

A SMALL STATE SEEKING SHELTER: ICELAND'S SEARCH FOR SHELTER

Professor Baldur Thorhallsson | University of Iceland | baldurt@hi.is

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Iceland has been looking for political (including military) and economic shelter ever since the US deserted it in 2006 and 2008. To meet this objective, Iceland needs to further develop its multilateral engagements, fully utilize its present defence and security agreements with neighbouring states, and strengthen its domestic institutions in these fields.¹

Key findings

- The limited defence and security capacity in Iceland, as well as its 2008 economic crash, demonstrate that the country lacks political and economic shelter.
- The US desertion of Iceland indicates the importance of multilateral political and economic shelter for small states, such as Iceland.
- Iceland needs to strengthen its domestic institutions dealing with security and defence and fully utilize its present defence and security agreements with its neighbouring states.

Executive summary

Iceland – a country without an army – has been searching for shelter ever since the US closed its military base in the country in 2006, and refused to provide it with a rescue package following the 2008 economic crash. To date, Iceland has not yet secured shelter to the extent it had experienced with the USA – although the bilateral defence agreement with the superpower is still in place.

Iceland needs to secure permanent airspace surveillance with NATO member states; strengthen domestic institutions dealing with security and defence and develop comprehensive indigenous knowledge in these fields; utilize fully its present security agreements with neighbouring states; make sure that it engages in and benefits from soft security features of the EEA Agreement and Schengen membership; and continue to evaluate the cost and benefits of the European Union as a provider of political (including soft security) and economic shelter.

Analysis

A central component of Iceland's political shelter was American military presence within the small Nordic state. Iceland therefore vehemently opposed the United States' intended closure of its military base; never backing down from the steadfast position that US military presence in the country was needed. The Icelandic government tried to make the most out of the remaining US commitments in

Iceland, especially after the negotiation reached a deadlock and the US unilaterally decided to close the base.

Until 2006, the US was also deeply involved in the provision of economic shelter to Iceland, as it continued to pay for Iceland's defence, as well as build and run the international airport at Keflavík, the air surveillance system, and other infrastructure. Moreover, until the late 1960s, the US provided Iceland with direct economic assistance – especially in times of economic downturn. Iceland therefore turned to the US for financial assistance when the country was hit by the 2008 international financial crisis, which had caused an almost complete collapse of its financial system. The Icelandic Central Bank approached the US central bank and requested a currency swap agreement, similar to that which the US Federal Reserve had offered Switzerland, the other Nordic countries, and many other countries around the globe. However, in this instance the United States declined Iceland's request for financial support.

With their request for financial support denied by the US, Iceland turned to the European Union for assistance. However, the EU also turned down Iceland's request for aid, citing the fact that Iceland is not a member state. Iceland's membership of the European Economic Area (EEA) and Schengen is secondary to formal membership of the Union.

Iceland's response

To compensate for diminishing American political and economic shelter, Iceland has sought shelter from alternative sources. The Icelandic government has made civil security agreements – mainly concerning its waters – with the United Kingdom, Denmark, Norway, and Canada. The aim of the agreements is to exchange information, discuss common security concerns, and plan various projects regarding training and military exercises. Furthermore, airspace surveillance arrangements have been made with various NATO member states, including France, Germany, and the UK, and the non-NATO Nordic states Sweden and Finland, that allow for the temporary presence of their jet fighters in the country.

Alongside its pursuit of new bilateral agreements, Iceland has sought to strengthen its ties with NATO in an effort to shore up the organisation's provision of shelter to the country. Central to achieving this is its participation in the NATO Infrastructure Fund, as well as remaining committed to its international operations. The release of the country's first ever defence budget, as well as offering to cover all substantial costs for military exercises in the region, further emphasises that Iceland is increasing its own contribution in an effort to retain political shelter.

In addition to its pursuit of political shelter, Iceland began to consider new avenues for economic shelter. In 2009, Iceland applied for membership of the European Union just nine months after its economic crash. The collapse gave the pro-European Social Democratic Alliance (SDA) a brief opportunity to place the EU question on the political agenda. The SDA mainly focused on the potential economic benefits of EU membership and the adoption of the euro, emphasizing the benefits of cheaper goods for consumers and enterprises, and access to aid from the EU structural funds for rural areas, agriculture and the tourism industry. There was however no mention of the EU as a soft security shelter provider.² After a speedy economic recovery and considerable domestic opposition to membership, the application was put on hold in 2013. At present, the Icelandic government does not regard the country as a candidate country to join the EU - though it has not withdrawn the membership application.

Icelandic politicians have also looked to non-traditional sources for support – namely China and Russia. Iceland was the first European country to sign a Free Trade Agreement with China, which

entered into force in 2014. It covers trade in goods and services, rules of origin, trade facilitation, intellectual property rights, competition and investment. The free trade agreement also stipulates that the two states should enhance their co-operation in a number of areas, including on labour and environmental issues.

Furthermore, the former president of Iceland (1996-2016), Ólafur Ragnar Grímsson, enthusiastically campaigned for closer political and economic ties with Russia. He especially emphasised close cooperation with Russia over Arctic issues, and made a special effort to retain friendly ties between the two states following Russia's breach of Ukraine's sovereignty. At the height of the 2008 economic crash, the Icelandic Central Bank hinted that the Russian Government was willing to bail Iceland out with a substantial loan. The US ambassador in Reykjavik was clearly concerned about this prospect, reporting to Washington that '...the PM asked at the press conference why Iceland shouldn't call on the Russians if they could help?'³ The ambassador also claimed that the embassy had encouraged the Icelandic government to look for shelter elsewhere other than from Russia: 'We doubt that it would be in the interest of the U.S. or NATO for the Icelanders to be beholden to Russia, however "friendly" the loan terms may be.'⁴ Notably, the ambassador also encouraged Washington to consider stepping in and offering assistance: 'The possibility of a Russian loan bailout as well as concerns voiced by some American bankers raise the question of whether greater USG involvement in the crisis is merited.'⁵ The response from Washington, however, was not positive. The US offered no financial assistance, and Washington officials simply expressed relief when the Russian government hinted that it was willing to bail out Iceland after the crisis hit.⁶ While nothing eventuated from the Russian loan offer, the interesting fact remains that Icelandic policy-makers were willing to entertain the possibility of a Russian rescue package.

Most recently, prominent Icelandic politicians have been looking at how a post-Brexit environment may benefit the country. According to the current foreign minister, Brexit – and the associated opportunities it may provide – has now become a priority issue in the Icelandic Ministry for Foreign Affairs. The minister hopes that the UK, as the fifth largest world economy, becomes the leader of free trade in the world after it leaves the EU. This in turn might allow Iceland – as the UK's neighbouring state and established trade partner – to utilize this opportunity and engage in free trade worldwide, thus strengthening its economy. According to the Icelandic Ministry of Foreign Affairs, Brexit will not have any effect on the security and defence relations between Iceland and the UK. However, the UK is likely to campaign for a stronger NATO in the post-Brexit era, and in light of growing disputes between the West and Russia, might seek to strengthen its security and defence ties with Iceland – a move that would be highly welcomed by most of the Icelandic political elite.

What should Iceland do?

Iceland should strengthen its present multilateral arrangements providing it with political and economic shelter. It also needs to strengthen its domestic institutions, many of which suffer from lack of funds. There are several actions Iceland should undertake to achieve this:

- Iceland needs to secure permanent airspace surveillance with NATO member states, which will include facilitating the presence of their jet fighters within the country.
- Iceland should make sure that it engages in and benefits from soft security features of the EEA Agreement and Schengen membership. This might include seeking participation in several EU agencies (for example, participating in agencies responsible for environmental protection, health and safety, and border control).

- Iceland needs to ensure that it fully utilises its present security agreements with its neighbouring states such as the USA and Denmark (for example, seeking personnel training assistance).
- Iceland must strengthen its domestic institutions responsible for security and defence, such as the Icelandic Coast Guard, and the Post and Telecom Administration which deals with cyber security. It must also develop comprehensive knowledge in these fields.
- The Icelandic administration should continue to evaluate the cost and benefits of the European Union as a political (including soft security) and economic shelter provider.

Conclusion

Following the events of 2006-2009, Iceland began searching for a replacement form of shelter provided by other external actors. However, it has not yet secured shelter to the extent that it received from the USA. Icelandic decision-makers need to closely examine to what extent multilateral shelter arrangements (such as NATO, Schengen and the EEA) may be more reliable providers of shelter in times of need, than a single protector such as the USA or the UK.

¹ The policy brief draws extensively on a forthcoming book on Iceland as a small state seeking shelter edited by the author.

² Bailes, Alyson J.K. and Thorhallsson, Baldur. 2013. "Instrumentalizing the European Union in Small State Strategies" in *European integration*, Vol. 35, No. 2, pp. 117.

³ US Embassy in Iceland. 2008b. "Icelandic economic crisis, time for USG to get involved?", October 8. https://wikileaks.org/plusd/cables/08REYKJAVIK225_a.html

⁴ Ibid..

⁵ Ibid..

⁶ US Embassy in Reykjavik, Information, May 2009.