



## Iceland: an overview

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2012 has seen Iceland gear up for parliamentary elections in 2013, with plans for a new constitution as it emerges from its financial crisis and proceeds with its application to join the EU.

The banking crisis of 2008 has coloured almost every aspect of Iceland's politics and economy. It led to the fall from power of the party that had been in government for six decades, and the first trial of a head of state in connection with the financial crisis. The new draft constitution, which is currently before the parliament for approval, involved unprecedented citizen involvement.

Before the crisis, Iceland had enjoyed an economic boom. But the dramatic increase in Iceland's foreign debt ensured that the banking crisis would bring with it a currency crisis and inhibit the Icelandic central bank's response. Iceland is nevertheless emerging relatively unscathed. A major remaining issue from the UK point of view is the Icesave compensation dispute. The British and Dutch governments compensated depositors in Icesave accounts following the collapse of Landsbanki, but agreements to claim this back from Iceland were defeated in two referendums. The court of the European Free Trade Association (EFTA), is expected to rule on the case in December 2012. If Iceland loses, the costs could be substantial, although the government has said that there is enough in the Landsbanki estate to cover all depositors.

The Icesave issue could affect Iceland's current application to join the EU, which itself was prompted by the banking and currency crisis. The application is proceeding relatively quickly, despite domestic public and political opposition.

Fisheries and whaling are other areas of dispute with the EU. Iceland is grossly exceeding current scientific advice about total sustainable catches of the regional mackerel fishery, and it resumed commercial whaling in 2006.

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## Contents

<b>1</b>	<b>Basic facts and figures</b>	<b>3</b>
<b>2</b>	<b>Politics</b>	<b>3</b>
2.1	Government and elections	3
	Prime Minister Jóhanna Sigurðardóttir's centre-left government	3
	2013 elections	4
	Former Prime Minister tried for negligence	4
2.2	President Ólafur Ragnar Grímsson	4
2.3	A new constitution	5
<b>3</b>	<b>Economy</b>	<b>5</b>
3.1	Pre-crisis	5
3.2	The banking crisis	5
3.3	Post-crisis	6
3.4	Claims on the Icelandic government	7
3.5	Trade and export markets	9
<b>4</b>	<b>EU issues</b>	<b>11</b>
4.1	Brief history of Iceland-EU relations	11
4.2	Progress on accession negotiations	11
4.3	Would a referendum endorse EU membership?	12
<b>5</b>	<b>Fisheries and whaling</b>	<b>12</b>
5.1	Icelandic fisheries	12
	History—the Cod Wars	12
	Icelandic fisheries management	13
	The Mackerel War	14
5.2	Whaling	15
5.3	Background information on International fisheries management	16
	Coordination of fisheries that straddle EEZs	17
	Key political problems with managing international fisheries	18

## 1 Basic facts and figures

The Republic of Iceland, independent since its union with Denmark ended in 1944, became one of the most prosperous countries in the world. Then the collapse of its banking system in 2008 led to economic and political turmoil, but it is now emerging faster than expected.

Iceland lies just below the Arctic Circle, between Norway, Greenland and Scotland.

Most of its 100,000 km<sup>2</sup> are glaciers, lakes and lava fields, and it has more than 200 volcanoes. The population of just over 300,000 is mostly concentrated in the capital, Reykjavik. Traditionally a fishing economy, Iceland now receives more money for exporting aluminium than fish.

The [FCO's country profile for Iceland](#) (last reviewed in March 2012) and the [BBC's Iceland country profile](#) (last updated in March 2012) both give fairly short general overviews of the country. The latter includes links to a timeline and recent news articles about Iceland. There is a lot more detail in the [Europa World Plus pages on Iceland](#).



## 2 Politics

### 2.1 Government and elections

#### ***Prime Minister Jóhanna Sigurðardóttir's centre-left government***

Iceland's Head of Government is [Prime Minister Jóhanna Sigurðardóttir](#) (pictured right). She first took up the post as caretaker following the collapse of the previous government of Geir Haarde and his centre-right Independence Party in January 2009. Jóhanna's centre-left Social Democratic Alliance (SDA) party and its partner in the interim coalition, the Left-Green Movement, then won the following legislative elections of 25 April 2009 with 34 of the 63 seats in the parliament (the Althing). This was the first time that a [centre-left coalition](#) had won a majority in parliament, and the first time in six decades that the Independence Party did not participate in the government.<sup>1</sup>



Jóhanna is Iceland's first female prime minister, and the world's first openly gay head of government in modern times.

The Althing is the world's oldest functioning legislative assembly: it was established in 930 AD.

Discontent with coalition the Government was evident in April 2011 when the Government only narrowly defeated a motion of no confidence in parliament. Three Left-Green Movement members of the Althing had left the party's parliamentary group in March and April, leaving the ruling coalition with a very slim majority.<sup>2</sup>

<sup>1</sup> Inter Parliamentary Union Parline database, [Iceland – Althingi, last elections](#) [accessed 12 September 2012]

<sup>2</sup> [“Recent developments: the second Icesave referendum \(Iceland\)”](#), *Europa World online* [retrieved 19 September 2011]

## 2013 elections

The next parliamentary elections must be held by the spring of 2013. In preparation for that, three new political parties were formed in early 2012:

- the Civil Freedom Party, a right-wing party advocating membership of the EU;
- Bright Future, established by members of the Best Party and an independent deputy; and
- Solidarity, created by an independent deputy who had left the Left-Green Movement's parliamentary group in March 2011.<sup>3</sup>

EU membership is likely to be a big issue in the election campaign, with the SDA and the new the Civil Freedom Party in favour of joining and others strongly opposed.

## Former Prime Minister tried for negligence

Iceland was the first country to try its leader with the financial crisis. Geir Haarde, who had run the country from 2006 to 2009, was found not guilty of the major charge against him.

The trial took place in the Landsdómur, a special court for hearing cases against elected officials. The charges alleged failures of responsibility that exacerbated the economic crisis in October 2008. He was acquitted of negligence, and, although found guilty of the more minor charge of failing to inform his cabinet sufficiently, did not face any punishment.<sup>4</sup>

Iceland has also begun legal proceedings against several bankers who were once in senior positions.<sup>5</sup>

## 2.2 President Ólafur Ragnar Grímsson

Ólafur Ragnar Grímsson (pictured right) was re-elected for a record fifth time as President of Iceland in June 2012, with 53% of the vote (20 points ahead of his nearest rival).

Formerly a university professor in political science, Ólafur had been intending to retire from the Presidency this year before he received a 30,000-signature petition from supporters asking him to run again.<sup>6</sup>

The President, who is the Head of State, is Iceland's only representative chosen by the entire electorate in a direct election.



The [Icelandic President's website](#) gives some information about the President's part in the legislative process. Ólafur is the only President of Iceland to have used his power to veto legislation and force a referendum on a bill. He vetoed two proposals by the Icelandic parliament to repay £3.1bn to Britain and the Netherlands for debts the government incurred after Icesave (the online banking arm of failed lender Landsbanki) collapsed during the financial crisis (see below).

The new draft constitution (see below) proposes to limit the President to three terms in office.

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<sup>3</sup> Europa World Plus, [Iceland – recent developments: the second Icesave referendum](#) [accessed 12 December 2012]

<sup>4</sup> "Iceland ex-PM Haarde 'partly' guilty over 2008 crisis", *BBC news online*, 23 April 2012. See also Herdis Sigurgrimsdottir, "Solomon comes to Iceland", *Open Democracy*, 27 April 2012

<sup>5</sup> See "How Iceland stalks its banksters", *Le Monde*, 12 July 2012 [[excerpts in English on Presseurop](#)]

<sup>6</sup> "Iceland President elected for fifth term", *Financial Times*, 1 July 2012

## 2.3 A new constitution

A [draft of a new constitution](#) is before Iceland's Althing for approval. The draft was drawn up by a [constitutional council](#) appointed by the Althing following the 2009 elections, and approved in a [referendum](#) on 20 October 2012.<sup>7</sup>

The constitutional council consulted widely, including through the internet and social media.<sup>8</sup> This may have produced some of the more unusual proposals, such as the public ownership of Iceland's natural resources.

The draft provides for:

- increased public participation in decision-making (10% of the electorate could demand a referendum on laws adopted by the Althing and 2% could submit a legislative proposal);
- strengthening of the role of the Althing;
- creating a Law Council (Lögrétta) to examine the constitutionality of new legislation;
- greater autonomy for local authorities;
- limiting the President to a maximum of three terms in office;
- limiting government ministers to holding the same office for eight years; and
- elections for the Prime Minister by the Althing following legislative elections.<sup>9</sup>

If the current parliament ratifies the draft, it must also be ratified by the next parliament after the April 2013 elections before it can take effect.

## 3 Economy

### 3.1 Pre-crisis<sup>10</sup>

Before the crisis of 2008, Iceland had enjoyed an economic boom, largely as a result of the rapid expansion of the country's financial sector. But the dramatic increase in Iceland's foreign debt (shown in the chart on the right) ensured that the banking crisis that was to unfold in 2007-08 would bring with it a currency crisis and inhibit the Icelandic central bank's response.



### 3.2 The banking crisis

From 2006, confidence in Iceland's banks, and in the sustainability of the country's debt-fuelled growth, began to be questioned. The three major banks struggled to refinance their debts; two turned to alternative sources of funding. In October 2007, Landsbanki launched

<sup>7</sup> Giulia Dessi, "[The Icelandic constitutional experiment](#)", *Open Democracy*, 23 October 2012; Thorvaldur Gylfason, "[Constitution making in action: The case of Iceland](#)", *Vox*, 1 November 2012

<sup>8</sup> See Richard Bater, "[Hope from below: composing the commons in Iceland](#)", *Open Democracy*, 2 December 2011

<sup>9</sup> Europa World Plus, [Iceland – recent developments: the second Icesave referendum](#) [accessed 12 December 2012]

<sup>10</sup> Information in this section is based on the Europa World Plus economic profile of Iceland; the OECD Iceland Economic Survey 2011; IMF Article IV staff reports

online savings accounts in the UK and elsewhere, under the Icesave brand, and Kaupthing Bank followed suit with its online product, Kaupthing *Edge*.

When all three banks found themselves unable to refinance their debts in October 2008, emergency legislation was passed allowing the Government to take control of them without actually nationalising them. The legislation also afforded domestic depositors priority over other creditors' claims on the fallen banks. Foreign debts including deposits from savers in the UK were written off, and Iceland's banking system shrank by 80%.<sup>11</sup>

In response to this crisis, Iceland secured over \$10bn in loans from the IMF and other countries to stabilize its currency and financial sector, and the banks were able to walk away from a variety of claims.<sup>12</sup> The króna fell 40% against the euro and almost 50% against

the dollar during 2008.

For an indication of the effects of the banking crisis on Iceland's economy, see the charts and tables at the end of this section.

### 3.3 Post-crisis

By most assessments, Iceland has emerged from its banking crisis more strongly than expected, taking into account its severity. Unlike the crisis-stricken eurozone countries (notably Greece, Portugal and Ireland), its government has repaid loans ahead of schedule.<sup>13</sup> The economy grew by 2.5% in 2011, a rate the IMF forecasts will be maintained through to 2017; unemployment has started to fall; and the public debt burden is expected to be on a downward trajectory by 2013.

#### Iceland in 2011: fast facts

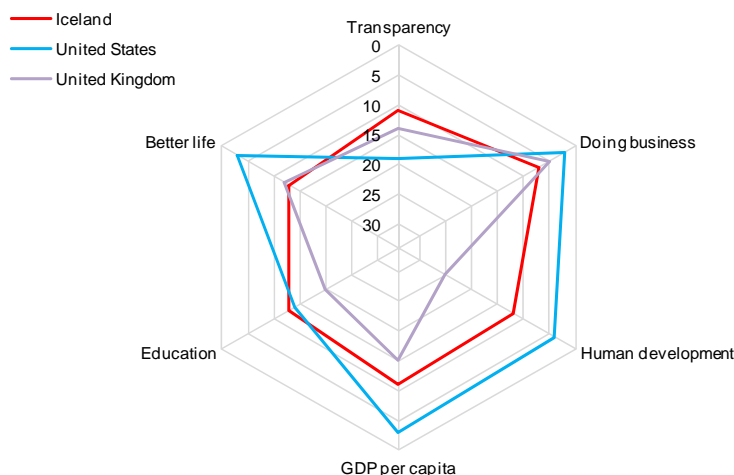
GDP, \$bn	14
Annual average change, %, 2001-11	2.2
GDP per capita, \$PPP	38,061
Annual average change, %, 2001-11	3.3
Population	0.3
Annual average change, %, 2001-11	1.3
Inflation, %	4.0
Unemployment, %	7.4
Current account balance, % GDP	-6.5
Under-five mortality, per thousand	3.0
Life expectancy, years	81.6

Note: charts show trends since 1980

Sources: Bank for International Settlements *Consolidated Banking Statistics*; IMF World Economic Outlook database

#### Key rankings

Chart shows rankings against 36 OECD countries, with '1' being the top/most favourably-assessed country



*Transparency*: Transparency International Corruption Perceptions Index 2011; *Doing business*: World Bank Doing Business 2012; *Human development*: UN Human Development Index 2012 ranking; *GDP per capita*: ranking based on dollar at purchasing-power-parity; *Education*: OECD PISA 2009 assessment (competence of 15 year-olds in mathematics, reading and science); *Wellbeing*: OECD Better Life index ranking

<sup>11</sup> "Iceland's banks come in from the cold", *WSJ Online*, 16 Jun 2011

<sup>12</sup> Thorvaldur Gylfason, "Houston, we have a problem: Iceland's capital controls", *Vox*, 1 June 2011

<sup>13</sup> See, for instance, *IMF Press release*, 22 Jun 2012

One of the reasons for this strong performance often cited by commentators is that Iceland (unlike, say, Ireland) was tough with its banks' creditors and did not allow its financial sector liabilities to become subsumed within state finances.<sup>14</sup>

The depreciation of the króna, while it rendered Iceland's foreign currency debts still more overwhelming, also created favourable conditions for Icelandic exports, helping to reduce the country's huge current account deficit.

### 3.4 Claims on the Icelandic government

Following the collapse of Landsbanki, the British and Dutch Governments made compensation payments to depositors in Icesave accounts (the foreign online banking arm of Landsbanki), with the intention of claiming this back from the Icelandic government. Two agreements to reimburse the British and Dutch authorities were negotiated, only to be rejected in referenda in Iceland. Following the rejection of the second agreement in April 2011, the Icelandic Government's liability under the EU directive on deposit guarantee schemes (around \$6bn, or up to €20,887 per depositor) was referred to the Surveillance Authority of the European Free Trade Association (EFTA), which referred it on to the EFTA Court in mid-December 2011.

A judgement has yet to be made, but the European Commission recently requested (and was granted) direct participation in the case to support the Surveillance Authority in the legal proceedings against Iceland. This is the first time the Commission has been involved in a case before the EFTA Court.

Whether the dispute will affect the negotiations on Iceland's accession to the EU is uncertain. The government has stated that the two issues are entirely separate, although the Commission has hinted that the two are loosely linked:-<sup>15</sup> The actual case in front of the EFTA court has no direct link to Iceland's EU application, but concerns a separate legal process. However, more generally, Iceland's capacity to apply the financial services acquis, including the Deposit Guarantee Directive, will be carefully assessed during the EU accession negotiations.

If the court finds Iceland liable for full compensation of deposits, and interest is applied to that liability without grace periods or interest concessions, the costs could be substantial, and larger than under the rejected agreements. The cost to the public purse will, however, depend on the amount recovered from the Landsbanki estate: the government said in 2011 that proceeds from the estate would reach \$11bn, enough to cover all depositors, and about twice the amount owed under the guarantee directive.<sup>16</sup>

Oral proceedings in the case were heard at the EFTA Court in Luxembourg on 18 September. A verdict, which will not be open for appeal, is expected in December 2012.<sup>17</sup> If it finds in the UK and the Netherlands' favour, the UK is expected to negotiate a new loan agreement with Iceland, which will include interest payable.<sup>18</sup>

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<sup>14</sup> For a comparison of Iceland's and Ireland's approach to their crises, see "[Coming in from the cold](#)", *Economist*, 16 Dec 2010

<sup>15</sup> Reported in Bloomberg, [EU to join EFTA watchdog in suing Iceland over Icesave claim](#), 12 Apr 2012

<sup>16</sup> *ibid*

<sup>17</sup> Sigrún Davíðsdóttir, *Iceland, Icesave (yet again) and the EU deposit guarantee schemes*, 19 Sep 2012

<sup>18</sup> [HL Deb 11 Jun 2012 c147WA](#)

## **The UK and the Icelandic banks – financial implications**

### ***Payments to Icesave depositors***

In the UK, £4.5bn has been paid out to Icesave retail depositors under the Financial Services Compensation Scheme (FSCS). Of this, £2.3bn represented payments for deposits up to the threshold of the EU Deposit Guarantee Scheme Directive (€20,887, or £16,872), an amount which the UK believes should have been paid by the Icelandic Depositors and Investor Guarantee Fund (DIGF). £1.4bn was paid out in respect of balances above £16,872 and up to £50,000 (then the UK's deposit guarantee threshold); to cover these payments, the Treasury loaned the FSCS the necessary funds. The Treasury also compensated depositors for amounts above the UK deposit protection threshold of £50,000, at a cost of £0.8bn.<sup>a</sup>

### ***Claims on Iceland***

In respect of recovery, the UK Treasury 'expect[s] to recover the entire £2.3bn [paid out under the EU Directive] on the basis that the administrators of Landsbanki will recover a significant proportion of this amount during the administration process. [It] also expect[s] that the EFTA Court ruling will ensure that any shortfall between £2.3bn and any amounts recovered from the administrators will be met from the Icelandic authorities.' During 2011-12, the administrator for Icesave paid out dividends to the Treasury and the FSCS of £1.3bn. Of this, £0.4bn was used by the FSCS to repay part of the loan with HM Treasury, £0.7bn was allocated to the DIGF share of the loan and the remaining £0.2bn was used to reimburse the Treasury for its payments relating to deposit balances in excess of £50,000.<sup>b</sup>

### ***Payments to depositors in other Icelandic banks***

Most UK retail accounts of Kaupthing and Heritable banks were transferred to the Dutch bank ING Direct. The FSCS and the Treasury paid a total of £3.2bn to fund the transfer of deposit liabilities (£2.7bn for Kaupthing and £0.5bn for Heritable). For those accounts not transferred, £1.7bn was paid out in compensation (as for Icesave depositors, this covered deposits above the then UK guarantee threshold of £50,000). Because Kaupthing and Heritable depositors held their accounts with UK subsidiaries, these sums cannot be claimed back from the Icelandic authorities. Glitnir bank did not have a UK retail deposit base.<sup>c</sup>

### ***Local authorities***

Some local authorities were also significant depositors in Icelandic banks (local authorities had £954m in Glitnir, Kaupthing, Heritable and Landsbanki), and as institutional (as opposed to retail) depositors were not covered by statutory protection schemes, whether in the UK or Iceland. The recovery of these funds is therefore dependent on the administration process of the collapsed banks. To date, this has yielded better recoveries than expected, and councils have been paid back £700m (almost three-quarters of their total deposits), helped by a court ruling in April 2011 awarding local authorities 'preferred creditor' status, meaning they have been paid back ahead of other creditors. The chair of the Local Government Association recently (October 2012) expressed confidence that more funds would be recovered in the future.<sup>d</sup>

<sup>a</sup> HM Treasury [Annual report and accounts, 2011/12](#)

<sup>b</sup> National Audit Office Report on HM Treasury Annual report and accounts, 2010/11 – [The financial stability interventions](#)

<sup>c</sup> HM Treasury [Annual report and accounts, 2011/12](#)

<sup>d</sup> LGA media release, 7 Oct 2012, [£700m now recovered from failed Iceland banks](#)



### **3.5 Trade and export markets**

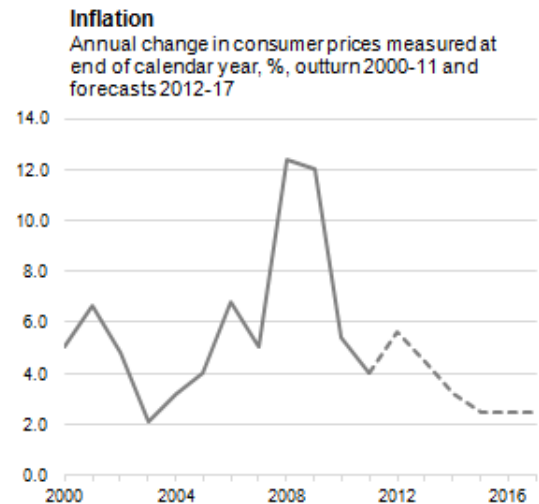
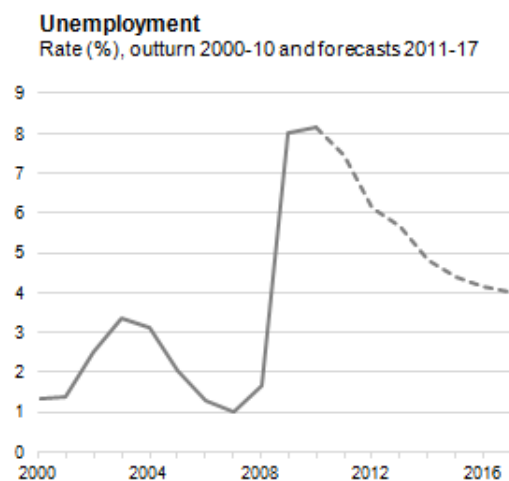
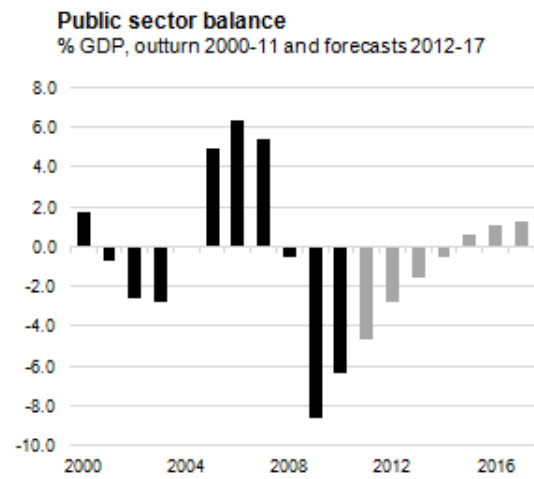
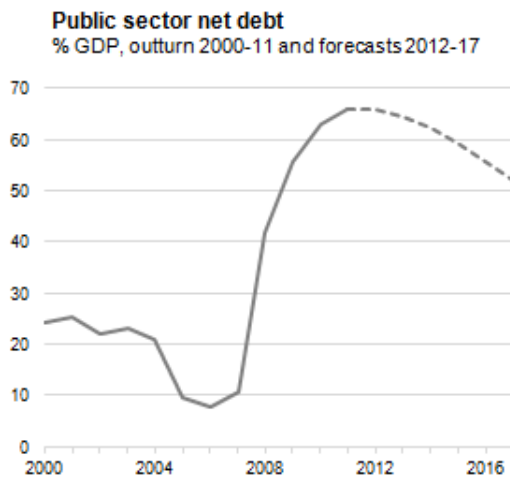
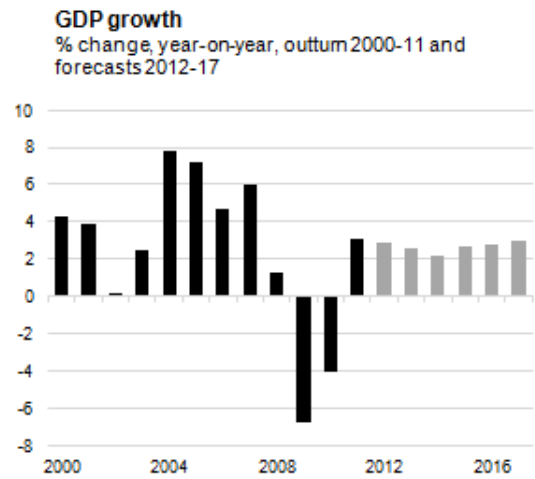
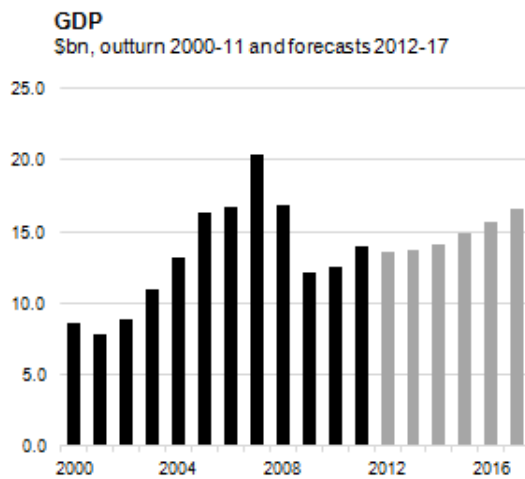
The structure of Iceland's foreign trade bears a resemblance to that of many small countries: a relatively high ratio of trade to GDP, a large proportion of primary exports, concentration in export production and limited intra-industry trade, and a diverse range of imports.

Fish and fish products have traditionally been the dominant source of export earnings, and they still account for 40% of the total by value (down from around 70% in 1990); with a total catch of 1.4m tonnes, Iceland is among the 20 biggest fishing nations in the world. But given the state of Iceland's fish stocks, reducing dependency on fishing is important, and the economy has diversified over the last two decades into manufacturing and service industries in the last decade, particularly software production, biotechnology, and tourism.

Iceland's huge hydroelectric and geothermal energy resources make prices very competitive internationally to large-scale users. The Icelandic Government has therefore encouraged foreign investment in energy-intensive industry. Export revenue from aluminium smelting surpassed that of fishing in 2008.

Iceland's main destination for its exports is the EU, which accounted for 78% of the country's exports in 2010, and with which it ran a €1bn trade surplus in 2010. Within the EU, the UK and Germany are the most important markets. More information on Iceland's trade with the EU can be found in the Commission's [Trade Profile](#).

## Iceland: selected indicators



## 4 EU issues

### 4.1 Brief history of Iceland-EU relations

Iceland's economic collapse altered its previous position of having no clear will to join the EU but collaborating closely with it.

The formal negotiations for Iceland to join the EU began in June 2010, when a [negotiating framework](#) was agreed. In July 2009 the Althing had voted in favour of a government motion on applying to join, upon which the Icelandic government made its application to the EU. Future membership of the eurozone was perhaps the biggest draw, although some politicians have suggested monetary union with Norway instead.<sup>19</sup>

But Iceland's relations with the EU go much further back. Iceland has for many years been a member of the European Free Trade Association (EFTA); the European Economic Area (EEA) and the Schengen border-free area, and it has had a bilateral Free Trade Agreement with EU since 1972. The EU enlargement website has a brief [timeline of Iceland-EU relations](#) since 1970, and the Commission's February 2010 [opinion on Iceland's application](#) gives more detail.

### 4.2 Progress on accession negotiations

Most of the accession negotiations are likely to be speedy, as Iceland already applies much of the EU's laws and policy (the *acquis communautaire*) through its membership of EFTA, the EEA and Schengen. [21 of the 33 negotiating chapters](#) have now been opened, of which ten are provisionally closed.<sup>20</sup>

The European Commission's latest [report on Iceland's progress](#), published in October 2012, gave a positive view,<sup>21</sup> and the December 2012 General Affairs Council concluded that "the negotiations are now entering a more decisive phase":

#### Iceland

25. The Council welcomes the good progress made in the accession negotiations over the past year and notes that the pace of the negotiations continues to reflect Iceland's advanced state of alignment resulting from the European Economic Area (EEA) and Schengen membership, and the quality of its public administration. The Council notes that the negotiations are now entering a more decisive phase. Furthermore, the areas of mutual interest between the EU and Iceland are growing, including in the fields of renewable energy and climate change, and in view of the strategic importance of the EU's Arctic policy.

26. The Council believes that Iceland's accession is a matter of mutual benefit and is committed to moving the negotiating process forward in line with the requirements of the Negotiating Framework, including the fulfilment of Iceland's obligations under the EEA Agreement, taking full account, inter alia, of the European Council conclusions of 17 June 2010. The Council recalls that the accession negotiations will be aimed at Iceland integrally adopting the EU *acquis* and ensuring its full implementation and enforcement by accession, duly reflecting Iceland's own merits and the provisions of the Negotiating Framework.

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<sup>19</sup> "A Viking union?", *Guardian*, 3 February 2009

<sup>20</sup> See "2/3rd of negotiating chapters opened", Icelandic Ministry for Foreign Affairs, 24 October 2012; [Third meeting of the Accession Conference with Iceland at deputy level](#), Brussels, 24 October 2012

<sup>21</sup> European Commission, [Iceland 2011 Progress Report](#), SEC(2011) 1202 final, 12 October 2011

27. The Council notes with satisfaction Iceland's economic recovery and improvements of its macro-economic conditions. Iceland should be able to cope with competitive pressures and market forces within the Union over the medium term, provided that it continues to address current challenges through appropriate macroeconomic policies and structural reforms.

28. In line with the renewed consensus on enlargement, the Council welcomes the continuation of communication activities promoting an informed public debate about Iceland's accession process and integration with the EU.<sup>22</sup>

But there are still two big areas of dispute: the unresolved [Icesave compensation dispute](#) (see above), and fishing rights and whaling (see below). The fishing, agriculture and free movement of capital chapters are among the least advanced in the negotiations.

### **4.3 Would a referendum endorse EU membership?**

Even if or when Iceland meets all the EU requirements for membership, its accession treaty would have to be ratified by all existing Member States, and there would be a referendum in Iceland. It is by no means certain that an Icelandic referendum would endorse EU membership: both public opinion and political parties are split on the issue.

A majority of respondents in successive opinion polls continue to oppose accession to the Union; although a significant percentage is unsure. Many want the negotiations to continue, and under half of those recently polled wanted to withdraw Iceland's membership application,<sup>23</sup> but other polls show a majority in favour of withdrawing the application.

There are reports<sup>24</sup> that Iceland's coalition government risks splitting up over how to handle the EU application. The Social Democratic Alliance party sees EU membership as integral to the left-wing coalition's platform, but some members of its coalition partner, the Left Green party, apparently want to reconsider their coalition deal on EU membership in the context of the euro crisis. The Left Green party has historically opposed joining the EU.

## **5 Fisheries and whaling**

### **5.1 Icelandic fisheries**

#### ***History—the Cod Wars***

Iceland, a relatively new country, struggled during the 1900s to obtain its current fishing rights, in part due to the historic use of Icelandic fishing grounds by foreign fleets. These fleets, many of which were based in the UK, were arguably over-fishing the region. The OECD explained:

The Icelandic Exclusive Economic Zone (EEZ) was set at 12 miles in 1958 and then increased to 50 miles in 1972. Even after this increase, foreign fleets' catches in the fishing grounds around Iceland remained substantial. For example, they caught around 100 thousand tonnes of cod in 1975, amounting to around one third of the total cod catch that year from these fishing grounds.

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<sup>22</sup> [Council conclusions on enlargement and stabilisation and association process](#), 3210th General Affairs Council meeting, 11 December 2012

<sup>23</sup> Europa World Plus, [Iceland: recent developments](#) [accessed 12 September 2012]. See also the Wikipedia page on [Accession of Iceland to the European Union](#) which includes a table of opinion poll results over several years.

<sup>24</sup> See for example "[EU bid causes tension in Iceland government](#)", *EU observer*, 14 August 2012

Lacking control over these fishing grounds, it was impossible for the Icelandic authorities to implement a fisheries management system to achieve a sustainable and efficient industry. With the enlargement of the EEZ to 200 nautical miles in 1975, most of the commercially important fish stocks in the fishing grounds around Iceland fell within Iceland's EEZ.<sup>25</sup>

In asserting control over these resources, Iceland triggered what was known as the “Cod Wars” with the UK – escalating violence between the two countries over access to these resources. The UK finally succumbed to Iceland's wishes, presumably because of Icelandic threats to close a NATO military base of strategic importance and anxiety about the Cold War. See [here](#) for more information from the National Archives.

In 2000 the UK Government paid compensation to fishermen who had lost their jobs because of loss of access to the fishery.<sup>26</sup>

### ***Icelandic fisheries management***

Iceland is well known for the responsible management of its fisheries. The OECD noted last year that it “has managed fish stocks that are **not shared with other countries** in a sustainable and profitable manner”.<sup>27</sup>

This had been achieved by broadly following scientific advice about the total catch that should be permitted, which has led to sustainable resource use, and by the use of a system called Individual Transferable Quota (ITQ).<sup>28</sup> Iceland's scientific advice on catches is provided by the Icelandic Marine Resource Institute, which is independently assessed by ICES. A study of the ITQ system contained the following summary:

- 1 Access to Icelandic fisheries was traditionally open to all.
- 2 In the 1960s and 1970s excessive catches of herring and then cod led to a decline in stocks of these important species in Iceland's waters.
- 3 In response, Iceland's government imposed restrictions on the number of days trawlers could put to sea to catch certain species.
- 4 This led to fishing Derbies, where fishermen competed to catch as many fish as possible in the limited time available. Inevitably, catches continued to exceed sustainable levels.
- 5 Starting in 1979, the Icelandic government gradually introduced a system of individual share quotas (ITQs), which essentially give boat owners the right to catch a specific proportion of the total allowable catch (TAC) of certain species.
- 6 If a boat owner does not wish to use all his ITQ he can sell part of it to someone else. This encourages more efficient use of the capital invested in boats and equipment.
- 7 Because ITQs entitle their owners to a specific share of the future stock of fish, they create incentives to ensure that stocks are sustainable.
- 8 Since the introduction of ITQs, capital invested in Icelandic fisheries (boats and equipment) has been gradually falling and catches have fallen to sustainable levels, whilst the value of catches has risen.

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<sup>25</sup> <http://www.oecd-ilibrary.org/docserver/download/fulltext/5kg566jfrpqr.pdf?expires=1347634802&id=id&accname=guest&checksum=CEC95144772A0913289BC3880FC3FAE9>

<sup>26</sup> The EU Common Fisheries Policy, Research Paper 96/6, 16 January 1996

<sup>27</sup> <http://www.oecd-ilibrary.org/docserver/download/fulltext/5kg566jfrpqr.pdf?expires=1347634802&id=id&accname=guest&checksum=CEC95144772A0913289BC3880FC3FAE9>

<sup>28</sup> *ibid*

9 Because of the success of the ITQ system and the wealth it has created, there is now political pressure for the imposition of a resource rent tax...<sup>29</sup>

More detail about how ITQ works, and current proposals for its reform, can be found [here](#).

### ***The Mackerel War***

In spite of Iceland's responsible management of fish stocks, it is grossly exceeding current scientific advice about total sustainable catches of the regional mackerel fishery. This is because Iceland set unilateral catch limits far in excess of those agreed in regional fisheries discussions.<sup>30</sup>

Its rationale for this was good evidence showing that mackerel populations had moved north with climate change so that more are now found in the Iceland EEZ. Iceland wanted to agree changes to the catch limits for the fishery allowing it to take a larger share of these fish. It argued that it was not fair that they were not permitted to catch more of these fish, as the fish grow in its EEZ. It argued that the presence of these fish has implications for their other fish stocks due to the food that the mackerel consume.

However, this would require the EU and Norway to reduce their catch limits. Given the value of this fishery it is perhaps unsurprising that these countries rejected this. For example, according to the Scottish Government mackerel is Scotland's most valuable stock, with landings worth £164 million in 2011.<sup>31</sup>

The failure to come to an agreement has led to the entire fishery losing its sustainability certification from the Marine Stewardship Council (MSC). Some UK supermarkets will no longer stock the fish as a result.<sup>32</sup> The International Council for the Exploration of the Sea (ICES) recommended a reduction of some 42% to 47% in mackerel catches in the North-East Atlantic and the North Sea in 2013 compared with 2012.<sup>33</sup>

This disagreement has led to escalating rhetoric against Iceland (and the Faroe Islands, which acted similarly). The European Parliament recently voted for sanctions against the two countries, [see here](#). The EU [can now impose sanctions](#) on Iceland and the Faroe Islands, although the sanctions have not yet been used.

It has been speculated that the dispute could undermine Iceland's chances of EU-succession. [See here](#) for more comment on that.

The OECD provided an overview of the disagreement:

The North-East Atlantic mackerel stock straddles a number of Exclusive Economic Zones (EEZs). It was co-managed by the EU, Norway and the Faroe Islands. In recent years, however, the mackerel stock has changed its migration pattern, probably due to changes in sea temperatures, and large quantities of mackerel have migrated into the Icelandic EEZ. In light of this change, Iceland requested to participate in the co-management of this fishery but was initially rejected by the other parties, who considered that Iceland was not a coastal state in this fishery. Iceland responded by unilaterally setting a national quota for its fisheries from this stock. In 2010, Iceland was finally recognized as a coastal state in the mackerel fishery and the four coastal states, as well as the Russian Federation, have since held regular consultations. They

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<sup>29</sup> Hannes H. Gissurason, *Overfishing; The Icelandic Solution*, August 2000, IEA

<sup>30</sup> [http://www.ices.dk/iceswork/asc/2012/themesessions/Abstracts%20Session%20M\\_ED.pdf](http://www.ices.dk/iceswork/asc/2012/themesessions/Abstracts%20Session%20M_ED.pdf)

<sup>31</sup> <http://www.scotland.gov.uk/News/Releases/2012/09/Mackerel28092012>

<sup>32</sup> <http://www.bbc.co.uk/news/uk-scotland-scotland-business-18693979>

<sup>33</sup> <http://www.europolitics.info/sectoral-policies/mackerel-war-talks-resume-in-london-art344102-10.html>

have not been able to reach agreement on the comprehensive management of the mackerel stock but have unilaterally set national quotas. The aggregated quotas considerably exceed the total allowable catch recommended by International Council for the Exploration of the Seas (ICES).

North-East Atlantic mackerel catches have been considerably in excess of ICES advice since 2007 (ICES, 2010). The main reasons for this overfishing are the absence of effective international agreement on catch limitation between all nations involved in the fishery as well as inter-annual transfer of quotas not fished in 2009 to 2010, discards, and estimated overshoot of catches.<sup>34</sup>

For more information on the Icelandic Government's position [see here](#).

A UK Government statement can be found [here](#).

European fisheries Ministers discussed their approach to the dispute in [meetings with Norway](#) scheduled for 19 to 23 November and 3 to 7 December 2012.

## 5.2 Whaling

Iceland's resumption of commercial whaling in 2006 could also derail its EU membership plans. The UK Government set out its opposition to Icelandic whaling in a written answer from June 2012:

**Lindsay Roy:** To ask the Secretary of State for Environment, Food and Rural Affairs what recent discussions she has had with the governments of (a) Norway, (b) the Faroe Islands and (c) Iceland on whaling; and if she will make a statement. [112789]

**Richard Benyon:** I wrote to the Faroe Islands Government in May to express the UK's opposition to the hunting of pilot whales and other small cetaceans, and calling for an end to these hunts. I also raised concerns about commercial imports by the Faroe Islands of meat from protected whale species undermining the effectiveness of the convention on international trade in endangered species of wild fauna and flora (CITES).

I raised our opposition to whaling when I met the Icelandic Fisheries Minister in February. We have made it clear that for Iceland to join the EU it must accept that its whaling operations are incompatible with membership.

UK Government officials met Norwegian Government officials in the build-up to the 64th International Whaling Commission annual, meeting in July, encouraging support for the moratorium and for the UK's position to ensure the long-term conservation and protection of whales.<sup>35</sup>

[DEFRA's website](#) summarised UK government policy on whaling:

Whale populations have not recovered from overexploitation of the past and face other serious threats such as pollution, habitat degradation, and climate change.

The International Whaling Commission (IWC) places a moratorium on commercial whaling other than limited whaling operations by indigenous people for subsistence purposes. Under the guise of scientific research, Japan continues to kill whales,

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<sup>34</sup> <http://www.oecd-ilibrary.org/docserver/download/fulltext/5kg566jfrpzzr.pdf?expires=1347634802&id=id&accname=guest&checksum=CEC95144772A0913289BC3880FC3FAE9>

<sup>35</sup> HC Deb 19 June 2012 cc859-60W

exploiting a loophole in the IWC moratorium. Iceland and Norway, having lodged objections to the moratorium, continue commercial whaling.

Whaling is unacceptably cruel. Many coastal communities, including those in developing countries, can profit from tourist income generated by a well-regulated whale watching industry. The current and future benefits from whale watching far exceed those from killing whales. The Government wants the IWC to work towards the greater conservation of whales.

[...]

The UK supports the IWC moratorium on commercial whaling. We strongly oppose all forms of whaling, other than limited whaling operations by indigenous people for clearly defined subsistence needs. We believe that whaling involves unacceptable cruelty, and that regulated whale watching is the only truly sustainable use of whales and other cetaceans.

The 62nd annual meeting of the IWC (June 2010) considered a proposal effectively legitimising whaling for Japan, Iceland and Norway for a ten year period, in return for limited promises of greater global conservation. Fortunately anti-whaling countries stood firm to ensure that the IWC moratorium on commercial whaling was not undermined and that the proposal was withdrawn.

Iceland's whaling is incompatible with its EU aspirations. We are urging Iceland to align with the EU position.

### **5.3 Background information on International fisheries management**

Countries generally have sovereignty over fisheries within their Exclusive Economic Zone (EEZ)—the band of sea stretching out from their coast to 200 nautical miles (nm).

The EU manages fishing in the EEZ of all Member States under the Common Fisheries Policy (CFP). More information and important recent debates about CFP reform can be found [in this Library Standard Note](#).

The high seas (i.e. seas beyond the 200 nm limit) are managed by Regional Fisheries Management Organisations (RFMO). Many of these RFMOs have been relatively ineffective at sustainably managing high seas fisheries (see [here](#)).

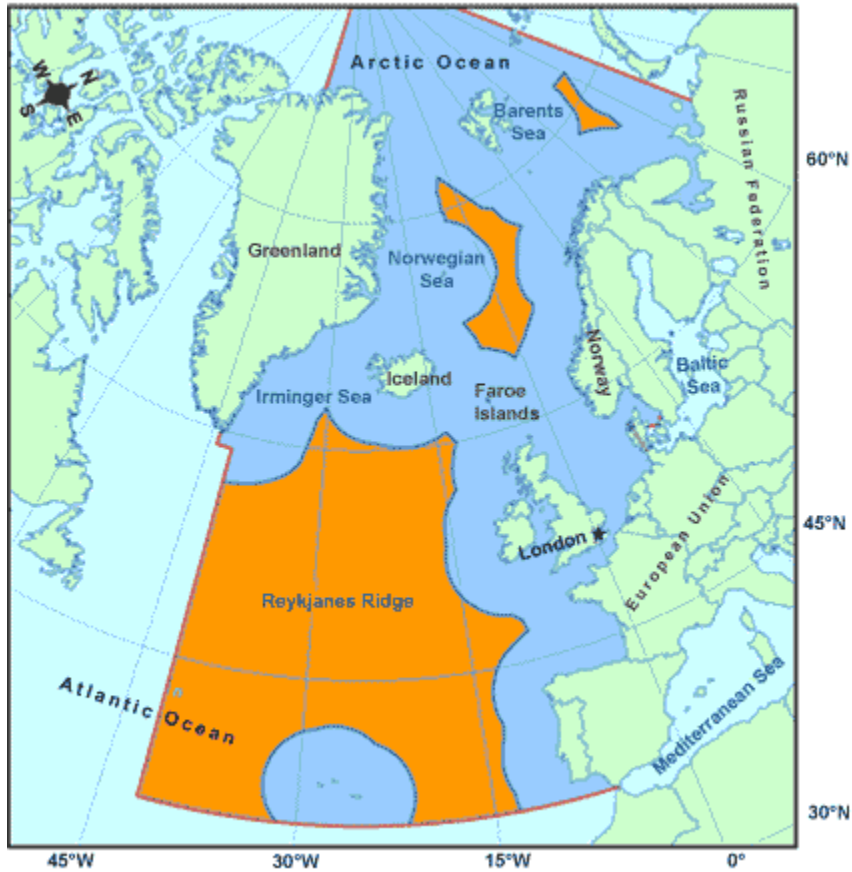
The RFMO for the north east Atlantic region is called the North-East Atlantic Fisheries Commission (NEAFC). This brings together the European Community, Denmark on behalf of the Faeroe Islands and Greenland, Estonia, Iceland, Norway, Poland and Russian Federation in the management of the region's high seas fisheries.<sup>36</sup>

The NEAFC regulates fishing in the high seas (the orange area on the map below). It is also the forum for agreeing cooperative fishing regimes within the EEZs (the darker blue area on the map)—such as between Iceland and the EU.

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<sup>36</sup> European Commission, [The North East Fisheries Commission](#)





37

### **Coordination of fisheries that straddle EEZs**

Fish populations often migrate between different countries' EEZs. This makes individual member state management of fisheries ineffective. For example, some populations of mackerel breed in the North Sea, where the juveniles mature, while the adults move back to the north to feed. As a result countries across the whole migratory route of the fish need to coordinate on how much they each catch. Failure to do this could lead to overfishing and declining catches, which could ultimately lead to the destruction of the fishery.

To address this, countries have obligations under the UN Convention on the Law of the Sea (UNCLOS) and the UN Fish Stocks Agreement to agree on the joint management of shared and "straddling" fish stocks. These agreements in short require states to coordinate on the conservation and restoration of fisheries—such as by agreeing on the total catch each country can take.

In the north-east Atlantic this coordination takes place via the NEAFC, as described in the previous section.

The International Council for the Exploration of the Sea (ICES) provides much of the scientific advice upon which the health of fisheries in the region is determined. This is "developed into unbiased, non-political advice".<sup>38</sup>

<sup>37</sup> <http://www.neafc.org/page/27>

<sup>38</sup> <http://www.ices.dk/aboutus/aboutus.asp>

### ***Key political problems with managing international fisheries***

Countries have to agree to a common approach for protecting fisheries for the reasons outlined above. This can be challenging for a number of political reasons such as:

- **Disputes about access rights.** Historic access to fisheries can set a precedent for other countries to fish within another country's EEZ (or where an EEZ should be delineated). This can create tensions between fishing communities, particularly when limits on the amount of fish that can be taken from an area are introduced. Local fishermen can resent giving up part of 'their' quota even when other countries have historically had access to that fishery.

Related to this issue is the assertion of new access rights over sea areas. See the Cod Wars between Iceland and the UK.

- **Fish populations can change** their movements. This can change the basis of what might be considered a 'fair' allocation of the fish resource between countries—particularly if fish move to a new region but the allocation of fishing quotas between countries does not change.
- **There can be an incompatibility between a profitable fishing industry and the sustainable management of fish stocks.** Politicians can be reluctant to reduce quotas to sustainable limits where this causes a negative impact on fishing revenues. For example, the EU's Common Fisheries Policy has been defined by its failure to sustainably manage fisheries in the face of political pressure to maintain high quotas.
- **Improving fishing technology.** There have been large improvements in fishing technology. This means that more fish can be caught for the same amount of fishing effort. This leads to difficult choices about reducing the numbers of fishing vessels and crews, with knock on implications for local communities.<sup>39</sup>

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<sup>39</sup> <http://www.guardian.co.uk/environment/2010/may/04/fishing-techniques-decline>