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1. (U) Summary: Iceland's economic crisis has radically changed opinions here on the possibility of joining the European Union, and the country's political parties are struggling to adapt. Polls show support for joining the EU and adopting the euro reaching 70 percent, while support for the government has fallen below 50 percent. Apart from the Foreign Minister's (pro-EU) Social Democratic Alliance, all other parties are debating whether and how to add EU membership to their platforms. For the Prime Minister's Independence Party, fears of a formal split are running high, while in the opposition Progressives, the iconic chairman of the party has already resigned over the issue. Even the staunchly nationalist Left-Greens are rethinking their views to retain their base of youth support. Decisive party congresses for the IP and PP are slated for



January 2009, meaning that even if new (anti-EU) parties do not emerge, Iceland will have a dramatically reshaped political landscape by next spring. End summary.

2. (U) The debate on the merits of joining the European Union (EU) has become increasingly pronounced after the global credit crunch hit Iceland, the currency devalued sharply and the government nationalized the country's three major banks in October. Opinion polls in the last month show 60-70 percent of respondents in favor of EU accession, and similar support for adopting the euro. Compared with polls last year, support for membership has increased about 15-25 percentage points. In the business community, support for EU membership is even stronger, with almost all holding to the view that Iceland's road to salvation will only run through Brussels and adoption of the euro (reftel).

3. (U) Olli Rehn, the European Commissioner for Enlargement, has frequently been asked over the past couple of years how long it would take Iceland to become an EU member after filing the application. His answers have always been positive, and in the past several weeks, the media has placed more emphasis on his comments in light of the financial crisis and speculations regarding Iceland's possible EU membership. Rehn has stated that the European Economic Area (EEA) agreement would serve as a shortcut in accession negotiations for Iceland. He has also said that Iceland could well compete with Croatia for becoming the twenty-eighth member of the union, which suggests that Iceland could become a member no later than 2011, if Iceland decided to apply for membership soon. In addition, various EU officials have made it clear that if Iceland wants to adopt the euro, it has to become a member of the EU first.

4. (U) Against this backdrop, Iceland's political parties -- both government and opposition -- are scrambling to adapt their policies on EU membership for Iceland. For some (Independence and Left-Greens), this is a fundamental change in orthodoxy, while for others (Social Democrats and Progressives) a move to Brussels will simply confirm or codify existing trends.

The Government -- divided over EU membership

5. (U) Prime Minister Haarde's Independence Party (IP) has been the largest party in Iceland and a participant in most governments since the establishment of the republic in 1944. As such, it has virtually dictated Icelandic foreign policy, been a fervent advocate of NATO membership and strong transatlantic ties, yet been skeptical about European integration. The IP still maintains this position, but after the financial crisis hit Iceland, many party members (including the IP Vice Chair and at least one other minister) have come forth and said that the party should reconsider its position towards joining the EU and adopting the euro. Notably, even Minister of Fisheries and Agriculture Einar K. Gudfinnsson said in an October interview that all possibilities should be considered at this time, although he also reiterated his opposition to EU membership. (Note: Gudfinnsson is one of the strongest historical opponents of joining



the EU, in part due to concerns over the EU's Common Fisheries and Agriculture Policies. End note.) These calls reflect the IP's strong support among the business community, which has already made clear its desire to abandon the Icelandic krona for another currency (with the euro the most likely candidate).

6. (SBU) On November 14, the IP leadership made a historic and significant decision when they announced that they had appointed a committee to discuss EU membership, and that the results would be presented to the party general meeting, which will be held in January next year (vice October 2009 as previously scheduled). Several days before this announcement, the IP's General Secretary told PolOff that the party recognized the need to respond to growing public support for EU membership, but that the result would have to be something "credible" in order for the IP to regain public support. With leadership elections also on the agenda in January, the party meeting could develop into a true showdown over the IP's future course. Many fear the result will be a split or large-scale defections by the anti-EU group; Central Bank Chair (and former Prime Minister and IP Chairman) David Oddsson gave credence to these

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fears with a November 30 interview in a Danish newspaper where he said he would re-enter politics should he be fired from the Central Bank.

7. (U) The other member of the governing coalition, Foreign Minister Gisladdottir's Social Democratic Alliance (SDA), is the only political party whose platform openly calls for EU membership. However, prior to the economic crisis, polls showed most Icelandic voters as skeptical towards EU membership, leading the SDA to minimize this plank. In the changed conditions here, however, the SDA is now well prepared for the EU membership debate ahead given its long-standing pro-EU policy. The SDA firmly believes that EU membership is vital for Iceland to reach and maintain economic stability in the long run. FM Gisladdottir and other SDA ministers have used the crisis as an opportunity to make these points forcefully, at times even doing so while sharing a press conference podium with PM Haarde.

The Opposition: Coalescing around an EU bid?

8. (SBU) Like the IP, the Left-Green Movement (LGM) has always been an anti-EU party. The LGM emphasizes an independent Icelandic foreign policy that maintains the sovereignty of Iceland and supports all means of establishing global peace. The party rejects participation in the EU and emphasizes simple, bilateral treaties concerning trade and co-operation. However, due to the economic situation and polls showing that a number of LGM voters also favor EU membership and adoption of the euro, the LGM may need to adapt itself to the current situation. This is not entirely new -- the party's Deputy Chair told PolOff in spring 2008 that as the krona grew weaker, many in the party were concluding that EU membership



might be the only realistic choice. Despite LGM Chair Steingrímur Sigfusson's visceral opposition to EU membership, signs suggest he may be increasingly isolated. At the outset of the crisis in October, the youth wing of the party announced it was formulating a new policy on the EU instead of simply copying the policy of the mother party. Even one of Sigfusson's longtime ideological allies, Chairman of the LGM parliamentary group Ógmundur Jonasson, said that the party will soon discuss the possibility of putting EU accession talks on the agenda and holding a referendum on EU membership (despite also reiterating his personal opposition to EU membership).

9. (SBU) For the Progressive Party (PP), the EU membership debate has sparked the third leadership crisis in just over two years. Former Prime Minister and Chair of the Progressive Party (PP) Halldor Asgrimsson tried to modernize the traditionally agrarian party by appealing to urban voters, and flirting with a more pro-EU policy. Asgrimsson's strategy failed, as confirmed by stinging losses in 2006's municipal elections and 2007's parliamentary elections. After the 2007 defeat, former Minister of Agriculture Gudni Agustsson took over as party chair, and unsuccessfully attempted to gain support by reverting to a more traditional PP policy appealing to rural interests. As calls here to consider joining the EU increased, internal tensions came to a head at a biannual meeting of the party's central committee on November 15, where the party's youth wing led harsh criticism of the leadership and called for EU accession to be clearly placed on the party's agenda. The party moved up its general meeting to January to vote on new leadership and the EU question. Two days later, PP Chair Agustsson stunned political circles by announcing his resignation as chairman and MP, saying he was stepping aside to allow the party to reconcile and move ahead. Agustsson's resignation clears the biggest hurdle to a solid pro-EU position for the PP. Most believe that the party is desperately in need of new, younger leadership, though no strong candidates have emerged thus far. However, a reinvented, solidly pro-EU Progressive Party might be a more attractive coalition possibility for the SDA, should the current government crumble.

10. (U) The current stance of the Liberal Party (LP) is a bit murkier compared to the other parties, but given that it is an idiosyncratic party founded on one issue --opposition to the current system of fisheries management --the party is wary of EU membership as long as its Common Fisheries Policy remains unchanged. The party is currently gauging the views of party members towards the EU and is expected to update its policy platform accordingly.

11. (SBU) Comment: By putting possible EU membership on their agendas, the parties are now trying to adapt their policies to reflect public will and grab more of what looks like a very volatile electorate. While a larger share of voters wants to drop the Icelandic krona and adopt the euro as soon as possible, control over fishing grounds is still seen as an integral part of the Icelandic independence struggle and economic sovereignty. The IP and the PP seem to have realized that sacrificing this sacred cow, as well as



agriculture, may be a necessary evil in order to stabilize the Icelandic economy for the long run. If the old guard holds sway among the Left-Greens, they may turn out to be the only remaining anti-EU party, and might attract a new base of anti-EU voters.

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However, a more likely scenario might be the emergence of new centrist or center-right parties based on opposition to EU membership, particularly if the IP meeting in January turns bitter. Regardless, by next spring we will likely see a wholesale realignment of the political spectrum here. End Comment.

VAN VOORST