

Address on Foreign Affairs

by H.E. Mr. Össur Skarphéðinsson

Minister for Foreign Affairs and External Trade

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Madam President,

I have submitted to Althingi my report on the work of the Ministry for Foreign Affairs. It is a substantial and detailed volume, which reflects the fact that foreign affairs have rarely been discussed to a greater extent than in the year that has passed since the previous report. Two issues are most salient; the EU question and the Icesave affair.

The latter is the most difficult international dispute that the people of Iceland have faced since the Republic was established. The Icesave affair has demonstrated the importance of maintaining a strong foreign service. It proved invaluable to be able to call upon our embassies immediately to represent us abroad.

The foreign service further proved its worth at the onset of the financial crisis when Iceland raced desperately against time to complete its first economic recovery program with the support of the IMF.

When Iceland achieved the miracle of ensuring funding at the last review of the budget, in the face of strong opposition from powerful nations and with the Icesave affair still not concluded, this was not least due to the tireless work of the foreign service.

I make this point because some maintain that the foreign service is expensive. But then I say to you, Honourable Members of Althingi, our foreign service provides results. I can assert without hesitation that, during the recent difficult times, I have had ample reason to be proud of my staff. I also believe that every Icelander felt pride in the contribution of our foreign service, when an Icelandic search and rescue team was assembled in one night and sent to Haiti. Even though ours was the country furthest from the disaster area, the Icelandic team was the first to arrive in the field.

The foreign service shall in all circumstances act as a shield for Iceland. It certainly makes its share of mistakes, and this is revealed in the investigative report with regard to the course of events leading up to the financial collapse, but these are mistakes to learn from. The foreign service must be able to respond to sudden crises, and as pointed out by the Special Investigative Commission, the administration must ensure that the foreign service is involved in all contingency plans, for every kind of emergency that may arise.

We Icelanders must demonstrate honesty, reliability and stability in our dealings with other nations. We must ceaselessly foster relations at every level. Never before has trust been more important than at present. The purpose of the foreign service, and that of our foreign policy, is to build up *trust* in our relations with other states. In this manner, and in this manner only, will we be able to reclaim our reputation.

Madam President,

Last summer Althingi instructed the Government to apply for membership of the European Union, and to put the results of subsequent negotiations to national referendum. This was a democratic decision, taken after years of extensive

community-wide discussions and heated debate here in Althingi. The decision was supported by members of all political parties in Althingi.

Since then, we have proceeded one step at a time, treading carefully. Our small but focused administration received praise for the quality of its work, not least with regard to the answers that were provided to the questions from the European Commission. As we know, the European Commission recommended that negotiations be opened with Iceland, and issued a favourable opinion. This was an important vote of confidence for us Icelanders in difficult times.

Althingi has as a matter of course assigned me the task of holding widespread consultations on developments in these matters. I have made every effort to do so. The EU issue is certainly a controversial matter, but as concerns the appointment of the Chief Negotiator, the Negotiating Body itself and the ten Negotiating Groups, there is firm agreement, not least where interest groups are concerned. Our Chief Negotiator, Ambassador Stefán Haukur Jóhannesson, is the country's most experienced negotiator. He is greatly sought after to help resolve the difficulties of other states and much respected at home and abroad. It is my opinion that we Icelanders are particularly fortunate to have such a man to take charge of the arduous task of negotiating our accession to the European Union.

It is important to conduct the accession process in as open and transparent a manner as possible, not least in order to remove any scepticism, as well as to prevent misunderstandings, which at times can be noted, even among some of our Honourable Members of Althingi, not exempting the best of people from among our honourable Ministers of Government. I therefore made all questions posed by the European Commission, as well as the answers from our

administration, available on the Internet as soon as I was in possession of them myself.

On the same note, I have decided to make publicly available the minutes of the Negotiating Body and the Negotiating Groups. Iceland's negotiating position in individual matters shall be made public when it has been presented, as shall other documents, unless the negotiators believe that such a course of action may jeopardise Iceland's interests in the negotiations at each time.

I am also of the opinion that Icelanders should be given the opportunity to participate directly in the application process through an interactive website, where citizens will be able not only to express their views on individual issues, but also to communicate regularly with the Chief Negotiator, experts, or the Minister, as circumstances may warrant. Electronic administration is spreading rapidly, and we Icelanders should avail ourselves of its advantages in this important matter.

Thirdly, the Chief Negotiator for Iceland will hold meetings throughout the country in the near future, in order to provide information to anyone interested about the next steps in the accession process. The European Union is relevant to us all, and it is only proper that people should be informed directly of any relevant developments.

I make no attempt to conceal the fact that I consider the issue of the European Union to be of fundamental importance in the recovery of Iceland. Never before has there been a more compelling reason to find out what advantages EU membership holds.

We need stability, we need investment, we need to create jobs, we need to establish as reliable and strong a framework as possible for the labour market and the economy of our country. The European Union is controversial, but it is my firm belief that it is the optimal choice for Iceland in order to reach these goals as soon as possible. All things considered, the European Union has achieved significant success in ensuring stability through low inflation, low interest rates, a healthy business environment and continuous economic growth.

We must break the vicious cycle of inflation, high interest rates and indexation which is weighing down Icelandic families, and is an unknown concern everywhere else in Europe. Indexation, which has pushed the debt service burden of loans of every Icelandic family to unprecedented heights, is a phenomenon that is unique to Iceland. EU membership will rid us of that. We have brought this boom and burst economy on ourselves, and we will also be rid of that if we become a member of the European Union.

Madam President,

In my view, EU membership is not least about creating employment opportunities. Last February, about 15 thousand people were unemployed. In the coming years, it is forecast that between 2-3 thousand people will be entering the labour market each year. We therefore need to create 35 thousand new jobs in the next ten years, if we are to keep abreast of the situation.

It has been pointed out by interested parties from all sectors of the economy that there is every indication that the necessary job growth will most likely not take place in the traditional sectors of fisheries and agriculture, due to the fact that increased productivity and streamlining has resulted in fewer jobs overall in these sectors. For instance, the number of dairy farmers, who are a prime

example, has decreased by nearly 50% since 1994, while milk production has increased by more than 20% during the same period.

The creation of employment opportunities in Iceland will therefore depend on other sectors such as industry, travel and, last but not least, on innovation and entrepreneurship. This is where the new jobs have to be created which will ensure moderate economic growth and eliminate unemployment.

We have an obligation to provide these sectors with a favourable and competitive environment to foster their growth. This is why the issue of Europe is essential for Iceland's recovery, for long-term stability of the economy, increased investment in Iceland and for employment for all.

Furthermore, it is vital for future economic management and future economic life in this country that we have the option of adopting a strong currency. I see this, in no uncertain terms, as a desirable component of accession; the fact that it opens a door for Iceland to adopt a strong currency with solid support in the future, and simultaneously to revert from indexation, enjoy lower interest rates and a more stable economy than we are used to.

The Governor of the Central Bank of Iceland, Mr. Már Guðmundsson, described the Icelandic economy, in an interview, as having a design flaw and that we were faced with choosing between the euro with low interest rates and price stability or the krona with permanent currency restrictions. We will not build Iceland's future on permanent restrictions on foreign trade. Experience has also shown, long before the crisis hit us, that independent micro currencies belonging to small nations always present an enticing prey for the hedge funds sharks.

The Greeks now know this, much like we do now. They did not comply with the rules of the game, as they have themselves acknowledged. They hotwired the system. But they had powerful support, they had the EU. This is why they will weather the storm, although it will cost them blood, sweat and tears. It would have been invaluable for Iceland to have such support when we, just like the Greeks, had to face our own homemade crisis due to repeated economic mistakes.

Madam President,

I believe that the interests of both the fisheries and agricultural industry can be ensured in the discussions that lie ahead.

The Icelandic fisheries industry is a leader world-wide. According to EU legislation none of the Member States can claim fishing permits within Icelandic territorial waters. The European Commission has clearly stated that the EU expects that Iceland's accession could have a profound impact on the common fisheries policy. This gives ground for optimism, because this statement is in itself a declaration that there is ample reason for the EU to take heed of our fisheries policy. In this light, and also in light of my discussions with the leaders of the main EU fishing nations, I think that powerful arguments point to the fact that Iceland can more than just hold her own as regards the EU's fisheries policy.

Madam President,

A large part of my childhood I spent in the Myrar farming area and in my heart there will always be a rustic streak. I also know quite well that there is a widespread opinion among us Icelanders that accession to the EU will create difficulties for future agriculture in Iceland. This is not necessarily the case. I think there will be much to support our cause during the negotiations. We will

benefit from the small size of our agricultural sector, the country's geographical isolation and our undisputed unique position.

We know that Finland acquired special allowances for their agriculture and the support we provide to Icelandic farmers is within the framework that support for northern areas allows for in Finland. Learning from the case of Finland we can build argumentation for allowances that go still further – if we so wish.

Food security is a strong argument. Iceland is far away from the breadbaskets of the world. In a dangerous world there is no other European nation as dependent upon food security as Iceland. Within the EU there is growing emphasis on the food security of the citizenry. This has become a priority for the EU and our geographical isolation will provide us with a strong position in the upcoming negotiations.

Icelandic agriculture also has unique genetic material, which has practical meaning, this is also considered desirable from the standpoint of biological diversity. Icelandic agriculture is isolated and the products are nowhere near as diverse as elsewhere in Europe. All these factors contribute to a good position for Iceland in the negotiations ahead.

We must not downplay our own possibilities. Icelandic farmers are producing high-quality products that not only Icelanders will continue to buy, but that also have good potential on the high-end markets of Europe. Accession to the EU opens up the possibility of marketing green and environmentally friendly high-quality products, be it dairy, meat or vegetables, which resourceful farmers of the future could utilise with splendid results. But these opportunities will never be realised if we do not have faith in our own strengths.

We certainly will, like all other nations that have applied for membership, need special solutions in order to solve issues that are specific to Iceland. Let us not forget that the negotiating history of the EU is a history of special solutions, where imaginative methods are applied on the basis of EU principles in order to come up with tailor-made solutions. There is not a single incident where the EU has gone against the basic interests of a new Member State. This is equally evident whether one considers Finnish agriculture, Maltese fisheries interests or ownership of summer-houses in Jutland, Denmark.

The task at hand is to negotiate the best agreement possible. That, Madam President, I shall do in accordance with the democratic will of the majority of Althingi. I will then gladly abide by the verdict given by the nation, and I know that the people of Iceland will make the decision which is most advantageous to them, their children, and the future of Iceland.

Madam President,

Iceland is the only country, which in its entirety lies in the High North, which is now, finally, gaining importance in the international sphere. There are three main reasons for this. First, nature and the ecosystems of the north are very sensitive to global warming. This calls for extensive surveillance. Second, the area is home to a large portion of the world's unutilised oil and gas reserves. Third, there is the possibility of a shipping-route opening up from the Pacific Ocean via the Arctic Ocean to the North Atlantic.

We need to stake out a much clearer policy with regard to Iceland's role in the region, not least to increase our right to participate in political decisions regarding the High North. I believe our policy should be aimed at the following goals:

First, to secure Iceland's position among the coastal states that are most influential in shaping the affairs of the High North. This means attaining the same status for Iceland as the other coastal states in the north possess, namely Canada, Russia, the United States, Norway and Denmark on behalf of Greenland.

Second, to prepare the legal and geographical arguments for Iceland's participation in decision making regarding the High North. In this respect we need to build our case on the fact that our economic jurisdiction lies within the Arctic in the north and borders the Denmark Strait adjacent to the Arctic Sea. It is therefore perfectly logical that Iceland should be a party to all international decisions regarding the High North.

Third, to develop and gain support for a definition of the High North that covers both the Arctic and the parts of the North Atlantic that lie closest to it. A narrow geographical definition is insufficient in this context, the High North should be seen as a vast area in an ecological, political, economical and geopolitical sense.

Fourth, to support and strengthen the Arctic Council as the most important cooperation forum in the region.

This then leads directly to the fifth conclusion, which is that Iceland must oppose the so-called five-state collaboration scenario involving Canada, Russia, Denmark, the United States and Norway. Such a forum undermines the Arctic Council and therefore others as well, such as Iceland, for which there are considerable interests at stake in the region.

The sixth issue would be to enhance the United Nations Convention on the Law of the Sea as the basis for resolving disputes over jurisdictions and rights in the High North.

The seventh issue would be to encourage the adoption of international agreements on resources for surveillance, search and rescue, and pollution prevention, all of which would protect Iceland's interests with regard to the natural environment, fisheries and oil and gas exploitation.

The eighth issue would be to work towards preventing the re-militarisation of the High North.

The ninth issue would be to engage in close collaboration and cooperation with our neighbours to the west on matters of the Arctic. Increased cooperation between Iceland and Greenland, *inter alia* in the energy sector, both regarding oil and generation of electricity, will elevate the importance of both countries geopolitically and strategically.

The tenth issue is to support the rights of indigenous peoples in the region.

This issue will have to be raised by Iceland internationally and the Government will do that *inter alia* by hosting an international conference on the High North, which will be held in Iceland in the near future. In the coming years and decades we will in parallel to this need to build up increased knowledge in this country about the High North.

Madam President,

Since the end of the Cold War the concept of national security has changed drastically. Instead of relying exclusively on military defences, most countries in

our part of the world base their security strategy on a much broader concept of security than before. This covers not only conventional military challenges, but increasingly includes other kinds of threats that could endanger the internal security of states. This we can now see with all the nations with which we most closely collaborate.

Due to a changed outlook in our part of the world, and in light of the departure of the US military, the next task in matters of defence and security is to formulate a new security strategy for Iceland, which will be based on an expanded security concept, as defined in the Risk Assessment Commission, and on civilian ideals and civilian institutions.

This strategy will obviously take into account the very situation that makes Iceland unique in the international community, the fact that Iceland does not have a military, as well as close and active cooperation with other countries in fields that we believe serve our interests best.

In this context one should keep in mind that one of the main conclusions of the Risk Assessment Commission was that there was no indication of any direct military threat to Iceland in the foreseeable future. This is in accordance with our neighbouring countries' evaluation of their own security. I am of the opinion that broad consensus can be reached among the Icelanders on this issue, and also in Althingi, but this will understandably only happen if all parties join in this policy making as part of a cross-party collaboration.

I want to inform Althingi that before the end of this year I plan to present a proposal to Althingi for a cross-political policy formulation for a new security and defence strategy for Iceland, which will be based on the very principles I

discussed earlier. It is a fundamental issue for a small nation to be able to reach a consensus on matters of security and defence.

Madam President,

In my speech I have chosen to cover in detail the matters that are of the greatest urgency with regard to our foreign policy, both at present and for the future, as well as to explain in detail my ideas about these matters, since it is crucial that we formulate a long-term strategy.

There are of course many other important aspects that I would have liked to cover, such as the law on Íslandsstofa, the improved framework for international development aid, human rights, humanitarian and egalitarian issues, as well as the importance of promoting equal gender rights and women's rights, which I have emphasised wherever I have been able to internationally. These issues, as well as many others, are described in detail in the report that the honourable members of Althingi have on their desks during the discussions that will follow. These issues will, no doubt, be discussed in detail during our discussions here today.

Finally, I would like to thank the Althingi, and especially the honourable members of the Foreign Affairs Committee, for very good cooperation. I am, as the honourable members know, an avid supporter of parliamentarism and I have deep respect for Althingi. I have made every effort to inform Althingi about everything that I deem important, and I have placed great emphasis on close collaboration. This is evidenced *inter alia* by the fact that in the twelve-month period since the present Government was formed, representatives of the Ministry for Foreign Affairs have appeared 34 times before the Committee, and I have attended ten of its meetings. This is unprecedented in recent years and

reflects my determination to engage in positive collaboration with Althingi and the Foreign Affairs Committee.