

# Iceland's government seeks to abandon EU membership negotiations

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At the end of February, Iceland's right-wing coalition government of the Progressive and Independence Parties announced that they were pulling out of talks that had been ongoing since 2010, with the European Union (EU) over the island's membership.

On February 20, Prime Minister and Progressive Party leader Sigmundur David Gunnlaugsson released a statement and a vote was taken shortly after within the ruling parties' fractions in parliament. The move had been expected following the election victory of the right wing last year, with both parties longstanding opponents of EU membership. However, they had promised a referendum on whether talks should continue before they were put on hold last May.

The move is opposed by the Social Democrats, who led the previous government and initiated the process of EU membership. Former Foreign Minister Ossur Skarphedinsson responded angrily that abandoning the talks would only take place "over my dead body." According to recent polls, over 80 percent of Social Democrat supporters back joining the EU.

The government decision led to a series of protests attracting several thousand participants. A petition calling on the government to honour its pledge to hold a referendum on continuing the talks before reaching a decision has obtained over 50,000 signatures, or 20 percent of eligible voters. Government officials have responded in recent days with suggestions that a referendum may be an option after all.

Although the majority of the population remains opposed to EU membership, and the protests are in part driven by opposition to the government's right-wing policies, there are more privileged layers in favour of joining the EU attempting to portray such a move as progressive.

Along with the Social Democrats, Bright Future, a

liberal party founded in 2012, firmly supports EU membership. In a recent poll, it won the support of 18 percent of voters, having surpassed the 5 percent hurdle to gain parliamentary representation last year. Its support in the capital, Reykjavik, is particularly strong and it has benefited from the discrediting of the established parties since the 2008 financial crisis.

The Left Greens, who were the Social Democrats' junior partner in the previous coalition, have helped to legitimise the process of accession talks with the EU. Despite the party's formal opposition to joining, they acceded to the continuation of talks for three years while in power, with party leader Steingrímur Sigfússon claiming that only when negotiations were completed would Icelanders be able to decide what the EU represents.

Iceland is heavily dependent on the EU for trade, having enjoyed access to the open market, apart from fisheries and agriculture, since the acceptance of a free trade agreement in 1972. Almost half of its total exports go to EU countries, and Reykjavik is part of many EU institutions, such as the Schengen zone and the Dublin agreement on asylum seekers.

However, a powerful section of Iceland's elite, while keen to maintain trading relations with Europe, considers EU membership not in its interests. The main source of support for this position comes from the fishing industry, which has seen its operations expand considerably over recent years. It has repeatedly come into conflict with the EU over fishing rights and quotas, recently abandoning an agreement to regulate fishing quotas on the grounds that Brussels had sought to impose limits to suit the demands of its member states with major fishing industries while supposedly disregarding environmental concerns.

Ruling circles are working to build relations with

other countries. Iceland became the first European state to sign a free trade agreement with China last April. In a sign of the virtual unanimity within Icelandic ruling circles over this step, 56 of 63 parliamentarians voted to finalise the deal at the end of January. Between 2010 and 2012, exports to China more than doubled, while Chinese imports to Iceland have risen by 500 percent over the past ten years. *Bloomberg* reported in October 2013 that Iceland was seeking to use its position in the Arctic to attract global investment, and was considering opening a port on the northeast coast of the island which could be used for oil exploration and new shipping routes as ice melts. Foreign Minister Gunnar Bragi Sveinsson, who announced the abandonment of EU talks, commented, “It’s very important for us to have a free trade agreement with China. The Chinese are interested in Iceland and the Arctic and naturally Iceland should utilize that interest, just like Iceland utilizes that interest among other nations. Hopefully, Iceland’s relationship with China will grow stronger.”

Although Independence and Progress control a clear majority in parliament, the latest polls show that government support has dropped by one fifth, from around 50 percent to just over 40 percent. Gunnlaugsson’s Progressives have lost almost half of their support since last April’s election victory, and his personal approval rating has halved.

Last year’s electoral success of Progress and Independence was, above all, thanks to the discrediting of the previous Social Democrat-Left Green coalition, which loyally imposed the demands of the International Monetary Fund to stabilise capitalism in Iceland after the 2008 crisis. Recapitalising banks and slashing public spending, they reduced the country’s budget deficit from 14 percent of economic output to below 2 percent in four years.

Gunnlaugsson’s government has continued this course. It boasts that this year will see the country post a balanced budget for the first time since the crash. An achievement made possible by sharp cuts in public spending for health and education. A press release for this year’s spending plan declared, “Government expenditure will be reduced as a share of GDP through broad-based streamlining measures, decisions to abandon various recent projects undertaken by the previous government, and measures to cut interest expense.”

Opposition to the government is growing. Teachers went on strike earlier this month over pay issues and privatisation plans, and a vote is due among university staff for strike action.

The administration’s major policy announcement so far was a move allegedly designed to offer households an average write-down of 13 percent of household debt, totaling 150 billion kronur. But much of this will come through spending funds covering pension obligations. At least 70 billion kronur (€450 million) is to be covered in this way.

A tax on banks, which Gunnlaugsson claimed would pay for the measure, is only anticipated to raise a further 37 billion kronur, according to *Bloomberg*, meaning that a further 44 billion kronur will have to be found from somewhere. Moreover, the write-down will mainly impact mortgages which are underwritten by the government through the Household Finance Fund (HFF). Meaning that the state will have to provide increased capital to secure its already precarious finances.

This is part of the broader unresolved crisis of the financial system. More than five years after Iceland’s three main banks collapsed, capital controls remain in place to prevent investments worth around two thirds of the island’s economic output from being withdrawn.

While Gunnlaugsson promised on entering office that they would be lifted rapidly, negotiations between the administrative committees of the old banks and their creditors have been deadlocked. Many of these creditors are hedge funds, who invested after the collapse when prices were at rock bottom with the aim of securing substantial profits through the sale of the old banks’ assets and bailouts from the government.



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