

Address of the Minister for Foreign Affairs of Iceland
Mr. Össur Skarphéðinsson,
presenting his
Report on Foreign and International Affairs
to the Icelandic parliament *Althingi*
26 April 2012



Honourable Speaker:

It is a privilege to present the annual report to the Althingi on foreign affairs. This report, over 100 pages in length, clearly reflects the active and important work carried out by our small but sturdy foreign service.

Four issues have enjoyed highest priority this past year: Our application for membership in the European Union, recognition of Palestinian sovereignty, increased emphasis on development aid and Arctic issues. I would like to express my thanks to the Althingi for positive co-operation in all of these areas.

European Affairs

Madame Speaker:

The state of play in the EU accession talks is such that as of the end of March, 15 chapters had been opened and 10 closed. This means that, in those nine months during which the actual negotiations have been underway, we have opened almost half of the 33 chapters which must be negotiated, and concluded almost one-third. We expect to open up to five chapters of the negotiations in June and that, by the end of the Danish presidency, Iceland will have submitted its negotiation position for a total of 29 chapters, including those on food safety, economic and monetary policy, the environment and regional policy.

In agriculture, work is in full swing to meet the opening benchmark connected to this chapter, and this work provides a prime basis for the negotiating position which we will hopefully present in the autumn.

We have, from the beginning, placed major emphasis on opening the fisheries chapter as soon as possible. The EU review of its Common Fisheries Policy, however, has been delayed by a year, and it is understandably difficult for the Union to commence negotiations on the basis of a policy which it expects to change materially before the end of the coming year.

We should not, however, close our eyes to the fact that mackerel may well be gumming up the works here. We all heard the statements made by the Irish Minister of Fisheries and, although it has been clearly indicated – most recently with Mr Barroso's reply this past week – that these are unrelated issues, it is evident that our Irish cousins are angry. And they're not the only ones.

On the other hand, I draw the honourable members' attention to the words of the EU Commissioner for Enlargement, who stated last week that he considered it possible to open all the chapters this year. This naturally implies a clear promise that the fisheries chapter will be opened sooner rather than later, as Icelanders were quick to notice.

Personally, I think that in addition to fisheries, the most significant issues will be the currency and capital controls. The Icelandic economy, with all its opportunities, on- and offshore resources, a well-educated and dynamic workforce, and not to forget its strategic position in the high north, is still struggling with inherent systemic flaws which have resulted in decades of instability and played a major role in the economic collapse.

As things stand today, a potential avalanche looms above us in the form of over a thousand billion footloose *krónur* now owned by non-residents. Among the most important tasks of our negotiations will be to ensure European collaboration in the removal of currency controls, melting the overhanging snow before it can turn into an economic deluge. These two aspects are probably the most urgent tasks facing Iceland today.

With this in mind it should be underlined that EU membership opens up a route towards a safe harbour for the *króna*. Just as Slovenia and Estonia did, Iceland can begin participation in the Exchange Rate Mechanism ERM II only a few months after approving formal membership.

This would provide immediate shelter for the *króna*, and at the same time long-sought stability with the backing of the European Central Bank, lower interest rates and lower inflation. Membership of ERM II is dependent upon the removal of currency

controls and for this reason EU membership is the best option for getting rid of them – along with the imminent avalanche. This task is simply too urgent to wait.

Madame Speaker:

The circumstances during the membership process have been extraordinary in many respects. The euro difficulties are not fully resolved and the Icesave and mackerel disputes have upset many parties.

Not unexpectedly, opponents of EU membership have used this as an excuse for postponing the process. I am, however, gratified that most people are rational enough to stop there.

Sailing in the euro zone will no doubt be through rough seas awhile yet. Radical actions have been taken to deal with the current problems and to prevent them from re-occurring.

What is most important for Iceland, however, is this: When the time comes when we can enter the monetary union, the euro will have become stronger, will be supported by a solid foundation and will serve as a better currency for Iceland than it was when we set out.

Regarding Icesave – this is being resolved by the courts, in accordance with the wishes of a majority of Icelanders and should scarcely interfere with the negotiations. Icesave opponents themselves claimed that the matter was of such scale that it threatened the very roots of the European financial system. Viewed from this perspective it should hardly come as a surprise to anyone that the European Commission should exercise its right to intervene in the case.

I actually drew attention to this possibility in an announcement in early March. Our legal counsel, Tim Ward, similarly told parliamentarians that he considered the Commission's intervention likely. As it happens, he and the defence team are unanimous in their opinion that this strengthens Iceland's pleading of its case before the court. Is it logical then to postpone negotiations, as some have demanded, because

the EU chooses a course which our own counsel consider increases Iceland's chances of success? The contradiction there is obvious to everyone.

The mackerel dispute we have pursued just like any other traditional fisheries dispute, a task few nations know better than Icelanders. To begin with we were excluded from the discussions but we have now successfully managed to get ourselves a seat at the negotiating table.

Icelanders themselves ban vessels from Norway and the EU from landing their mackerel catch in Iceland. We do not object to the Commission acquiring such a mandate. The Committee on Fisheries of the European Parliament, however, regards the Commission's proposal as toothless and has actually proposed authorising an import ban on all marine products. As this obviously violates international agreements, we object to this strongly.

This is not, however, the final outcome. Consultation will now begin between the Parliament and the Council, with the Commission's participation, as to what the conclusion will be. The outcome will be known in 3-5 months. Then yet another decision will have to be taken by the Commission as to what authority it will invoke against individual states, conceivably the Faroes and Iceland. Should the EU decide to undertake any foolish actions, which are unfounded, we will naturally assess our response accordingly.

In my opinion demands to postpone accession negotiations are mere panic and over-reaction. Might I remind you who it was who sought a meeting with the Commissioner for Enlargement last week to demand that negotiations with Iceland be terminated? Precisely those parties who want much more draconian measures than proposed by the Commission.

Are we to echo the demands of our fiercest opponents in this dispute? The very question is absurd. We would not have won the disputes over fisheries jurisdiction by acceding to the demands of our fiercest opponents.

Honourable Speaker:

Membership of the European Union is a question of long-term advantage for Iceland, of economic stability, of the removal of currency controls, of lower interest rates and lower inflation, of the elimination of indexation and of increased European investment.

It is a question of creating the jobs we need. It is an option for the Icelandic nation to progress into the future.

We need to persevere. We need to persevere in the accession negotiations as well as in the mackerel dispute. We can conclude both, but it naturally calls for tenacity and a realistic assessment of the current situation.

On Palestine, development aid, national security and the Arctic

Madame Speaker:

I should like to take this opportunity to thank the members of the Althingi for their constructive co-operation on major issues in the past year. In particular, I wish to focus on three issues on which we have collaborated.

Firstly, the major step taken when the Althingi agreed shortly before Christmas to recognise Palestinian sovereignty. Iceland thereby became the first European state and Western nation to take this historic step. No member of the Althingi voted against it. It was symbolic. It was historical, and showed the magnanimity of the Althingi. I would like to express my thanks for this today.

This decision on Palestine is an example of Icelanders' independence in foreign affairs. I could also point out that is an example of how a small nation carefully prepares for and assesses the consequences of a major political decision. But what is most significant is the fact that we do not intend to leave the Palestinian issue at that.

I am pleased to be able to report that we are currently working on a plan for how we can support the Palestinian people through development aid. Here, too, it would be advantageous to benefit from parliamentary support.

Another issue for which I would like to express my gratitude, is the Althingi's excellent co-operation on Iceland's development programme, which it approved unanimously last summer.

I have personally been fortunate enough to experience first-hand the impact which contributions to developing countries make. It was a stirring moment last month, when several other Icelanders and I officially handed over a fully equipped hospital in Monkey Bay in Malawi. Nor will I soon forget the words of a midwife at an Icelandic primary health care centre far out in the forest of the Nankumba district: "Here with us the children survive." Icelanders now have a tiny stake in some 16,000 children who have been born in the three Icelandic maternity hospitals in the district.

A visit such as the one I made to one of the poorest areas of Africa changes your entire perspective. I confess readily that upon returning home I viewed our own lives and problems in a new light. Today it seems to me more urgent than before, and more urgent than many other things, that we manage to maintain the pace you decided upon last year to reach a development aid level equivalent to 0.7% of GDP.

This is no less important now, when ahead lies one of Iceland's largest development projects ever.

We have reached an agreement with the World Bank to sponsor, in collaboration with the Nordic Development Fund (NDF), all research to enable thirteen East African states to harness geothermal energy. The World Bank will subsequently, with other partners, see to the actual energy production.

We are furthermore negotiating with the Norwegians, British, Germans, the OPEC Fund for International development and the Japanese, to join forces with us in this major project, which could revolutionise the circumstances of 150 million people in the world's poorest regions. In this connection it should be mentioned that last week I

signed an agreement with the Chinese Minister of Land and Resources on co-operation in projects of this type. This can truly be described as an historical step in our development aid.

At the beginning I mentioned Arctic issues. These I have defined as a priority and here last but not least, thanks are due to the Althingi for its active interest in this area and energetic participation in formulating policy. Ideas which I advanced two years ago are now rapidly reaching the implementation stage.

- We have stepped up efforts to combat man-made global warming – and the resultant melting.
- We have ensured increased activities on the part of the Arctic Council in Iceland.
- We have taken the initiative in discussions on the mapping of environmental factors to prepare the selection of a suitable shipping route via the North Pole as the ice cap melts.
- We have held discussions with neighbouring nations to make Iceland a service centre for areas which may open up for resource development.
- We have held discussions with all Arctic nations on accelerating the drafting of an international convention against oil spills.
- Similarly, we have received positive responses in discussions with all of them to create an international rescue station in Iceland in the future.
- We have concluded three international agreements for collaboration on Arctic research, which will provide a major stimulus for the Icelandic scientific community, not least the Arctic centre in Akureyri.
- We have concluded a special agreement with Norway providing for a new professorship, named for Fridtjof Nansen, in Arctic studies at the University of Akureyri as well as scholarships for ten students, and for access to research in Spitzbergen.

Madame Speaker:

To conclude my address, I would like to take this opportunity to thank the Althingi, especially the Foreign Affairs Committee and its industrious and resourceful Chairman, and all those persons who work in foreign affairs on Iceland's behalf for their fine efforts on our behalf.

Foreign affairs are a complex portfolio, where there are few certainties. We are very fortunate, in both the Ministry and here in the Althingi, to have people of experience and in both camps their experience is increasing. That is certainly to Iceland's benefit. We will need such people to an increasing extent.

In this regard I must thank especially Iceland's negotiating team in the discussions with the EU, together with the numerous interest groups, NGOs and public servants who are involved in this important undertaking. Opinions are without doubt divided in this group on the European question, just as they are among the public in general. The team spirit is strong, however, based on an over-arching consensus to determinedly pursue Iceland's interests and bring home the best possible Accession Agreement.

When it comes to the country's interests, we are all on the same team.