>4</sup>

Talks of EU membership have been adherent in Iceland for quite some time. Why hasn't Iceland joined the European Union, and what are the chances of it doing so in the nearest future?

## 2 EFTA

Since the end of World War II economic and political integration has been on the Western European agenda, the first step being the creation of the European Coal and Steel Community in 1951. Talks on a larger Western European free trade zone in 1958 failed, partly because the EC<sup>5</sup> Commission and several member countries feared that it would undermine the EC consolidation process, and partly because of British insistence on preferential treatment of its Commonwealth ties and its special relationship with the United States.<sup>6</sup> In reaction, Austria, Norway, Denmark, Portugal, Sweden, Switzerland and the United Kingdom formed the European Free Trade Association (EFTA) in January 1960.

---

\* **Vilborg Ása Guðjónsdóttir** is a MA student in International Relations at the University of Iceland, studying at the University of Miami as an exchange student 2006-2007. She has her Bachelors of Science in Business Administration from Reykjavík University, Iceland.

<sup>1</sup> The Single European Act called for the free movement of goods, services, capital and labour amongst EC(EU) member states.

<sup>2</sup> EFTA: The European Free Trade Association. Members: Iceland, Norway, Switzerland and Liechtenstein.

<sup>3</sup> Evrópusamtökin, "EES samningurinn". <http://www.evropa.is/page.asp?Id=552>

<sup>4</sup> Hagstofa Íslands, "Útanríkisverslun með vörur, nr. 2006:1", 2006.  
<http://www.hagstofa.is/lisalib/getfile.aspx?ItemID=4266>

<sup>5</sup> EC: European Community, which became the European Union in 1992.

<sup>6</sup> Abrams, R., Cornelius, P., Hedfors, P. and Tersman, G. (December 1990). The Impact of the European Community's Internal Market on EFTA. Washington D.C.: International Monetary Fund.

Finland joined in 1961, and Iceland in 1970.<sup>7</sup> The so-called Stockholm Convention, which has been reformed and is now called the EFTA Convention, set out the objectives of the Association and defined the rights and obligations of the Member States.<sup>8</sup> During the first 35 years of EFTA's existence, six countries left the Association when they joined the European Union, the UK and Denmark in 1973, Portugal in 1986 and Austria, Finland and Sweden in 1995.

The countries left in EFTA were thus Iceland, Norway, Switzerland, and Liechtenstein, which joined in 1991. The four remaining members are all part of the European Economic Area (EEA), except for Switzerland which rejected ratification of the EEA Agreement in a referendum in 1992 and therefore upholds bilateral agreements with the EU. The EEA agreement provides EFTA countries access to EU's common market as well as participation in various EU framework programmes, such as research and technological development, education, information services, social policy, the environment and the audio-visual sector.<sup>9</sup>

EFTA countries have traded freely with industrial goods since 1966, and fishing industry products since 1990. In 2001 new areas were added, such as trade in services and investment, mutual recognition of conformity assessment, free movement of persons, social security and mutual recognition of diplomas, land and air transport, public procurement and intellectual property rights. EFTA is not a customs union and EFTA states are therefore free to impose taxes on countries outside the agreement. The Association has however made free-trade agreement with 20 countries since 1990, ten middle- and eastern European countries, Israel, the Palestinian Liberation Organization, Morocco, Turkey, Tunisia, Macedonia, Mexico, Croatia, Jordan, Singapore, Lebanon, Chile, Southern African Customs Union and lastly the Republic of Korea in 2005. Ongoing negotiations include Canada, Egypt and Thailand. In addition EFTA has made so-called declarations on cooperation with Albania, Algeria, Gulf Cooperation Council, Southern Common Market, Serbia and Montenegro and Ukraine.<sup>10</sup> Thus EFTA is a trade block which sustains bilateral free trade agreements with outside states, while other trade blocs, such as NAFTA, deal solely with free trade between its member states.

EFTA is served by three institutions: the EFTA Secretariat, the EFTA Surveillance Authority and the EFTA Court. Its headquarters are in Geneva although an office in Brussels manages the EEA Agreement.<sup>11</sup> In spite of its modest size, EFTA is at the moment the world's ninth largest trader in merchandise trade, fifth largest in commercial services and ranks among the world's largest markets for both inward and outward investment flows. In addition the EFTA members rank among the ten countries with the highest GDP per capita in the world.<sup>12</sup>

On the 1<sup>st</sup> of January 1973 Iceland signed a bilateral free trade agreement with the European Union which only covered part of the trade between Iceland and EU member states at that time. After the EU set forth the Single European Act<sup>13</sup> in 1986 the bilateral agreement was replaced by the European Economic Area Agreement (EEA), to prevent trade barriers between EFTA<sup>14</sup> countries and EU member states. Switzerland, one of the EFTA states, did however reject ratification of the EEA Agreement in a referendum in 1992, as formerly mentioned, and therefore still upholds bilateral agreements with the EU.<sup>15</sup> Since the

---

<sup>7</sup> Ibid.

<sup>8</sup> EFTA Secretariat, "Building EFTA, a Free Trade Area in Europe", 1966. Geneva: EFTA Secretariat.

<sup>9</sup> Fastanefnd framkvæmdarstjórnar ESB, "EFTA. European Free Trade Association. Fríverslunarsamtök Evrópu.", <http://www.esb.is/siteindex/efta.htm>

<sup>10</sup> European Free Trade Association, „This is EFTA“, 2007. [http://secretariat.efta.int/Web/Publications/this\\_is\\_EFTA/note/this\\_is\\_efta\\_2007.pdf](http://secretariat.efta.int/Web/Publications/this_is_EFTA/note/this_is_efta_2007.pdf)

<sup>11</sup> Fastanefnd framkvæmdarstjórnar ESB, "EFTA. European Free Trade Association. Fríverslunarsamtök Evrópu.", <http://www.esb.is/siteindex/efta.htm>

<sup>12</sup> European Free Trade Association, „This is EFTA“, 2007. [http://secretariat.efta.int/Web/Publications/this\\_is\\_EFTA/note/this\\_is\\_efta\\_2007.pdf](http://secretariat.efta.int/Web/Publications/this_is_EFTA/note/this_is_efta_2007.pdf)

<sup>13</sup> The Single European Act called for the free movement of goods, services, capital and labour amongst EC(EU) member states.

<sup>14</sup> EFTA: The European Free Trade Association. Members: Iceland, Norway, Switzerland and Liechtenstein.

<sup>15</sup> Fastanefnd Framkvæmdarstjórnar ESB. "Evrópska Efnahagssvæðið". [http://www.esb.is/eu\\_and\\_country/eea.htm](http://www.esb.is/eu_and_country/eea.htm)

EEA Agreement was established the EU thus deals with EFTA countries Iceland, Norway and Liechtenstein through the EEA Agreement and with Switzerland through a bilateral agreement.

### 3 The EEA Agreement

The main goal of the EEA Agreement is to form a homogeneous market zone covering EU and EFTA member states Iceland, Norway and Liechtenstein. The Agreement contains 129 articles which define the agreement, 22 appendixes that contain over 2,000 awards, and 49 waivers and special provisions. Besides giving Iceland free access to EU's common market the agreement also includes common rules in various areas to ensure fair competition, environmental protection, consumer protection and minimum social benefits. In addition the three EFTA states can participate in EU's framework programmes, on research and development, education, information services, social policy, the environment and the audio-visual sector. These joint programs have increased substantially the turnover in research and development in Iceland and encouraged cooperation between businesses and institutions in Iceland and other European countries.<sup>16</sup> The Icelandic Government takes part in financing the programmes it participates in, with grants obtained generally exceeding contributions. Icelandic businesses, organizations and individuals have been able to participate in over 30 framework programmes for the last 20 years, with very good results. The *Lifelong Learning Programme* replaced the Socrates Programme on the 1<sup>st</sup> of January this year as the framework for EU's educational and training programmes. Icelanders have throughout the years mainly participated in Comenius, Erasmus and Grundtvig programmes, which cover different educational stages, and also Leonardo, an internship programme. The EEA Agreement also made it possible for Icelanders to study wherever in the EEA area, just like citizens of EU member states. Universities in EU member states can thus not put a quota on students from Iceland but they can however charge higher tuition fees than apply to students of EU member states, which is something the United Kingdom has been known for exploiting.<sup>17</sup>

The European Union is Iceland's most important business transactor with around 75% of the country's exports going to the EU in 2005 and about 62% of imports coming from the Union.<sup>18</sup>

Although the EEA agreement does not cover agriculture and fisheries, Iceland has bilateral agreements with the EU covering trade with agricultural and fisheries products. In addition the EEA agreement does not cover other aspects of the European Union, such as foreign affairs, the economic and monetary union, customs union, justice and home affairs, wildlife conservation and utilization of natural resources. The agreement is all the same quite comprehensive and dynamic in nature, changing parallel to changes made in EU laws and rules regarding the common market.<sup>19</sup>

When the EEA Agreement was being negotiated one of Iceland's main terms was that legislative power would stay in the hands of the national parliaments of the EEA/ EFTA states, not be rendered to EU institutions.<sup>20</sup> As a result the EEA/ EFTA countries do not have a say in deciding upon new EU legislation, but they do however have formal rights to participate in the forming of the legislation in its beginning stages. EU directives do not have direct legal effects in EEA/ EFTA states, specific negotiations on if and how they will apply take place, where special

---

<sup>16</sup> Evrópusamtökin, "EES samningurinn". <http://www.evropa.is/page.asp?Id=552>

<sup>17</sup> Fastanefnd framkvæmdastjórnar ESB gagnvart Íslandi og Noregi, "Ísland og samstarfsáætlanir ESB". [http://www.esb.is/eu\\_and\\_country/programs.htm](http://www.esb.is/eu_and_country/programs.htm)

<sup>18</sup> Hagstofa Íslands, "Útanríkisverslun með vörur, nr. 2006:1", 2006. <http://www.hagstofa.is/lisalib/getfile.aspx?ItemID=4266>

<sup>19</sup> Ibid.

<sup>20</sup> Alþingi Íslands, "1.frumvarp til laga um Evrópska Efnahagssvæðið: 116.löggjafarþing – 1.mál", 1992. <http://www.althingi.is/altext/116/s/0001.html>

adjustments and exemptions can be negotiated, both material and technical.<sup>21</sup> Since new EU member states automatically become members of EU's common market they have to become a part of the EEA Agreement as well.<sup>22</sup> A special agreement is made with new member states and the Agreement's text is amended accordingly.

### 3.1 EEA Institutions

The EEA Agreement is based on a two pillar system of EU and EFTA institutions, in addition to four joint frameworks; the EEA Council, the EEA Joint Committee, the Joint EEA Parliamentary Committees and the EEA Consultative Committee.<sup>23</sup>

The collaboration mainly takes place through the EEA Joint Committee and the joint effort of the Standing Committee of the EFTA states, EFTA Surveillance Authority (ESA) and the European Commission. In addition, ministers, parliamentarians and various beneficiaries consult regularly on the EEA Agreement itself and important political matters that affect member states.<sup>24</sup>

Everyday talks between EEA/ EFTA states and the EU take place in the EEA Joint Committee. There matters of opinion are discussed and decisions made on which EU laws relate to the EEA Agreement and whether they are acceptable for EEA/ EFTA states. The Committee meets on average once a month, with the ambassadors of Iceland, Norway and Liechtenstein appearing on behalf of their governments and a senior official on behalf of the EU. The Standing Committee of the EFTA states is one of the most important consultation and cooperation fields of EEA/ EFTA member states where matters up for discussion are issues that arise in the EEA Joint Committee and the EEA Council. There the three states get familiar with each others interests and take a united stand before representing their case before the EU.<sup>25</sup>

Although the EEA Agreement does not cover foreign affairs, defense, and security, it contains a text on political consultation and discussions between the governments of EU member states and EFTA states. The political consultations mainly consist of meetings in the EEA Council twice a year and specialist meetings a few times a year, where issues concerning international peace and security are discussed. Thirdly Iceland stands in with the EU in a number of public statements, often before the United Nations, on issues regarding human rights, peace, and security, amongst other things.

---

<sup>21</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>22</sup> Alþingi Íslands, "Frumvarp til laga um breytingu á lögum um Evrópska efnahagssvæðið, nr. 2/1993, með síðari breytingum", 2003-2004. <http://www.althingi.is/dba-bin/unds.pl?txi=/wwwtext/html/130/s/0412.html&leito=st%E6kkun%5C0EES#word1>

<sup>23</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>24</sup> Fastanefnd Framkvæmdarstjórnar ESB, "Evrópska Efnahagssvæðið". [http://www.esb.is/eu\\_and\\_country/eea.htm](http://www.esb.is/eu_and_country/eea.htm)

<sup>25</sup> Ibid.

Diagram 1: Institutional Structure<sup>26</sup>

The EFTA Pillar	EEA Institutions	The EU Pillar
Iceland, Liechtenstein, → Norway	EEA Council - Ministers from EU and EEA/EFTA states	← Council of Ministers
EFTA Secretariat →	Joint EEA Committee - The Commission and government representatives from EU members states and EEA/EFTA states	← European Commission
EFTA Surveillance Authority	↔	European Commission
EFTA Court	↔	EU Court of Justice
→ EFTA Parliamentary Committee - EFTA Secretariat	Joint Parliamentary Committee - Parliamentarians from EFTA states and the European Parliament	← European Parliament - The Secretariat of the European Parliament
→ EFTA Consultative Committee	EEA Consultative Committee	← European Economic and Social Committee - The Secretariat of the EESC

### 3.2 Criticism

Throughout the years the main criticism of the EEA Agreement has firstly been the fact that it does not allow EFTA states to formally participate in EU decision making.

Secondly, Iceland's and other EEA/ EFTA states' ability to shape EU propositions is limited and that it is difficult to get previously approved adaptations adjusted to Icelandic conditions. Lastly that access to EU committees and the European Commission's specialist groups is limited, and that interest in and knowledge of the EEA Agreement is diminishing inside the EU.<sup>27</sup>

## 4 Main Issues

### 4.1 Fisheries

For various economic and political reasons, the question of fisheries is at the centre of any meaningful discussion about possible EU membership for Iceland. EU's Common Fisheries Policy (CFP) calls for conservation and limitation of the environmental impact of fishing, by regulating the amount of fish taken from the sea. The policy deals with structures and fleet management, markets, and relations with regional and international fisheries organizations.<sup>28</sup> By joining the European Union, states renounce the legal control of their fisheries over to the EU, and have to abide to decisions taken in the Council of Ministers by a majority rule.

<sup>26</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>27</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>28</sup> European Commission, "About the Common Fisheries Policy". [http://ec.europa.eu/fisheries/cfp\\_en.htm](http://ec.europa.eu/fisheries/cfp_en.htm)

Although the EEA Agreement does not cover fisheries it affects the Icelandic fishing industry since it entails common rules for, amongst other things, production, the treatment of the fish on board, equipment, accommodation for workers and working hours.

The fishing industry is Iceland's most important export industry, representing around 57% of total export value in the year of 2005.<sup>29</sup> Fisheries and fisheries production accounted for 6, 8% of total GDP in 2005.<sup>30</sup> The total fishing in 2005 amounted to over 1.667.000 tons<sup>31</sup>, making Iceland one of the biggest fisheries nation in the world, with 1.8% of the total in tons.<sup>32</sup> Around 75% of Iceland's fisheries exports went to EU member states in 2005<sup>33</sup>, and Iceland was the second biggest importer of fishing products into the EU in 2004, claiming 8.3% of the total.<sup>34</sup>

The utilization of fishing resources is and has been one of the most important factors of Iceland's economic independence. Based on that fact the Icelandic government feels that only Icelanders themselves should have legal custody over the fish stocks, as well as over agreements with other nations regarding fisheries from fishing stocks around Iceland.<sup>35</sup> The Icelandic Government also thinks it is important that a predominant part of Icelandic fishing companies are owned by Icelanders, so that the proceeds benefit the Icelandic nation in the best way it can. For that reason an emphasis was put on keeping fisheries and investment in fisheries outside the EEA Agreement back in 1993.<sup>36</sup>

#### 4.2 Agriculture

Agriculture is also a subject for discussion when addressing Iceland's potential entry into the EU. As formerly mentioned the EEA Agreement does not cover agriculture, but Iceland does have bilateral agreements with the EU covering trade with some agricultural products. If Iceland would become a member of the EU it would be obligated to trade freely with agricultural products with other EU member states. This would most likely lead to a downturn and income loss for the domestic agricultural industry, since increased competition would lead to a loss of market share for domestic production.<sup>37</sup>

The Icelandic state supports agricultural production in the form of subsidies. There is the possibility to negotiate with the EU how this domestic support would be exerted, if Iceland were to join the EU. Likely effects of the elimination of tariffs include substantial price cuts, resulting in lower prices for consumers and lower profits for producers. The exact effect this will have on agricultural production in Iceland depends on how large these price cuts will be and whether additional subsidies will be directed towards agricultural production. According to a report on the Icelandic agricultural industry published by the Icelandic Ministry of Foreign affairs in 2003,

---

<sup>29</sup> Hagstofa Íslands (Iceland's Statistical Bureau), "Útanríkisverslun, nr. 2006:1", 2006.

<sup>30</sup> Hagstofa Íslands (Iceland's Statistical Bureau), "Landsframleiðsla 2005 – bráðabirgðatölur", 2006.

<sup>31</sup> Hagstofa Íslands (Iceland's Statistical Bureau), "nr. 5/2006", 2006.

<http://www.hagstofa.is/?PageID=95&NewsID=1777>

<sup>32</sup> Hagstofa Íslands (Iceland's Statistical Bureau), "Afli erlendra ríkja við Ísland 2004 og 2005 og heimsaflinn 2004". Hagtiðindi –sjávarútvegur, nr. 1:2007, January 16, 2007. <http://www.hagstofa.is/lisalib/getfile.aspx?ItemID=5870>

<sup>33</sup> Hagstofa Íslands (Iceland's Statistical Bureau), "Útanríkisverslun með vörur 2005", 2006". Hagtiðindi – utanríkisverslun, nr. 1:2006, May 16, 2006. <http://www.hagstofa.is/lisalib/getfile.aspx?ItemID=4266>

<sup>34</sup> European Union, "EU's import of fishery products from extra-EU 2004". [http://ec.europa.eu/fisheries/stat\\_import/statistics\\_imports\\_en.pdf](http://ec.europa.eu/fisheries/stat_import/statistics_imports_en.pdf)

<sup>35</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>36</sup> Utanríkisráðuneyti Íslands (Ministry of Foreign Affairs), "Fiskveiðiauðlindin. Ísland og Evrópusambandið", 2004. <http://www.utanrikisraduneyti.is/media/Frettatilkygning/Sjavarutvegsskyrsla.pdf>

<sup>37</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>



dairy production would most likely decrease somewhat if Iceland were to join the EU, as well as poultry, pork, beef and lamb production.<sup>38</sup>

At this time, the Icelandic agriculture would be better off outside the European Union, given that the system of subsidies stays the same. Membership could all the same possibly entail new opportunities and better exporting markets.<sup>39</sup>

### 4.3 The Euro

The Icelandic krona (ISK) is the smallest free market currency in the world. Fluctuations in the value of the ISK over the last two years led to discussions on Iceland adopting the euro, without becoming a member of the European Union. Iceland's Prime Minister early last year claimed that there were no legal obstacles to Iceland becoming a member of the EU's Monetary Union (EMU), political views within the EU impeded the country's ability to join the EMU without being a member of the EU.<sup>40</sup> EU's spokeswoman Amelia Torres confirmed the Prime Minister's speculations last January in an interview for the Icelandic National Broadcasting Service, by stating that the euro was an impenetrable part of the European Union and that only members states had the possibility to adopt it.

Furthermore that state's economies had to fulfill strict conditions to be able to join the EMU and that the Union would neither recommend nor encourage outside states to unilaterally decide to adopt it.<sup>41</sup> In 1992 the Treaty of Maastricht established EMU, the European Union's *Economic and Monetary Union*. The objective of a common currency for EU member states is to remove the final hurdle for the functioning of the Internal Market, eliminate currency fluctuations and create a single, larger, deeper and more liquid financial market.<sup>42</sup> Today thirteen out of the 27 member states have adopted the euro. Denmark got a special exemption from participation in the EMU, and Sweden and the United Kingdom decided not to participate for now. Many of the newest member states which joined the EU in 2004 are working on fulfilling EMU's requirements.<sup>43</sup> For a country to be able to adopt the euro it needs to become a member of the Economic and Monetary Union. A few small states do however, with the permission of the EU, use the euro without being members of the EMU.<sup>44</sup> Member states wishing to adopt the euro have to meet certain public finance requirements and furthermore public debt has to be constrained.

The country's currency exchange rate has to be stable, defined as two years in the Exchange Rate Mechanism<sup>45</sup> without devaluation and without severe tensions and volatility. The budget deficit can not be more than 3% of GDP and public debt has to be lower than 60% of GDP. Long-term price stability is required, defined as inflation of no more than 1.5% points higher than the average of the lowest three EU member states over the previous 12 months. Lastly long-term interest rates also have to be stable.<sup>46</sup>

---

<sup>38</sup> Utanríkisráðuneyti Íslands (Ministry of Foreign Affairs), "Íslenskur landbúnaður í alþjóðlegu umhverfi", 2003. <http://www.utanrikisraduneyti.is/media/Skyrslur/IslenskurLandbunAlthjodaumhverfi.pdf>

<sup>39</sup> Ibid.

<sup>40</sup> Morgunblaðið, "Ekkert því til fyrirstöðu lagalega að Ísland gangi í EMU", March 13, 2006. <http://mbl.is/mm/vidskipti/frett.html?nid=1190155>

<sup>41</sup> Morgunblaðið, "ESB telur þjóðir ekki geta tekið upp evru án aðildar að sambandinu", January 1st, 2007. <http://mbl.is/mm/frettir/innlent/frett.html?nid=1246288>

<sup>42</sup> Bomberg, E. and Stubb, A., "The European Union: How does it work?", 2004. United States: Oxford University Press.

<sup>43</sup> Fastanefnd framkvæmdastjórnar ESB gagnvart Íslandi og Noregi, "Evran – Nýr gjaldmiðill Evrópu", <http://www.esb.is/policies/emu.htm>

<sup>44</sup> European Commission, "The euro: Our Currency".

[http://ec.europa.eu/economy\\_finance/euro/world/euro\\_world\\_main\\_en.htm](http://ec.europa.eu/economy_finance/euro/world/euro_world_main_en.htm)

<sup>45</sup> ERM: The European Exchange Rate Mechanism is a system which was introduced by the European Community as part of the European Monetary System (EMS), to reduce exchange rate variability and achieve monetary stability in Europe, in preparation for Economic and Monetary Union and the introduction of the euro.

<sup>46</sup> European Central Bank, "Convergence Criteria". <http://www.ecb.eu/ecb/orga/escb/html/convergence-criteria.en.html>

A Committee formed by the Icelandic Chamber of Commerce did a report on the Icelandic economy and the balance of the Icelandic krona last summer. According to the report there are two realistic options for Iceland regarding currency affairs. One would be to hold on to the independent currency given the experience so far, and the other to adopt the euro by becoming a member of the EMU, after joining the European Union. The report claims that adopting the euro would however not solve the problems facing the Icelandic economy, that the effects of substantial procedural changes in the country's housing market, and big energy and industrial projects have to be considered. The policies in these areas have to take into account the country's general exchange rate policy, and be fragmented and timed accordingly.<sup>47</sup>

Iceland could not adopt the euro until two years after it would become a member of the EU, given that it would fulfill all legal and economical requirements by then. At the moment it fulfills requirements regarding the budget deficit and public debt, but not interest rates and inflation, which are too high.<sup>48</sup>

## 5 The Future of the EEA Agreement

At this point in time the EEA Agreement's future outlook is promising. Both parties are living up to their commitments and the likelihood of the EU denouncing the agreement is very low, especially giving the fact that it would need the consent of all EU members states to do so. If Norway were however to join the EU, EEA/ EFTA institutions would become more difficult and expensive to maintain, especially the EFTA Surveillance Authority and the EFTA court. Norwegian authorities do however not plan to join the EU at this time and the present government does not have EU membership on its agenda.<sup>49</sup>

## 6 The Schengen Agreement

The Schengen Agreement calls for removing all border controls among its signatories and was signed in 1985 by France, Germany, and the Benelux countries. Its implementation was delayed for several years, partly because of the difficulty of organizing the information system and partly for political reasons.<sup>50</sup>

The Agreement gradually included most EU member states, plus EFTA countries Iceland and Norway, and formally became a part of the European Union under the terms of the 1997 Amsterdam Treaty.<sup>51</sup> Iceland and Norway are members of the Nordic Passport Union<sup>52</sup> and could therefore not be left out of Schengen when Sweden, Finland and Denmark, as EU members states, became signatories of the Schengen Agreement in 1996. Iceland and Norway have thus been associated with the development of the agreement since then and although they did not have voting rights on the Schengen Executive Committee, they could express their opinion and formulate proposals.<sup>53</sup> Today they continue to participate in the drafting of new Schengen legal

---

<sup>47</sup> Morgunblaðið, "Tveir kostir taldir raunhæfir í gengismálum", July 27, 2006. <http://mbl.is/mm/vidskipti/frett.html?nid=1214348>

<sup>48</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>49</sup> Ibid.

<sup>50</sup> Dinan, D., "Ever Closer Union: An Introduction to European Integration", 2005. United States of America: Lynne Rienner Publishers Inc.

<sup>51</sup> Bomberg, E. and Stubb, A., "The European Union: How does it work?", 2004. United States: Oxford University Press.

<sup>52</sup> The Nordic Passport Union allowed citizens of the Nordic countries to cross approved border districts without carrying and having their passport checked.

<sup>53</sup> Europe: EU Press Room, "The Schengen acquis and its integration into the Union". <http://europa.eu/scadplus/leg/en/lvb/l33020.htm>

instruments that will be adopted by EU Member States, but also apply to Iceland and Norway. This alliance takes the form of a joint committee outside the EU framework, made up of representatives from the Icelandic and Norwegian Governments as well as members of the European Council and the Commission.<sup>54</sup>

The Agreement launched a long set of negotiations to identify and implement a series of measures necessary to abolish internal frontiers and establish a common external border around the signatory states. Major challenges included setting visa requirements, dealing with asylum applications, combating illegal immigration, improving police cooperation in order to counter terrorism and other crime, and physically reconfiguring airports in order to segregate passengers traveling within the Schengen area from those on other flights.<sup>55</sup> The Single European Act should have made the Agreement unnecessary but three member states, Britain, Ireland and Denmark did not fully agree on the call for unrestricted travel. Key issues and features of the Schengen Agreement include visas, illegal immigration, police cooperation, asylum, judicial cooperation, the Schengen Information System (SIS) and institutional structure.<sup>56</sup>

The Schengen Agreement is changing substantially at the moment, partly because of recent EU enlargements which expand the Schengen area, and partly because of new technologies to register and use information on the basis of electronic passports. The issuing of visas for the whole Schengen area will most likely occur at one place in the future, to protect as well as possible its outward borders.<sup>57</sup>

## 7 Conclusion/ Prospects

It is clear that Iceland will not become a member of the European Union in the nearest future. The biggest obstacle today is the Common Fisheries Policy, given that Iceland will simply not consider giving up the right to control its fisheries. The utilization of fishing resources is and has been one of the most important factors of Iceland's economic independence. Based on that fact the Icelandic government feels that only Icelanders themselves should have legal custody over the fish stocks, as well as over agreements with other nations regarding fisheries from fishing stocks around Iceland.<sup>58</sup> Since Iceland has bilateral agreements with the EU covering free trade with fisheries products, making Iceland the second biggest importer of fishing products into the EU in 2004<sup>59</sup>, there is no real need for Iceland to become a member of the EU and the CFP. Today the EEA Agreement favours Iceland's national interests very well and most Icelanders simply see no reason to rock the boat. At the political front, only one of the parties represented in the Parliament, the Social Democrats, support EU membership. The largest political party, the Independence Party, on the other hand sees no reason to apply. Whether changes in the future will make that necessary remains to be seen. That could possibly include economic changes, whether it simply becomes necessary for Iceland to give up the Icelandic krona and adopt the euro, for the purpose of economic stability. Or if Norway joins the EU and it becomes too difficult and expensive to maintain the EEA/ EFTA framework. Only time will tell how these things will turn

---

<sup>54</sup> Ibid.

<sup>55</sup> Dinan, D., "Ever Closer Union: An Introduction to European Integration", 2005. United States of America: Lynne Rienner Publishers Inc.

<sup>56</sup> Ibid.

<sup>57</sup> Morgunblaðið, "Schengen tekur miklum breytingum", July 25, 2006.

<http://mbl.is/mm/frettir/innlent/frett.html?nid=1214113>

<sup>58</sup> Forsætisráðuneyti Íslands (Iceland's Prime Ministry), "Tengls Íslands og Evrópusambandsins; Skýrsla Evrópunefndar um samstarfið á vettvangi EES og Schengen og um álitæfni varðandi hugsanlega aðild Íslands að Evrópusambandinu", March 2007. <http://www.mbl.is/media/61/661.pdf>

<sup>59</sup> European Union, "EU's import of fishery products from extra-EU 2004". [http://ec.europa.eu/fisheries/stat\\_import/statistics\\_imports\\_en.pdf](http://ec.europa.eu/fisheries/stat_import/statistics_imports_en.pdf)

out, until then relations between Iceland and the European Union will be solely based on the EEA Agreement.