



# Iceland's Accession Negotia- tions

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## Summary of main conclusions

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A report commissioned by the Icelandic Confederation of Labor, the Confederation of Icelandic Employers, the Icelandic Federation of Trade, and the Iceland Chamber of Commerce.



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## 2. Summary of main conclusions

### Iceland's Accession Negotiations

Iceland applied for membership of the European Union (EU) in July of 2009 and was formally acknowledged as a candidate country by all 27 member-states of the EU a year later. Then a so-called screening process began – involving a systematic comparison of Icelandic and EU law – which took another year to complete. Therefore, two years passed from when Iceland first applied until the actual accession negotiations began. In the 18 month period of active negotiations, prior to them being put on hold in early 2013, 27 out of 33 chapters were opened for negotiation and Iceland presented its negotiating position in 29 chapters. During this process, 11 chapters were preliminarily closed on the same day as they were opened. However, 16 chapters were still open when negotiations were put on hold. This left six chapters unopened, concerning fisheries, agriculture and rural development, food safety and veterinary and phytosanitary policy, right of establishment and freedom to provide services, free movement of capital and justice, freedom and security.

Those interviewed for this report were in agreement that Iceland's accession negotiations were progressing well, especially when compared to other applicant states and also considering the extensiveness of the process. It must be kept in mind that the scope of the accession process has become more cumbersome since, for example, Sweden and Finland negotiated with the EU 20 years ago. At the same time it is clear that Iceland's two decade long participation in the EEA greatly eased the negotiation process. Icelandic law has to a great extent been adapted to that of the EU and there is already a great deal of administrative expertise in this respect in Iceland. The interviewees were aware of the fact that the Icelandic government would have wanted the negotiations to proceed more quickly, but there were mainly five factors, which slowed down the process.

- Firstly, accession negotiations have become more cumbersome since the EU enlargements of 2004 and 2007, when a total of 12 new member-states joined the EU. A special screening process has been added as a prerequisite to negotiations. This work delayed the process by one year.
- Secondly, the international financial crisis created difficulties for both negotiating parties in various ways, for example as the Icesave dispute clearly illustrated.
- Thirdly, lack of unity within the Icelandic government slowed down the process and resulted in, amongst other things, the negotiating position for certain chapters not being submitted, such as the one concerning agriculture.
- Fourthly, the decision by the Icelandic authorities in early 2013 to “put the accession negotiations in slow motion” until after parliamentary elections in the spring, caused some uncertainty within the EU regarding the continuation of negotiations and halted numerous processes relating to the accession negotiations.
- Finally, the mackerel dispute resulted in the fisheries chapter not being opened before the accession negotiations were put on hold.

As regards progress made in individual negotiating chapters it is clear that Iceland had already managed to negotiate special arrangements, derogations and/or adjustment periods in numerous cases. These special arrangements were mostly based on what had previously been achieved through the EEA agreement and were in fact simply a reconfirmation of that. The EU had set closing benchmarks in all chapters that had been opened for negotiation, excluding three chapters

which fell within the scope of the EEA agreement as well as chapter 27 on the Environment. Closing benchmarks are conditions, which an applicant state must fulfill before a chapter is closed. In many cases the closing benchmarks revolved around Iceland working to reduce the transposition deficit of EEA-acts, which fall within the scope of the relevant negotiation chapters.

Accession negotiations, like most other negotiations, are generally conducted in such a way that those issues, which both parties are more or less in agreement over, are dealt with first. Issues where special arrangements and compromises are necessary form a part of the endgame of the negotiations. As a result it is difficult to assess what the results may have been for Iceland in relation to its most important interests, had the negotiations been completed. What is clear is that all new member states have, thus far, been able to negotiate special arrangements concerning certain issues, which have been of top priority to them and the interests of the state. The results of an accession agreement depend to a large extent on the prioritization of the relevant authorities, since only a limited number of issues can reasonably be achieved in any negotiations.

Interviews with EU officials and representatives from its member states revealed there to be a general understanding of Iceland's specificities. However, it was emphasized that negotiations were still just that; negotiations. The EU would never reveal any flexibility on any issue beforehand. Such a maneuver would simply be a sign of bad negotiating tactics. A senior official in DG Enlargement pointed out that there are precedents for new *acquis* being written into an accession agreement in order to solve difficult issues during accession negotiations. As soon as an Accession Treaty takes effect, all its special arrangements become part of the EU's *acquis communautaire*, which cannot be changed without the agreement of all EU member-states. In the opinion of this senior official, it would be possible to design tailored solutions, which would give Iceland what it needed without going against the EU's basic legal order. On the other hand, the formulation of such special arrangements does take some time in the negotiating process.

From the interviews conducted for this report it can be surmised that the EU was by this time ready to start negotiations on five of the six chapters that had not yet been opened when the accession-negotiations were put on hold:

- Chapter 3 regarding right of establishment and freedom to provide services
- Chapter 4 regarding free movement of capital
- Chapter 11 regarding agriculture and rural development
- Chapter 12 regarding food safety and veterinary and phytosanitary policy
- Chapter 24 regarding justice, freedom and security

There was a willingness from both parties to start negotiations on four out of five of these chapters during the first half of 2013, that is to say all except chapter 11. This was due to the Icelandic authorities wanting to have a general consensus, within the negotiating group, concerning Iceland's negotiating position prior to entering into negotiations. Chapter 24 was supposed to have been opened in December 2012, but the opening was delayed due to reservations voiced by one EU member state - reservations that seemed likely to be retracted before the next Intergovernmental conference on Iceland's accession negotiations.

Had the accession negotiations not been put on hold, the number of opened chapters could have reached 31 in mid-2013. Chapters 12, 24 and presumably 3 and 4 would have been added to the previously opened 27 chapters. The chapters concerning agriculture (no. 11) and fisheries (no. 13) would then have been the only unopened substance chapters in the accession negotiations. These two chapters would both have formed part of the "endgame" of the accession negotiations,

involving the biggest interests at stake. Six other chapters would also have been part of this final phase of the process. These include: chapter 27 concerning Environment (which had already been opened without opening or closing benchmarks, even though whaling was within its scope), chapter 17 concerning economic and monetary policy, chapter 22 concerning rural development and structural funds, and chapter 33 concerning financial and budgetary provisions. This would also include the final chapters; No. 34 (concerning institutions, i.e. how Iceland would be represented in the EU institutions) and No. 35 (other issues).

Interviewees in Brussels concurred that as long as the original application would not be withdrawn it would be easy to resume negotiations. There is in reality no pressure on Iceland to make a decision relating to the continuation of the negotiations, now that the negotiating committees have been disbanded and work has stopped on both sides of the table. However, should the negotiations continue to be on hold for many years, the work invested in the process would of course gradually become outdated as the legal landscape of the EU will most likely have changed considerably during that time. The possible need to reopen these chapters after a long break must then be taken into consideration. Such a revision would, however, in most instances not take a very long time as most of the chapters concerned fall under the scope of the EEA agreement, through which Iceland continues to transpose EU legal acts, regardless of whether the accession negotiations are active or not. If, on the other hand, the application were to be withdrawn, then the process would return to square one. A new application for membership would require a renewed approval of all the EU member-states, there would be a need to call a new Intergovernmental conference and the European Commission would need a new mandate to begin negotiations. All other former steps of the negotiation process would then have to be repeated.

## Economic and Monetary Policy

The removal of capital controls will be one of the most important issues in the accession-negotiations. Taking into consideration the prior experience of other states, there are certain approaches available to the EU for their support for the process. Three assumptions can be drawn in this context:

- Such assistance would be decided upon in the last stretches of the accession-negotiations and no commitments by the EU would be made until the accession agreement would be made public.
- Such assistance - if provided - would always be part of an IMF program and, therefore, fall under its supervision
- The EU and the European Central Bank (ECB) have already indicated willingness to participate in this process by initiating the establishment of an ad hoc group whose purpose is to reach a common understanding of the task at hand.

It must be kept in mind that loans and lines of credit are not of principal importance in this regard, excepting that access to them creates credibility for the Icelandic krona. The assistance which matters most resides in the credibility resulting from EU support and the prospect of Iceland's accession to the European Monetary Union. Currency markets are, by their very nature, forward looking and they would react as soon as the Accession Treaty would be accepted.

The Icelandic currency area suffers from a transfer problem, a term first coined by Lord Keynes in 1920 concerning the German war damages after World War I. There are simply limits to how much capital can be transferred from one currency area to another in the short term. Currently, there are considerable krona-assets, in both domestic and foreign ownership, which look set to

leave the country as soon as the foreign exchange market would be opened. Therefore, there is a risk that capital flight will force a depreciation in the real exchange rate below economic fundamentals, which would result in diminished standards of living and damage to the Icelandic economy. The transfer problem as a recurrent problem would disappear with the adoption of the Euro as Iceland would become part of a larger currency-area. Nevertheless, the current imbalances have to be solved prior to accession, as the liberalization of the currency market is one of the pre-conditions for a Euro adoption. However, if it is foreseeable that Iceland will join a monetary union, that information can be used to address the problem, by e.g. issuing long term debt to the current ISK holders.

One should also emphasize that this is not the first time that Iceland faces the need to remove capital controls due to demands from the EU. When Iceland signed the EEA agreement in 1994 it needed to repeal sixty year old capital controls. In the aftermath of Iceland's EEA membership foreign capital flowed non-stop into the country for almost 15 years. All odds point to Iceland being able to achieve the same result now through its promise of joining the European Economic and Monetary Union (EMU).

Iceland must fulfill the Maastricht criteria for a Euro adoption. These demand low inflation, discipline in public finance, convergence of long-term interest rates, and last but not least a minimum two year participation in the ERM II program. Already there are eight small-states which have adopted the Euro through their participation in ERM II, six of which completed the process in 2-3 years. The process was a bit more extensive for two states in particular; Estonia and Latvia, due to delays caused by the international financial crisis. The ERM II program is under supervision of the ECB, which is obligated to defend  $\pm 15\%$  band around the targeted exchange rate. However, the applicant state itself must maintain its currency within much tighter margins in order to graduate from the ERM II and be able to adopt the Euro. The states themselves must take responsibility for maintaining their currency within  $\pm 2.5\%$  of the fluctuation margins, or thereabouts, in order to be able to graduate.

The eight above mentioned states have chosen three main ways in how they peg their currency to the Euro. The first, is to make a binding decision to maintain  $\pm 15\%$  fluctuation margins, but then use other means of financial intervention to maintain the currency rate within narrower margins. The second, is to make a binding decision to maintain  $\pm 2,25\%$  fluctuation margins and the third is to anchor the exchange rate through a currency-board. The most likely choice for Iceland is the first, but the timing of such anchoring would depend on the rate of process in lifting the capital controls.

From 1989 until 2001, Iceland was a shadow member of the ERM program with good success. Not only did the currency-anchor prove useful in reducing inflation, but the 1990's were a unique decade in the country's history in terms of low inflation and rapid economic growth. As a result, Iceland was one of few European states that actually did fulfill the Maastricht-criteria when the Euro was created, and could have been one of the admission states had the EEA agreement allowed for its entry into the EMU. Upon review of Iceland's experience with a pegged exchange rate, and the experiences of other states, it is likely that Iceland should be able to go through the ERM-II process for adoption of the Euro in the minimal amount of time, that is to say in two to three years, if the peg could be maintained without difficulty. This, however, is a rather big "if" since a unilateral peg is always risky and could easily be targeted by speculators.

Upon entering the EMU, the Icelandic authorities will no longer have the freedom to pursue their own monetary policy, and they will have to accept both lower interest-rates and lower inflation from Europe. The change can be predicted, as the base rate of the Icelandic Central Bank has been 4-16% higher than the ECB's for the past 10 years, and long-term rates 4-6% higher (if compared

to 10 year German government-bonds). There is always a certain loss involved when relinquishing monetary independence. States can, to some extent, choose between unemployment and inflation in the short-term, as adjustment can be brought about by devaluation as inflation lowers real wages. With a permanent peg, the possibility of dealing with inflation and the overheating of the economy through devaluation is excluded. Furthermore, the state cannot react to asymmetric supply shocks, for example if there is a catch failure by the fisheries, by devaluing the currency.

On the other hand, when looking at devaluation as a recession-remedy it is clear that the Icelandic authorities only exercise limited control when it comes to the dosage size in a free currency market and the cure can often become worse than the disease. This would also have been the case had the Icelandic authorities not made the decision to impose capital-controls in the autumn of 2008, in order to stop the free-fall of the Icelandic krona, which would have otherwise greatly disrupted standards of living and the running of businesses in Iceland. Without capital-controls Iceland would have had to suffer very high interest rates and fiscal contraction in order to support the exchange-rate whilst simultaneously suffering a steep economic downturn.

With Iceland's membership of the EMU the Icelandic Central Bank would become a branch of the European Central Bank and would thereby gain the right to print Euros through Repo lending. Through this the Central Bank would receive a powerful financial instrument with which to maintain financial stability and serve as a lender of last resort. Furthermore, the power to print Euros would result in an instant and wide-reaching change for Icelandic homes and businesses, wherein high inflation, exchange rate-instability and interest-fluctuations would be reduced. Entering a common currency area will also lead to increased competition in the financial market and lower credit spreads interest rates. Currently the interest rate spread of the three Icelandic banks are about 100-200 points higher than those of comparable banks in Scandinavia.

The EMU was established without any supranational institutions other than the central banks. For the past few years work has been ongoing in an attempt to fix any design-flaws by establishing supranational institutions which can ensure financial stability. This work is still in its preliminary stages and only the future will tell whether enough has been done in this regard. Generally speaking, this should be a positive development for Iceland. A pan-European platform, where the banks would be under surveillance, and to some extent responsibility of the supranational institutions, would considerably reduce the risks to the state and provide a healthier incentive for the financial system. Under present circumstances the Icelandic banks are required to operate under more stringent regulations and higher capital charges than exist anywhere else in Europe, amongst other things because of macroprudential safeguards. It would therefore be very profitable for the banks to enjoy similar operating conditions as their counterparts on the continent under a pan-European "umbrella".

Of the 78 nation-states in the world with fewer than 2 million citizens, Iceland is the only one with a free-floating currency and an independent monetary policy. When Iceland's monetary history is viewed it becomes clear that its leaders have generally aimed for maintained fixed exchange rates. In that regard Iceland has directly or indirectly taken part in any fixed exchange rate regimes on offer in Western Europe. Firstly, when gaining sovereignty in 1918, Iceland was a member of the Scandinavian Monetary Union, which eventually dissipated after the First World War. After that, the Icelandic authorities pegged unilaterally to the British Pound in the interwar years. After WWII Iceland became a member of the Bretton-Woods system. This system came to an end in 1972 and resulted in inflation and instability in Iceland which was not overcome until the exchange rate was pegged via a shadow membership to the ERM- Exchange Rate Mechanism in 1989.

The bitter truth is that Iceland cannot peg its currency in a credible manner unless it surrenders its financial independence by joining a monetary union or via currency board, or by anchoring its

exchange rate through capital controls. The last option is the one which Iceland has most often been forced to take. Balance of payment problems have often resulted in varying kinds of restrictions on the flow of both goods and capital, which have also entangled the whole economy. There are probably few western nations which have turned as fast against a market economy, as Iceland did after independence, using various restrictions and prohibitions to maintain stability.

When all this is taken into consideration, not to mention the great boon to business which an internationally accepted and traded currency can bring to small nation-states, then there is no other conclusion to be reached than that the adoption of the Euro through membership of the EMU will result in great economic benefits for Iceland. Naturally there are certain costs involved as well. There is a considerable sacrifice involved in relinquishing monetary independence, and to some extent the independence of one's public finances, even though Iceland did not fare very well in its management of these economic instruments. Moreover, unemployment is likely to rise higher over the business cycle than has been the case in Iceland, although long-term unemployment figures should not be affected. Adoption of the Euro would also result in the need for considerable institutional change as higher nominal wage increases in Iceland compared to abroad will result in a diminishing competitive advantage and then recession. The EU is a union of sovereign nation-states and Iceland will continue to be responsible for its economic policies and exactly how these new institutional arrangements will be handled will remain Iceland's responsibility.

Since its independence, Iceland has fought a difficult battle in trying to maintain economic stability whilst keeping the country open to the world. In a historical context, no other conclusion can be drawn than that through its participation in the EMU, Iceland will finally be able to solve the paradox with which it has fought for almost a century; to be simultaneously able to enjoy a stable exchange rate and free capital flows.

## Fisheries

Iceland's accession negotiations with the EU concerning fisheries never started due to the mackerel dispute. This dispute resulted in DG Mare, France, Ireland, Portugal and Spain all pressing for opening benchmarks for the chapter. Opening benchmarks are requirements that a candidate state must fulfill before the opening of negotiations in the chapter under question and relate to issues, which fall under the scope of the chapter. The Icelandic authorities could not accept such benchmarks relating to a key chapter, which could either make or break the negotiations. The EU Commission's DG for Enlargement, the Nordic states and the UK were amongst those who supported Iceland's demands relating to this issue through their opposition to these proposed opening benchmarks.

The main negotiating goals for Iceland in the accession negotiations relating to fisheries are threefold:

- Firstly, that Iceland's exclusive economic zone is defined as a special management zone.
- Secondly, regarding operations to maintain strict restrictions on foreign investment in Icelandic fisheries.
- Thirdly, to avoid the Common Fisheries Policy of the EU and the representation of the EU within international organizations regarding fisheries.

The fact that Icelandic jurisdiction over fisheries is not adjacent to that of any current EU member-states, and that most of the fish stocks within it are regional, provides Icelandic negotiators with a strong argument in favor of Icelandic jurisdiction over fisheries being declared a special

management zone. These arguments are also supported by the changes made thus far to the EU's Common Fisheries Policy (CFP) which involve minimizing centralized control and transferring decision making powers concerning fisheries to those whose interests are directly affected.

In its negotiations concerning a special management zone, Iceland supported its case using several precedents.

- Firstly, Iceland can point to special zones of control for fisheries within the CFP of the EU.
- Secondly, Iceland can point to the regulation concerning Council Regulation (EU) No 43/2014 of 20 January 2014 fixing for 2014 the fishing opportunities for certain fish stocks and groups of fish stocks, applicable in Union waters and, to Union vessels, in certain non-Union waters, as well as other preceding regulations. Through this regulation the EU transfers the power to its member-states to decide catch opportunities concerning specific fish populations which only one member-state then uses, providing certain conditions are satisfied.
- Thirdly, Iceland can point to the fact that the Accession-Treaty with the fishing nation of Norway was rejected in a referendum due to, amongst other things, the result not being suitably accommodating in regard to matters concerning fisheries.

Were Iceland to join the EU, the Icelandic authorities should be able to prevent to a great extent the allocation of fishing-quotas to foreign-owned ships. This is possible without the need for exemptions or special arrangements by applying similar conditions as is done by domestic legislation in the UK and Denmark which are intended to prevent so-called "quota-hopping". One of the conditions stipulated in Danish law is that foreign citizens need to have resided in Denmark for at least two years in order to get a permit for commercial fishing within Denmark's jurisdiction. Such measures would meet the conditions set forth by the majority within the Foreign Affairs Committee of Althingi (the Icelandic parliament), which specify that no exceptions will be given for foreign fisheries to invest in Iceland in order to prevent the utilization and proceeds of the resource from leaving the country.

The EU's CFP is a common policy regarding fishing in an international context. This requires that the EU represent the member-states within international organizations and in any negotiations with non-EU states concerning fisheries. Iceland's demand that it be exempted from EU representation in its dealings with other states and international organizations outside the EU concerning fisheries will, therefore, always be quite an impediment to negotiations. Such an arrangement is seen as undermining the CFP of the EU and gives other states an unacceptable precedent which they too could rely on in their own accession-negotiations with the EU, even in unrelated areas - such as that concerning human-rights.

EU officials have pointed out that the CFP is not as inflexible as it seems and that tailor made solutions are quite common within the EU. There is, therefore, nothing preventing a solution from being found which takes into consideration Iceland's wishes. It is, however, impossible to predict exactly how such solutions will be implemented as such exercises are based on conjecture. If the aim is to come to any conclusion concerning these matters then it is vital that accession-negotiations be completed.

In this context it must be remembered that never before has a state, which has fisheries as its core-interest, applied for membership of the EU. Iceland would, therefore, be in a position to have a formative influence in the development of this policy area within the EU.



## Agriculture and Rural Development

After Iceland applied for membership to the EU, extensive preparations took place on Iceland's part regarding the policy area of agriculture and as a result considerable expertise was gained in most administrative levels. The development of Iceland's negotiating position was in its final-stage in January of 2013 when it was decided to slow down the accession negotiations until the parliamentary elections were over. If consideration is given to the action plan, which was published in mid-2012, and interviews with individuals who participated in this work, it can be safely stated that negotiations would have revolved mostly around how much support Iceland would be permitted to give to the Icelandic agricultural sector and how much production related support would be allowed. Precedents would most likely have been sought from the northern periphery provisions to be found in Finland's Accession-Treaty.

The negotiating position relating to the chapter concerning food safety and veterinary and phytosanitary policy contains requests for ten exceptions, special arrangements and adaptation periods. As the negotiations were put on hold before the EU could respond to Iceland's negotiating position it is difficult to judge the likelihood of Iceland's demands being met. For Iceland, it seems that the most important demands had to do with the importation of livestock and raw-meat. Interviewees from the EU who were familiar with this policy-area thought it likely that Iceland's demands relating to limitations of imports of live animals would have been given proper examination and if Iceland would have been able to show that its demands had a sound scientific basis then solutions would have been found to address its demands. Such exemptions would have to be reviewed regularly and take into consideration any possible changes to the scientific assessment. Here it must be kept in mind that the EU member-states have almost no interest, business or otherwise, relating to importation of livestock to Iceland.

The demand concerning the continued ban on importation of raw-meat relates to the ESA proceedings, the regulatory body of EFTA, on that matter. Its conclusions – whatever they might have been (or will be) – would have had a determining effect on the result reached regarding the agreement between Iceland and the EU.

Concerning other Icelandic demands for exemptions from the importation of certain raw materials or products, it can be stated that, at first sight, EU regulations seem to provide ample opportunity for various exemptions, given that these can be supported by scientific reasoning showing that through their importation these materials or products somehow pose a threat to the public or natural habitat of Iceland.

Preparations for accession were well under way regarding regional policy and coordination of structural instruments and there seemed to be few obstacles preventing an agreement from being reached. Iceland's demands revolve first and foremost around ensuring its position within the EU and maximizing contributions from EU development funds. These demands are supported by arguments that take into consideration Iceland's remoteness, insularity, difficult topography and climate and economic dependence on few products.

New regulations concerning regional development, enacted at the end of 2013, would most likely make it easier for the EU to come to terms with Iceland, for example through new definitions concerning rural areas in the northern periphery, with a special emphasis on island nation-states.

## The EEA Option

The EEA Agreement is the path that Iceland chose over 20 years ago in order to gain access to the single European market and as a framework for its participation in European integration in a wider context. This choice of policy is most likely to continue if a) Iceland's accession negotiations with the EU are not completed, or b) an Accession Treaty will be concluded, but rejected in a national referendum. If such a referendum was to be held, this would mean that voters in Iceland would be choosing between these two options: a) full membership of the EU on the terms stipulated in the Accession Treaty, and b) participation in the EU single market via the EEA Agreement, or by other means.

When the standing and prospects of the EEA Agreement are reviewed it can be asserted that even though the agreement functions adequately and delivers tangible benefits to its signatories, it still has its flaws and it faces new challenges which need to be addressed. The so-called “democratic deficit” has always been a part of the EEA agreement and is one of its main flaws. The transposition deficit is a more recent problem, which has arisen due to delays in the transposition of EEA acts into Icelandic law. Among the biggest challenges is also the rapid development taking place within the EU, which the EEA Agreement has a lot of difficulty in keeping up with. If the agreement is to serve Iceland's interests as effectively in the coming years as it has done for the past two decades then these problems must be dealt with.

The only way to fix the democratic deficit would be to change the EEA Agreement itself. Those officials, from Iceland, EFTA and the EU who were interviewed for this report, were in agreement that there was almost no chance of the EEA Agreement being updated in the foreseeable future - but at the same time there was no indication that any of the contracting parties had any plans to take the initiative to terminate the Agreement. Attempts would be made to find solutions to all the problems that arise in connection with the operation of the Agreement, without the Agreement itself being changed.

The future of the EEA Agreement is fraught with uncertainty, which the Icelandic authorities have little or no control over, but rather they must react in response to each situation accordingly. The policy of sticking to building Iceland's links to the EU and its single market on the EEA Agreement, requires a willingness to adapt to whatever developments may occur within the EU. This requires, inter alia, that Iceland will *de facto* have to submit to conditions set by EU supra-national institutions within certain policy areas. This requires a reform of the Icelandic constitution in order for the continuing EEA membership not to be in violation of it. EEA membership also requires a willingness to accept Norway playing the leading role in deciding how the three EFTA states should follow developments within the EU, as it is a simple fact that Norway is the dominant actor within the EFTA-pillar of the EEA, and it also bears the lion's share of the “admission fee” to the single market. This “admission fee” is composed mostly of contributions to the EEA Grants fund, fees which are expected to increase for the period 2014–2019. In this respect it is also important to realize that keeping the formal status of a candidate country provides Iceland with more opportunities to lobby for its interests in European affairs (not least when compared to Norway), even if the accession negotiations are on hold, as this gives Icelandic officials better access to influential officials within the EU administration.

The democratic deficit within the EEA is getting worse. This is evidenced by the fact that elected representatives of the EEA EFTA states have now even less possibilities than before to influence the legal acts and policies which the EEA Agreement obliges them to transpose into the national legal order. Actually, such possibilities for influence have never been significant; this is the price the EEA EFTA states must pay for access to the single market of the EU, without being members of the organization deciding its rules. In fact, it was a surprise to the authors of Norway's

comprehensive EEA Review, completed in 2012, just how closely aligned with the EU the Norwegian administrative system and society has become. The lesson the authors draw from this is that the price Norway pays, in terms of democracy and legitimacy, from remaining outside the EU, has gone up. The same can be said for Iceland. The EEA is indeed a “bureaucrats’ agreement”, as elected representatives of the EEA EFTA states have a very limited role to play in its operation.

The transposition deficit has also gotten much worse. The amount of EEA acts, which Iceland has not transposed within the correct time limit or in the proper way, has increased greatly in the past few years. Iceland is now performing worst of the 31 member states of the EEA area, in its efforts to effectively transpose EEA acts. The Icelandic authorities have announced improved efforts to amend this situation. How successful these efforts will prove to be remains to be seen.

One of the main conclusions reached by the Norwegian EEA Review is that Norway has transposed into Norwegian law approximately three quarters of all EU legislative acts and has even implemented this legislation more effectively than is the case for many of the EU member states. In the case of Iceland, this ratio is likely to be closer to two thirds, as Norway has been more active in seeking further co-operation with the EU, beyond the scope of the EEA and Schengen agreements, than Iceland has. It was also confirmed through the screening process of Iceland’s EU accession negotiations that Iceland has transposed approximately two thirds of all EU legislation.

The question of Iceland’s potential membership of the EU does, therefore, not involve choosing between standing completely outside the EU or participating 100% in its operations; the choice is rather between maintaining the current position, wherein Iceland takes part in two thirds of what the EU does – without having any say in decision making – and full participation, with all the rights and duties this entails.



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