The Engagement of Iceland and Malta with European Integration:  
*Economic Incentives and Political Constraints*  

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Háskólaprent ehf.
In the memory of my brother Kristinn Óskar Magnússon (1948-2005)
Abstract

This thesis is on the different routes Iceland and Malta have taken towards European integration in the period 1989-2009, despite significant opposition towards European integration in both countries. It is the general purpose of this thesis to apply and test one of the academic frameworks explaining the dynamic of integration in countries where widespread scepticism is towards the European project, the framework of Sieglinde Gstöhl, in which is combined an analysis of economic interests in market integration with ideational interests in protecting national identity, and use it to explain the routes Malta and Iceland have taken towards EU membership.

Gstöhl’s framework is insufficient to explain the economic incentives of countries inside the European Economic Area (EEA) and is thus modified in the thesis so it can be used in such manner. The analysis of the political impediments is extended to meet the scholarly discussion on the role of nationalism and national identity in opposition to EU membership. In that part the different categories of nationalism of Anthony D. Smith are used.

The general research question of the thesis is: Given the extensive opposition towards EC/EU membership in Iceland and Malta, why did Malta take steps to full membership of the European Union by applying for it in 1990 and joining in 2004, while Iceland aimed for limited integration until 2009? To answer this general question five sub-questions, each connected to certain theoretical statements on the issue, are asked and answered in respective chapters.

Part I gives an account of the economic performance of Iceland and Malta in the previous two decades, the main sectors of the respective economies, the views of their economic pressure groups, and the economic incentives for joining the EU according to Gstöhl’s model for integration. Part II is on the history of the two countries where “history” means the narrative used to construct the nationality in question – Icelandic and Maltese respectively. This in turn helps to formulate the political impediments – or constraints – to integration. Part III is on the role of the political parties in Iceland and Malta in shaping the approach to European integration in the two countries. Part IV is on the different notions of national identity and nationalism in Iceland and Malta, and the political impediments to European integration these entail, together with a short discussion on religion in the respective countries. In Part V a simple form of content analysis on Icelandic and Maltese newspapers is used to look
further on the economic incentives and political constraints by finding strands of arguments related to the indicators in the variables in the debates on EU membership in Malta and Iceland. Finally an assessment on the level of the political constraints for Iceland and Malta, based on the discussion in Parts II – V, is made.

The conclusion is that Malta’s economic incentives to join the European Union remained high since the early 1990s, while Iceland’s economic incentives decreased from high to low with the creation of the European Economic Area (EEA). They became high again with the economic crash in Iceland in 2008. Also, different options for integration were available to Iceland and Malta, making Malta aim for full membership of the EU, while Iceland could aim for limited integration to relieve the economic pressure to integrate. Finally Iceland’s political impediments generated by its ethnic nationalism and leading economic sectors were higher than those created by Malta’s political cleavage and territorial nationalism.

After having gone through the exercise of analysing the European integration of Iceland and Malta within Gstöhl’s framework, it is the general conclusion of the thesis that with the modifications in this thesis the model works well to cast a light on the main factors influencing it both ways. It shows the layout of the process and helps to map the broad lines of what is at work in the economy and society which either works in favour of the integration process or against it.
Ágrip


Megintilgangur ritgerðarinnar er að skýra þátttöku í Evrópusamrunum í löndum þar sem virk andstaða er við hann og prófa um leið kenningarramma Sieglinde Gstöhl en hún flétar saman greiningu á efnahagslegum hvötum til samþættingar markaða og pólitískum hindrunum sem einkennast af varðstöðu um sjálfsmynd þjóða. Ramminn er notaður til að útskýra vegferð Möltu og Íslands til Evrópusambandsaöldar. Rammi Gstöhl nýtist þó ekki óbreyttur til að meta efnahagshvata landa sem eru innan EES og því er honum hnikað til í ritgerðönni til að svo megri verða. Einnig er hlutinn þar sem pólitísku hindranirnar eru skoðaðar dýpkaður til að mæta fræðilegri umræðu um áhöfði þjóðernishyggju og þjóðarsjálfsmyndar í andstöðu við Evrópusambandsaöld og er þar notast við skilgreiningar Anthony D. Smiths um mismunandi þjóðernishyggju.


Í fyrsta hluta ritgerðarinnar (Part I) er farið yfir efnahagslega frammiþödu Íslands og Möltu á síðustu tveimur áratugum, hverjar helstu atvinnugreinarnar eru, hvaða afstöðu hagsmunasamtök þeirra hafa til Evrópusamrunans og hverjir kunni að vera helstu efnahagshvata hvatarnir til að ganga í Evrópusambandið, eins og þeir eru settur fram í likani Gstöhl. Í öðrum hluta (Part II) er farið í gegnum sögu þessara tveggja ríkja, eins og þeir eru fram sett til að styðja við hugmyndir um íslenskt og málneskt þjóðerni og hún notuð til að varpa ljósi á pólitísku hindranirnar við nánari Evrópusamruna. Þriðji hlutinn (Part III) er um hlutverk stjórnmálaflókka við mötun stefnunar í Evrópumálum í löndunum tveimur. Í fjórða hluta (Part IV) er fjallað um mismunandi hugmyndir um þjóðerni og
þjóðernishyggja á Íslandi og á Möltu og þær pólitísku hindranir sem það kann að skapa, auk stuttrar umfjöllunar um trúarbrögð í lóðundum tveimur. Í fimmta hluta (Part V) er einföld innihaldsgreining á íslenskum og maltneskum dagblöðum notuð til að finna umræðuþræði sem tengjast áðurnefndum efnahagshvötum og pólitískum hindrunum í Evrópusambandsþróunum á Íslandi og á Möltu. Að lokum er styrkur hinna pólitísku hindrana á Íslandi og á Möltu metinn í ljósi umfjöllunarinnar í öðrum til fimmta hluta.

Niðurstaða rannsóknarinnar er sú að efnahagshvatar Möltu til að ganga í Evrópusambandið hafi verið sterkir frá því snemma á tíunda áratug síðustu aldar. Efnahagshvatar Íslands voru sterkir í upphafi en urðu hins vegar veikir með aðildinni að EES. Þeir urðu svo sterkir aftur með hruni efnahagslífsins á Íslandi árið 2008. Mismunandi valkostir stóðu ríkjunum til boða vegna stóðu þeirra í alþjóðamálum. Þannig stefndi Malta strax að fullri aðild að Evrópusambandini, en Ísland gat látið takmarkaðan samruna nægja. Á þeim tíma nægði sá samruni til að létt á efnahagsþrýstingi sem landið varð fyrir með tilkomu nánara sambands helstu útflutningslanda innan Evrópusambandsins og yfirvofandi aðild flestra EFTA ríkja að Evrópusambandinnu. Þá voru hinar pólitísku hindranir á Íslandi, svo sem etnisk þjóðernishyggja (e. ethnic nationalism) og afstaða lykilatvinnugreina til Evrópusamrununars mun hærri en þær hindranir sem pólitískt sundurlýndi og svæðisbundin þjóðernishyggja (e. territorial nationalism) ollu á Möltu.

Lokaniðurstaða ritgerðarinnar er að líkan Gstöhl með breytingum höfundar gagnist vel til að varpa ljósi á þá meginþætti sem hafa áhrif á Evrópusamrunaþróunina á Íslandi og á Möltu. Hið breyttu líkan sýnir ferlið og nýtist til að kortleggja þær breiðu línur sem sýna hvað er að verki í samfélagi og efnahagslífi þjóðanna til að ýta á eftir Evrópusamruna eða standa í vegi hans.
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1 Introduction

1.1 Iceland and Malta: Reluctant Europeans?

During the last sixty years, the European Union and its predecessors have evolved from a club of six continental Western European states to being the dominant international institution in Europe, with almost all Western and Central European states as members. Almost all the rest are either applicants, former applicants or potential applicants for membership. The process has not been entirely smooth, and as is to be expected of such an overwhelming project, it has met with opposition, especially on Europe’s northern periphery. Thus Norway’s public has twice, in national referenda in 1972 and 1994, turned down negotiated membership, and the referendum on membership in Sweden in 1994 was a very close call.¹ Also, referenda on the Union’s treaties held in Denmark, Sweden and more recently Ireland, have had the population repeatedly mobilized in a majority against the Union’s undertakings. The reluctance of the United Kingdom to participate in the deepening of the European project is a separate case, though British governments have not put Union matters to a public referendum since the one on continued membership in 1975.

This process of European integration has been studied in academic circles during the last fifty years or so, and the approaches of what might be termed the “reluctant Europeans” have been identified, especially in the last one or two decades.² Europe’s smallest and most peripheral countries have naturally been much affected by the integration process and most have either joined the European Union or applied for membership. It is the general purpose of this thesis to apply and test one of the academic frameworks explaining the dynamic of integration in countries where widespread scepticism exists towards the European project. This is the

¹ Approximately 52% said yes to membership and 48% said no.
framework of Sieglinde Gstöhl (1998, 2002), which combines an ‘analysis of economic interests in market integration with ideational interests in protecting national identity.’ (Gstöhl, 2002, ix), and use it to explain the routes that two of the small and peripheral European states, Malta and Iceland, have taken towards EU membership.

Malta applied for EU membership on 16 July 1990. The two main political parties in Malta, roughly similar in size and traditionally each receiving about half of the vote, were diametrically opposed in the debate, the ruling Nationalist Party (NP) advocating membership and the opposition Malta Labour Party (MLP) fighting it. After a heated debate and a very close referendum on membership in March 2003, a Nationalist victory in the general election roughly a month after the referendum cleared away the final obstacles to membership, and Malta joined the European Union on 1 May 2004.

Iceland applied for EU membership on 16 July 2009 (19 years to the day after Malta). Prior to that, it had taken an indirect route in its involvement in European integration. Iceland has been one of a relatively small group of sovereign western European states outside the European Union, the others being Norway, Switzerland, Liechtenstein, San Marino, Andorra, Monaco and the Vatican. Of these states, only two have more than 500,000 inhabitants (Norway 4.5 million and Switzerland 7.3 million (OECD, 2005)), and of the others, only Iceland has a population of more than 100,000.

Since Sweden, Finland and Austria joined the European Union in 1995, Iceland has been one of three non-EU states in the European Economic Area (EEA) which is the most detailed of the EU’s trade agreements and extends the ‘four freedoms’ of trade in goods and services and the movement of capital and people to the three non-EU states of Iceland, Liechtenstein and Norway. It was negotiated between the EC 3 and EFTA in the period 1989-1992 and went into force in January 1994. Although Switzerland took part in the EEA negotiations and its government had applied for membership of

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3 In this thesis I will be referring regularly to the “European Community” originating in the founding of the European Coal and Steel Community (ECSC) in 1952, the European Atomic Energy Community (Euratom) and the European Economic Community (EEC) in 1958, and the merger of their institutions in 1967. According to Stephen George (George, 1998), the reference should strictly speaking be to the “European Communities”, but he stresses that since the merger it has become logical and common to speak of the European Community (EC) in the singular. I will adopt this usage of terms, and write EC when referring to the communities before 1993, when the European Union (EU) was founded incorporating the EC. Therefore the usage will vary between the EU and EC according to the historical context. The EEC, ECSC and Euratom will be referred to when discussed as separate entities, and when quoting other authors. When speaking of the EC/EU over a period when it held both names, EU will usually be used.
the EU, the Swiss voters and cantons refused to ratify the EEA agreement in a referendum in December 1992 (Gstöhl, 2002, p. 182).

Even without membership of the EU, Iceland has gone deeply into the integration process. Thus, in 2001 Iceland began full participation in the Schengen Agreement, the main purpose of which is to guarantee the freedom of movement across borders within the area without passport control. The members cooperate extensively on border control on the outer borders of the area and on the issue of visas, together with various support measures such as collaboration between police authorities (Official Journal L 239, 2000). It has even been argued that Iceland could, and should, adopt the euro as its currency, without joining the EU. Also, Iceland’s security situation changed drastically in 2006, with the closing of an American military base in Keflavík and the withdrawal of all US forces from Icelandic territory. These events have prompted closer cooperation with Iceland’s European neighbours in security matters (Gísladóttir, 2008).

An argument must be made for choosing Malta and Iceland as cases to compare, since Iceland could be said to belong to a category of small, rich, northern states with open economies, that have traditionally been reluctant to take part in supranational integration (Gstöhl, 2002, ix), while Malta belongs to a category of Mediterranean countries that ‘so far have been “eager” rather than “reluctant” Europeans’ (Gstöhl, 2002, p. 14). However, on a closer examination of Malta’s approach to European integration, it becomes clear that the Maltese eagerness was not really felt by a large section of the population and elite. Malta’s path to European Union membership was stony, to say the least, and the referendum on membership in March 2003 was just as close as those held in the Scandinavian countries such as Sweden and Norway.

John Stuart Mill wrote in his seminal book on the social scientific method, *A System of Logic: Ratiocinative and Inductive*

> [T]o prove that our science, and our knowledge of the particular case, render us competent to predict the future, we must show that they could have enabled us to predict the present and the past. If there be anything which we could not have predicted, this constitutes a residual phenomenon, requiring further study for the purpose of explanation; and we must either search among the circumstances of the particular case until we find one which, on the principles our existing theory, accounts for the unexplained phenomenon, or we must turn back, and seek the

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4 This discussion is well documented in Einarsson & Sturluson, 2008.
The conceptual and theoretical background

It is never prudent to claim to be able to predict the future, especially when it involves volatile, highly charged and close public referenda, where surprising things can make a world of difference. However, the purpose of this thesis is to test an academic framework and see if it can add to our understanding of how Malta and Iceland tackled the challenge of European integration in the final decades of the twentieth century and in the first years of the twenty-first, why they took different steps and why there was such serious opposition to participation amongst much of the political elite in both countries, in the hope that this may sharpen the tools we can use to further our understanding of the future development of the Union.

1.2 The conceptual and theoretical background

1.2.1 The “Grand Theories”

There are three strands of “grand theories” of European integration that are readily recognisable. These are neofunctionalism, intergovernmentalism and the interdependence theory (Nugent, 1999, p. 507). In the first and second, an attempt is made to explain the European integration process as a whole; the primary actors in the process are identified, their behaviour analysed and a prediction made for the future of the process. The third one is used more to explain the reasons for the integration process, together with its course.

Neofunctionalism originated in the 1950s and 1960s in the writings of the American scholars Ernst Haas and Leon Lindberg. It is an image of a continuum ‘accumulating functions and attracting new supporters until the focus for European government had clearly moved beyond the nation state’ (Wallace W., 1996, p. 441). It focuses on the effects of “spillover” where integration in one sector tends to create pressure towards integration in other sectors as well, especially adjoining and related sectors. This was called functional spillover. The latter form, political spillover, had to do with increasing cooperation between political elites in the integrating countries, which thus in turn tended to shift their focus from the national arena to the supranational, with the increasing importance of the latter (Nugent, 1999, p. 507). The Neofunctionalists drew their conclusions from watching how the European Coal and Steel Community (ECSC) paved the way for the European Economic Community (EEC); in the light of this, their predictions for gradually increasing integration and even the eventual creation of a genuine federation, seemed to be very valid indeed.
But disaster was just around the corner. The Luxembourg Compromise in 1966, giving the member states an effective veto on further integration, was the first omen of what was about to happen. By the time Britain joined the EEC, together with Denmark and Ireland in 1973, ‘British leaders could justifiably claim that Federation was not a prospect in the short term. The predictions of the ‘neo-functionalists’ had proved false.’ (Young J. W., 1993, p. 135). Even Haas and Lindberg retreated from it and suggested that nationalism and individual political leadership had to be taken into account (Nugent, 1999, p. 508).

**Intergovernmentalism** is, as the name implies, mainly focused on national governments as actors in the integration process. According to it, governments take the controlling, and crucial, decisions regarding integration. It is used to play down the role of supra- and transnational actors.

The heyday of grand theories was from the 1950s until the 1970s, when interest in them, combined with interest in the European integration in general, started dwindling. Enthusiasm for European integration was at an all-time low in the 1970s. The economic difficulties following the oil price crisis, and rising stagflation (a combination of inflation and unemployment) kept national governments preoccupied with dealing with their own economies. This led to non-tariff barriers in the form of subsidies for national industries and other protectionist measures (Dinan, 1999, pp. 57-80). This not only undermined the political will to further integration, but also posed a serious threat to the economic integration that was under way at the time, so it was no wonder the grand theories suffered as well.

But the rekindling of the European spirit in the 1980s, under the enthusiastic leadership of Jacques Delors and European idealists as Helmut Kohl, Chancellor of West Germany, and François Mitterrand, President of France, plus negotiations for much more extensive economic cooperation in the form of the Single European Act (SEA) saw the reawakening of interest in grand theory also. In the late 1970s, **interdependence theory** had been making its mark, predicting that the increasing interdependence on the international stage would push for increased integration on a regional scale, of which the EC was an example, together with other, less intense, regional cooperative units. Both neofunctionalism and intergovernmentalism experienced a revival. Jeppe Tranholm-Mikkelsen has been among the most vocal in reviving neofunctionalist approaches, arguing that since the mid-1980s, supranational institutions such as the Commission and the European Court of Justice (ECJ), plus the increased use of qualified majority voting in the Council, fall well within the neofunctionalist model. (Tranholm-Mikkelsen, 1991, pp. 104-10).
1.2.2 Liberal intergovernmentalism

Andrew Moravcsik is probably the most influential protagonist of the revival of intergovernmentalism (see, e.g., Moravcsik, 1993). He claims that the ‘EC can be analysed as a successful intergovernmental regime designed to manage economic interdependence through negotiated policy co-ordination,’ (Moravcsik, 1993, p. 474) and that existing theories of foreign economic policy, intergovernmental negotiation and international regimes only need some refinement to provide a general explanation of its evolution. He also claims that the EC does not require a *sui generis* theory, in spite of being a unique institution. He attacks neofunctionalism as it ‘mispredicts both the trajectory and the process of EC evolution.’ (Moravcsik, 1993, p. 476).

Moravcsik calls his approach towards European integration “liberal intergovernmentalism” and says that it seeks to account for major decisions regarding integration in a two-stage approach: Firstly, national preferences are determined by constraints and opportunities imposed by economic interdependence, and secondly, the outcomes of intergovernmental negotiations are determined by the relative bargaining power of governments and the desire to get rid of high transaction costs by institutionalising bargaining procedures, plus the will to control domestic agendas (Moravcsik, 1993, p. 518).

Neill Nugent presents four fundamental criticisms of Moravcsik’s arguments: First, he seems to focus mainly on “historic decisions” in his analysis and not sufficiently on day-to-day decision-making in the European Union. Secondly, he focuses too much on the final stages of decision-making, not taking into account all the underlying work and all the compromises reached before the final, formal decision is taken. Thirdly, not enough attention is focussed on how governments choose their policies, and last but not least, he grossly underestimates the influence of the supranational actors, the Commission, the ECJ, and transnational actors, such as multinational (European) corporations and special interest groups. In spite of this, Nugent claims that liberal intergovernmentalism has considerable strength, and serves as a reminder of the role of the states in the integration process in a much more nuanced fashion than did the early version of intergovernmentalism (Nugent, 1999, pp. 510-11).

Recently the trend has been towards acknowledging the benefits of each theory. Wolfgang Wessels takes a macropolitical approach towards explaining the evolution of the EU. According to his results there are trends of ever-new public resources emerging at state levels, ‘leading to increasing complexities, a lack of transparency and difficulties in reversing the
development.’ (Wessels, 1997, p. 267). This seems to indicate neofunctionalist spillover, even though he stresses that the member states retain their ultimate control over treaty reform.

1.2.3 Ingebritsen’s modified liberal intergovernmentalism

Although the grand theories of integration introduced above focus mainly on the larger players on the European arena, they are however a necessary backdrop to the discussion of the approach of smaller European countries towards European integration. Thus, what could be considered an offshoot of Moravcsik’s liberal intergovernmentalism has had a defining impact on the discussion of European integration in the Nordic countries. This is the theory put forward in 1998 by Christine Ingebritsen in her book, *The Nordic States and European Unity*. There, Ingebritsen argues that the integration process in the Nordic countries can be attributed to their economic structure and the pursuit of interests of the main economic actors in Nordic societies, and that the political influence of leading sectors of the economy (Norwegian oil, Swedish manufacturing, Finnish manufacturing and forestry, Danish agriculture and industry and Icelandic fisheries) is the decisive factor in shaping the discourse on European integration in those countries. She traces the lineage of this particular sectoral approach to a variety of scholars, including James Kurth, Ronald Rogowsky, Jeffry Frieden and Michael Shafer (Ingebritsen, 1998, p. 34). Ingebritsen says:

The innovation of sectoral analysis is to bring the logic of institutional economics to the political sphere by demonstrating that not all states face similar structural constraints. To account for how and why sectors matter, we need to understand what markets countries participate in and the structure and hierarchy within those markets. Sectoral analysis, when combined with the importance of political variables, can get us where we want to go (Ingebritsen, 1998, p. 33).

Ingebritsen defines the sectors in Nordic political economies as being leading sectors when they ‘account for a disproportionate share of export revenue and hold the attention of national finance ministries, regardless of which party is in political power.’ (Ingebritsen, 1998, p. 36). These leading sectors are in turn represented in the political parties, interest groups and social movements, and especially in northern European political systems, economic interest organisations are insiders in formation of government policy (Ingebritsen, 1998, pp. 36–7).

Some sectors enjoy a privileged position although they are no longer essential to the economy. A prime example of this is agriculture, which is
probably widely over-represented relative to its economic importance (Ingebritsen, 1998, p. 39) and, in the latter half of the twentieth century, was most certainly so in Iceland, as has been shown by Thorhallsson (Thorhallsson, 2002, p. 67).

Ingebritsen mentions that a sectoral approach is particularly well suited to the study of European integration, since it has ‘proceeded according to a sectoral logic – from coal and steel to agriculture, capital, goods, and services.’ (Ingebritsen, 1998, p. 36). She then differentiates between her approach and that of Moravcsik (Moravcsik, 1993) by noting that his model assumes that ‘national interest can be determined exogenously according to the position of states in the international system,’ (Ingebritsen, 1998, p. 41) while her approach concurs with that of scholars such as Wayne Sandholtz, who view preferences as endogenous (Ingebritsen, 1998, p. 41). She concludes:

Thus, in order to understand Nordic state preferences in European politics, we need to know more about which economic interests are expected to win and which economic groups are expected to lose in the EC. Interests were contested by societal groups with different stakes in the process. In European politics, some policy regimes impose greater transaction costs than others (Ingebritsen, 1998, p. 41).

Thus, as can be seen above, although the origins are economic, Ingebritsen traces political influence to economic actors, thus identifying the difference in respective influence of the sectors as the main reason for the different paths followed by the Nordic countries with regard to European integration.

1.2.4 Constructivism and poststructuralism

Ingebritsen’s approach to European integration provoked an academic reaction in the Nordic countries. As opposed to liberal intergovernmentalists such as Moravcsik and Ingebritsen, poststructuralists, such as Lene Hansen, Ole Wæver and others emphasise the importance of “crucial concepts”, such as “state”, “nation” and “the people” in the debate on European integration. In her discussion of “alternative explanations” of the integration process in the Nordic countries, Ingebritsen identifies Wæver as belonging to the school of constructivists, together with Iver Neumann (Ingebritsen, 1998, p. 42), a claim Hansen denies on Wæver’s behalf, saying that in the ‘vibrant debate over the difference between constructivism and poststructuralism’ they would ‘if pressured, define [themselves] as poststructuralists in the sense that our primary and most abstract concern is with the production of structures of meaning’ (Hansen & Wæver, 2002, p. 4).
Constructivism was on the rise in International Relations scholarship in the last decade of the twentieth century and represented the connection of international theory with sociological concerns with the social construction of reality (Rosamond, 2000, p. 171). There are many strands of constructivism and they tend to revolve around the epistemological implications of ontological starting points (Rosamond, 2000, pp. 171-2). What these strands tend to have in common is that they begin from the premise that ‘the world is social rather than material. Actors’ interests and identities are not ‘given’. Rather they arise in situations of interaction and are thereby socially constructed.’ (Rosamond, 2000, p. 198). ‘Ontology is not something that most IR scholars spend much time thinking about. Nor should they’, says Alexander Wendt, an important constructivist. ‘Yet even the most empirically minded students of international politics must “do” ontology because in order to explain how the international system works they have to make metaphysical assumptions about what it is made of and how it is structured.’ (Wendt, 1999, p. 370). In his book Social Theory of International Politics, Wendt defines the deep structure of international politics. For much of history, states and proto-states lived in an international environment of ‘kill or be killed’, what Wendt calls Hobbesian culture, where the logic of anarchy prevailed and enmity between states was the focus of their interaction (Wendt, 1999, pp. 259-78). In the seventeenth century, in the wake of the Thirty Years War and the Westphalian Peace, states tried to find a way to live with each other, recognise each other’s sovereignty and taking the position of rivals rather than enemies. This Wendt calls the Lockean culture (Wendt, 1999, pp. 279-97) and claims that it has ‘dominated Westphalian politics for the past three centuries’ (Wendt, 1999, p. 297) though Hobbesian behaviour has occasionally reared its head but each time beaten back by ‘status quo states’ (Wendt, 1999, p. 279). However, after World War II, the behaviour of, at least, North Atlantic states, and arguably many others, has gone beyond the Lockean culture, where a new international political culture has emerged, where team play and non-violence is the norm. This Wendt calls Kantian culture, since Kant’s Perpetual Peace is the most well-known treatment of it (Wendt, 1999, pp. 297-308). In discussing Kantian culture, Wendt says that the behaviour of states under this premise could even be described by the term “friendship” so defined that it observes two simple rules: 1. Disputes are settled without war or the threat of war (the rule of non-violence); 2. They will fight as a team if the security of any one is threatened by a third party (the rule of mutual aid). As such, friendship is different from “alliance” in that allies do not necessarily expect their relationship to continue
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indefinitely (Wendt, 1999, pp. 298-9). Thus, states have travelled through these three phases from “enemies”, through “rivals”, to “friends” (at least in the West). Wendt then tackles the Realist assumption that identity and interests are static and claims that they are susceptible to change. ‘If self-interest is not sustained by practice it will die out. The possibility of structural change is born out of that fact’ (Wendt, 1999, p. 369).

To the constructivist category belong the works of Iver B. Neumann, who says that in the discussion on Norway’s approach to European integration ‘perhaps one should think of national identity as an independent variable’ (Neumann, 2001, p. 92). Neumann says that because of the ‘messy character of culture in terms of traditionalist social-science analysis, identity has tended not to be ‘factored in’ (taken into account), and that Ingebritsen is ‘definitely guilty of this sin of omission’ (Neumann, 2001, p. 92).

Wæver criticises constructivists for accepting a division between ideational and material explanations and thus ‘[confining] “identity” to the realm of ideational factors, which as a consequence tends to produce a theoretical design where “identity” explanations are measured against non-ideational, material factors’ and, as a consequence, ending up by only explaining parts of the world of international politics (Hansen & Wæver, 2002, p. 22). Furthermore, constructivism ‘easily becomes a culturalist and/or cognitivist explanation for inertia and continuity’... ‘Thus, typically, there is no constructivist suggestion for likely change, but a very strong theory of non-change, which stands well until change happens and it can then explain the firmness of the new status quo.’ (Hansen & Wæver, 2002, p. 22). Therefore, Wæver concludes that it is necessary to have a view of identity that is ‘both more structured and more unstable.’ (Hansen & Wæver, 2002, p. 22).

Wæver stresses that poststructuralism is ‘an attempt to resist the very dichotomous construction of idealism-materialism as those options from which we can explain the world.’ (Hansen & Wæver, 2002, p. 22). According to Wæver, the challenge lies not in the debate between idealism and materialism, but ‘in more systematic understandings of identity, in [their] case national identity.’ (Hansen & Wæver, 2002, p. 23).

Claiming Moravcsik as her “academic mentor”, Sieglinde Gstöhl comes up with a framework that in the liberal intergovernmentalist fashion accepts the importance of economic incentives when it comes to steps taken towards European integration. However, she also accounts for what she calls “political impediments,” “political constraints” or “potential impediments to integration generated by national identity” (Gstöhl, 2002, p. 40). In her dissertation Reluctant Europeans: Sweden, Norway and Switzerland in the
Process of European Integration (1950-1995), (1998) and later her book Reluctant Europeans: Norway, Sweden, and Switzerland in the Process of Integration, (2002), she traces the trajectory of the integration policies of three small, rich, open European economies, i.e. Switzerland, Sweden and Norway, across five decades, and thus combines an ‘analysis of economic interests in market integration with ideational interests in protecting national identity.’ (Gstöhl, 2002, ix). With her model she attempts to explain why these countries have been reluctant toward supranational integration, and why, even though fulfilling the eligibility criteria for EU membership, they aimed at limited integration in various forms. Her main conclusion is that in spite of mounting economic incentives, they were reluctant to join a supranational community because of potential domestic and geo-historical constraints that were closely linked to ideas of sovereign statehood. Although economic elites were well-disposed towards integration, they needed the political impediments to be low (Gstöhl, 2002, p. 222). She also states that the lower the economic incentives and the higher the political impediments, the more valuable is the maintenance of ‘operational sovereignty’ in relation to the acquisition of ‘international voice opportunities’ (Gstöhl, 2002, p. 222).

1.3 Nationalism and European integration

In some of the above theories, more than passing use is made of the term “national identity”. What is this elusive concept that allegedly interferes with what might be thought very straightforward economic decisions based on solid “cost-benefit” analyses? For an answer to this question one has to look into theories on nationalism.

Nationalism is one of the most powerful political forces in the world. It has taken on a multitude of forms: religious, conservative, liberal, fascist, communist, cultural, political, protectionist, integrationist, separatist, etc. (Hutchinson & Smith (Eds.), 1994, p. 3). Millions of people have been forced to lay down their lives for nationalist ideals, which shaped much of the political discourse in the past two centuries, led to the formation of nation states in Europe, the horror of the World Wars, the breakup of empires and other major events in the recent political history of mankind.

In his study of Icelandic nationalism, Birgir Hermannsson says that there is no consensus on the correct definition of nationalism or the proper theoretical approach to study it. This is because of the highly contested nature of the concept and the politically infused character of attempts to define it. The subject (the scholar) and the object (nationalism) are always
part of changing historical circumstances. He says that although ‘this spirit of critical scepticism dampens the ambition of positive theory building, it does not make all approaches equally suspect nor rule out the possibility of pursuing a particular scholarly agenda when studying nationalism’ (Hermannsson, 2005, p. 345).

The literature on nationalism is immense and growing rapidly. There is no room in this thesis to give a comprehensive overview of it – probably not even its most important works in the latter half of the twentieth century – but a brief introduction on its relevance to European integration is necessary.

### 1.3.1 Primordialism

Many attempts have been made at categorising different kinds of nationalism (cultural, liberal, etc.), and in recent years new categories have been piling up. In his overview of theories of nationalism, Umut Özkırımli draws up three main categories, within which subcategories can be ordered. The first main category is that of primordialism, which is also the earliest approach and the one which most, if not all, nationalists would adhere to (Özkırımli, 2000, p. 67). Under the primordialist umbrella one would find scholars, theorists and others who see nationality as a “natural” part of human existence – as natural as faculties such as sight and smell – and maintain that nations have existed since time immemorial in one form or another. It goes without saying that many different theories on nationalism exist under this umbrella, which vary in their depth and extent to which their advocates believe nations are ancient. Özkirimli differentiates between three approaches to primordialism; the naturalist approach - under which the less extreme version “perennialism” is categorized, the socio-biological approach and the culturalist approach.

### 1.3.2 Modernism

The second main category of approaches to nationalism would be that of modernism, which emerged as a reaction to primordialism, made up the bulk of theorising on nationalism in the twentieth century and remained the dominant orthodoxy in the field for the best part of that century. Modernism’s main paradigm is that nations as such are recent (or “modern”) constructs, and that they, together with nationalism, emerged in the last 200 years or so, following the French Revolution. Thus, they are seen as products of such modern phenomena as capitalism, urbanisation, secularism, industrialism and the bureaucratic state.

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5 For an overview of theories on nationalism see Özkirimli, Theories of Nationalism, 2000.
(Özkırımlı, 2000, p. 85). Needless to say, Marxist theorists belong to this tradition, stressing the economic roots of nationalist traditions, together with others that would rather stress cultural or political roots of nationalism. Postmodern analysis of such themes as fragmentation, feminism and globalisation could possibly fall under this category as well and according to Smith can be ‘seen as continuations of components of the modernist paradigm.’ (Smith A. D., 1998, p. 224).

1.3.3 Ethnosymbolism

The most recent main category of scholarly approach to nationalism is that of ethnosymbolism, which challenges the modernist argument of the modern construct of nationhood by pointing to pre-existing ethnic ties and symbols in the formation of modern nations (Özkırımlı, 2000, p. 167). Anthony D. Smith, John Hutchinson and John Armstrong would be in the forefront of ethnosymbolist scholars in the English speaking world, aiming to uncover ‘the symbolic legacy of ethnic identities … and to show how modern nationalisms and nations rediscover and reinterpret the symbols, myths, memories, values and traditions of their ethno-histories, as they face the problems of modernity.’ (Smith A. D., 1998, p. 224).

Özkırımlı continues his discussion by suggesting the way forward in research on nationalism, especially with regard to recent developments in gender studies.

1.3.4 Theorising about nationalism

Ernest Gellner, a modernist scholar, arguing for the cultural roots of nationalism, defines nationalism as ‘a political principle which maintains that similarity of culture is the basic social bond. Whatever principles of authority may exist between people depend for their legitimacy on the fact that the members of the group concerned are of the same culture (or, in nationalist idiom, of the same ‘nation’).’ (Gellner, 1998, pp. 3-4). Ethnosymbolists Anthony D. Smith and John Hutchinson say that there are important differences in ways of defining nationalism and that some stress the cultural aspect of it (as Gellner does), while others stress the political aspects. They suggest a synthesis of these aspects while drawing attention to the fact that the ‘founding fathers’ of nationalism – Rousseau, Herder, Fichte, Korais and Mazzini, saw it as an amalgam of political and cultural dimensions (Hutchinson & Smith (Eds.), 1994, p. 4).

Benedict Anderson, a modernist, says that a part of the problem of trying to theorise about nationalism is that ‘one tends unconsciously to hypostasize the existence of Nationalism-with-a-big-N… and then to
classify ‘it’ as an ideology.’ (Anderson, 1991, p. 5). He says it should rather be treated as belonging with “kinship” or “religion” than “liberalism” or “fascism”. He however defines a nation – the subject of nationalism – as being ‘an imagined community – and imagined as both inherently limited and sovereign’ (Anderson, 1991, p. 5). Anderson says it is imagined since even ‘the members of the smallest of nations will never know most of their fellow-members, meet them or even hear of them, yet in the minds of each lives the image of their communion’ (Anderson, 1991, p. 6).

Eric Hobsbawm, another modernist, says that for nationalism to take root, nationalists even invented a historic continuity, ‘for example by creating an ancient past beyond effective historical continuity, either by semi fiction… or by forgery’ (Hobsbawm & Ranger (Eds.), 1999, p. 7). New symbols, such as the national anthem and the national flag, were devised to remind people of the invented traditions of national entities (Hobsbawm & Ranger (Eds.), 1999, p. 7).

Michael Billig sets out to provide a systematic analysis of the constant reproduction of nationalism. He says that in what he calls “banal nationalism”, national identity is created and then reaffirmed on an almost daily basis with subtle signs, almost invisible in their familiarity (Billig, 2004, pp. 7-9).

National identity can be defined as ‘a particular type of social or collective identity… [that provides] a psychological link between individuals and the social groups to which they belong’ (Cini, 2001, p. 63). It is sometimes argued that national identity is the most important of all social identities, but ‘to understand what it is means coming to terms with two highly contested concepts: the nation, and indeed identity, and the relationship between the two’ (Cini, 2001, p. 63). Smith claims that of ‘all the collective identities in which human beings share today, national identity is perhaps the most fundamental and inclusive’ (Smith A. D., 1991, p. 143). He says that governments may succeed in muzzling the expression of it for a while, but this is likely to be costly and fruitless in the end, ‘[f]or the forces that sustain national allegiances have proved, and are likely to prove, stronger than any countervailing trends’ (Smith A. D., 1991, p. 143).

Billig says the problem of defining identity begins when one expects to find it in the body or mind of an individual. One should rather look for the reasons why people today do not simply forget their national identities. It is here that we need to look for the continual “flagging” reminding of nationhood that goes on in our everyday lives. Nationhood also provides a continuous background for political discourse, cultural products and the
structuring of the media. Billig says ‘banal nationalism is not a flag which is being consciously waved with fervent passion; it is the flag hanging unnoticed on the public building’ (Billig, 2004, p. 8). National identity, according to Billig, embraces these “forgotten reminders”. It is to be found in ‘the embodied habits of social life... [including] those of thinking and using language,’ says Billig:

To have a national identity is to possess ways of talking about nationhood... [It] also involves being situated physically, legally, socially, as well as emotionally; typically, it means being situated within a homeland, which itself is situated within the world of nations. And, only if people believe that they have national identities, will such homelands, and the world of national homelands, be reproduced (Billig, 2004, p. 8).

1.3.5 Nationalism in Europe

Following the horrors wrought on the people of Europe during World War II in the name of nationalism, it is understandable that the concept came out of the war with a bad name. To some, the answer was to build a new sense of identity tied to Europe, and to further European political, social and economic integration.

Referring to the interaction between national identities and the attempts of influential protagonists of European integration to create a European identity, Smith says that there ‘is little prospect of a European ‘super-nation’ until the majority of each European nation’s population becomes infused with a genuinely European consciousness.’ (Smith A. D., 1991, p. 152). According to opinion polls conducted regularly by EU staff in the form of the Eurobarometer there is a long way to go. Although the sense of ‘Europeanness’ varies wildly among the member states, even in the country where the highest proportion of the population usually names a European identity before a national one, Luxembourg (which has a high proportion of citizens from other EU countries), only 28 per cent did so in 1999. In France, which ranks second in identifying with Europe, only 16 per cent named a European identity before the national one. In Britain and Sweden, 62 per cent and 60 per cent, respectively, mentioned only their national identity and made no reference to a European identity at all, while 9 per cent and 5 per cent either only mentioned European identity, or placed it before their national identity (Eurobarometer, 1999, p. 59). In 2006, on average, 16 per cent of EU citizens often thought of themselves as European in addition to their nationality and 38 per cent sometimes did so. In Greece (72 per cent), Finland (68 per cent) and Luxembourg (67 per cent), over 2 out of 3
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respondents sometimes or often felt European. The reverse appeared to be the case in the UK, where 67 per cent of respondents indicated they never felt European (Eurobarometer, 2007, p. 112).

Michael Bruter challenges these measurements of “Europeanness” and states that they implicitly rely on ‘models of identity opposition’, meaning that identities are unique and cannot be complementary. He proposes a model of identity complementarities that ‘leaves room for any form of internal organisation and relation between identities.’ (Bruter, 2005, p. 19).

Looking at European nationalism in particular, Ernest Gellner identifies ‘three or four time zones, rather like the world maps at airports indicating time differences in various areas… belts of territory running from north to south… which differ from one zone to the other.’ (Gellner, 1998, p. 50). In the first zone we have ‘Europe’s Atlantic coast and the societies spread out along it’; in the second ‘the area corresponding roughly to the territory of the erstwhile Holy Roman Empire’; in the third is Eastern Europe, and the fourth overlaps it in a way and adds a new dimension – the period of Bolshevism (Gellner, 1998, pp. 50-8). Gellner states that changes due to nationalism came relatively easy to the first zones. The strong dynastic states focused on London, Paris, Lisbon and Madrid more or less corresponded to cultures and languages found in the areas turned into nation states around these centres – even if the fit was not perfect. Gellner says that the only major change on the map in this area as a result of nationalism is the creation of the Republic of Ireland (Gellner, 1998, p. 51).

Unfortunately, Gellner either ignores or forgets the Nordic countries in his analysis of Europe. Another possibility is that he does not consider the creation of Iceland, Norway and Finland as independent states as a ‘major change’ on the map, (or at least not on the scale of the creation of the Republic of Ireland). However - the characteristics of the Nordic countries would probably place them in the first zone – strong dynastic states focused on Stockholm and Copenhagen, and a few minor changes on the map due to nationalism.

The second zone had to go through a more complicated process from nation-free to nationalist-prone society. There, in the lands of the Holy Roman Empire, cultures were ready for statehood, but, alas, there were no states. No significant “culture creation” was needed in order to unify these areas into Germany and Italy once the leaders of unification were found in the shape of Prussia and Piedmont respectively (Gellner, 1998, pp. 52-3). It is clear that Malta would fall within this zone, long being a fief held by the Knights under the aegis of the Holy Roman Emperor. It was denied participation in the unification process however, since it was an important naval base for the British at the time of the unification of
Italy – to the dismay of the Italian-speaking elite, the “nationalist” movement at the time (see 4.2).

In zones three and four, Gellner believes violence and brutality, due to the complex mix of languages and cultures, were inscribed into the nature of the situation. ‘The horror was not optional, it was predestined’ (Gellner, 1998, p. 54). Gellner says that in these areas ‘either people must be persuaded to forgo the implementation of the nationalist ideal, or ethnic cleansing must take place. There is no third way.’ (Gellner, 1998, p. 56). Adding to the complexity of the situation were the unscrupulous and murderous tendencies of the Communist regime, focused on the Soviet Empire and the eventual vacuum created by its downfall (Gellner, 1998, pp. 56-58).

In his paper *The nation as an artichoke? A critique of ethnosymbolist interpretations of nationalism* (Özkırımlı, 2003), Özkırımlı puts forth a fierce criticism of Smith’s ethnosymbolist theory and argues that ethnosymbolism is ‘more an attempt to resuscitate nationalism than to explain it’, and that Smith, together with his fellow ethnosymbolists is a latter-day Romantic who suffers ‘from a deep sense of nostalgia’ (Özkırımlı, 2003, p. 340). He says that ethnosymbolists are right in saying that nations will not be superseded in the near future, however, this is not because they are firmly rooted in public consciousness, but rather because the process of the reproduction of nationhood ‘continues unabated and there are no compelling alternatives on offer’ (Özkırımlı, 2003, p. 343). He states that Smith is right in pointing, for instance, to the memories of previous bloodshed between the Serbs and Croats as an explanation for the atrocities in the 1990s; however, it was not the memories themselves, but the way they were used by nationalist ideologues, that led to the atrocities. Özkırımlı says it is true that ‘the present cannot alter what happened in the past, but it can ignore certain elements and emphasise others, exaggerate the relevance of some, trivialise that of others, and it can certainly distort realities… The elites sometimes use these memories to bring about something that they believe to be in their people’s interest.’ (Özkırımlı, 2003, p. 348). Thus, Özkırımlı argues that the quest for a grand theory of nationalism should be abandoned, and the need might rather be for a theory of different nationalist practices, even though such partial theories might only illuminate a corner of the broader canvas (Özkırımlı, 2003, p. 354).

Smith replies to Özkırımlı’s critique by stating that ethnosymbolism is not “a theory”, even if he believes that an overall theory on nationalism would, in principle, be desirable. His would be a more limited perspective or approach which complements that of modernism and covers only some
aspects of the subject (Smith A. D., 2003, p. 359). He argues that when selecting memories to arouse nationalistic sentiments, the elites have to maintain themselves within the boundaries of the cultural traditions of the populations they wish to rouse; ‘it was – it is – no good trying to rouse the English with appeals to French history or Russian literature or German football!’ (Smith A. D., 2003, p. 362). He admits that, of course, the reconstructed past is very different from the past-as-experienced, but between the latter and the present selection and reconstruction process, there may be a tradition of views of the past. This conditions our present view of the past, thus limiting the possibilities of selection as – Smith mentions – ‘Europhiles find daily to their cost.’ (Smith A. D., 2003, p. 362). Smith answers Özkıırımlı’s charges of ‘naïveté’ and ‘reticent nationalism’ by stating that he has generally preferred to follow Weber’s advice to leave value-preferences at the door of the analysis – though this is not the same as claiming ‘political neutrality and scientific objectivity’. ‘No ethnosymbolist – no theorist – could make such absurd claims’ (Smith A. D., 2003, p. 366). However, in using Smith’s own definition of nationalism – it being ‘an ideological movement for the attainment and maintenance of autonomy, unity and identity on behalf of a population deemed by some of its members to constitute an actual or potential “nation”’, then Özkıırımlı would have to show that ethnosymbolists were partisans of this or that ideological movement of nationalism. ‘And since there are different kinds of nationalisms, and each nationalism has special characteristics, it really makes little sense to claim that one is for or against an abstract ‘nationalism-in-general’ (Smith A. D., 2003, p. 366).

1.4 Theorising about small states

There is no denying that the two cases in question in this thesis, Malta and Iceland, fall under the category of small states. Small-state studies gained momentum in the years between 1967 and 1973, with the works of Robert L. Rothstein, (Rothstein, 1968), David Vital, (Vital, 1967), Robert O. Keohane, (Keohane, 1969) and many others, having had their genesis in 1959 in a book by Annette B. Fox, The Power of Small States. Diplomacy in World War II (Fox, 1959). Of the more recent works on small states, the most influential are probably those of Peter J. Katzenstein (Katzenstein, 1985).

There are many differing scholarly opinions on what constitutes a small state. The categorisation of states is not an easy task, and sometimes states as different in population size as the Netherlands (16 million inhabitants) and Iceland (313,000 inhabitants) are both categorized as “small states”
Introduction

(Neumann & Gstöhl, 2006, p. 6). Thus the concept of “micro-states” is sometimes applied to countries in the category of the latter (Pace, 2001). It is also sometimes suggested that “micro-states” are those that have a population smaller than 100,000, such as Liechtenstein, Andorra and San Marino, or even smaller than one million, thus including Iceland, Malta, Cyprus and Luxembourg (Neumann & Gstöhl, 2006, p. 6). Others suggest that Iceland and Malta, which in political and economic terms are more like countries the size of Estonia, Latvia and Slovenia than Liechtenstein and Andorra, should fall in the “small states” category, rather than the one of “micro-states” (Crowards, 2002). Neumann and Gstöhl suggest that micro-states are those states whose ‘claim to maintain effective sovereignty on a territory is in some degree questioned by other states, and that cannot maintain what larger states at any one given time define as the minimum required presence in the international society of states.’ (Neumann & Gstöhl, 2006, p. 6). In economic and national security terms, small states are highly vulnerable and need to address this in some manner. Hitherto this has taken the form either of securing the protection of a larger state, or of entering a community, like the EU, including larger states which influence the smaller ones whether they like it or not. (Katzenstein P. , 1997). In the same vein is the argument of Roderick Pace on Malta’s journey towards EU membership (Pace, 2001). Archer and Sogner focus on the national security variable in explaining the position of Norway outside the Union (Archer & Sogner, 1998). Katzenstein’s theory, that small states enter the EU to relieve the pressures the international community puts on them in this respect, has been challenged, especially in the light of Iceland’s having stayed out of the EU for so long see (Einarsson E. B., 2009, p. 74). However, in the light of Iceland’s application for EU membership, that question needs to be revisited. Another thing that is important to take into account when dealing with small states is their tendency to compensate for smaller domestic markets by specialising in their production (see e.g. Katzenstein P. J., 1985 and Thorhallsson, 2000). This is particularly important in view of the special interests of the leading sectors, which are described by Ingebritsen (Ingebritsen, 1998) and tackled below, especially in Chapters 3 and 5.

Briguglio et al. suggest that small states tend to be inherently prone to exogenous shocks over which they can exercise very little, if any, control (Briguglio, Cordina, Farrugia, & Vigilance, 2008, p. 11). This is due to their relative openness to trade and their dependence on a limited range of exports. They tend to tackle this problem by what Briguglio et al. call resilience building, associated with policy-induced measures that enable the
country in question to recover or adjust to the negative impacts of adverse outside shocks and to benefit from positive shocks. Thus, Briguglio *et al.* state that a number of small states have managed to generate a relatively high GDP per capita, compared to other developing countries. They argue that economic resilience depends upon appropriate policy interventions in four principal areas: macroeconomic stability, microeconomic market efficiency, good governance and social development.

David Vital states that ‘the smaller the human and material resources of a state, the greater are the difficulties it must surmount if it is to maintain any valid political options at all’ (Vital, 2006, p. 77). This he bases on the natural assumption that, all things being equal, states with great economic resources and a large population have more influence on the outside world, greater security, more prestige and a larger element of choice in respect of the national policy they pursue, while small states are more vulnerable to pressure, more likely to give in under stress, have more limited political options and are subject to a tighter connection between domestic and external affairs. Vital mentions other factors that are likely to modify the effect of smallness, such as the level of economic and social development attained, geographical proximity to areas of conflict or importance to great powers, the nature of the environment in which the state is placed and the cohesion of the population and its support of the government of the day. However, material size is the factor which is most difficult to modify through the deliberate efforts of governments, setting a limit to what can be attained by the nation and fixing its international role and status more securely than any other factor. (Vital, 2006, pp. 76-7). Vital suggests that the great post-war proliferation of small states occurred in an atmosphere ‘peculiarly conducive to illusions about national strength and to a corresponding emphasis and reliance on the formal, legal, equality of nations... This may be a good or a bad thing; what is uncertain is whether it will last.’ He believes that ‘a reliance on these inhibitions would be misplaced and that the operative factors in crisis remain the national interest as seen at the time and the material bars, if any, to its pursuit’ (Vital, 2006, p. 77). Therefore the survival of small politically isolated states as independent powers is, in his view, precarious (Vital, 2006, p. 87).

There is thus the underlying assumption in this thesis – in the spirit of the “grand theories”, the small-state theories and Wendt’s constructivist ontological starting point in the “philosophers’ cultures” – of an underlying and overarching pressure for integration, be it to guarantee economic security or to follow the dominant culture in the international arena to a new
stage. This is not a value judgement on the merits of the integration process or the benefits of membership of the European Union, but simply an assumption that the prospect of EU membership can be an attractive option for peripheral European states. Although the thesis is written within Gstöhl’s framework of economic incentives and political constraints, constructivist ideas are made use of in the explanations, together with the ethnosymbolist framework of Anthony Smith. Similarly, acknowledgment of the use of the concept of the antiquity of nations, and of the importance of this concept in nationalist discourse, does not involve a judgement of the value of the concept in itself.
2 Methods and framework of analysis

2.1 Case selection – why Iceland and Malta?

When Iceland and Malta are compared, what is usually noted first is their small population, which is not surprising, since population is usually the main category used in comparing nations’ “size” (Vital, 2006, p. 77). The population of Iceland reached 300,000 in January 2006 (Hagstofa Íslands, 2006) and as of 1 January 2010 it stood at 317,630 (Hagstofa Íslands, 2010). Malta’s population in the first years of the twenty-first century was just over 400,000 (National Statistics Office - Malta, 2005). Small population size imposes various similar constraints and challenges which are addressed in the small-state studies introduced above. Opposition to EU membership by the political elite is a feature that is unique to Iceland and Malta. In most other European countries, it is rather the public that has been sceptical and a great majority of the elite has supported EU membership (Thorhallsson, 2001, p. 258).

Of course there are some spectacular differences between these two countries. They are not two identical cases where only one thing is different and can be singled out as an “explanatory variable” to account for different decisions. However, this does not render a comparison between countries, and the policies pursued within them, useless. ‘Variety invites comparison,’ as Robert Paxton says in his comparative study of Fascism in various countries (Paxton, 2005, p. 20).

Another similarity that makes Malta and Iceland interesting to compare is the fact that they are both island states on the geographic periphery of Europe: Iceland in the North Atlantic close to Greenland, and Malta in the Mediterranean, midway between the European continent and North Africa. John W. Young, in explaining the exceptionalism of Britain in European integration, states that the geographical fact that Britain is ‘an island’ has had a profound effect on national outlook. Whereas Continental countries have been forced over centuries to deal with each other every day to settle border disputes, reach common solutions to problems like river navigation and border controls, and have suffered frequent invasions during wars, Britain has been able to adopt an insular policy, has avoided permanent involvement in Continental affairs and has escaped successful invasion for nearly a thousand years (Young J. W., 1993, pp. 167-8).
Although Iceland and Malta have not escaped invasions, the same applies to them as to Britain with respect to the other matters mentioned above. They are, however, quite different when it comes to physical size. While Malta is around 246 square kilometres, and therefore one of the most densely populated countries in the world, Iceland is 103,000 square kilometres and thus one of the most sparsely populated.

Both countries are sovereign European states that have nevertheless spent centuries under foreign rule, gaining their political independence in the twentieth century; Iceland from Denmark in 1918-44 and Malta from the United Kingdom in 1964-74. The reason for citing periods here instead of specific dates of “political independence” lies in different perceptions of “independence”. Iceland gained its sovereignty in 1918, but retained a common head of state with Denmark, together with some other ties, such as Denmark’s handling of Iceland’s foreign affairs. In 1944, Iceland was declared a republic, and broke all formal ties with Denmark. Thus, 17 June 1944 is the date most Icelanders celebrate as the date of independence, as was illustrated by the lavish celebrations of 50 years of independence in 1994 (Hálfdanarson, 2001), although the great change really took place in 1918. A similar situation can be found with regard to Malta. In 1964 it became a sovereign nation, but retained the British monarch as its head of state. In 1974 Malta was declared a republic and broke all formal ties with the United Kingdom. In both countries, sovereignty was gained through peaceful means, though not without a struggle. In both cases, it took the best part of a century to achieve, and was by no means inevitable. A “struggle for independence” is thus yet another thing these countries have in common.

Both nations have their own national languages. (Gowland, O’Neill, & Dunphy, 2000, p. 265, Borg, 1994, p. 27, Sigtryggsson J. B., 2003). In Iceland, “Icelandic” or “íslenska”, an Indo-European language of the North Germanic family, is the official and spoken language, and in Malta, “Maltese” or “Malti”, a Semitic language of Arabian origin, with many words borrowed from Italic languages (Borg, 1994, pp. 27-50), is the “national tongue”, although English is widely used and has official status together with Maltese (Government of Malta, 1964). 7

Not many countries in Western Europe have comparatively large political parties opposing their country’s membership of the European

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6 It however remains within the Commonwealth of Nations, formerly known as the British Commonwealth.
7 The official status of the Icelandic language is not mentioned in the Icelandic constitution, but both Maltese and English are referred to in the Maltese one.
Union. Although “Euroscepticism” can be found in large parties in some West European countries (the best known example of such a stance probably being within the British Conservative Party), these parties have not openly opposed EU membership as an option for their countries in the last decades. In Norway, to name a West European country outside the EU, the largest parties (the Social Democrats and the Conservatives) have long officially advocated EU membership, although contingents within them have been against it (Neumann, 2002, p. 117). In Malta and Iceland the situation has been different. These countries share the characteristic of having had proportionally large parties that either have actively campaigned to keep their country outside the European Union (the Malta Labour Party, in opposition since 1987, with the brief interval of 1996-1998) or have stood against any moves towards seeking EU membership (the Icelandic centre-right Independence Party).

If there is such a thing as a European cultural heritage, both countries undoubtedly share it. However, there has been a streak in the debate – though admittedly not a prevalent one – both in Iceland and Malta, in which these countries are mentioned as having other options to consider apart from leaning towards Europe. In Iceland, this option has been to the west, to America or the United States. It was reinforced by the close cooperation with the United States in security and economic matters in the period since World War II and throughout the Cold War. 8 In the mid-1990s the Icelandic government had a special committee to look into the possibility of Iceland making a free-trade agreement with NAFTA, or even joining it (Starfshópur á vegum ríkisstjórnar Íslands, 1994). Such ideas have been pursued sporadically since then, mostly from within the Independence Party (Bjarnason, 1999, Oddsson, 2000).

In Malta, “the Mediterranean” has sometimes served in the discourse as an alternative to “Europe”. Under the longstanding leadership of Dom Mintoff, a charismatic leader of the Malta Labour Party from 1949 to 1984 and Prime Minister from 1955-58 and 1971-84, ties with North Africa, and especially Libya, were nurtured to the extent of raising suspicion in the Western media of Malta being ‘a Libyan Trojan Horse’ (Gerber, 2002). For most of the period of Maltese independence the idea that Malta could serve as a “gateway” to North Africa has figured prominently (Pace, 2001, p. 127), especially among those who had a vision of Malta’s future not entailing membership of the European Union.

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8 For a discussion on Iceland’s relationship with the US, see Thorhallsson & Vignisson, The special relationship: Iceland and the USA, 2004b.
Michelle Cini mentions the construction of a ‘non-aligned Mediterranean identity’ associated on the one hand with the island’s neutral status in security matters and on the other with an anti-clerical tradition being in opposition to the construction of Malta as a European and a (prospective) EU state – the Christian Democrat identity being closely tied to pro-clerical sentiments in Malta (Cini, 2000, pp. 13-4).

In the period in question, there has been a marked difference between the two countries in terms of economic prosperity, with the Icelandic economy, despite a smaller population, being twice the size of the Maltese (International Monetary Fund, 2011). Despite the economic crash Iceland suffered in October 2008, Iceland’s economy remains significantly larger than Malta’s. The effect this and other economic realities have had on the will to European integration is pursued in Chapter 3.

It should not be forgotten that for a while both nations shared the common characteristic of being important military outposts for major western players in the Cold War, Malta as the main port of the British navy in the Mediterranean (until Mintoff’s government expelled it in 1979), and Iceland with a US military base (closed down in 2006). Both nations depended heavily in economic terms on the presence of the foreign forces. Iceland’s foreign trade was rescued from collapse with Marshall Plan aid and Iceland’s participation in the economic cooperation between western nations (Whitehead, 1991, p. 113). In the early 1950s, 20% of Iceland’s income in foreign currency could be traced to economic activities related to the US base (Snævarr, 1993, pp. 60-2). Similarly, in the years 1960-64, 15.1% of Maltese GDP could be traced directly to the British forces (Briguglio, 1994, p. 237). Following the departure of the British in 1979, Malta and Iceland followed different paths in security terms. Iceland chose in the aftermath of World War II to be a founding member of NATO, and has a defence agreement with the United States, signed in 1951, ten years after their initial landing on Icelandic shores (Thorhallsson & Vignisson, 2004b, p. 103). Malta’s security was initially guaranteed by the presence of the British naval base, but after its expulsion in 1979, Malta declared itself “neutral” and has its own defence forces. The EU membership of the “EFTA neutrals”, Sweden, Austria and Finland, has shown that membership of the EU and neutrality in military terms are not mutually exclusive. Thus, Malta’s membership of the European Union was seen by many proponents

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9 In the case of Iceland, the importance of the US presence was not less in political terms, giving Iceland the means to punch above its weight in international affairs, such as during the “Cod Wars” with Britain, see e.g. Ingimundarson, 2001.
of membership as being a means for Malta to guarantee its security without the need to give up neutrality (The Sunday Times, 8 September, 2002, p. 20). In Chapter 4, the geopolitical situation of Malta and Iceland is analysed in the light of their history, and the options consequently open to them.

It has been mentioned above that both nations lived for centuries under foreign rule. However, their experiences in this respect were rather different. While Iceland was a distant province of the Norwegian, and later Danish, monarchies, for the most part sharing religion and culture with the ruling country and ruled largely by an indigenous elite, Malta had various rulers, none of whom had much in common with the indigenous population. In some cases the cultural differences between the Maltese and their rulers were quite significant, even in religious terms. However, during all this time there survived a local elite, which at times even spoke a language different from that of the rest of the population. This led to a rather severe social division in Maltese society, a division that has no parallel in Icelandic society. Politically, this led to another difference between the countries. Malta has virtually had a two-party system for most of its period of independence, and it has even been stated that it possesses one of the purest two-party systems in the world (Cini, 2002, p. 1). Since independence, Iceland has almost exclusively had coalition governments and, despite a couple of short-lived minority governments, no political party in Iceland has ever been able to control the country without the support of one or more other parties. The views of the political parties of Iceland and Malta towards European integration are analysed in Chapter 5 and the effect of social divisions on identity and nationalism in the two countries is tackled in Chapter 6.

When it comes to religion, Malta and Iceland belong to different categories. The Maltese population is overwhelmingly Roman Catholic and, as research shows, rather devout as such (Abela, 1991, pp. 93-4). Icelanders are equally overwhelmingly Protestant, with the Evangelical Lutheran Church of Iceland defined as the “National Church of Iceland” with extensive ties to the Icelandic state. Although Icelanders are not very churchgoing people, they overwhelmingly claim to be Christian and/or religious and see the activities of the church as important for their communities (Gallup, 2004). Although perhaps not in the forefront when the elite discusses and makes decisions on European integration, these specific cultural characteristics make an interesting comparison when looking into attitudes towards the European integration process. This is also pursued further in Chapter 6.

Table 2.1 shows some of the similarities and dissimilarities of the cases of Iceland and Malta.
Table 2.1 The similarities and dissimilarities of the cases of Iceland and Malta.

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2.2 Statement of purpose

2.2.1 The puzzle and the general research question

As was stated in the introduction, the general purpose of this thesis is to test the theoretical framework of Sieglinde Gstöhl (1998, 2002) and how it explains the routes Malta and Iceland, two small and peripheral European countries, have taken towards EU membership. The framework will be somewhat modified to make room for influential theories or models of European integration and nationalism, those of Christine Ingebritsen (1998) and Anthony D. Smith (1991) respectively; such or similar modifications are in fact suggested by Gstöhl when putting forth her framework (1998, pp. 79, 87).

The thesis will address the following puzzle: In spite of the opposition within Malta towards EU membership, it can be argued that given the circumstances, Malta joined the European project as soon as it was politically possible for the country to do so, considering its neutral status in the Cold War after it became an independent republic. This is definitely not the case with Iceland. Iceland, a NATO member from the outset, began looking into membership of the EEC as early on as 1961, though for various reasons it would not have been possible for the country to join it during that decade. It is not impossible that Iceland could have applied and joined at the same time the UK, Denmark and Ireland and at any time since then. However it chose not to and only put in a membership application in 2009 in the aftermath of the Icelandic Republic’s worst economic crisis. Although the membership negotiations have barely formally started as this thesis is in its final stages, it is, given the strong opposition towards membership of the EU amongst the Icelandic elite and public, rather uncertain if they will lead to Iceland’s joining the EU. This is puzzling, given the importance of the European markets for Iceland, and its reliance on foreign trade, plus the depth of its participation in the European project through the EEA. Gstöhl’s model is used
to answer similar questions with regard to Sweden, Norway and Switzerland. In her study, her research question focuses on why the small EFTA countries, in particular Sweden, Norway and Switzerland, have been so reluctant towards European integration (Gstöhl, 1998, p. 14). Iceland is a ‘small EFTA country’ reluctant towards European integration. Malta is not, although there was a widespread opposition towards joining the EU in the years before Malta’s accession. Including Malta in the study gives a new dimension to Gstöhl’s framework, using it to tackle a country outside the club of rich EFTA states, although with severe political obstacles towards membership. There is in this thesis a somewhat unequal focus on the two countries. Thus the discussion on Iceland is given more space than that on Malta. There are two reasons for this. The first is the fact that Malta has already joined the EU, and it did not follow a ‘path-dependent process’ of limited integration – which is the analytical focus of the research and the foundation upon which Gstöhl’s model rests upon. Iceland, however, did exactly that. The other one is more personal, the author being Icelandic, and the origin of the research being an academic curiosity about Iceland’s reluctance to join the EU. Malta came in handy as a case to compare to the Icelandic one.

The general research question of this thesis revolves around a question similar to that addressed by Gstöhl and uses the comparison of Iceland and Malta to tackle it. It is thus: *Given the extensive opposition towards EC/EU membership in Iceland and Malta, why did Malta take steps to full membership of the European Union by applying for it in 1990 and joining in 2004, while Iceland aimed for limited integration until 2009?* To answer this general question, five sub-questions, each connected to certain theoretical statements on the issue, will be asked and answered in respective chapters.

### 2.2.2 Hypothesis

The hypothesis of the thesis is the following:

The main reasons why Malta applied for EU membership in 1990 and eventually joined the European Union in 2004, while Iceland aimed for limited integration until 2009 are:

1. Malta’s economic incentives remained high since the early 1990s, while Iceland’s economic incentives decreased from high to low with the creation of the EEA.
2. Different options for integration were available to Iceland and Malta, making Malta aim for full membership of the EU, while Iceland could aim for limited integration, i.e. the lowest level of integration available to relieve the economic pressure to integrate.
3. Iceland’s political impediments generated by its ethnic nationalism and leading economic sectors were higher than those created by Malta’s political cleavage and territorial nationalism.

The first part of the thesis (Chapter 3) analyses economic performance in Iceland and Malta in the period from c. 1989 to 2009. This entails an examination of the structure of the respective economies, the views of their economic interest groups, and a measure of the economic incentives for joining the EU. The second part (Chapter 4) examines how the official history of the two respective countries has shaped their different options regarding European integration. The third part (Chapter 5) deals with the recent and current politics of Iceland and Malta and the views of their political parties. The fourth part (Chapter 6) addresses the different notions of national identity and nationalism in Iceland and Malta, with a discussion of the part played by religion. In Chapter 7 there is a comparison of the debate taking place in important political periods in Iceland and Malta – in Malta 2002-03 before the referendum on membership, and in Iceland in the same period (2002-03) before the general election of 2003 and again in 2007-08 when the Icelandic currency, the króna, was one focus of attention at a time of serious economic concerns. The analysis of the debate in Chapter 7 is intended to identify the main perceived incentives and obstacles to integration in the arguments of the proponents and opponents of integration. At the conclusion of the chapter, the political impediments are systematically evaluated according to Gstöhl’s model.

Finally, in the conclusion (Chapter 8), the independent variables; the economic incentives and political impediments, are measured against each other, the hypothesis revisited and the general research question answered. The hypothesis is based on the assumptions put forth by Gstöhl regarding political impediments and economic incentives, and the interaction taking place in between the elite, public and special interests as illustrated in Figure 2.1.

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10 Thus, even though the focus is on political obstacles, it is possible to speak of political incentives as well, such as the perception of increased security or the consolidation of democracy, or even – as is the case in both Iceland and Malta – the “system-affecting state arguments” (Pace, 2001, pp. 402-3), that Gstöhl defines as the acquisition of ‘international voice opportunities’ (Gstöhl, 2002, p. 222). The “system-affecting state” argument is based on Robert O. Keohane’s important thesis *Lilliputians’ Dilemmas* (Keohane, 1969), where he defines four categories of states as “system-determining”, “system-influencing”, “system-affecting” and “system-ineffectual”, where small states that cannot hope to affect the system acting alone can exert impact on the system by working through groups or alliances or through international organisations and thus transfer themselves from being “system-ineffectual” to “system-affecting” (Keohane, 1969, pp. 295-6).
2.2.3 Research questions

Following this structure, five research questions are posed, based on theoretical assumptions from the existing European integration literature:

1) Liberal intergovernmentalists such as Andrew Moravcsik emphasise the importance of ‘commercial interests’, proposing that they provide the ‘only empirically robust explanation for the long term evolution of the EU’ (Moravcsik, 1999, p. 373). The theory of Christine Ingebritsen (Ingebritsen, 1998), which explains the integration process in terms of the economic structure of societies and the pursuit of interests by the main economic actors, has been considered to be of the same general type (Hansen & Wæver, 2002, p. 10). According to Ingebritsen, the political influence of leading sectors of the economy in the Nordic countries (Norwegian oil, Swedish manufacturing, Finnish manufacturing and forestry, Danish agriculture and industry and Icelandic fisheries) is the decisive factor in shaping the discourse on European integration (Ingebritsen, 1998, p. 34). Gstöhl speaks of economic incentives for joining the EU (Gstöhl, 2002). The first research question, dealt with in Part I (Chapter 3) is:
Statement of purpose

1) To what extent does the economic performance of Iceland and Malta and the structure of the Maltese and the Icelandic economies explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

2) Theories on small states, such as the one put forward by David Vital (Vital, 1967), Robert Keohane (Keohane, 1969) and more recently Peter Katzenstein (Katzenstein, 1985), suggest that it remains of paramount importance for small states to address their weakness in political, economic and security terms; a primary hypothesis should be that small states would begin by addressing those weaknesses. In the same vein is the analysis by Roderick Pace of Malta’s journey towards EU membership (Pace, 2001). Small states address these weaknesses by forming or joining alliances that involve larger powers or organisations, such as the European Union. However, there are limits to how far these small states are ready to go in this respect. Gstöhl classifies “geo-historical constraints” as one half of the political impediments or political constraints a country faces when considering the extent of European integration, and argues that the ‘historical experience of foreign rule, as perceived by the elites at a given time and the “integration compatibility” of foreign policy serve as indicators for [them]’ (Gstöhl, 2002, p. 10). The geo-historical constraints of Iceland and Malta are analysed in Part II (Chapter 4). Thus, the second research question is:

2) To what extent do the different historical experiences of Malta and Iceland help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

3) Michelle Cini (Cini, 2002) looks to the attitudes of the political parties in Malta to explain the split on the EU issue. She says that the split on the EU question came in handy to maintain a difference between the two main political parties in Malta in a period of political convergence. In this light, it is valid to speculate whether the same applies to Iceland. The importance of the political posturing between parties in shaping the manner of European integration in Iceland and Malta is analysed in Part III. Ingebritsen’s theory of the political influence of leading sectors of the economy in the Nordic countries is also relevant here (Ingebritsen, 1998, p. 34). She argues that the economic structure of the Nordic countries is a

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11 The factors used to describe the economic performance entail GDP per capita over the time-period in question, GDP growth, the government balance, unemployment rate, inflation, exchange rate stability and the current account balance. Some of these factors, the price stability, government balance, and exchange rate stability are the same as are used in the Convergence criteria (sometimes called the Maastricht criteria) for adoption of the euro. (European Commission, 2007, p. 9). Their use is explained in detail in 2.3.4.
deciding factor in their joining or not joining the European Union, and in how the leading sectors influence the political process. Gstöhl defines “domestic constraints” as the other half of the political constraints or impediments a country faces with regard to European integration, where a country’s domestic structure ‘comprises a certain institutional pattern and fragmentation of society’ (Gstöhl, 2002, p. 9) and where domestic institutions are sensitive to integration if ‘elites, based on a broad national consensus … perceive them to be both significant and threatened by integration’ (Gstöhl, 2002, p. 9). This in turn leads to societal cleavages that form part of the national identity and mass public culture and which are often capitalised upon by political parties. Gstöhl gives special attention to religious, ethno-linguistic and regional cleavages in her study and believes them to be significant if their divisions take opposing positions on an integration issue (Gstöhl, 2002, p. 10). All this is analysed in Part III (Chapter 5) and the third research question is:

3) To what extent did the political parties’ ties to economic and societal interests in Iceland and Malta contribute to the opposition to EU membership in these countries and/or how do they explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

4) Constructivist scholars, such as Iver Neumann (Neumann, 2001), Guðmundur Hálfdanarson (Hálfdanarson, 2001) and Eiríkur Bergmann Einarsson (Einarsson E. B., 2009) argue that European integration, and especially opposition towards it, must be explained in terms of nationalism and national identity. To tackle this particular question in the case of Iceland and Malta, which is done in Part IV (Chapter 6) the fourth research question is:

4) To what extent did notions of national identity and nationalism contribute to the political constraints facing Iceland and Malta and how do they help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

5) Gstöhl says that the economic incentives a country faces when considering European integration are high if the overall export dependence is high and the sectors' export sensitivity is high or medium and that they are low if overall export dependence is low and sectors' export sensitivity is medium or low (Gstöhl, 1998, p. 85). This measure is modified below to include the economic performance and sector preference. Similarly, Gstöhl says the political impediments a country faces when considering European integration are high if either the domestic or the geo-historical constraints
are strong, that they are low if both the domestic and the geo-historical constraints are weak and medium if they show mixed constraints (Gstöhl, 1998, p. 93). After having analysed the domestic and geo-historical constraints in Chapters 4, 5, 6 and finally in Chapter 8, it will be time to ask the fifth and final research question:

5) Were the economic incentives facing Malta higher than those facing Iceland, and were the political constraints facing Iceland higher than those facing Malta and if so, to what extent does that help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

The general method used in this thesis is the method of structured focused comparison. It is described by George and Bennett as follows:

The method is “structured” in that the researcher writes general questions that reflect the research objective and that these questions are asked of each case under study to guide and standardize data collection, thereby making systematic comparison and cumulation of the findings of the cases possible. The method is “focused” in that it deals only with certain aspects of the historical cases examined (George & Bennett, 2005, p. 67).

The research questions are presented above and the aspects of the historical cases are formulated in the hypothesis. Many different sources and methods of analysis are used in this thesis. Both recent and historical economic statistics obtained in Iceland, Malta and through multinational sources such as the OECD, UNDP, IMF and the EU are used when analysing economic factors.

The analysis of the debate draws on newspapers in Iceland (in Icelandic) and Malta (both in Maltese and English), interviews with key actors, primary sources (documents, reports, websites, radio and television interviews, e-mails, etc.) and secondary literature from a wide range of academic subjects – mostly, though, from within the social sciences. Most of the work was done in Iceland, but the author also made three study trips to Malta, the first before and during the referendum on EU membership in March 2003, the second in February 2004 and the third in April 2006. The author does not speak Maltese, so the assistance of Lara and Roderick Pace in analysing Maltese newspapers and documents was much appreciated.

2.3 Gstöhl’s economic incentives and political impediments

Sieglinde Gstöhl comes up with a framework which, while acknowledging the importance of economic incentives in the liberal intergovernmentalist fashion
when it comes to steps taken towards European integration, also addresses “political impediments” (Gstöhl, 2002, p. 40), which can take a kaleidoscope of forms, ranging from linguistic and religious cleavages to the political system, governance structure and historical happenstances such as occupation in the Second World War (Gstöhl, 2002, p. 41). She traces the trajectory of the integration policies of three small, rich, open European economies, i.e. Switzerland, Sweden and Norway, across five decades, and thus combines an ‘analysis of economic interests in market integration with ideational interests in protecting national identity.’ (Gstöhl, 2002, ix). With her model she attempts to explain why these countries have been reluctant toward supranational integration, and why, even though they met the eligibility criteria for EU membership, they aimed at limited integration in various forms. Her main conclusion is that in spite of mounting economic incentives, they were reluctant to join a supranational community because of potential domestic and geo-historical constraints that were closely linked to ideas of sovereign statehood. Although economic elites were well-disposed towards integration, they needed the political impediments to be low (Gstöhl, 2002, p. 222). She also states that the lower the economic incentives and the higher the political impediments, the more valuable is the maintenance of ‘operational sovereignty’ in relation to the acquisition of ‘international voice opportunities’ (Gstöhl, 2002, p. 222) – related to ideas of the “system-affecting state”.

### 2.3.1 The dependent variable

The dependent variable in Gstöhl’s framework is the level of integration aimed at while she uses two independent (or explanatory) variables; economic incentives and political impediments (see Table 2.2, taken from Gstöhl, 1998, p. 72).

**Table 2.2 Gstöhl’s model.**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Variables’ dimensions</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable: Level of integration aimed at</td>
<td></td>
<td>Scope of integration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Degree of institutionalization</td>
</tr>
<tr>
<td>Explanatory variable I: Economic incentives</td>
<td>Overall export dependence</td>
<td>Export ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GDP ratio</td>
</tr>
<tr>
<td></td>
<td>Sectors’ export sensitivity</td>
<td>Leading export sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of trade barriers</td>
</tr>
<tr>
<td>Explanatory variable II: Political impediments</td>
<td>Domestic constraints</td>
<td>Sensitivity of institutions/aspects</td>
</tr>
<tr>
<td></td>
<td>Geo-historical constraints</td>
<td>Sensitivity of societal cleavages</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compatibility of foreign policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Experience of foreign rule</td>
</tr>
</tbody>
</table>
Gstöhl’s economic incentives and political impediments

Gstöhl’s study uses two indicators to measure the dependent variable or the level of integration aimed at: the scope of integration and the degree of institutionalization. This level of integration reflects the “national interest” as it is perceived by the government. She states that governments and not states are the relevant actors (Gstöhl, 1998, p. 69). She says the EFTA countries – which are the focus of her study – had four basic options regarding the scope of integration: i) no integration, ii) sectoral integration with only one or very few specific issue areas covered and usually special agreements for each, iii) a global approach to integration, where most of the issue areas of an integration scheme are covered, or iv) full integration, i.e. full membership. In the second indicator, the degree of institutionalization the integration policy aims at, the coding is in terms of supranational or intergovernmental institutions and decision-making styles. Gstöhl classifies them as follows: i) no institutions, ii) an intergovernmental set-up, with bodies with mainly unanimity voting, iii) a quasi-supranational set-up, where there are supranational bodies with majority voting and intergovernmental bodies with unanimity voting or, iv) a supranational set-up where there are supranational and intergovernmental bodies with a great extent of majority voting (Gstöhl, 1998, p. 74). She measures the values of the indicators being “high”, “medium” or “low” according to the scale in Table 2.3 (Gstöhl, 1998, p. 75).

Table 2.3 The dependent variable.

<table>
<thead>
<tr>
<th>Scale Indicator</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope of integration</td>
<td>Full integration</td>
<td>Global approach</td>
<td>Sectoral integration</td>
</tr>
<tr>
<td>Degree of institutionalization</td>
<td>Supranational set-up</td>
<td>Intergovernmental or quasi-supranational set-up</td>
<td>(No institutions or) intergovernmental set-up</td>
</tr>
</tbody>
</table>

On the basis of this the index of the dependent variable, the level of integration aimed at, is constructed as in Table 2.4 (Gstöhl, 1998, p. 75).

Table 2.4 Level of integration aimed at.

<table>
<thead>
<tr>
<th>Institutionalization</th>
<th>Scope High (full integration)</th>
<th>Medium (global approach)</th>
<th>Low (sectoral integration)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High (supranational)</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Medium (quasi-supranational)</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Low (intergovernmental)</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>
This table translates into the political realities of the integration process in Table 2.5 (Gstöhl, 1998, p. 76). If full integration is membership of the European Union, the combination of it and “low” or “medium” degree of institutionalization are not feasible. The global, supranational and the sectoral, (quasi-)supranational have not found a real-world expression, thus some fields in the following table are empty.

Table 2.5 Different levels of integration.

<table>
<thead>
<tr>
<th>Scope</th>
<th>High (full integration)</th>
<th>Medium (global approach)</th>
<th>Low (sectoral integration)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutionalization</td>
<td>Full membership in the European Communities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High (supranational)</td>
<td></td>
<td>European Economic Area Extended association with the EC</td>
<td></td>
</tr>
<tr>
<td>Medium (quasi-supranational)</td>
<td></td>
<td></td>
<td>European Free Trade Association Bi- &amp; multilateral agreements with the EC</td>
</tr>
<tr>
<td>Low (intergovernmental)</td>
<td></td>
<td>OEEC-wide Free Trade Area Association with the EC</td>
<td></td>
</tr>
</tbody>
</table>

2.3.2 The economic incentives

Looking at the independent variables, Gstöhl uses two main categories over time to measure the economic incentives for participating in integration; i) overall export dependence on the EC and ii) leading sectors’ export sensitivity. Each dimension uses two indicators to assess the level, thus for overall export dependence we have a country’s exports to integrating countries as a share of total exports (the export ratio) together with the importance of these exports in relation to the gross domestic product (the GDP ratio), (see Table 2.6 from Gstöhl 1998, p. 82).

Table 2.6 Overall export dependence.

<table>
<thead>
<tr>
<th>GDP ratio</th>
<th>Export ratio</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

According to a simple algorithm, the coding rule values the export ratio twice as important as the GDP ratio. The export ratio is considered “high” if it exceeds 40 per cent, “medium” if it falls between 20 and 40 per cent, and “low” if it remains below 20 per cent. The GDP ratio is considered “high”
Gstöhl’s economic incentives and political impediments

beyond 10 per cent, “medium” for a range of 4-10 per cent and “low” for 0-4 per cent (Gstöhl, 2002, p. 21).

The leading sectors’ exports sensitivity assesses the risk of a sector being negatively affected by integrating markets. Gstöhl calculates this dimension in two steps. First she calculates the sector exports by defining leading sectors as those three sectors of an economy with the highest share of total exports to an integrating country’s (sector share) based on the two-digit Standard International Trade Classification (SITC) system. She also takes into consideration the sectors’ exports to the integrating countries as a share of their total exports (sector export ratio), (see Table 2.7 from Gstöhl, 1998, p. 84).

Table 2.7 Sector exports.

<table>
<thead>
<tr>
<th>Sector export ratio</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

The sector export ratio is regarded “high” if it lies above 50 per cent, “medium” if it falls between 30-50 per cent and “low” for less than 30 per cent. The sector share is “high” if it passes 20%, “medium” if it falls between 10%-20% and “low” for not exceeding 10%.

In step two, she combines the sector exports with the barriers these exports face into the EC market, using rough estimates to give us Table 2.8 (Gstöhl, 1998, p. 84).

Table 2.8 Sectors’ export sensitivity.

<table>
<thead>
<tr>
<th>Sector exports</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

Thus Gstöhl categorises the “economic incentives” for integration as “high”, “medium” and “low” (see Table 2.9, from Gstöhl, 1998, p. 85). For that purpose she uses a simple algorithmic coding rule, i.e. that overall export dependence is considered twice as important as the sectors’ export sensitivity.
Methods and framework of analysis

Table 2.9 Economic incentives to integration.

<table>
<thead>
<tr>
<th>Overall export dependence</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectors’ export sensitivity</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

2.3.3 Modifications to the economic incentives variable

Gstöhl’s study of Sweden, Norway and Switzerland focused mainly on those countries in the periods preceding the establishment of the European Economic Area. As the EEA completely altered the market access for the participating countries, her framework will not be adequate to address the economic issues facing a longstanding EEA country, such as Iceland, after it joined the EEA. In her study Gstöhl states that

In fact, the two options, EC and EEA, were characterized by an asymmetrical distribution of motives. While for the EFTA countries the political motives for joining the EEA were weak, the economic incentives were strong. With regard to EC membership, the motivation was reversed – there were weak economic and strong political reasons for most of them. In the EEA, the EFTA countries gained already most of the economic benefits of being in the Internal Market, whereas the further step to full EC membership entailed relatively small additional economic gains and increased the financial costs in the form of budget contributions (Gstöhl, 1998, pp. 586-7).

Taking this into consideration, the economic incentives for EU membership for an EEA country must be more broadly defined than consisting of purely market access. Thus – as Gstöhl suggests in her thesis (1998 p. 79) – the general economic performance of the countries in question is used to calculate the economic incentives of the two countries. Two dimensions with four indicators each are used in the variable, first, what I call the “socio-economic pressure” which focuses on the economy as a whole, the government and the labour market, and, second, the “finance and trade pressure” which focuses on prices (of commodities and the currency) and international trade. The explanatory variable calculated from economic performance can be represented thus in a table (Table 2.10) resembling Table 2.2.
Gstöhl’s economic incentives and political impediments

Table 2.10 Modified explanatory variable I.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Variables’ dimensions</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanatory variable I:</td>
<td>Socio-economic pressure</td>
<td>GDP per capita GDP growth Government balance Unemployment</td>
</tr>
<tr>
<td>Economic incentives</td>
<td>Finance and trade pressure</td>
<td>Inflation Exchange rate stability Current account balance Overall export dependence</td>
</tr>
</tbody>
</table>

_Socio-economic pressure_ takes into account GDP per capita, GDP growth, the government budgetary position and unemployment compared to the EU average. The scale of this dimension is calculated thus:

i. _Gross domestic product based on purchasing-power-parity (PPP) per capita in USD_ of the countries in question is compared to the average of the EU countries in each year between 1989 and 2009. If the EU average is lower than in the country in question it is given a “low” with the numerical value 1. If it is equal or higher up to ten percent, it is given a “medium” with the numerical value 2. If it is over 10 percent higher, it is given a “high” with the numerical value 3.

ii. _The annual percentage change in the gross domestic product at constant prices_ (GDP growth) is given a “low” if the EU average growth is lower or equal to the growth of the economy in question. It is given a “medium” if the EU average growth is higher up to 1 percentage point per year and a “high” if EU average growth is higher by more than one percentage point per year.

iii. The _general government balance, as a percentage of GDP_, is given a “low” if the EU average is higher or equal to the balance in the country in question. It is given a “medium” if the EU average balance is higher by up to 2 percentages, and “high” if higher than 2 percentage points.

iv. _The unemployment rate, as a percentage of the total labour force_, is given a “low” if the EU average is higher or equal than in the country in question, a “medium” if EU average is lower by up to 2 percentage points, and “high” if lower by more than 2 percentage points.

---

12 The comparison is run on a yearly basis from 1989 to 2009. Thus until 1995 the twelve EC/EU countries are used (EU-12), in 1995 - 2003 the fifteen EU countries are used (EU-15) and lastly, from 2004 to 2008 the 25 EU countries (EU-25) are used. Though Bulgaria and Romania joined the EU in 2007, they are not used in the data set.

13 Figures are obtained from the World Economic and Financial Surveys of the International Monetary Fund (IMF), (http://www.imf.org/external/pubs/ft/weo/2009/01/weodatal/indice.aspx), viewed, January 2011, unless other is stated.

14 This is in turn given a numerical value, 1 for “low”, 2 for “medium” and 3 for “high”
v. The average figure from these four indicators is in turn calculated and rounded to give “low” (close to one), “medium” (close to two) or “high” (close to three) for the socio-economic pressure dimension. 15

**Finance and trade pressure** measures price stability (inflation), the exchange rate stability and the current account balance; Gstölh’s dimension, the Overall Export Dependence, is used as an indicator here as well. The scale of the dimension is calculated in the following manner:

i. **Inflation, average consumer prices, annual percentage change** is a comparison of inflation in the country in question and the average inflation in the EU-12, EU-15 and EU-25 respectively. It is given a “low” if EU average is higher than or equal to inflation in the country in question. It is “medium” if the EU average is lower up to 1.5 percentage points and “high” if the EU average is lower by more than 1.5 percentage points.

ii. **Exchange rate stability, annual percentage change** is given a low if the local currency fluctuates compared to the euro (up or down) between 1 December each year (or the closest date in December) by less than two and a half percentage points. It is “medium” if it fluctuates annually between 2.5% and 5% and “high” if it fluctuates more than 5%.

iii. **The Current account balance, percent of GDP** is given a “low” if the EU average is less or equal to the balance in the country in question, (i.e. if the trade deficit is higher in the EU by average than in the country in question). It is “medium” if the EU average is higher by up to 3% and “high” if the EU average is higher by more than 3%.

iv. **The Overall export dependence** (see Table 2.6).

v. The average figure from these four indicators is in turn calculated and rounded to give “low” (if equal or higher than 1 and lower than 1.5), “medium” (if equal or higher than 1.5 and lower than 2.5) or “high” (if equal or higher than 2.5 up to 3) for the finance and trade pressure dimension 16.

Table 2.11 gives us the explanatory variable. Note that, unlike in previous tables where the algorithm was used to give the former dimension double value, both dimensions are given equal value in the variable and both considered important, so that when one dimension is rated “high” the total outcome of the variable is “high” and when one dimension is “low” and the other “medium” the total outcome is “low”:

---

15 The weighting of the GDP per capita indicator is reduced in the calculation for Iceland, since it is a variable that is slow to change and the pressure it exerts in a country close to, or even above, the EU average, is definitely not comparable with the pressure it exerts in countries that are far below the EU average.

16 Note that this could be presented as a four point scale with low being 1 and < 1.5, medium/low 1.5 and < 2, medium/high 2 and < 2.5 and high 2.5 to 3.
Gstöhl’s economic incentives and political impediments

Table 2.11 Modified economic incentives to integration.

<table>
<thead>
<tr>
<th>Socio-economic pressure</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance &amp; trade pressure</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

2.3.4 The political impediments

Gstöhl balances her calculation of economic incentives for integration against an assessment of the political impediments (or constraints) operating against integration, derived from the political debate on the subject at the time. In her words: ‘Political impediments to integration are either domestic or geo-historical obstacles to renouncing operational sovereignty’ (Gstöhl, 1998, p. 86). The obstacles are considered integration-sensitive if they are perceived to be negatively affected by integration, and the crucial point is not that they are really endangered by integration, but that they are perceived as such. Gstöhl’s model looks not at the “normal” loss of operational sovereignty a democracy suffers upon integration but rather the one that is linked to a country’s “national identity” (Gstöhl, 1998, p. 86).

As for economic incentives, she uses two indicators to assess the level of each dimension. To measure domestic constraints she uses sensitivity of institutions and sensitivity of societal cleavages. She says that there is a certain institutional pattern and fragmentation in a country’s domestic structure, and it is sensitive to integration issues if the domestic elites perceive it to be significant and threatened by integration, (Gstöhl, 2002, p. 9). Societal cleavages form part of national identity, if they belong to a nation’s historical memories or the mass political culture. According to Gstöhl they are important if the divisions they create take opposing positions on an integration issue, while cross-cutting cleavages entail cross pressures that produce a moderating influence, (Gstöhl, 2002, p. 10). The domestic socio-political constraints are formulated thus in a table:

Table 2.12 Domestic socio-political constraints.

<table>
<thead>
<tr>
<th>Institutions</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>
Since both indicators are important, the coding rule requires at least one of the indicators to be high for the dimension to be given a “high” and for the category “low” both indicators must be low. The “medium” category is for the mixed combinations (Gstöhl, 1998, pp. 90-1).

Geo-historical constraints, on the other hand, are assessed with the _compatibility of foreign policy_ and the _experience of foreign rule_ (see Table 2.13). The compatibility of foreign policy is deemed to be “integration compatible” if it is perceived to be similar to the foreign policies of the member states. It is “low” if it is very different and if politicians consider the preservation of the difference important. The historical experience of foreign rule is assessed as the elites at a given time perceive it, and may include past events such as a fight for independence, military occupation and former colonization in past centuries. This factor is a strong constraint if the country has been under foreign rule in the past, if it has gained sovereignty only recently and/or if it was occupied during World War II and if such an experience is still considered important. Evidence of a national consensus on the importance of maintaining the foreign policy tradition is supplied by the elite’s statements (Gstöhl, 1998, pp. 91-2).

Table 2.13 Geo-historical constraints.

<table>
<thead>
<tr>
<th>Foreign policy</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign rule</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

As with the economic incentives, the political impediments are categorized as “high”, “medium” and “low”. They are “high” if either the domestic or the geo-historical constraints are strong and “low” if both the domestic and the geo-historical constraints are weak (see table from Gstöhl, 1998, p. 93).

Table 2.14 Political impediments to integration.

<table>
<thead>
<tr>
<th>Geo-historical constraints</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic constraints</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>
Looking at the domestic constraints first, Ingebritsen’s theory on the leading sectors fits nicely into the institutional part of the domestic constraints, since institutions ‘structure incentives in human exchange, whether political, social, or economic’ (Gstöhl, 1998, p. 87). Gstöhl mentions alternatives to measuring the sensitivity of institutions and societal cleavages, such as public opposition to integration. However, she argues that both integration-sensitive political institutions and societal cleavages may cause such opposition. Another possibility she mentions is to measure the strength of national identity, European identity, nationalism or Europeanness with the standard indicator being the Eurobarometer polls conducted in the EU states. She then argues that, aside from the fact that these polls are not available for the EFTA countries, they tend to change with every survey and that it has been shown by Anderson and Kaltenthaler that temporal and cross-national variations in support for European integration are first and foremost influenced by domestic economic performance, timing and circumstances surrounding a country’s entry into the European Communities and the length of time a country has been an EC member (Gstöhl, 1998, p. 87). Therefore I suggest an alternative measure of the strength of nationalism and its effect as a political impediment by using Anthony D. Smith’s categorisation of nationalism into “ethnic” and “territorial”, explained in detail in 2.2.5 and have employed it in the institutions indicator 17. Another factor analysed within the institutions indicator is religion, i.e. not a religious cleavage within the countries (which would fit within the cleavages indicator) but religion as a (perhaps integration-sensitive) institution/aspects in Iceland and Malta.

The domestic constraints are analysed in Chapters 5 and 6. In Chapter 7 a simple form of content analysis is used to cast further light on the independent variables by finding arguments – or strands of arguments – related to the indicators in the variables in the debates on EU membership in Malta and Iceland. Two periods are analysed in the Icelandic debate and one in the Maltese debate. The first period is September 2002 – March 2003. This was the period preceding the referendum on EU membership in Malta (which took place on 8 March 2003) and also the run-up to the general election in Iceland in spring 2003. Thus, both Maltese and Icelandic sources from that period are analysed. The second period, from which only Icelandic sources are analysed, is September 2007 – April 2008. This is the

17 It is stretching the English language to claim nationalism and religion as institutions as such (and indeed “policy”), so the indicator “aspect” will be used alongside.
period when Iceland was beginning to feel in earnest the mounting pressure on its currency, the króna, and leading up to the crash.

The sources used are Morgunblaðið¹⁸, then Iceland’s largest daily newspaper and the venue of choice for most of those who wanted to participate in a public political debate in Iceland, regardless of party affiliation, and in Malta the Malta Times and the Sunday Times¹⁹ leading English-language newspapers in Malta, and L-Orizzont ²⁰, a Maltese-language newspaper. A total of 108 articles in Morgunblaðið were examined (from 2002-3 and 2007-8), 68 in the Malta Times and the Sunday Times and 93 in L-Orizzont, the aim being to cover all articles on the subject in the periods in question. As mentioned above, since the author does unfortunately not speak Maltese, the examination of L-Orizzont, was done with the assistance of Lara Pace, a Maltese graduate student at the time, under the supervision of Professor Roderick Pace, director of the European Documentation and Research Centre (EDRC) at the University of Malta.

The arguments are not categorized into specific argumental points, but rather argumental strands. The method used is to find which strand of argument is prevalent in each article. Thus, an argument saying “joining the EU will lead to the foreclosure of my factory” would be considered a general economic argument, and not an argument about a factory. There are, however, economic categories that are given special attention, but which are easy to add to the general economic arguments if one wishes. These are arguments on specific and important sectors, i.e. fisheries, fishing/hunting, and agriculture. Arguments directly referring to the euro are also earmarked as such. Where two differing strands are to be found in an article, they are counted separately. The strands discovered in the debates in Iceland and Malta are the following: General economic arguments, the euro, agriculture, fisheries, fishing/hunting, sovereignty, cultural arguments, system-affecting state arguments, religious arguments, arguments stating that the EU is generally bad, security arguments, fear of isolation, Partnership (the integration option advocated by the Malta Labour Party) and other political arguments.

In the analysis of nationalism, the view of the ethnosymbolists, that in some cases pre-modern ethnic ties could be harnessed in the creation of national identity, is used, though with full awareness of their ‘gender-blind Eurocentric character’ (Özkirimli, 2000, p. 192). In the ethnosymbolist tradition, Anthony D. Smith in his book National Identity (Smith A. D.,

¹⁸ (Morgunblaðið, 8 October 2002 - 20 March 2003) and (Morgunblaðið, 29 July 2007 - 22 April 2008)
¹⁹ (The Times of Malta and The Sunday Times of Malta, 1 September 2002 - 27 February 2003)
²⁰ (L-Orizzont, 12 February 2002 - 30 December 2002)
Smith’s framework on the origins of nations

1991) gives a framework for seeking a general explanation of the origins and development of modern nations. His framework provides a valuable insight in the cases of Malta and Iceland and his theoretical framework on the origin and development of modern nations and different categories of nationalisms is used to analyse the diverse attributes of the manifestations of nationalism in the two countries, their development, character and history and, eventually, their influence on decisions regarding European integration.

2.4 Smith’s framework on the origins of nations

In the ethnosymbolist tradition, Smith, in his book *National Identity*, gives a framework for seeking a general explanation of the origins and development of modern nations. Even though ethnosymbolism as such can be criticised on many accounts, such as why some *ethnies* take the step to nationhood while others do not (Hálfdanarson, 2001), his framework nevertheless provides a valuable insight for when they do, as in the case of Malta and Iceland. Smith seeks the above explanations by asking the following three questions (Smith A. D., 1991, p. 19):

1. *Who is the nation?* What are the ethnic bases and models of modern nations? Why did these particular nations emerge?

2. *Why and how did the nation emerge?* What are the general causes and mechanisms that set in motion the processes of nation-formation based on varying ethnic ties and memories?

3. *When and where did the nation arise?* What were the specific ideas, groups and locations that predisposed the formation of individual nations at particular times and places?

Smith seeks the answer to the first question in earlier ethnic communities, or *ethnies*, which are defined by six main attributes (Smith A. D., 1991, p. 21):

i. a collective proper name

ii. a myth of common ancestry

iii. shared historical memories

iv. one or more differentiating elements of common culture

v. an association with a specific ‘homeland’

vi. a sense of solidarity for significant sectors of the population.

To answer the second question, why and how the nation emerged, it is necessary to specify the patterns of identity formation and the factors that triggered their development. Here, Smith specifies two main types of ethnic communities: the “lateral” or aristocratic, and the “vertical” or demotic,
which in turn give birth to different patterns of nation-formation (Smith A. D., 1991, pp. 54-70, Özkırımlı, 2000, p. 178).

In answering the third question, when and where the nation arose, nationalism enters the stage. Smith contends that nationalism does not help to determine which units of population are eligible to become nations, or why they do, but it plays an important part in deciding when and where they do (Smith A. D., 1991, p. 99, Özkırımlı, 2000, p. 180).

Smith states that the term “nationalism” has been used in five different ways (Smith A. D., 1991, p. 72):

i. the whole process of forming and maintaining nations or nation-states
ii. a consciousness of belonging to the nation, together with sentiments and aspirations for its security and prosperity
iii. a language and symbolism of the ‘nation’ and its role
iv. an ideology, including a cultural doctrine of the nation and the national will and prescriptions for the realisations of national aspirations and the national will
v. a social and political movement to achieve the goals of the nation and realise its national will.

Smith stresses the fourth and fifth meanings in his own definition of nationalism and moves on to types of nationalism, drawing on Hans Kohn’s philosophical distinction between a more rational and a more organic version of nationalist ideology. Thus, he identifies two kinds of nationalisms: “territorial” (based on a “Western”, civic-territorial model of the nation) and “ethnic” (based on an “Eastern”, ethnic-genealogical model of the nation), (Özkırımlı, 2000, p. 183). On this basis, he believes, it is possible to construct a provisional typology of nationalisms, taking into account the situation in which particular communities and movements find themselves before and after independence.

I. Under territorial nationalisms, pre-independence movements based on a civic model of the nation will seek to eject foreign rulers first, and substitute a new nation-state for the old colonial territory. This he brands anti-colonial nationalisms. Post-independence movements will then try to bring together and integrate often disparate ethnic populations into a new political community. These Smith calls integration nationalisms.

II. Under ethnic nationalisms, pre-independence movements will seek to secede from a larger political unit to set up a new unit in a designated ethnic homeland based on the ‘ethno-nation’. This he calls secession or diaspora nationalisms. Post independence, these movements will seek to expand by including ethnic ‘kinsmen’ outside the present boundaries and even the lands they inhabit or
How incentives and impediments affect integration

by forming a larger ‘ethno-national’ state through the union of ethnically and culturally similar ethno-national states. These Smith calls *irredentist* and ‘*pan*’ nationalisms (Smith A. D., 1991, pp. 82-3, Özkırımlı, 2000, p. 182).

Smith does not claim this to be an exhaustive categorisation of nationalisms, and states that it omits some well-known kinds, such as fascist, racial and protectionist nationalisms. However, it serves to put nationalisms in a broad comparable context and serves the study research as such. The routes of nation-formation can thus be presented diagrammatically:

I. Lateral (aristocratic) *ethnies* → bureaucratic incorporation → civic-territorial nations → territorial nationalisms (from above; usually led by the elites).

II. Vertical (demotic) *ethnies* → vernacular mobilization → ethnic-genealogical nations → ethnic nationalisms (from below; usually led by the intelligentsia), (Özkırımlı, 2000, pp. 182-3).

2.5 How incentives and impediments affect integration

According to Gstöhl, the two explanatory variables in her model relate to the dependent variable so that the lower the economic incentives and the higher the political impediments, the more reluctant a country’s integration policy will be, i.e. the lower the level of integration aimed at (Gstöhl, 1998, p. 106). This translates into the hypothesis in this thesis presented in 2.2.2.

In Gstöhl’s model it is assumed that high political impediments “dominate” the economic incentives, although high economic incentives reinforce the search for an alternative to full participation, such as the EEA or the Partnership option suggested by the Malta Labour Party, i.e. an option with lower political impediments. Based on this, the level of integration aimed at is explained in the following matrix (Table 2.15).

**Table 2.15 Evaluation of dependent variable.**

<table>
<thead>
<tr>
<th>Economic incentives</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political impediments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Medium/Low</td>
<td>Low</td>
<td>Low/None</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium</td>
<td>Medium/Low</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td>Medium</td>
<td>Medium/Low</td>
</tr>
</tbody>
</table>

Thus, the lower a country’s economic incentives and the higher its political impediments, the lower will be the level of integration aimed at, and the more reluctant its integration policy. The policy is likely to remain
reluctant until the economic incentives increase and/or the political impediments decline in importance (Gstöhl, 1998, p.107).

Gstöhl mentions an endogeneity problem that might arise between the explanatory and the dependent variables, so that integration policy itself may cause changes in the importance of, e.g., market access or political constraints. Thus, economic dependence on the EU might in the long run be a consequence, rather than a cause, of the level of integration the policy aims at. She says that this effect may mean a positive bias so that the effect of the economic incentives on integration policy is in reality smaller than estimated. Likewise, a decline in the importance of political impediments might be caused by an increasing level of integration. The only way to soften this effect is to use different kinds of measures for the variables, in principle, the more different indicators, the less likely a biased inference (Gstöhl, 1998, p. 108).
Part I

3 Part I - Economic interests

This part will give an account of the economic performance of Iceland and Malta in the past two decades, the main sectors of the respective economies, the views of their economic pressure groups, and the economic incentives for joining the EU according to Gstöhl’s model for integration.

3.1 When the economy shapes attitudes

Sieglinde Gstöhl states that economic theory would lead us to expect that small and highly industrialised states are more likely to integrate than larger or less advanced states. Integration allows them to obtain advantages similar to those large countries have, through the opportunity to specialise in accord with comparative advantages, the ability to exploit economies of scale and the stimulating effects of increased competition (Gstöhl, 2002, p. 3). Liberal intergovernmentalists such as Andrew Moravcsik emphasise the importance of ‘commercial interests’, proposing that they provide the only empirically robust explanation for the long term evolution of the EU (Hansen & Wæver, 2002, p. 8). The theory of Christine Ingebritsen (Ingebritsen, 1998), explaining the integration process in terms of the economic structure of societies and the pursuit of interests of the main economic actors, has been considered to be of the same general type (Hansen & Wæver, 2002, p. 10). According to Ingebritsen, the political influence of leading sectors of the economy in the Nordic countries is the decisive factor in shaping the discourse on European integration (Ingebritsen, 1998, p. 34). She argues that the economic structure of the Nordic countries is a deciding factor in their joining or not joining the European Union, and in how the leading sectors influence the political process. There are three general factors at play in this respect in Ingebritsen’s model; the mobility of factors of production, representation in the political party system and participation in social movements (Ingebritsen, 1998, p. 157).

In this chapter the Icelandic and Maltese economies are analysed, both to give an overview of their characteristics and also to evaluate the economic incentives these two small island economies might have had (or in the case of
Iceland, might still have) to join the European Union. As explained in relative
detail above, Gstöhl uses two main categories over time to measure the
economic incentives for participating in integration; i) overall export
dependence on the EC and ii) sector exports to the EC in a particular year in
question. This she combines with barriers against these exports into the EC
market, categorising the “economic incentives” for integration as “high”,
“medium” and “low”. She believes the focus on the export sectors is justified in
her study, since Sweden, Norway and Switzerland are highly industrialized
export-oriented economies that have traditionally sold the majority of their
products to Western European markets (Gstöhl, 2002, pp. 7-9). This can be
applied to Iceland and Malta in the last three decades, though before that, this
formulation becomes more uncertain. Malta and Iceland are significantly
smaller and less diversified than Sweden, Norway and Switzerland. Thus, the
economic connotations of EU membership for these countries are on a level
different from that of merely exports-imports and market access. To this
question must be added the common currency, together with the measure of
difference of stability entailed in being, on the one hand, part of such a large
internal market or standing outside it on the other. Attention must also be given,
when analysing economic incentives, to the regulatory effects EU membership
might have on economic sectors of the country in question, such as agriculture
and fisheries in the case of Iceland, and tourism in the case of Malta. Thus, to
make a comprehensive analysis of economic incentives for EU membership it
is necessary to look at the economic development and performance during the
time-period in question. The research question to be answered in this chapter is:

To what extent does the economic performance 21 of Iceland and
Malta and the structure of the Maltese and the Icelandic economies
explain why Malta took steps to join the European Union while
Iceland aimed for limited integration?

To answer this question, use will be made of the modified model of Gstöhl 22,
plus a discussion on leading sectors and the economic interest groups' attitude
towards the EU membership of Iceland and Malta respectively.

21 The factors used to describe the economic performance entail GDP per capita over the time-
period in question, GDP growth, the government balance, unemployment rate, inflation,
exchange rate stability and the current account balance. Some of these factors, the price
stability, government balance, and exchange-rate stability are the same as are used in the
Convergence criteria (sometimes called the Maastricht criteria) for adoption of the euro.
(European Commission, 2007, p. 9). Their use is explained in detail in 2.3.4.
22 Although modifications are made to Gstöhl’s model in this chapter, her indicators will be
analysed as well so as to give comparison, and also as parts of the modified model.
3.2 The Icelandic economy

3.2.1 Economic performance 1989-2009

The Icelandic economy crashed in October 2008. All its previous successes must now be viewed in this light. The fallout from the crash is still piling up, and there are many uncertainties regarding the exact causes of the crash, although the same weaknesses that triggered the financial crisis the world economy experienced in the latter half of 2008, unparalleled since the Great Depression in the 1930s (Guðmundsson M., 2009, p. 16), played a large part in it (Guðmundsson M., 2009, p. 35). It does not serve the purpose of this thesis to go into detail concerning the crash itself, although its occurrence most certainly plays a role in what will happen in Iceland in the coming years in terms of EU membership. In the previous two decades the Icelandic economy has been formed by its increasing Europeanization due to Iceland’s membership of the European Economic Area (EEA).

3.2.1.1 GDP growth, GDP per capita

After a slump in 1991 and 1992, Iceland experienced economic growth (measured in Gross Domestic Product – GDP) during the second half of the last decade of the twentieth century and the first years of the twenty-first (see Figure 3.1), GDP grew by an average of 3.1% annually in the years 1990-2008 and GNP (Gross National Product) by an average of 1.8%; the difference can be accounted for by the rapid population rise during the period in question, from 255,000 to 319,000, a growth of almost 25%. (Haraldsson & Magnússon (Eds.), 2009, p. 59) This economic growth is far from being remarkable: it puts Iceland close to the OECD average (OECD, 2005). Iceland’s GDP per capita is high and in the period since 1989 it has been around or above the EU-15 average and well above the EU-25 average (see Figure 3.2). In 2008, the year of the economic crash, GDP growth slowed down to 0.3% (Hagstofa Íslands, 2009a). Due to the crash the IMF estimated that the Icelandic economy would contract by -10.6% in 2009 and a further -0.2% in 2010 (International Monetary Fund, 2011). However, the latest figures suggest that the contraction in 2009 was rather less than anticipated, or -6.8%. (Hagstofa Íslands, 2011).

3.2.1.2 Price stability

Inflation (defined as the percentage change in the price level) is an important economic indicator, pointing to the relative stability of the economy in question.

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23 EU-15 refers to the 15 member states of the EU before the enlargement in 2004 and EU-25 the 25 member states after the enlargement that year.
The Icelandic economy

Persistent inflation usually results from some chronic economic problem (Sachs & Larrain, 1993, p. 327) and following the high inflation experienced in the

Figure 3.1 GDP growth in annual percent change.\textsuperscript{24}

Figure 3.2 GDP per capita (PPP) 1988 – 2010.\textsuperscript{25}

1970s and the problems that entailed, most central banks consider it to be their primary role to counter inflation. Iceland had been a high inflation country for much of the post-war period, and the 1990s started out with double digit inflation (International Monetary Fund, 2011). Due to several factors the inflation was

\textsuperscript{24} International Monetary Fund, 2011
\textsuperscript{25} International Monetary Fund, 2011
brought down rapidly in the years prior the millennium, and in March 2001 it became the Central Bank of Iceland’s main objective to keep inflation low: as close to 2.5% as possible (Central Bank of Iceland, 2009). As can be seen from Figure 3.3, this has not been a great success. The Central Bank largely implements its monetary policy by affecting interest rates in the money market, primarily through the yield in its transactions with credit institutions (Central Bank of Iceland, 2009). Thus the bank kept the interest rates on these transactions exceedingly high, causing various problems for the Icelandic economy, since in an open economy this led companies and even individuals to take loans from abroad in foreign currencies because of the low interest rates offered in international markets before the credit crisis of 2008 (Haraldsson & Magnússon (Eds.), 2009, p. 173). Inflation in Iceland has thus, with the exception of 2003, been above the EU average in the first decade of the 21st century. Due to the crash, the inflationary pressures have been relieved and the IMF forecast that inflation would approach the 2.5% target as early as 2010 (International Monetary Fund, 2011), which in fact it did (Hagstofa Íslands, 2011).

![Figure 3.3 Annual inflation (%), 1989 – 2010.26](image)

3.2.1.3 Government balance

The 1990s started with a somewhat difficult budget deficit reaching depths as low as minus 4.7% in 1994. The situation improved somewhat until the turn of the century, and in the year 2000 there was a government surplus of 1.7% (Statistics Iceland, 2009b). A slight slump came the following three years, in the wake of the bursting of the dot-com bubble and the consequent slowdown in the world economy. In 2004-5 there was a rapid improvement, and in 2006 there was a record surplus of 6.3% of GDP. The crash had a devastating effect on the public finances and during 2008 the deficit was -13.5%. In 2009 it was -

26 International Monetary Fund, 2011
The Icelandic economy

9.9 (Statistics Iceland, 2011) and the IMF estimates it to be -10.4% in 2010 (International Monetary Fund, 2011), (see Figure 3.4).

When looking at public debt in the period 1998-2008 one sees that until 2004 it is close to 60% of GDP. As seen in Figure 3.5, it reaches its low point, just under 40%, in 2005. In 2008, in the wake of the crash, it shot up to just over 80% and was expected to reach 125% in 2009 (Alþingi, Þskj. 204 — 136. mál., 2009, p. 22). This enormous change for the worse was in part due to debts that fell on the Icelandic state following the bankruptcy of

Figure 3.4 General governmental balance, percentage of GDP, 1988-2010.27

Figure 3.5 Iceland, public dept, percentage of GDP.28

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27 International Monetary Fund, 2011 and Statistics Iceland, 2011
28 Hagstofa Íslands, 2009b
Part I - Economic interests

Landsbanki Íslands, a recently privatised Icelandic bank\(^{29}\) that opened deposit-account schemes under the name ‘Icesave’ in Britain and the Netherlands in 2007-2008, amassing vast deposits\(^{30}\) on its books. Following the collapse of the bank, the Icelandic state could be liable to refunding deposit-holders for up to a minimum of 20,887 euros for each account (Jóhannesson, 2009, p. 116). Iceland initially disputed the claim against the interpretations of all EU member states plus Norway (Jóhannesson G. T., 2009, p. 249). This in turn led to the collapse of Iceland’s credit ratings with international credit-rating companies, such as Standard & Poor’s, Fitch and Moody’s, from the highest possible to the “junk-bond” status of BBB- (Pimentel, 2008, Ministry of Finance, 2009, Visir.is, 6 January, 2010).

3.2.1.4 Exchange rate stability

Iceland passed its own coinage legislation for the Icelandic króna (ISK) in 1925 and a comprehensive Currency Act in 1968 (Pálmason, 2002, p. 8). As mentioned above, inflation was rampant in post-war Iceland, and currency devaluations were a commonly used economic tool. Thus the new Central Bank Act, enacted in 2001, was an abandonment of a hard-to-keep fixed exchange rate regime in favour of a floating rate regime supported by an inflation target. ‘The hope was that actors in the economy would take the monetary stance for granted and use the inflation target as estimate for future inflation. Hence, the goal that politicians in Iceland hoped to achieve by adopting inflation targeting was a noble one: To get rid of inflation once and for all!’ (Matthiasson, 2009, p. 2). In the period 2003-05 the króna was exceptionally strong, severely damaging export industries. In this period, abolishing the króna and adopting the euro became an important part of the arguments of those who favoured EU membership, (Samtök iðnaðarins, 2009). Also, research suggested that Iceland’s trade with euro-zone countries could increase by about 60% if Iceland were to join the EU and the EMU. This trade boost could consequently raise GDP per capita in Iceland by roughly 4%, it was claimed, and these effects would be even larger if Britain, Denmark and Sweden decided to enter the EMU (Breedon & Pétursson, 2004). The start of 2006 spelled trouble for the króna, which however maintained relative strength until 2008. From the beginning of March 2008 to December that same year, the currency index of the króna went from about 130 to 250, (M5.is - Miðpunktur atvinnulífsins (a stock market website), 2009). Iceland had entered the worst currency crisis of its history.

\(^{29}\) Landsbanki was privatised in 2003.

\(^{30}\) In Britain, 300,000 depositors had five billion GBP in the ‘Icesave’ scheme; in the Netherlands, 140,000 depositors had around 1.7 billion euros (Jóhannesson, 2009, p. 107).
The Icelandic economy

Many companies and individuals had been tempted in the preceding years by very low interest rates abroad, compared with the exceedingly high rates in Iceland, to borrow in foreign currencies. Their debts now more than doubled in less than a year. The currency market collapsed completely on 8 October 2008 in the wake of emergency legislation imposed by the government two days earlier. Foreign currency then became virtually unobtainable in Iceland (Danielsson & Zoega, 2009, p. 14). All this has added to the previous pressure on Iceland to take realistic steps regarding the issue of its currency and, judging by the application for EU membership in 2009, the route of choice would be to join the EU and adopt the euro. In Icelandic debate, many other routes, such as unilateral adoption of the euro or the adoption of some other currency (the US dollar, the Norwegian krona or the Swiss franc) (Einarsson & Sturluson, 2008) have been advocated, especially by opponents of EU membership (AMX fréttamiðstöð, 3 April, 2009).

Figure 3.6 Exchange rate of the ISK against the euro, July 1999 – July 2009.31

3.2.1.5 Current account balance

As can be seen from Figure 3.7, Iceland’s current account deficit reached unprecedented heights in 2008, just before the crash: almost 35% of GDP. This was readjusted sharply in 2009 and according to IMF forecasts it will remain around zero in the coming years.

3.2.1.6 Unemployment and Human Development Index

Iceland’s unemployment rate has remained relatively low throughout the post-war period compared with many European countries and as can be seen in Figure 3.8 well below the EU average right down to the crash in 2008.

31 Seðlabanki Íslands, 2009
has experienced highs, however, e.g. in the slump at the beginning of the 1990s. Unemployment shot up in the months following the crash, from 3.3% in November 2008 to almost 9% in March 2009 (Sigtryggsson, 2009). The IMF estimated it would stay high, at least throughout 2010 (International Monetary Fund, 2011).

Figure 3.7 Current account balance 1988 – 2010.\textsuperscript{32}

![Figure 3.7 Current account balance 1988 – 2010.\textsuperscript{32}](image)

Figure 3.8 Unemployment 1988 – 2010.\textsuperscript{33}

![Figure 3.8 Unemployment 1988 – 2010.\textsuperscript{33}](image)

For much of the period in question, Iceland seemed to be a beacon of success: a rich small country, enjoying peace and prosperity and taking advantage of the opportunities globalisation offered. This was reflected in

\textsuperscript{32} International Monetary Fund, 2011

\textsuperscript{33} International Monetary Fund, 2011
Iceland’s position close to the top of the UNDP’s Human Development Index\textsuperscript{34}, taking into account factors such as life expectancy at birth, the adult literacy rate, the combined gross enrolment ratio for primary, secondary and tertiary schools and GDP per capita. In 2003 it was number 2 on the list, second only to its EEA partner and neighbour, Norway, (UNDP, 2005, p. 219) and in 2005 it made it to the top, (UNDP, 2007, p. 229).

3.2.2 Main sectors in Iceland

Iceland is a service economy, though it is reliant on certain export sectors, such as the fishing industry and power-intensive industrial processing, mostly of aluminium. Table 3.1 presents an overview of the percentage each sector contributed to the Gross Domestic Product in 1997, 2002 and 2007, showing that trade and services provided 72-83\% of GDP in that period (Statistics Iceland, 2009a). Below follows an overview of the most significant sectors.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
 & 1997 & 2002 & 2007\textsuperscript{(est)} \\
\hline
Agriculture & 2.20 & 1.60 & 1.40 \\
Fishing & 8.30 & 7.80 & 4.60 \\
Mining and quarrying & 0.10 & 0.10 & 0.10 \\
Manufacturing & 16.70 & 13.40 & 10.80 \\
Fish processing & 4.20 & 3.20 & \ldots \\
Electricity and water supply & 3.90 & 3.40 & 4.30 \\
Construction & 7.40 & 7.50 & 10.40 \\
Wholesale and retail trade & 12.00 & 10.50 & 10.00 \\
Hotels and restaurants & 1.90 & 1.70 & 1.50 \\
Transport, storage and communication & 9.10 & 8.50 & 5.70 \\
Financial, real-estate, renting and business activities & 18.70 & 20.20 & 28.10 \\
Other service activities & 19.60 & 25.10 & 23.00 \\
\hline
\end{tabular}
\caption{Gross domestic factor income by industries (\%)}\textsuperscript{35}
\end{table}

\textsuperscript{34} The United Nations Development Programme (UNDP) has been issuing its Human Development Reports, including the Human Development Index, since 1990.
\textsuperscript{35} Statistics Iceland, 2009a.
3.2.2.1 The fisheries sector

Iceland’s remarkable economic development in the twentieth century, from being one of the poorest European countries to becoming one of the richest, (Matthiasson, 2009, p. 2) was driven by technological innovations in fisheries and by a gradual expansion in the country’s economic zone (Danielsson & Zoega, 2009, p. 3). It was no coincidence Iceland went to ‘war’ with Britain four times for its resources\(^{36}\), the “Cod Wars”, in 1952-56, 1958-61, 1972-73 and 1975-76\(^{37}\). Britain used political and economic pressure on Iceland, including landing bans and unfavourable tariff decisions, but Iceland more or less had its way in these disputes, partly because international developments were favourable to its policy, but also because of alternative trading options in Eastern Europe and the USA (Kristinsson, 1991, p. 161). Another major factor in this success was that the Icelandic authorities used the location of the US military base in Iceland and the threat to withdraw from NATO in the midst of the Cold War to its advantage in obtaining US leverage on Britain (Ingimundarson, 2001). Jóhannesson says that Britain lost the earlier conflicts due to deep miscalculations, most fateful of the ‘national interest’ and of power in international relations during the Cold War, while the Icelanders earned the reputation of being a ‘notoriously inflexible people [who] take an almost masochistic pleasure in the role of David against Goliath’ (Jóhannesson G. T., 2007, p. 17). Traditionally, fisheries have been considered Iceland’s most important economic sector and have enjoyed massive priority and government support, (see e.g. Jónsson G., 2002). However, the economic importance of the fisheries sector for Iceland has been gradually diminishing. In 1990, fishing and fish processing accounted for 14.3% of GDP, in 2000 the figure was 9.9% and in 2006 it was 6.9%, (Statistical Yearbook of Iceland - National Accounts, 2009) The importance of the sector is first and foremost in its contribution to the export earnings. The market for fisheries products in Iceland itself is miniscule and most are exported to markets in Europe, and to a much lesser extent to America and Asia. Britain is the most important buyer, taking 17.5% of Icelandic total goods exports in 2004 (Hagstofa Íslands, 2005, p. 22). As part of Icelandic exports, marine products still retain their position as the most important sector. Excluding the export of services, which account for approximately a

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\(^{36}\) How many Cod Wars there actually were is disputed. Numbers cited range from three to ten, see Jóhannesson G. T., 2002, pp. 437-8.

\(^{37}\) For a review of the “Cod Wars” with Britain, see Jóhannesson G. T., 2007 and Ingimundarson, 2001.
third of Icelandic exports (Guðmundsson M. F., 2003, p. 41), fisheries accounted for 62.3% of Icelandic exports of goods in 2003, down from 77.1% in the years 1991-95, (Hagstofa Íslands, 2005a, p. 23); the figure for 2006 was 51% (Hagstofa Íslands, 2008, p. 23).

The Icelandic economy has been extremely vulnerable to setbacks in the fishing sector. For instance, high prices for fish led to an economic boom in the first two decades of the twentieth century. In the latter half of the 1940s, Marshall Plan aid is thought to have prevented an economic collapse in Iceland following the misguided economic policies of the Icelandic government. Huge catches of herring created a boom in the 1960s, while at the end of that decade the disappearance of herring ushered in one of the most serious economic downswings in Iceland in the twentieth century. Booms followed the extension of Iceland’s economic zone, first to 12 miles in 1958, then to 50 miles in 1972 and to 200 miles in 1975. Economic growth in the 1970s was among the highest Iceland has experienced, around 6.5% annually, in large part based on severe over-fishing of all stocks, followed by high inflation. An economic downswing followed diminishing cod catches in 1987 and the lowering of the world market price of cod (Snævarr, 1993, p. 71).

The economic importance of the fisheries sector led to a classic example of the “Dutch disease” where political focus on an important sector is to the detriment of others. In the 1970s and 1980s it was quite common for the government to direct the price of the króna, so the price of the currency was kept at a level that would let the fishing industry keep its revenues close to zero (Danielsson & Zoega, 2009, p. 3).

In the first years of the 1980s the government came up with a system of transferable fishing quotas. This led to restructuring within the sector that gradually became the source of immense wealth among the quota-holders (Danielsson & Zoega, 2009). Needless to say, this system has been a hotly debated issue in Icelandic politics ever since.

### 3.2.2.2 Other sectors

#### 3.2.2.2.1 Agriculture

Iceland was for centuries mostly an agrarian society, although fishing has been a mainstay of life on the island as well. It is estimated that at the end of the eighteenth century, agricultural products, (dairy products, meat and wool) accounted for around three quarters of the domestic product, with fisheries accounting for the remaining quarter (Snævarr, 1993). Agriculture started to lose out to services as the main source of employment at the turn
of the twentieth century with the strengthening of urban centres, such as Reykjavik. As of 2007, agriculture’s contribution to GDP was 1.4%, ( Statistical Yearbook of Iceland - National Accounts, 2009). However, as in many other countries, it has been of disproportionate political importance, with many members of parliament having connections to agriculture due to the constituency system in Iceland. In the electoral term 1999-2003, 12.7% of parliamentarians had direct connections to agriculture, down from 36.6% in 1956-58. The majority of them have traditionally been members of the Progressive Party, around 30% in 1999-2003, down from over 80% in 1956-58, (Thorhallsson & Vignisson, 2004c, p. 80). Until 2007 there was a separate ministry of agriculture (in 2007 it was merged with the ministry of fisheries) in the Icelandic government, and a proportionally large emphasis has been on education and research in agriculture compared with other occupational sectors in Iceland (in 2010 two of Iceland’s eight universities focus almost exclusively on agriculture and related topics.)

3.2.2.2 Manufacturing
In the late 1960s the Icelandic government started to think of ways to escape from a severe economic downswing and one of the main issues was to gain better access to European markets for Icelandic products. In the light of the fact that Britain and Denmark, important trading partners, were on their way to joining the EC, it was of utmost importance for Iceland to conclude a free-trade agreement with the EC. A large part of this strategy was to join EFTA, which Iceland did in 1970. That year, 38% of Icelandic exports went to other EFTA countries. Iceland managed to conclude a free-trade agreement with the EC in 1972 (Snævarr, 1993, p. 228).

Another significant move was to attract heavy (power-intensive) industry to Iceland. In 1966 an agreement to build an aluminium plant in the country was signed between the government of Iceland and the Swiss aluminium company Alusuisse. Three years later the plant started operations (Alcan - Company, 2009). Other plants have been set up in Iceland since, requiring extensive damming projects. The latest dam, at Kárahnjúkar, for the Alcoa aluminium plant at Reyðarfjörður in eastern Iceland, sparked substantial controversy. The plant started operating in April 2007 (Alcoa á Íslandi, 2009). That year, manufacturing accounted for 10.8% of GDP, down from 16.9% in 1997 (Statistical Yearbook of Iceland - National Accounts, 2009).
The Icelandic economy

3.2.3 The crash

In recent years other sectors, especially in trade and services, have been expanding rapidly, growth being greatest in the financial sector, which at its peak approached and even surpassed the contribution of the fisheries to GDP (Ólafsdóttir, 2005, p. 4). This followed in the wake of the privatisation of two state-run banks in 2003, Landsbanki Íslands and Búnaðarbankinn, later renamed Kaupthing Bank. As later events showed, the growth was ill-founded and ended in the collapse of the Icelandic economy in October 2008.

For a long time after the founding of the republic, foreign investment was viewed with suspicion and through nationalistic eyes, with the fear that foreigners would ‘buy up’ Iceland (Jónsson Á., 2009, pp. 86-7). This fear seems to have been unnecessary since, except for heavy industry, where the selling point has been cheap energy, Iceland has always found it difficult to bring foreign capital into its businesses (Jónsson Á., 2009, pp. 86-7). What might have been viewed by foreign investors as Iceland’s most lucrative investment opportunity, the fishing industry, is subject to severe restrictions on foreign investment (Haraldsson & Magnússon (Eds.), 2009, p. 48).

![Figure 3.9 Inward FDI flows as a percentage of gross fixed capital formation.](unnamed)

Foreign direct investment failed to follow automatically after Iceland joined the EEA: no multinational companies seemed to be interested in setting up branches in a country with fewer than 300,000 inhabitants, with its own tiny currency that tended to fluctuate wildly. Even when the banks were being privatised, an effort was made to attract foreign buyers, but to little or no avail. However, at the beginning of the twenty-first century, this

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38 UNCTAD, 2010
begun to change dramatically, with Icelandic FDI inflows far surpassing the EU average (see Figure 3.9). Two factors in particular account for this: firstly, a hefty investment in a new aluminium plant in the east of Iceland and secondly, investment in the financial sector. Unfortunately most of the investment in the financial sector was actually done by foreign companies owned by domestic actors (Haraldsson & Magnússon (Eds.), 2009, p. 50).

Moreover, the country’s status as stable, European, democratic and prosperous was reflected in its ratings by international agencies, such as Standard & Poor’s. This meant that its access to international loans was almost unlimited. Thus, a generation of ambitious Icelandic businessmen in the first decade of the twenty-first century set off to create their own multinationals (Jónsson Á., 2009, pp. 86-7). The “útrás” had begun.

The phenomenon called útrás in Icelandic – a play on an old Icelandic word originally meaning “release of tension”, but coincidentally also suggesting the opposite of the word innrás which means “invasion” – took on a new meaning: the acquisition of companies abroad, most of which were in Britain and Scandinavia. The newly-privatised Icelandic banks were in the forefront of this development, with one of them, Kaupthing Bank, ranking among the biggest banks in the Nordic countries at the time. Icelandic businessmen, humorously called “útrásarvíkingar” or “útrás-vikings”, invested heavily in retail, pharmaceutical companies, telecoms and food-producing companies; together with the financial institutions, they inflated the current accounts of the banks 39 to previously unknown levels and Iceland far surpassed the EU average of outwards flows of FDI (see Figure 3.10). At the time, the development raised eyebrows in the British and Scandinavian business media, even with suggestions of “Russian mafia money” being behind the suddenly deep pockets of Icelandic businessmen, together with some more solid criticisms on cross-ownership of banks and companies owned by their owners, too much risk-taking and too high a level of indebtedness, which later proved all too close to reality when it became painfully clear that the major part of Icelandic acquisitions abroad was financed with loans from, among others, the largest British and German banks.

39 In 2006, when the first serious warning was voiced that something bad might be ahead for the Icelandic banks, their balance sheets amounted to considerably more than Iceland’s GDP, raising the question of whether the Icelandic Central Bank could serve as their lender of last resort in the event of their default. This was called ‘the Geyser Crisis’ in international business media after a famous hot spring in Iceland, Geysir (Jónsson Á., 2009, p. 58). However, the banks continued growing, and when they finally fell in October 2008, their balance sheets amounted to tenfold Iceland’s GDP. (Jónsson Á., 2009, p. 208).
It has been claimed that the biggest single factor in making this development possible was Iceland’s participation in the European Economic Area (EEA) (Sigfússon, 2005, p. 75). Icelandic businessmen, however, claimed that they were more risk-prone and quicker to make decisions than their European counterparts (Harðardóttir & Ólafsson, 2007, p. 3). Unfortunately this level of risk-taking did not pay off in the end. Within a few days in October 2008, following serious turmoil in financial markets worldwide, some 85% of the Icelandic banking sector collapsed, together with the Icelandic currency, the króna (Matthiasson, 2009, p. 1). Almost all the rest followed early in 2009. The Icelandic stock market, in which the nominal value of stocks had increased nine-fold from the beginning of the privatisation of the banks until their peak in 2007, took a nosedive. The index went from 9,016.5 points on 18 July 2007 to 218.8 on 8 April 2009. Between 26 September 2008 and 14 October the same year it went down from 4,277.3 to 678.4 (M5.is - Miðpunktur atvinnulífsins (a stock market website), 2009).

Another event took place during the crash that explicitly highlighted Iceland’s place in the world. In connection with the fall of Landsbanki, described above, and out of fear for the deposits of its 300,000 British depositors, the UK government resorted to the “Landsbanki Freezing Order 2008”, amounting to a total freezing of all assets of Landsbanki in Britain. The Freezing Order was based on the Anti-terrorism, Crime and Security Act, which had been ratified in the wake of the September 11 attacks on the US and had never been used against a Western state before. For 24 hours,

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Figure 3.10 Outward FDI flows as a percentage of gross fixed capital formation.\(^4^0\)

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\(^{40}\) UNCTAD, 2010
the Central Bank of Iceland and the country’s Ministry of Finance were also under this Act, in company with entities such as Al Qaeda, the Taliban, North Korea and Zimbabwe. This was interpreted by many in Iceland as an act of war against the country (Jóhannesson G. T., 2009, pp. 180-1). It vividly exposed the country’s vulnerability in the international order.

The details of the Icelandic economic collapse in 2008 will not be described in this thesis. The facts are still unfolding and the consequences for the Icelandic people will be severe for years to come. It is clear, though, that the incentives for Iceland to seek new ways of handling the economy rose significantly.

3.2.4 The view of the economic interest groups in Iceland

The economic interest groups in Iceland have differing views on the question of EU membership. The largest unions and the Confederation of Icelandic Employers (SA) want to encourage the discussion on “pros and cons” of EU membership, but have had a mixed position on the issue. The confederation went through a process to find out the position of its member organisations in the wake of the economic collapse in 2008, but shied away from stating a clear position due to fierce opposition to an EU application from the fisheries sector (Mbl.is, 16 December, 2008). The Icelandic Confederation of Labour (ASÍ) has taken a clear pro-EU stance, stating that a membership application for the EU and the adoption of the euro is “the only way forwards” to regain financial stability and defend the position of workers and homes in the country. The position of the Confederation of State and Municipal Employees (BSRB) is not “for” or “against” entry into EU, but it wants an open discussion on the matter (Ályktanir 40. þings BSRB, 2003). The positions of the Federation of Icelandic Fishing Vessel Owners (LÍÚ), a member organisation of SA, and the Icelandic Farmers’ Association, are unambiguous. They are completely against Icelandic membership of the European Union. This position has been restated by both sectors in the aftermath of the economic collapse. Unambiguous also

41 See the position of the Confederation of Icelandic Employers (SA), (Samtök atvinnulífsins, Alþjóðamál, 2009), the Icelandic Confederation of Labour (ASÍ), (Sýn ASÍ á Evrópusamvinnuna og samningsmarkmið í aðildarviðræðum við ESB Alþýðusamband Íslands, 2009), and the Confederation of State and Municipal Employees (BSRB), (Ályktanir 40. þings BSRB, 2003).

42 See the position of the Federation of Icelandic Fishing Vessel Owners (LÍÚ), (LÍÚ, 2005), and of the Icelandic Farmers’ Association, (Bændasamtök Íslands, 2003)

is the position of the Federation of Icelandic Industries (SI), another of SA’s member organisations. It is, and has been for many years, a firm advocate of Iceland’s membership of the EU (Samtök íðnaðarins, 2009). SI has also supported on-going research on Icelandic attitudes towards EU membership and has one of the most extensive databases on the matter. The Federation of Industries and its predecessors have actively supported Iceland’s participation in European integration since the matter first came up in the 1960s. It supported membership of EFTA and of the EEA, and shortly after Iceland joined the EEA adopted the position that EU membership should be on the agenda (Samtök íðnaðarins, 2009).

The positions of the social partners in Iceland were re-iterated in a report by a governmental committee on European affairs in April 2009 (Nefnd um þróun Evrópumála, 2009). A joint conclusion calling for a membership application was signed by the Social Democratic Alliance (Samfylkingin), the Icelandic Confederation of Labour (ASÍ), the Federation of Industries (SI), the Federation of Trade and Services (SVP), the Icelandic Travel Industry Association (SAF), and the Iceland Chamber of Commerce (VÍ). SI, SAF and SVP are members of the Confederation of Icelandic Employers, which stated in the conclusion that the views within the Confederation differed. The Progressive Party, the Independence Party and the Confederation of State and Municipal Employees (BSRB) all had their own conclusions. The views of the PP and IP are described in Chapter 5. The BSRB aired worries about long-term unemployment as a consequence of the adoption of the euro, together with general worries about the erosion of the rights of its members (Nefnd um þróun Evrópumála, 2009).

In Iceland, individual companies rarely participate as such in discussions on issues such as EU membership outside the forum of their sectoral organisations. The sectoral organisations, on the other hand, are very active lobbyists and exert their influence on Icelandic society through deep roots in the political parties and as participants in political debates. It has been argued that considering their relative size in economic terms, the fishing industry and agricultural interests have a disproportionate influence due to the structure of the Icelandic electoral system through their traditional roots in the rural part of the country (Thorhallsson, 2002, p. 67).

When it comes to political influence, the Federation of Icelandic Fishing Vessel Owners (LIÚ) wields the most power (Thorhallsson & Vignisson, 2004c, p. 96, Gunnarsson, 2009). Thus, one of the fiercest debates in Icelandic politics revolves around the ‘quota system’ and the way it was introduced through the allocation of fishing quotas to a handful of vessel owners in 1983. These quotas have been a source of immense wealth, by
Icelandic standards, for the original recipients, many of whom have sold off all their quotas, with great financial gain. As can be seen on LIÚ’s webpage, its objectives are quite clear:

The founders’ [of the organisation] purpose was to represent all Icelandic fishing vessel owners in one unified organisation in order to safeguard their mutual interests… LIU places considerable emphasis on presenting the viewpoints of its members to the Icelandic legislature (the Althing) and the executive branch of government, and endeavours to study and follow up issues of concern to the fisheries which will be dealt with by the various government institutions (LIÚ, 2009).

The governments of Davíð Oddsson (1991 – 2004) staunchly defended the quota system and the original distribution and free sale of quotas against increasing criticism from the political opposition and almost all other interest groups within the fishing industry, although most are in agreement on the importance of fisheries controls.

Thorhallsson and Vignisson have studied the influence of the fisheries sector within the political system and found that interest groups within the sector ‘exert influence in a number of subtle ways, and … that decisions influencing the operational environment of the fishing industry are more often than not taken in the course of a complex process of interaction between MPs and the interest groups’ (Thorhallsson & Vignisson, 2004c, p. 96). Their study shows that the Independence Party and the Progressive Party have both had extensive connections with the industry, especially the Independence Party. One or both of these parties were in government, with brief intervals occupied by minority governments, since the founding of the Republic in 1944 (Thorhallsson & Vignisson, 2004c, p. 97) until 2009.

There are, of course, other important economic actors in the Icelandic economy besides the fishing sector. As discussed above, the agricultural sector has long been believed to wield considerable political power, despite its generating a relatively minor percentage of Iceland’s GDP (Thorhallsson & Vignisson, 2004c).

As explained by Baldur Thorhallsson, the small size of the Icelandic administration goes far in explaining the disproportionate influence of pressure groups, which provide the understaffed Icelandic ministries with much-needed information, to the extent that ‘it was not always possible to see where the role of the state ended and that of the pressure groups began’ (Thorhallsson, 2002, p. 67), and where the ‘relationship with the farming and fishing industries was particularly close’ (Thorhallsson, 2002, p. 67).
The Icelandic economy

It is thus important to identify the position of the Icelandic fishing industry towards Iceland’s participation in the European integration process. The mainstream debate in Iceland on the interests of the fisheries sector in EU membership has been that it would be detrimental for Icelandic fisheries if the country joined the EU. Fisheries and agriculture are excluded from the EEA Agreement, and under the agreement, Iceland has the right to bar foreign nationals (including citizens of EU/EEA countries) from investing in that sector. The position of LÍÚ on membership of the EU was described as follows on the organisation’s website:

Fisheries are Iceland’s most important export industry... Iceland's economic well-being is mostly based on the sustainable and sensible use of the fisheries resource by Icelanders themselves. It is out of the question that anyone other than Icelanders themselves should manage the resource, since it is the most important factor in the economic independence of the Icelandic people.

Iceland has secured its economic interests with regard to the European Union in all major areas... Entering the EU, Iceland would have to accept the EU's Common Fisheries Policy (CFP) and thus let the supranational power in Brussels make all decisions on Icelandic fisheries... The CFP is a major disaster. The EU's fisheries receive large state subsidies, and most stocks in EU waters are over-fished and in danger of extermination. There is no guarantee that the rule of comparative stability will hold in the future and thus Iceland's quotas could be granted to other EU states in the future.

With Iceland's membership of the EU, foreigners would be able to buy the majority of shares in Icelandic fishing companies. Because of the importance of fisheries for Iceland, Icelandic fishing companies should be majority-owned by Icelanders. Iceland's struggle for full control of Icelandic waters, including the serious disputes during the Cod Wars, was a major part of the country’s fight for independence. That achievement shall not be surrendered (Stjórn LÍÚ, 2002)*. 44

Thus, the position of the sector is defined as a major part of an on-going “fight for independence”, and all concessions in that matter are viewed as surrendering achievements in that struggle to “foreigners”. This view was further emphasised in an interview with Friðrik J. Arngrimsson, chairman of LÍÚ, on 5 March 2009 on Icelandic National Radio. Arngrimsson said that

44 The debates and results of the votes can be accessed through the Alþingi’s website (Alþingi, Atlæðagarðsla 41080, 2009). The speeches were naturally in Icelandic and these are translations by the author from Icelandic into English. Translations by the author are marked by an asterisk (*) in this thesis.
the largest single issue was the transfer of power to non-nationals in Brussels, and thus the surrendering of Iceland’s rights as a sovereign nation (Spegillinn - Interview with LÍÚ chairman, Friðrik J. Arngrímsson, 2009).

The relative positions of the main economic interest groups are summarised in the following table.

Table 3.2 Positions of economic interest groups in Iceland.

<table>
<thead>
<tr>
<th>Pro-EU membership</th>
<th>Ambiguous</th>
<th>Anti-EU membership</th>
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<tbody>
<tr>
<td>Icelandic Confederation of Labour (ASÍ)</td>
<td>Confederation of Icelandic Employers (SA)</td>
<td>Federation of Icelandic Fishing Vessel Owners (LIÚ)</td>
</tr>
<tr>
<td>Federation of Icelandic Industries (SI)</td>
<td>Confederation of State and Municipal Employees (BSRB)</td>
<td>Icelandic Farmers’ Association</td>
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<tr>
<td>Federation of Trade and Services (SVÞ)</td>
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<tr>
<td>Icelandic Travel Industry Association (SAF)</td>
<td></td>
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<tr>
<td>Iceland Chamber of Commerce (VÍ)</td>
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It is thus clear that views differ amongst the economic interest groups in Iceland. The leading sector – the fishing industry – is against EU membership. It has extensive political ties, especially with the Independence Party, which are studied in further detail in Chapter 5. Agriculture – in spite of being a relatively minor industry in terms of its contribution to GDP – is also politically strong. On the other side of the equation, the most vocal proponents of membership are the Federation of Icelandic Industries and the Confederation of Labour. Although industrial goods are a major export for Iceland, that sector does not have the same political clout as fishing and agriculture. The Confederation of Labour, although not directly involved in party politics, does clearly have the strongest ties to the pro-EU Social Democratic Alliance, and its leaders are usually active to some degree within that party. Thus, the economic interest groups channel their interests into the political system, so creating political, rather than economic, incentives or impediments, and therefore their attitudes are taken into account when studying the political constraints variable in the following chapters.

3.2.5 Economic incentives for European integration

It has been stated that until the last decades of the twentieth century, Iceland was probably less integrated into European economics than any other Western European state (Kristinsson, 1991, p. 159). Conflicts with some Western European states – especially the UK – led to a different pattern of trade, based on extensive trade with both the United States and Eastern Europe during the post-war period, the latter reaching a peak in the late 1950s, when one third of
Icelandic exports went to Eastern Europe, although the importance of Western European markets grew steadily over the years (Kristinsson, 1991, pp. 160-1). In 1989, at the time when the EEA negotiations began, exports to EC countries had reached 56.5% of total exports, amounting to 19.2% of GDP (see Table 3.2). These exports grew steadily after the EEA was established. Trade with other EEA countries accounted for roughly 70% of exports and 65% of imports in 1998 (Einarsdóttir (Ed.), 1999, p. 15), and an average of 77.3% of exports during the first years of the twenty-first century (Útflutningur eftir löndum, árum og mánuðum 1988-2004, 2005). This amounts to 29% of Iceland’s GDP in the same period (Hagstofa Íslands, 2005). Looking only at EU countries, the figures are 70.9% of exports and 26.6% of imports. Compared to Iceland’s second largest export market, the US, the difference is enormous. Iceland’s exports to the US in the first years of the century have been, on average, 9.9% of the total, amounting to roughly 3.5% of GDP.

Table 3.3 Overall Export Dependence on the EC, 1989, 1992 and 1994.45

<table>
<thead>
<tr>
<th></th>
<th>EC Export Ratio (exports to EC as % of total exports)</th>
<th>GDP Ratio (exports to EC as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Iceland</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>56.5</td>
<td>19.2</td>
</tr>
<tr>
<td>1992</td>
<td>68.7</td>
<td>21.2</td>
</tr>
<tr>
<td>1994</td>
<td>59.6</td>
<td>21.7</td>
</tr>
<tr>
<td></td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>53.2</td>
<td>14.3</td>
</tr>
<tr>
<td>1992</td>
<td>55.7</td>
<td>12.6</td>
</tr>
<tr>
<td>1994</td>
<td>49.9</td>
<td>15.5</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>65.1</td>
<td>17.8</td>
</tr>
<tr>
<td>1992</td>
<td>66.4</td>
<td>18.5</td>
</tr>
<tr>
<td>1994</td>
<td>65.1</td>
<td>18.3</td>
</tr>
<tr>
<td></td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>56.5</td>
<td>16.4</td>
</tr>
<tr>
<td>1992</td>
<td>58.9</td>
<td>16.0</td>
</tr>
<tr>
<td>1994</td>
<td>56.5</td>
<td>15.4</td>
</tr>
<tr>
<td></td>
<td>EC-12</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>59.7</td>
<td>13.4</td>
</tr>
<tr>
<td>1992</td>
<td>61.1</td>
<td>12.6</td>
</tr>
<tr>
<td>1994</td>
<td>57.4</td>
<td>12.5</td>
</tr>
</tbody>
</table>

When the Icelandic economy is considered in the light of Gstöhl’s categorisation of the economic incentives for European integration, it is clear that the country had a very high economic incentive to seek integration when the EEA was in the making, (see Table 3.3 and Table 3.4).  

Table 3.4 Sector Exports to the EC, 1992.  

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>SITC, Rev. 1</th>
<th>Sector Share</th>
<th>Sector Export Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>as % of total exports to EC</td>
<td>as % of total sector exports</td>
</tr>
<tr>
<td>Sweden</td>
<td>Non-electrical machinery</td>
<td>(71)</td>
<td>16.9</td>
<td>52.3</td>
</tr>
<tr>
<td></td>
<td>Paper manufacture</td>
<td>(64)</td>
<td>15.1</td>
<td>75.1</td>
</tr>
<tr>
<td></td>
<td>Transport equipment</td>
<td>(73)</td>
<td>12.6</td>
<td>46.8</td>
</tr>
<tr>
<td>Norway</td>
<td>Petroleum</td>
<td>(33)</td>
<td>48.9</td>
<td>77.3</td>
</tr>
<tr>
<td></td>
<td>Gas</td>
<td>(34)</td>
<td>10.8</td>
<td>98.6</td>
</tr>
<tr>
<td></td>
<td>Non-ferrous metals</td>
<td>(68)</td>
<td>7.6</td>
<td>73.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Non-electrical machinery</td>
<td>(71)</td>
<td>18.5</td>
<td>55.5</td>
</tr>
<tr>
<td></td>
<td>Electrical machinery</td>
<td>(72)</td>
<td>9.9</td>
<td>63.5</td>
</tr>
<tr>
<td></td>
<td>Professional instruments</td>
<td>(86)</td>
<td>9.1</td>
<td>45.1</td>
</tr>
<tr>
<td>Iceland</td>
<td>Fish and fish preparations</td>
<td>(03)</td>
<td>76.8</td>
<td>68.9</td>
</tr>
<tr>
<td></td>
<td>Non-ferrous metals</td>
<td>(68)</td>
<td>10.3</td>
<td>75.1</td>
</tr>
<tr>
<td></td>
<td>Animal feeds excl. unmilled cereals</td>
<td>(08)</td>
<td>5.9</td>
<td>73.9</td>
</tr>
</tbody>
</table>

A country’s overall export dependence refers to its exports to states participating in an integration scheme as a share of total exports (the export ratio) together with the importance of these exports in relation to the gross domestic product, the “GDP ratio” (Gstöhl, 2002, p. 8). The export ratio is considered “high” if it exceeds 40 per cent, “medium” if it falls between 20 and 40 per cent, and “low” if it remains below 20 per cent. Iceland’s export ratio would thus be “high” in all the years in Table 3.3. The GDP ratio is

---

46 Figures for Iceland (UN Comtrade, 2009), figures for Sweden, Norway and Switzerland, same source, quoted in Gstöhl, 2002, p. 172.
considered “high” if it is above 10 per cent, “medium” for a range of 4-10 per cent and “low” for 0-4 per cent (Gstöhl, 2002, p. 21). Iceland falls into the “high” category there too. Note that the same can be said for Norway, Sweden and Switzerland in that same period (Gstöhl, 2002, p. 213). From this can be seen that for Iceland the export ratio in this period is “high”. In terms of the proportion of GDP accounted for by exports to the EC market, the ratio for Iceland is even higher than for the other nations on the list. The same can be said when looking at the table for sector exports (Table 3.4). The leading sectors’ export sensitivity 47 assesses the risk of a sector being negatively affected by integrating markets. The sector export ratio is regarded “high” if it lies above 50 per cent, “medium” if it falls between 30-50 per cent and “low” for less than 30 per cent (Gstöhl, 2002, p. 21). The bulk of Iceland’s primary exports in 1992 - 68.9% of fisheries products, 75.1% of non-ferrous metals (mostly aluminium) and 73.9% of animal feeds – were made to the 12 EC countries at the time. The same was true in 2005, when 76% of all fisheries exports and 95% of non-ferrous metals, went to the 25 EU countries (UN Comtrade Database, 2009).

Iceland joined the EEA in 1994, together with most of the other EFTA countries. This was a step in the gradual process of abolishing tariffs for industrial goods in the EC-EFTA context, first by means of free-trade agreements until 1984, where non-tariff barriers to trade became relevant. With the elimination of barriers to trade, particularly with the EEA, Gstöhl says that additional economic indicators (such as investment flows) became more significant for assessments of the incentives for further integration (Gstöhl, 2002, p. 9). It is safe to say that joining the EEA was considered by many as a sufficient step towards economic integration and thus, full participation in the European project was never put ‘on the government’s agenda’ during that period, (Thorhallsson & Vignisson, 2004d, p. 47). Although it did not grant absolutely tariff-free access to EU markets for fish exports, the EEA allowed Iceland in the 1990s and early 2000s to reap most of the economic benefits of membership without participation in EU institutions. Gstöhl says: ‘In the EEA, the EFTA countries gained already most of the economic benefits of being in the Internal Market, whereas the further step to full EC membership entailed relatively small additional economic gains and increased the financial costs in the form of budget contributions’ (Gstöhl, 1998, pp. 586-7).

47 Gstöhl defines leading sectors as those three sectors of an economy with the highest share of total exports to countries participating in an integration scheme (sector share), based on the two-digit Standard International Trade Classification (SITC) system. She also takes into consideration the sectors’ exports to the integration area as a share of their total exports, sector export ratio, (Gstöhl, 2002, p. 8)
Thus, it is worth the effort to try modifying Gstöhl’s model to see if economic incentives can be found in spite of this change on joining the EEA. The fact is that three EEA countries that were originally in EFTA (Sweden, Finland and Austria) have since joined the EU and one (Iceland) has applied for membership. So if there are economic incentives behind these applications, they are not to be found in general market access. We then move on to examine socio-economic pressure \(^{48}\) and finance and trade pressure \(^{49}\) defined in 2.3.4 so as to try to locate the strength of the economic incentives thus defined of Iceland for joining the EU in the last two decades.

Looking first at socio-economic pressure (see Figure 3.11) one notes that with the exception of 1994, it tends to be medium in the years 1988-96. It remains low until 2002-03 when sluggish GDP growth figures compared to the EU average squeeze it up to medium again. It becomes low again in 2004 and remains that way until 2008, the year of the crash. In 2009, economic contraction, a large government deficit and rising unemployment help to push the pressure up to “high” in that year.

Figure 3.11 Socio-economic pressure, Iceland.\(^{50}\)

Looking at finance and trade pressure (Figure 3.12), one sees that it goes through high to medium to low in 1994 when Iceland joins the EEA. Until 1991, inflation was high and the current account balance was somewhat worse than in the EC/EU on average. Overall export dependence has been accounted for above; it remained “high” until 1994, when it, on account of the EEA became “low”. It

\(^{48}\) The indicators are GDP per capita, GDP growth, government balance and unemployment.

\(^{49}\) The indicators are inflation, exchange rate stability, current account balance and overall export dependence

\(^{50}\) 1=low, 2=medium, 3=high
The Icelandic economy

must be noted that exchange rate stability is not accounted for until the introduction of the euro in 1999, so until that year, only three indicators are used.

Figure 3.12 Finance and trade pressure, Iceland.\textsuperscript{51}

Figure 3.13 Iceland’s economic incentives to join the EU.\textsuperscript{52}

With the euro, the exchange rate comes into play. This, and a rather adverse current-account balance, help to shift the finance and trade pressure up to high in 1999 and 2001. The euro becomes an issue in public discussion in Icelandic. A massive trade deficit, comparatively high inflation and wild fluctuation of the currency, ending with its crash in 2008,

\textsuperscript{51} 1=low, 2=medium, 3=high
\textsuperscript{52} 1=low, 2=medium, 3=high
push the finance and trade pressure up to “high” in 2005-2008 (with the exception of 2007 when the currency stabilised slightly). The currency restrictions of 2009, together with the turnaround in the current-account balance, push this pressure down to “medium” in that year.

Thus, using Table 2.11 in 2.3.4 to calculate the independent variable, “economic incentives” in the period, the result is as follows (see Figure 3.13).

Economic incentives to further European integration went from high to low when the EEA Agreement went into force. However, at the turn of the century, a new economic incentive to integration appeared on the horizon. The euro became ever more prevalent in the discussion of EU membership in Iceland in the first years of the twenty-first century, and in the model, the fluctuating currency creates medium incentives for integration around the turn of the century. In 2005-06, pressure on the Icelandic currency increased, together with the “Geyser crisis” (see 3.2.3), which led to medium incentives to further European integration. During the crash in October 2008 and the ensuing currency crisis, banking crisis and crisis of debt and creditworthiness in the international markets, plus unemployment levels approaching double figures, the incentives went to high again in 2008-09. After five weeks of deliberations by the Alþingi’s Committee on Foreign Affairs and a week of heated debate in the Alþingi itself, Iceland applied for membership of the European Union on 16 July 2009. If we suggest that economic incentives led to that application, they now have to be measured against the political impediments.

3.3 The Maltese economy

3.3.1 Economic performance 1989-2009

3.3.1.1 GDP growth, GDP per capita

Malta’s economy has been about a third to half the size of Iceland’s in recent years. Thus, the Maltese economy had a total GDP of USD 3.6 billion in 2003, compared with Iceland’s USD 10.5 billion, (UNDP, 2005, p. 266). In 2005, Malta’s GDP was USD 5.6 billion and Iceland’s USD 15.8 billion (UNDP, 2007, p. 277); in 2007, when the gap was widest, Malta’s GDP was USD 7.5 billion, against Iceland’s figure of about USD 20 billion. In spite of the widening gap between the countries during the Icelandic boom years, Malta was catching up with other western countries with an average annual GDP per capita growth rate of around 4.6% between 1975 and 2000, (UNDP, 2002, p. 190). Malta’s GDP per capita, adjusted in terms of purchasing power parity (PPP) in 2003 was USD 17,633, while Iceland’s,
The Maltese economy

which had also been growing fast in recent years, was USD 31,243 that same year (UNDP, 2005, p. 219).

![Figure 3.14 GDP growth in annual percent change.](image)

**Figure 3.14 GDP growth in annual percent change.**

![Figure 3.15 GDP per capita (PPP).](image)

**Figure 3.15 GDP per capita (PPP).**

Fuelled by a vibrant tourist sector, Malta enjoyed rapid economic growth during most of the 1990s. Malta's per capita income almost doubled, and its income as a share of the EU average rose to 56 per cent, which was at the time well above most accession candidates, although lower than the least affluent EU members at the time, such as Portugal and Greece (International Monetary Fund, 2003).

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53 International Monetary Fund, 2011  
54 International Monetary Fund, 2011
Part I - Economic interests

Maltese GDP adjusted for Purchasing Power Parities (PPP) was, at the time of entry into the EU, 52% of the EU average, placing it fourth among the 2004 EU entrants (European Economic and Social Committee, 2001, p. 5).

3.3.1.2 Price stability

Compared to Iceland, Malta has experienced relative price stability (see Figure 3.16). In the period 1989 – 2009, annual inflation has never been above the 5% mark, and when Malta was reviewed for the price stability criteria for the adoption of the euro in 2007, it passed with flying colours (European Commission, 2007, pp. 51-2).

![Figure 3.16 Annual inflation (%), 1989-2010.55](image)

3.3.1.3 Government budgetary position

Malta traditionally ran a high budget deficit before joining the European Union, and was at the time of entry the subject of a Council Decision on the existence of an excessive deficit (European Commission, 2007, p. 48). This reached its peak in 1998, at the end of the two-year period of Labour government, at about 10% of GDP (International Monetary Fund, 2011).

However, after entering the EU, the deficit gradually diminished until the slowdown of the world economy in 2008. The IMF forecasts continuing deficits for Malta (International Monetary Fund, 2011). General government debt increased significantly at the turn of the century, peaking at about 74% in 2004. It has followed a downward path since, reaching about 66.5% of GDP in 2006. In the December 2006 update of its Convergence Programme, the Council noted that the debt ratio appeared to be diminishing at a satisfactory pace towards the 60% of GDP reference value and that the

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55 International Monetary Fund, 2011
programme was consistent with a correction of the excessive deficit (European Commission, 2007, p. 48).

![Figure 3.17 General government balance, percentage of GDP, 1988-2010.](image)

**Figure 3.17 General government balance, percentage of GDP, 1988-2010.**

![Figure 3.18 Malta, public dept, percentage of GDP.](image)

**Figure 3.18 Malta, public dept, percentage of GDP.**

### 3.3.1.4 Exchange rate stability

Until its adoption of the euro in 2008, Malta maintained a long-standing exchange rate peg to a basket of currencies composed of the euro, pound sterling, and dollar. According to the IMF, this pegging delivered low inflation and served Malta well, including the period of liberalization around the turn of the century. Initially, capital account restrictions allowed the Central Bank of Malta (CBM)

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56 International Monetary Fund, 2011
57 International Monetary Fund, 2003 and European Commission, 2007
Part I - Economic interests

some room for an active monetary policy, but the gradual liberalisation of the capital account diminished the ability to conduct monetary policy independently of world rates (International Monetary Fund, 2003). After joining the EU, the Maltese lira participated in ERM II \(^{58}\) since 2 May 2005. During ERM II participation, the lira remained stable vis-à-vis the central rate and did not experience severe tensions. Additional indicators, such as developments in short-term interest rates and foreign exchange reserves, did not point to pressures on the exchange rate (European Commission, 2007, p. 53). Malta adopted the euro on 1 January 2008 (Europa, 2008).

![Figure 3.19 Exchange rate of the Maltese lira to the Euro, January 1999 – December 2003.\(^9\)](image)

**Figure 3.19 Exchange rate of the Maltese lira to the Euro, January 1999 – December 2003.\(^9\)**

### 3.3.1.5 Current account balance

Malta’s current account balance was rather volatile during the period, reflecting, according to the European Commission, the small size and narrow sectoral base of the economy (European Commission, 2007, p. 54). Disappointingly, the current account deficit increased significantly after EU entry, reaching a level of 9.2% of GDP in 2006 (International Monetary Fund, 2011). According to the Commission, this increase reflected difficult market conditions in the dominant electronics and tourism sectors and a strong increase in the oil bill (European Commission, 2007, p. 54). On the

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\(^{58}\) Exchange Rate Mechanism between the euro and participating national currencies.

\(^{59}\) Central Bank of Malta, 2009
The Maltese economy

financing side however, net FDI inflows have largely covered the current account deficits (European Commission, 2007, p. 54).

3.3.1.6 Unemployment and Human Development Index

Adverse shocks to tourism, (which accounts for roughly 30 per cent of GDP) and the semi-conductor industry (which accounts for about 75 per cent of manufactured exports) weighed on economic development at the turn of the century (International Monetary Fund, 2003). The September 11 attacks further dented the tourism sector that was already affected by a weak European market. At the same time, the bursting of the high-tech bubble dampened exports and private investment, the latter being further weakened by the uncertainty about the EU referendum (International Monetary Fund, 2003). A slow recovery started after EU entry in 2003; however, unemployment rose again and the IMF predicted it would reach 7.6% in 2010 (International Monetary Fund, 2011).

Figure 3.20 Current account balance 1995 – 2010.

Compared to Iceland, Malta has been relatively low on the Human Development Index. In the ranking for 2006, Iceland came first, while Malta was 36th, below Qatar (34th) and the Czech Republic (35th), and one place above Barbados (37th) (UNDP, 2007). When the UNDP started out with the Human Development Index in the 1990s, it made an interesting comment on Malta:

Malta is shown to have a good human development record. However, what emerges most clearly is that both advances and declines in development appear mainly to be brought about by politicians, the

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60 International Monetary Fund, 2011
wealthy elite or the Church. Contrary to political rhetoric, the ‘common man’ and other groups are often left out of the process. The report urges that for a more democratic advancement of human development, Malta needs to give public opinion a greater voice. The central message of the report is, ‘empowerment is more important than choice’ (UNDP, 1996).

![Figure 3.21 Unemployment 1988 – 2010 (2009-10 est.).](image)

### 3.3.2 Main sectors in Malta

The structure of the Maltese economy is different from that of the Icelandic economy, mostly due to the importance of the tourism sector and the relatively small size of the fishing industry. Fishing in Malta is seasonal and the main commercial species are migratory. The fishing sector does not provide much employment and catches are dwindling (Briguglio, 2001, p. 5.29). The Maltese economy is very export-oriented: exports amounted to 89% of GDP in 1999 (European Economic and Social Committee, 2001, p. 6). The sectors that dominate Maltese economy are tourism, electronics, shipping and shipyards (Malta’s is the eight largest maritime flag in the world and second in Europe (Mondaq, 2008)) and financial services, which has been the fastest growing sector of the economy in recent years (Malta Financial Services Authority, 2010). Exports of merchandise consist mostly of electronic and electrical equipment and also clothing, chemicals, printing and medical equipment. Exports of services consist mainly of tourism and transportation and are mostly directed towards the EU, primarily Germany, Italy and the UK (Briguglio, 2001, p. 5.21). At the turn of the century, about 39% of the Maltese GDP at factor cost was contributed by the market services sector, about 23% by the manufacturing sector, about 22% by the public sector and about 11% by domestic property income. The rest (5%) was provided by construction.

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61 International Monetary Fund, 2011
agriculture and fishing, (Briguglio, 2001, p. 5.21). Natural resources (excluding sun, sand and sea) are few and scarce in Malta and most raw materials and industrial supplies are imported. Limestone is quarried on the island and used extensively in the building industry.

Table 3.5 Gross Domestic Product by Industry and Type of Income.62

<table>
<thead>
<tr>
<th>Industry and Type of Income</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and fishing</td>
<td>2.5%</td>
</tr>
<tr>
<td>Construction and quarrying</td>
<td>3.3%</td>
</tr>
<tr>
<td>Manufacturing incl ship repairing and ship building</td>
<td>22.9%</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>6.0%</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>11.1%</td>
</tr>
<tr>
<td>Insurance, banking and real estate</td>
<td>10.3%</td>
</tr>
<tr>
<td>Government enterprises</td>
<td>5.9%</td>
</tr>
<tr>
<td>Public administration</td>
<td>16.8%</td>
</tr>
<tr>
<td>Property income</td>
<td>8.5%</td>
</tr>
<tr>
<td>Private services</td>
<td>12.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Malta’s most valuable resources are its climate and historical heritage, which are exploited mostly for the tourist industry (Briguglio, 2001, pp. 21-2). In my interviews with them in 2004, Louis Apap Bologna, President of the Malta Chamber of Commerce & Enterprise, and Michael Parnis, Deputy General Secretary of the General Workers’ Union, Malta’s largest labour union, agreed that tourism would remain the most important economic activity in Malta in the near future (Apap Bologna, 2004) & (Parnis, 2004). This being said, it was estimated that EU accession would not benefit the tourist industry in particular – there would be winners and there would be losers, since service providers would have to expect more intense competition from non-Maltese providers (Briguglio, 2001, p. 5.40).

3.3.3 The view of the economic interest groups in Malta

Before the referendum on membership in March 2003, the economic interest groups in Malta were divided in their opinion on Malta’s entry into the EU. The largest union, the General Workers’ Union (GWU) was opposed to imminent entry, and supported the position of the Labour Party in the referendum (Parnis,
Part I - Economic interests

2004), while the employers’ organisations were mostly in favour of joining. However, these blocs were not entirely monolithic in their outlook. Thus the General Workers’ Union showed great reservations about joining before the referendum (81% of members did not favour entry according to a poll in March 2000) (European Economic and Social Committee, 2001). ‘We campaigned against EU membership. You could say we campaigned even heavily, with demonstrations in the street, conferences, publications and so on,’ says Michael Parnis, Deputy General Secretary of the GWU and Head of International and Educational Departments. The GWU had for ‘five to six years’ before the referendum been urging that Malta should not become a member of the EU. ‘Just before the referendum we conducted a number of research projects and commissioned a number of reports on the various chapters in the aquis. Then the delegates of the union decided at that time that it would not be beneficial for Malta to become a member of the European Union,’ (Parnis, 2004). Other unions were more ambiguous in their position and the Union Haddiema Maghqudin (UĦM), which is the second largest union in Malta, generally favoured accession and was actively involved in favour of Malta joining the European Union. The UĦM organized a strong campaign to ‘ensure that the people of Malta would be well informed about the future of Malta’. According to Gejtu Vella, the Secretary General of the UĦM, the union had promoted the idea of Malta joining the European Union already in the early 1980s (Vella, 2004). The UĦM was actively involved in favour of Malta joining the European Union. ‘We organized conferences and public fora in various localities of the island. We also invited to the island union officials from EU countries to enlighten the Maltese public on how it is living and working in the European Union’ (Vella, 2004).

On the employers’ side, the Malta Chamber of Commerce (CoC) and Malta Federation of Industry (FoI) were, as organisations, firm advocates of accession, even though not all of their members supported that view (European Economic and Social Committee, 2001, p. 5). According to Louis Apap Bologna, President of the Malta Chamber of Commerce & Enterprise, opinion polls conducted prior to the referendum in 2002 showed that 90% of their members were in favour of joining (Apap Bologna, 2004).

Maltese economic interest groups can thus be divided roughly into the following camps according to their attitudes towards Malta joining the EU. The employers’ side was firmly for accession. The workers were divided, with the GWU against and the UĦM for accession. Traditionally the GWU has strong ties to the MLP and it is tempting to use these ties as the most important explanation for the union’s opposition (or that of the party).
The Maltese economy
together with concerns over employment matters in a single European market. As in the case of Iceland, the matter is further pursued in Chapter 5.

3.3.4 Economic incentives for EU membership

When putting the Maltese economy in the 1990s and early 2000s in the context of Gstöhl’s analysis, looking at the export dependence on EU markets (see Table 3.6) one notices that the export ratio can be classified as “high” since it exceeds 40% in both years in question (1996 and 2001). In 1996 the proportion of Maltese exports going to EU countries was 56.8% (Malta National Statistics Office, 2005). And that does not tell the whole story. As mentioned above, Maltese exports constitute an exceptionally high percentage of the country’s GDP. In 2001, Maltese exports to the EU amounted to 25% of GDP (Malta National Statistics Office, 2005). Thus the overall export dependence for Malta was “high” and in that respect far from being lower than for the EFTA countries in 1989.

Table 3.6 Malta’s Export Dependence on the EC, 1996 & 2001.63

<table>
<thead>
<tr>
<th></th>
<th>EC Export Ratio</th>
<th>GDP Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(exports to EC as % of total exports)</td>
<td>(exports to EC as % of GDP)</td>
</tr>
<tr>
<td>Malta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>56.9</td>
<td>Na</td>
</tr>
<tr>
<td>2001</td>
<td>47.8</td>
<td>24.9</td>
</tr>
</tbody>
</table>

When looking at the sectors’ export sensitivity measured by the export of goods in the year Malta joined the EU (2003) one sees that a significant proportion went to the EU. For the top sector, machinery and transport equipment, the ratio is “medium”, since it falls between 30 and 50 per cent and “high” for the remaining leading sectors, miscellaneous manufactured articles and manufactured goods. There were thus large benefits for these export industries to secure the removal of protective tariffs against their exports to the EU countries by joining the EU, and this, it was believed, would result in a growth in exports to the EU (Briguglio, 2001). Other economic arguments were that Malta would be forced to adopt an economic strategy that would promote competition, and therefore a more efficient allocation of resources, accompanied by consumer protection and market surveillance. In addition, it would upgrade its legislation and standards and bring them into line with those prevailing in Western Europe, with positive impacts in various areas. Furthermore, Malta could attract more Foreign

Part I - Economic interests

Direct Investment than it would through non-membership, due to more harmonised legislative set-ups, free movement of goods and services and economic stability. Also, it would gain access to regional funds, especially if its GDP per capita remained lower than 75% of the EU average (Briguglio, 2001, pp. 5.24-5).

Table 3.7 Sector Exports to the EC 1992 and EU 2003.64

<table>
<thead>
<tr>
<th>Leading Export Sectors to the EC (SITC, Rev. 1)</th>
<th>Sector Share (sector exports to EC/EU as % of total exports to EEC)</th>
<th>Sector Export Ratio (sector exports to EC/EU as % of total sector exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malta (’03)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and transport equipment (7)</td>
<td>49.0</td>
<td>34.9</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles (8)</td>
<td>36.8</td>
<td>86.5</td>
</tr>
<tr>
<td>Manufactured goods classified chiefly by material (6)</td>
<td>9.5</td>
<td>74.3</td>
</tr>
</tbody>
</table>

Applying the modified model, starting with the socio-economic pressure (see Fig. 3.22), we obtain the following results:

Although Malta had a long way to go to catch up with the EU countries in terms of GDP per capita, socio-economic pressure remains medium throughout the 1990s. This is due to relatively low unemployment in Malta at the time, and also a much higher GDP growth than in the EU on average. However, that changes at the turn of the century; growth slows down and unemployment picks up. Thus, with the exception of 2002, when growth picks up suddenly, socio-economic pressure stays high until entry into the EU in 2004.

Looking at the finance and trade pressure (in Fig. 3.23) we see that due to relatively low inflation, it is medium in 1989-92. As inflation picks up, the pressure goes up to high, on account of the large trade deficit and the pressure of overall export dependence. It is curious to note that in the year Malta froze its membership application, 1996, pressure dropped to medium on account of reduced inflation. In 2001-04, this pressure is medium again because of relatively low inflation and also the relative exchange rate stability against the euro in the years just before entry into the Union.

64 Figures for Malta: UN Comtrade, 2009.
The Maltese economy

Figure 3.22 Socio-economic pressure, Malta.65

Looking at the combined explanatory variable, “economic incentives” (see Fig. 3.24) we see that Malta’s incentives to join the EU were “medium” or “high” for all the period in question. With the exception of two years, 1996 and 2002, the incentives remained high from 1992 until Malta joined the EU in 2004.

Figure 3.23 Finance and trade pressure, Malta.66

65 1=low, 2=medium, 3=high
66 1=low, 2=medium, 3=high
Figure 3.24 Malta’s economic incentives to join the EU\textsuperscript{67}.

After joining the EU, Malta went into the process of adhering to the convergence criteria for the adoption of the euro, dealing with the factors described above: price stability, the government budgetary position, exchange-rate stability and long-term interest rates, as well as some additional factors (European Commission, 2007). The result was that in May 2007, a Commission revision stated that Malta had achieved a high degree of sustainable convergence, (European Commission, 2007) and, as stated above, Malta abandoned the Maltese lira for the euro on 1 January 2008.

3.4 Conclusion of Part I

Answering research question 1 by examining the economies of the two countries and the economic ties they have had through the years with the EC, one can see that:

1. When using the modified Gstöhl model and looking at the economic performance instead of market access, and when using it as it is, it becomes clear that in the last decades of the twentieth century, Iceland and Malta had medium to high economic incentives to seek participation in European integration projects. Both pursued their opportunities in that respect in the late 1980s and early 1990s, Iceland by participation in the EEA process, Malta by applying for membership of the EC.
2. While Malta’s incentives remained high to medium until entry into the EU in 2004, Iceland’s incentives were low with spurts of medium, mostly because of the instability of the Icelandic króna.

\textsuperscript{67} 1=low, 2=medium, 3=high
and a growing trade deficit. In the first years of the 21st century, the króna was floated, exposing the inherent instability in having a minor currency in a globalised environment; first it was exceedingly strong, harming export industries, and later it crashed with unforeseen consequences for homes and businesses in Iceland. It is possible that the shelter of a larger currency would have made the crash less severe.

3. In 2008 Iceland’s economy collapsed, pushing the economic incentives for EU membership up to high. Iceland applied for membership of the EU in June 2009.

4. Malta – now a member of the EU – relies much less heavily on primary sectors than Iceland has done for the last 50 years or so (in Malta agriculture and fisheries, combined, amount to 2% of GDP, on average (National Statistics Office Malta, 2005); in Iceland the figure for 1990-2005 was 13.7% or more, accounting for the effect of fisheries as the main export industry (Hagstofa Íslands, 2009). This particular feature can be said to give support to Ingebritsen's theory, which argues that the economic structure of the Nordic countries is a decisive factor in whether or not they join the EU/EC. For most of the period in question, pressures from the primary sectors in Iceland had a hampering effect on the desire for EU membership, while the importance of tourism and manufacturing in Malta, by contrast, had either an ambivalent or a positive influence.

At the turn of the century, the economic arguments for Malta joining the EU were much stronger than for Iceland. Iceland was in the EEA; Malta was not. Malta’s institutional ties to the EU were based on a 30-year-old “old generation” trade agreement, and in the light of the fact that a quarter of its GDP was based on trade with EU countries, it might have seemed unlikely that joining the EU would arouse as much serious political opposition as it did. It is safe to say that in the period up to Malta’s entry into the EU, the economic incentives for Iceland to join the EU were significantly smaller. However, since the onset of the economic difficulties that resulted, first from having an over-valued króna, and later from its collapse, the perceived economic incentives to adopt the euro (for which EU membership is a prerequisite), went from low, through medium, to high. Thus, it is safe to say that the economic performance of Iceland and Malta and the structure of their economies are highly relevant when measuring the steps these countries took towards European integration. However, they do not provide sufficient information for explaining why, for most of the period, Iceland aimed for limited integration while Malta joined the European Union.
4 Part II - History and politics

This second part is on the history of the two countries. A note must be made to underline that “history” here means the narrative used to construct the nationality in question – Icelandic and Maltese respectively. This is the “cultural material”, mentioned by Smith, from which elites choose to ‘perpetuate ethnic and national divisions’ (Smith A. D., 2003, p. 362). This material in turn helps to formulate the political impediments – or constraints – to integration.

In Gstöhl’s model, the political constraints a country might face when involving itself in integration consist of “domestic constraints” and “geo-historical constraints”. This chapter will touch on them both, though the geo-historical constraints will be prominent. Gstöhl uses two indicators to analyse geo-historical constraints: the compatibility of foreign policy and the historical experience of foreign rule, as the elite at a given time perceives it, and myths about, for instance, a struggle for independence or against military occupation. Broadly defined, they could be said to consist of the material that can be drawn from the historical narrative to underline a political position in the present. The intention in this part of the thesis is thus to identify these constraints in Iceland and Malta with respect to the “historical memories” and experiences. The research question associated with this chapter is:

*To what extent do the different historical experiences of Malta and Iceland help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration?*

4.1 Iceland and Europe

4.1.1 The “struggle for independence”

The genesis of Iceland’s “struggle for independence” has sometimes been traced to the writings of Eggert Ólafsson (1726-68), a naturalist, poet and royal official, whose ideas of the preservation of the Icelandic language and exaltation of the Icelandic “Golden Age” harmonised with romantic ideals of nineteenth-century nationalists (Hálfdanarson, 2006, pp. 230–247). Nothing could have been further
from Ólafsson than wishing for some form of “independence” for an Icelandic state. On the contrary, he was a staunch royalist, believing ardently in the benefits of belonging to the Danish kingdom, to which Iceland had belonged for several centuries (Hálfdanarson, 2006, pp. 230–247).

His ideas can be viewed in contrast with those of Bjarni Jónsson, the rector of the Latin School in Skálholt, who in 1771, like Ólafsson, offered many suggestions on the advancement of Icelandic society. However, these were more in line with the attempts of the Danish government which, since the Lutheran reformation, had been trying to integrate Iceland more closely into the Danish administrative structure (Hálfdanarson, 2006, p. 239). Amongst other things, he suggested that the Icelandic language should be abolished and Danish spoken instead. This almost earned him the status of a traitor with later Icelandic nationalists. It has been suggested that what he wrote was, ironically, very much in line with nationalist ideas on the European continent. Hálfdanarson writes:

These two visions on the union with Denmark took on entirely new meaning in the revolutionary period at the end of the 18th and the beginning of the 19th centuries, as democratic ideas and nationalism shattered the state structures of ancien régime Europe. To a certain degree, Jónsson’s and Ólafsson’s ideals presaged this change. The former advocated a transformation similar to the one later attempted in revolutionary and republican France, which developed from a multi-ethnic composite monarchy to une et indivisible nation-state, where the citizens spoke one language, and enjoyed equal rights. The latter signalled a future where nation-state boundaries were drawn along cultural lines, breaking up existing empires or uniting small states into one polity. In other words, the two visions represented two different types of nation-state formation in Europe, which the German historian Friedrich Meinecke once called Staatsnationen and Kulturnationen. As it turned out, only the second type gained support in 19th-century Iceland, as cultural nationalism became hegemonic in Icelandic politics. (Hálfdanarson, 2006, pp. 240-41).

Iceland is believed to have been settled in the late ninth century C.E. by Norse and Celtic people. Landnámabók (the ‘Book of Settlements’ – a medieval text) describes how some of the first permanent settlers came from the Christian British Isles (Karlsson, 1993, p. 3); modern genetic research seems to corroborate the truth of this, to a greater extent than had previously been believed. From the materials available, it has been asserted that a

68 See for example Helgason, Hickey, & al., 2001. However, modern research also points to a shared ancestry throughout the Atlantic zone, from northern Iberia to western Scandinavia, that dates back to the end of the last Ice Age – see McEvoý, Richards, Forster, & Bradley, 2004.
large part of the ruling class was Norse, or at least that pagan Norse culture prevailed very early on (Karlsson, 1993, p. 4).

The formal conversion to Christianity is believed to have taken place, allegedly peacefully, during a gathering at the “national assembly” at Þingvellir, in the year 999 or 1000, in all likelihood because this made political sense in terms of developments elsewhere in Northern Europe at the time (Karlsson, 1993, pp. 10-19).

According to literary records (historical works, laws and the partly fictional sagas) – the originals of which dated from the 12th and 13th centuries – centralised executive power in Iceland was non-existent, and in the period from the settlement until 1262-64 Iceland was supposedly ruled as a commonwealth of sorts, with ruling families gradually creating ever larger regional units which served as their basis of power (Karlsson, 1993, p. 63). The sagas also document a period of struggles between the ruling elites, ending in Iceland’s becoming part of the Norwegian kingdom in the years 1262-64 – something lamented by 19th century nationalists and their later adherents, as the moment of Iceland’s “loss of independence” (Hálfdanarson, 2001a, p. 4). Iceland followed Norway into the Danish – Norwegian monarchy when Ólafur, king of Denmark and son of the Norwegian monarch Hákon VI, inherited Norway after his father’s death 1380 (Albrechtsen, 1997, p. 17). Thus began the union between Iceland and Denmark that lasted 564 years, until 1944.

However, during the 1830s and 1840s a nationalist paradigm shift took place among the Icelandic student community in Copenhagen, where the new perspective was based on the belief that the rule of one nation over another was in principle unnatural and had thus to be averted (Hálfdanarson, 2006, p. 241). Jón Sigurðsson, a scholar and the main leader of the independence movement, wrote:

Looking at the government: it has now long been rather Danish than Icelandic, i.e. rather unnatural than natural. Most will understand, that when one nation rules another, they have to be very much alike if things are to go well, but if they are not, the ruled nation must be as much alike the ruling one as possible, i.e. she must renounce her nature, or, she must take matters into her own hands and pursue her rights so as to reach the goal that God has ordained for her (Hálfdanarson, 2001, p. 83)*.

The students and scholars partaking in the debate were under the direct influence of the nationalistic revolution taking place in Europe in that century, leading to the creation of the “nation-states” we know on the European map of today. A rather resilient myth was formed regarding the
history of Iceland at that time. Hálfdanarson, in a concise and humorous version, presents it as follows:

A long long time ago, Iceland was captured by mean foreigners whose main concern was to practice extortion and exploit the nation. Darkness, hopelessness and horror gradually took hold of the highly intelligent and glorious people of Iceland. After nearly six hundred years of humiliation, suddenly and surprisingly, there were born among this people a handful of exceptionally bright and resourceful men, who went abroad, gained an education and drank in the goings on in European politics, which at the time revolved around casting off the vestiges of absolute monarchy in the name of liberalism and nationalism. ‘A new day is dawning’ they told their impoverished compatriots, who listened attentively and started the struggle for independence and freedom – a struggle that has led to the democratic, prosperous and progressive society of Iceland today (Hálfdanarson, 2001, p. 46)*.

Table 4.1 Comparison of national history myths in Norway and Iceland.

<table>
<thead>
<tr>
<th>Norway</th>
<th>Iceland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) A migration story</td>
<td>Migration to Norway from north east, Norway is the homeland of the Norse tribe.</td>
</tr>
<tr>
<td>2) A founding myth</td>
<td>The Viking era and the unification of the country.</td>
</tr>
<tr>
<td>3) A golden age of splendour</td>
<td>The Middle Ages with national independence, conversion to Christianity, justice and peace.</td>
</tr>
<tr>
<td>4) A period of inner decay</td>
<td>The Scandinavian Union of Kalmar and the 400 years of Union with Denmark.</td>
</tr>
<tr>
<td>5) A promise of regeneration</td>
<td>Begins in 1814 with the Constitution.</td>
</tr>
</tbody>
</table>
This national history myth follows a pattern that can be found in other myths on struggles for independence in a similar time period (see Table 4.1). An example is that of the Gaelic revival as described by John Hutchinson, (Hutchinson, 1987), which in turn Dag Thorkildsen applies to Norway – and in fact traces it back to the “salvation history” of the nation of Israel – in a secular version where the national people becomes the secular people of God, (Thorkildsen, 1996, p. 259). It has five stages, according to Thorkildsen, and Iceland’s historical narrative can be fitted to it as follows:

Similar versions of “salvation history” can be found in various forms, e.g. in early modern England. One of Iceland’s early 20th century historians, Jón Jónsson Aðils, presented the periods in Iceland’s history slightly differently, though with a similar narrative. His first period is from 930-1262, the “period of independence or growth” (sjálfsstjórnar- eða þroskatímbilið), where everything was so wonderful as to be without parallel elsewhere, except perhaps among the ancient Greeks at their cultural peak. His second period is “the period of decay” (hnignunartímbilið) from 1262-1550, where depravity poisons the society, where the nation exceeds itself in sinfulness by relinquishing its freedom to foreigners. A new power – the church – arises to subordinate the nation’s mental independence, thoughts and feelings to foreign ecclesiastical law. The third period is from 1550-1750, the “period of humiliation” (niðurlægingartímbilið) where – with the Reformation – the foreign kingdom comes to eradicate the final traces of independence. As on a very dark night, the nation is about to lose its identity completely – and yet, in spite of all the horror – a spark of independence is kept alive somewhere within. Its ancient tongue – though contaminated by foreign influence – is still there. The final period in Aðils’ colourful narrative is the “period of regeneration” (endurreisnartímbilið), from 1750 and onwards, where the nation awakens again (Jónsson J. , 1903, pp. 238-42).

Anthony D. Smith states, quoting Liah Greenfeld, that ‘the return to the Old Testament with its myth of ethnic election marks a crucial phase in the growth of the first nationalism’, (Smith A. D., 1998, p. 141). Smith believes this is ‘an argument supported by the many peoples, especially in the Protestant tradition, who developed myths of ethnic election and returned to the linear Old Testament ethnic histories’ (Smith A. D., 1998, p. 141). This specific theme of nationalist myth would belong to the primordial naturalist approach, which is the most extreme version of primordialism, asserting that national identities are a “natural” part of all human beings (Özkırımlı, 2000, pp. 66-7). Özkırımlı points to historians such as Frantisek Palacky, Eoin
MacNeill and Nicolae Iorga, all influential figures in their respective nationalist movements and claiming that ‘the past was the story of the nation’s perpetual struggle for self-realization’ (Özkırmılı, 2000, p. 67), the recurrent theme being first that of the antiquity of the nation in question, secondly the “golden age”, thirdly the theme of superiority of national culture, fourth the periods of recess or “somnolence”, and finally that of “the awakening”. Özkırmılı uses Turkish nationalism and the rise of Atatürk to illustrate this theme in the case of his homeland – a case where all these themes occur faithfully (Özkırmılı, 2000, pp. 67-8).

Besides the myths used as the rationale for Icelandic independence, the fact is that from the latter half of the 19th century, throughout the former half of the twentieth, Iceland gradually gained independence from Denmark in a few successive steps: in 1845, a resurrected parliament, the Alþingi, convened for the first time in Reykjavík; in 1874, Iceland received its first constitution, giving the Alþingi limited legislative power and responsibility for the Icelandic budget; in 1904, it received Home Rule, with a minister of Icelandic affairs residing in Reykjavík and responsible to the Alþingi; in 1918, the Act of the Union, by which Iceland was declared a sovereign state sharing a monarch with Denmark (Hálfdanarson, 2001a, p. 7) – and finally, the founding of the Republic of Iceland at Þingvellir – the site of the ancient parliament, chosen to illustrate the historical continuity of the affair – on the birthday of the “messiah” of the Icelandic struggle for independence, Jón Sigurðsson (1811-79), 17 June 1944, in the pouring rain.

4.1.2 The redefinition of the political party system

The Icelandic political party system took on a modern form in the period 1916-30. It can be argued this formative period ended with the founding of the Communist Party (Kommunistaflokkur Íslands) in 1930. However, in 1938 some members of the Social Democratic Party (Alþýðuflokkurinn) joined the Communists, forming the Socialist Party (Sameiningarflokkur alþýðu, Sósialistaflokkurinn) and leading to a tug of war between these two parties in which, throughout the remainder of the twentieth century, they were more or less equal in size, the Socialist Party (which would later change its name due to further mergers with split factions from the SDP) being slightly larger between 1942 and 1987. This situation was quite different from that in Scandinavia, where the Social Democratic parties were usually larger than the parties to their left (Kristinsson, 2006, pp. 96-100).

By 1916 the political battle lines had long been drawn on the various attitudes towards issues concerning Iceland’s road to independence. With the
coming of class politics, this changed. In 1916 two political parties were founded, the Social Democratic Party (Alþýðuflokkurinn) on 12 March, together with the Icelandic Confederation of Labour Alþýðusamband Íslands - ASÍ, (ASÍ, 2007), and the Progressive Party (Framsóknarflokkurinn), on 16 December, (Framsóknarflokkurinn, 2007), when two groups of farmers, the Agrarian Party (Bændaflokkurinn) and Independent Farmers (Óháðir beendur), joined forces in parliament (Kristinsson, 2006, p. 93). It took a few years for forces on the right of the political spectrum to find the appropriate answer to these new class-based parties, so it was not until over a decade later that the centre-right Independence Party (Sjálfstæðisflokkurinn) was founded, on 25 May 1929, when the Conservative Party (Íhaldsflokkurinn) and the small Liberal Party (Frjálslyndi flokkurinn) were merged (Sjálfstæðisflokkurinn, 2007) thus creating the “four-party system” that lasted throughout the twentieth century, in which the Independence Party was largest, the Progressive Party usually came second, and the SDP and the Socialists (renamed the People’s Alliance – Alþýðubandalagið – in 1959 after some mergers with split factions from the SDP), (Samfylkingin, 2007), competed for the third place, with the Socialists being the larger between 1942 and 1987 (Thorhallsson (ed.), 2004, p. 6).

A point of interest is the fact that, due to the weakness of the left, in the 82-year period since the Progressive Party first came into government in 1927 up to 2009, there were only 4 years when neither the Progressive Party nor the Independence Party were in government, including two years during the Second World War when there was an extra-parliamentary government (Kristinsson, 2006, p. 176).

Although the four-party system in Iceland was relatively stable there was, at least in the last three decades of the century, a fifth party (or even a sixth), but very few of them lasted more than one or two terms. Between 1999 and 2009 a right-of-centre party called the Liberal Party (Frjálslyndi flokkurinn), managed to get 2-4 MPs in each successive election, (2 in 1999, 4 in 2003 and 4 in 2007) and some members of municipal councils as well (Alþingi, 2008). However, the party received only 2.2% of the vote in 2009 and lost all four MPs (Kosning.is, 2009). Another party, the Civic Movement, managed to take its place as the fifth party in the Alþingi, with 4 MPs, after the elections of 2009 (Kosning.is, 2009).

### 4.1.3 Depression and War

After difficult years in the last decades of the 19th century, which saw significant emigration to Canada and the US, the economic upswing in the first
three decades of the twentieth century was substantial, due to the introduction of new technology in fishing and the construction of a modern infrastructure including bridges, roads and telecommunications systems and the founding of banks and other financial institutions (Jónsson G. , 2002, p. 14). Icelandic fisheries found eager buyers in Mediterranean countries and in Britain (see, e.g., (Björnsson, undated, pp. 153-8). The period 1912-30 was ‘the most revolutionary period of the Icelandic economy as a whole’ (Magnússon M. S., 1985, p. 89). Iceland’s route to economic development followed the textbook model on how small states adapt to the international economy – by exporting one or two main goods according to their comparative advantage. In Iceland it was fish (Jónsson G. , 2002, pp. 15-7). GDP grew by an annual average of 3.9% each year in 1901-14; in 1920-30 annual growth averaged almost 6% (Snævarr, 1993, p. 30). This was primarily due to exports of fish and high demand, and thus prices, for that commodity. In 1931 the big shock came when the price of fish products plunged 30%, and the following year another 6%. Also, tariffs and import quotas on fish were set up in Iceland’s most important export target countries. The Icelandic government reacted by devaluing the Icelandic króna, and setting up its own import and exchange restrictions. This, together with the external factors, had an adverse effect on the economy, and the fishing industry had to survive on government grants, (Snævarr, 1993, pp. 34-6). Official policy was focussed on the rehabilitation of farming, and promotion of industrial production for the domestic market and government business operations expanded (Benediktsson E. , 2003, p. 39).

World War II came to Iceland on 10 May 1940, when British troops suddenly occupied the country. The Americans gradually replaced the British in 1941, and in 1942, about 50,000 soldiers were stationed in Iceland, most of them around Reykjavík. During the first years of the occupation, there were more British and American than Icelandic men in Reykjavík (Bernharðsson, 1996, p. 12). This had a multitude of effects on Icelandic society during the war. Unemployment in Reykjavík, which had been significant before the war, was eradicated in the first months of the occupation (Icelandic Government Website, 2007), as the occupying forces struggled to upgrade the Icelandic infrastructure, building airports and roads and preparing to defend the country in the event of a German invasion (Snævarr, 1993, p. 43). The magnitude of the economic impact of the British and American occupation during the war was unparalleled.

69 There are two general surveys of twentieth century economic history. These are Magnús S. Magnússon’s quantitative treatment of main trends and Sigurður Snævarr’s Haglýsing Íslands (an economic survey of Iceland) (Jónsson G. , 2002a, p. 56).
Icelanders, who in 1939 were up for the freezing of foreign loans, managed during the five years of the occupation, to become one of the wealthiest nations in Europe (Whitehead, 1991, p. 64).

4.1.4 Independence and nationalism

“If a small and defenseless nation is granted somewhere in the midst of its misfortune the fortune to possess a sufficiently powerful enemy, time will fight on its side.... I know that you men of Hamburg would send us Icelanders maggot-free grain, and that you would never consider it worth your while to try to swindle us by tampering with the weights and scales. But when German fishing villages and German market towns have been built on Iceland’s shores, how long will we have to wait before German castles with German barons and mercenaries are raised there as well? What then will be the lot of the Icelanders, who wrote such celebrated books? They will have become nothing more than the fat servants of a German puppet state. A fat servant is not much of a man. A beaten servant is a great man, because in his breast freedom has its home.” (Laxness, 2003, p. 388).

This quotation from the novel Iceland’s Bell (Íslandsklukkan), by the Icelandic Nobel laureate Halldór Kiljan Laxness, are the words of a character in the story, an influential Icelandic scholar in Copenhagen in the eighteenth century. 70 German merchants have tried to lure him with the “governorship” of Iceland in exchange for his support for their intention of “liberating” Iceland from Danish rule. In the above words he turns them down. Laxness’s novel was based in part on real events, and his version of the story both reflected and influenced Icelandic nationalist rhetoric in the twentieth century (Helgason H. , 1961, pp. 6-7).

The book was published in 1943, a year before Icelanders voted by an overwhelming majority in a referendum to declare the dissolution of the union with Denmark, 71 even though Denmark was occupied by the Nazis at time and had no means of objecting or saying farewell to a country that had been part of its kingdom for almost 600 years. According to the Act of Union of 1918, either Denmark or Iceland could demand a review of the union after the year 1940, and during the period it had become increasingly

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70 Arnas’s character is based on the life of the scholar Árni Magnússon, who travelled around Iceland at the beginning of the eighteenth century, collecting ancient manuscripts of the Icelandic sagas and saving them from destruction.
71 97.86% of the electorate took part in the referendum, 97.36% voted for independence (Þorsteinsson & Jónsson, 1991, p. 417)
clear that Iceland would seek the partition of the Union when time was due (Kristinsson, 2005, p. 12).

Nationalism in Iceland emerged triumphant from World War II following the successful struggle for independence, and attempts at bringing Iceland into western security cooperation were strongly resisted by nationalist forces, fearing that the benefits of independence might be lost (Kristinsson, 1991, p. 160).

During the war, Iceland had acquired the support of the United States, and President Franklin D. Roosevelt had declared in a speech held on the occasion of the visit of Sveinn Björnsson, the first Icelandic president, to the White House, that the US would, “when the world returns to peace” not only recognize, but “work for the complete independence of what is the Iceland, not of today but of a thousand years back, the Iceland that essentially has always been an independent nation.” 72 The American motive was not altogether altruistic, since the US had begun to see the benefits of maintaining a military presence in this strategically situated island in the North Atlantic (Kristjánsson, 2001, p. 12). Iceland was vital as a frontline position in these northern waters in the coming Cold War.

Part of the struggle for independence was the idea of neutrality, that Iceland should be neutral in the high affairs of great powers, and such ideals loomed large in Icelandic politics. These ideals were strongly held by the leadership of the Independence Party, and also to some extent among members of the Socialist Party, but these two parties (and their predecessors) had for most of the 1930s been in opposition, with the alliance of the Progressive Party and the Social Democratic Party usually in government (Kristjánsson, 2001, p. 5). When the American authorities asked for permission to maintain a military base in Iceland, this put a pressure on Icelandic politicians to take security issues seriously. The voters’ position seemed to be intertwined with patriotic feelings, since the declaration of “everlasting neutrality” had been an element in Iceland’s sovereignty since 1918 (Whitehead, 1991, p. 112). After the war and with the advent of the Cold War, and after the Independence Party had formed a government with the Socialists and the Social Democrats, with the leader of the party, Ólafur Thors, serving as both Prime Minister and Foreign Minister, it dawned on him and the leadership of the Independence Party that the neutrality position was not sustainable. The American military left the country after the war, and the government started working towards an

agreement, which, among other things, ensured traffic of American aircraft through Iceland’s international airport in Keflavík; this was signed in the autumn of 1946. The purpose of the agreement – although not explicit – was to hold on to the economic prosperity of the war years (Whitehead, 1991, p. 72). This led to a crisis in the government. The Socialists left the government, and a new one was formed by the Independence Party, the Progressive Party and the Social Democratic Party, under the leadership of the Social Democratic Party leader, Stefán Jóhann Stefánsson. He was fiercely Atlanticist in his outlook, and wanted Iceland to be a part of the Western bloc, with a special relationship with the US, and he did not want “Communists” in government in Iceland (Kristjánsson, 2001, p. 13). This government started drawing Iceland into the Western fold. An important step in this process was Iceland’s becoming a founding member of the North Atlantic Treaty Organization – NATO. In the period 1948-50, Iceland’s foreign trade was mainly with Britain and the US. Although the Icelandic government accepted the first payment of Marshall Plan aid reluctantly, its reluctance vanished quickly. Icelanders soon earned a name for being the greediest of all for aid – but not very keen on loans. Marshall Plan aid managed to close the annual trade gap, paid for exports to Europe and provided large sums for the development of infrastructure (Whitehead, 1991, p. 81). The overarching aim of the Americans was to acquire a permanent base in Iceland, and thus ensure the enormous military interests they believed they had in the North Atlantic. In the meantime they made sure that Bjarni Benediktsson, the Foreign Minister at the time and later leader of the Independence Party, knew that their financial aid depended on communists being kept out of government (Whitehead, 1991, p. 81).

It is obvious that the nationalist rhetoric of the time had its impact on the first political riots in the history of the Republic on 30 March 1949, when the Icelandic parliament agreed on Iceland’s membership of NATO. The leader of the Socialist Party, Brynjólfur Bjarnason, had previously said that all those who assisted the foreign power to gain military access to Iceland would be considered traitors to their country, and their fate would be the same as that of the “quislings”. This was actually considered to be a death-threat, since many “quislings” (alleged collaborators with the Nazis in Norway) had been executed at the end of the war (Whitehead, 2006, p. 66).

The Independence Party gathered a body of almost a thousand men to defend the Parliament building. Fifty of them were registered into reserves that were armed with batons and helmets, since the political leadership believed that socialists would carry out their threat to attack the building.
The result was the fiercest political violence in the history of the young republic and would remain so until the riots of 2009. A large crowd had gathered in front of the building, and a small group at the front threw stones, eggs and dirt at the Alþingi building. Many windows were smashed and broken glass scattered through the main hall of the building where the members were deliberating the NATO membership proposal. The police finally broke out together with the reserves, and used the batons and tear gas to disperse the angry crowd (Whitehead, 2006, pp. 66-8).

Iceland had no intention of having an army of its own and many Icelanders welcomed US military protection. There was a solid majority for NATO membership in the parliament, 37 votes for membership and 13 against. All 20 Independence Party parliament members supported membership, as did six SDP members, while two voted against it; 11 members of the Progressives voted for membership, one against and two abstained, and all members of the Socialist Party voted against it (Harðarson Ó. Þ., 1998, p. 3). In 1951 Iceland signed an agreement with the US, the superpower guaranteeing Iceland’s defence. A military base was set up by the airport in Keflavík in the years that followed. The Americans were back.

As public opinion polling had not really started at this time in Iceland it is not possible to say with any degree of certainty what the public felt on the issue. In 1955, Gallup in Norway carried out an extensive survey of Icelandic attitudes towards NATO membership and the Keflavík Base for the American authorities. The results came as a shock. Only 28% approved of the Defence Agreement, while 48% opposed it. However, 44% supported NATO membership and two-thirds of those stating an opinion were pro-NATO (Ingimundarson, 1996, pp. 294-6, Harðarson Ó. Þ., 1998, pp. 4-7).

The first years of the republic were also turbulent in economic terms. An urgent need was felt to renew production facilities and overcome housing shortages and, partly under the influence of a strengthened labour movement, the emphasis was on significant direct investment, mainly in the fishing industry. The prosperity of the war years did not change the mind-set of Icelandic governments towards their sectoral policy. They continued to support the “foundation industries,” fisheries and agriculture, as best they could, and although they had stopped believing that agriculture was in the forefront of Icelandic sectors, it was still believed that it had great potential as an export industry (Jónsson G., 2002, p. 26). The great foreign-currency reserves accumulated during the war were exhausted in two years (Whitehead, 1991, p. 78). This set the stage for Icelandic economic policy for a decade and a half. Although this might have been in line with the prevalent economic thought at the end of the war, later, at a period when
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the Western world was breaking down barriers and liberalising trade, the opposite applied to Iceland, which put the main emphasis on barriers to trade and setting the price of the currency to benefit the fishing industry, harming other industries – a textbook example of what economists call “the Dutch disease”\(^\text{73}\) (Danielsson & Zoega, 2009, p. 3). Foreign aid (under the Marshall Plan), the construction of the Keflavík base and a herring boom alleviated the serious economic downswing in the beginning of the 1950s.\(^\text{74}\) In the years 1948-52, GDP suffered a yearly contraction of c. 3% on average, and did not regain its 1947 level until 1954 (Icelandic Government Website, 2007).

4.1.5 Early moves towards European integration

The cornerstone of Icelandic foreign policy as a newly-founded republic was to secure its full and undisputed control of the fishing resources of its continental shelf. This basic outlook loomed large in all efforts to join any form of European cooperation at the time (Benediktsson E. , 2003, p. 47). Thus, even though Iceland had fully partaken in an effort to establish a free-trade association between the six nations forming the EEC and other OEEC nations in 1957-58, which ended abruptly with a rebuttal by the French (Benediktsson E. , 2003, pp. 51-9), when the seven nations that were later to form EFTA started their discussions, Iceland (together with Greece, Spain, Ireland and Turkey), was not invited to participate. Benediktsson says ‘this somewhat sad group was given the name “the Forgotten Five”, in distinction to the “the Inner Six”, being the EEC, and EFTA as “the Outer Seven”’ (Benediktsson E. , 2003, p. 62). The obvious reason was the serious dispute with Britain at the time over Iceland’s extension of its fishing limits to twelve miles, which would probably have made it hard for Britain and Iceland to be members of the same trade association (Gíslason, 1993, p. 199, Ólason, 2002). The two countries were practically at war at the time. Another reason is that EFTA was mostly intended as a free-trade area for industrial goods, and only to a very limited extent for agricultural and fisheries products. With the exception of the fishing industry, Iceland had no really developed industrial production of its own. Its economic policy at the time, which had been dogged by state intervention and restrictions on

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\(^\text{73}\) The term ‘the Dutch disease’ comes from the fact that the Netherlands experienced major shifts in domestic production following the discovery of substantial gas deposits in the 1960s. As the exports of this natural resource boomed, the guilder appreciated in real terms, thereby squeezing the profitability of other exports, especially manufactured goods (Sachs & Larrain, 1993, pp. 668-9).

\(^\text{74}\) See, e.g., Snævarr, 1993 and Ásgeirsson, 1988 and also Benediktsson E. , 2003.
imports, was also such that it would have been inconceivable for it to be a founding member of EFTA.

In 1959 a new government, consisting of the conservative Independence Party and the Social Democratic Party, started to rethink Iceland’s attitude towards joining other countries in the EEC. In the 1960s this government, referred to as the “Government of Reconstruction” (*Viðreisnarstjörnin*) took major steps to open up the economy. Previous governments had subsidised exports and most investment had been directed by the governments into the fishing industry which, in a period during the 1950s, even had access to foreign currency at a lower price than other industries (Jónsson G. , 2002, pp. 26-8). The government followed closely what was happening in the EEC. A committee was appointed by the government early in 1961 (*Nefndin um fríverzlunarmál*) to look into the possibility of Iceland joining EFTA to gain a better bargaining position with the EC on free trade in fish (Thorhallsson & Vignisson, 2004a, p. 25). The committee recommended that Iceland should apply for membership of EFTA and negotiate an adaptation period and several exemptions, even if it foresaw the merger of EFTA and the EC (Thorhallsson & Vignisson, 2004a, p. 25). Many serious obstacles stood in the way of Iceland joining EFTA at the time and Icelandic officials received this message loud and clear from EFTA officials, especially the British (Benediktsson E. , 2003, pp. 94-6). Meeting the small state of Iceland on the international stage for a second time in a few months after the Cod War of 1958-61, they were very unkeen to let it into the EFTA club of nations (Ólason, 2002, pp. 434-5). Nevertheless, Iceland went ahead with the matter, lobbying other Nordic countries, and Iceland’s possible membership of EFTA was discussed at a meeting of the EFTA nations in June 1961 (Morgunblaðið 28 June, 1961, p. 1). Gylfi Þ. Gíslason, minister of trade and education at the time, and a Social Democrat, was vocal in expressing the government’s view that it would be highly beneficial for Iceland if EFTA and the EC merged, and trade with fisheries products were liberalized extensively; if EFTA and the EC were to merge, it would be impossible for Iceland to stand alone outside the resulting association (Alþýðublaðið 17 February, 1961, p. 4 and Morgunblaðið, 12 July, 1961, p. 11). The conservative newspaper *Morgunblaðið* supported Gíslason’s views in an editorial, echoing his view that an important factor in entry negotiations into a merged community would be that Iceland would be permitted to maintain its commercial ties with Eastern Europe, which were significant at the time (Morgunblaðið, 14 July, 1961, p. 10). However, one of the aims of the Government of
Reconstruction was to reduce these relations and to increase trade with Western Europe and the US. It managed to cut its foreign trade with Eastern Europe from roughly 35% of the total trade at its peak in 1958 to under 20% in 1962 (Ingimundarson, 2001, p. 25).

At the end of July 1961 it was becoming clear that EFTA and the EC would not merge, and that Britain and several other EFTA member states would seek to join the EC. Morgunblaðið, which at the time mirrored views within the Independence Party closely, called repeatedly for Iceland to apply for membership of the EC (Morgunblaðið, 29 July, 1961, p. 10 and 1 August, 1961, p. 10). In an analysis of the situation, it enumerated the most important factors to safeguard in membership negotiations. These were: 1. Free trade in fisheries products; 2. Adaptation measures for Icelandic industry; 3. Continuing trade with Eastern Europe; 4. No rules to be set by the EC that would entail the right of foreigners to fish in Icelandic waters (Morgunblaðið, 12 August, 1961, pp. 12-3). On behalf of the government, Gíslason met the social partners in Iceland several times in August 1961. These meetings concluded in a resolution in which all the social partners’ organisations in Iceland, except for the Icelandic Confederation of Labour (ASÍ), stated their support for an Icelandic application for membership of the EC. These 15 organisations included the Farmers’ Association, the Federation of Icelandic Fishing Vessel Owners (LÍÚ), and other organisations of the fishing industry (Morgunblaðið, 18 August, 1961, p. 1). The Farmers’ Association, however, soon retracted its support, since substantial doubts had arisen amongst farmers on the merits of EC membership (Thorhallsson & Vignisson, 2004a, p. 27). In the autumn of 1961, Bjarni Benediktsson, deputy chairman of the Independence Party and minister of industry, justice and health, spoke subtly in a speech at a congress of the party’s youth organisation (SUS) and mentioned that manifold difficulties would follow both accession to the EC and also remaining outside it (Morgunblaðið, 10 September, 1961, p. 2). Þór Vilhjálmsson, the chairman of the youth organisation, said in an article that the decision to join would not only be economic, but also political, although most things pointed to Icelandic membership of the EC ‘for a better future in a close alliance with other states in Western Europe’ (Morgunblaðið, 13 September, 1961, p. 3)*. The congress called for an Icelandic application to the EC ‘for Iceland to be able to obtain the best information and discussions on rights and responsibilities related to membership so that an informed decision on eventual membership could be made’ (Morgunblaðið, 15 September, 1961, p. 17)*.

In the summer and autumn of 1961, according to Gíslason, the government seriously considered three options: membership of the EC, associate membership of the EC (though no one really knew what this
would entail) and, thirdly, a customs agreement with the EC (Gíslason, 1993, p. 201). The main strategy was to ensure that Iceland would retain influence on matters of vital concern to it within the Community. Gíslason toured European capitals in 1961 to introduce the Icelandic position to the leaders of European states and the European Commission in Brussels. He expressed fears regarding the economic, political and cultural isolation of the country if it could not find an acceptable solution as to how to tap better into the integration process. On the other hand, he made it clear that in the light of its small population and its reliance on fisheries, Iceland would not consider it possible to grant foreigners equal access to running businesses in Iceland, or to allow the free movement of capital and labour between Iceland and the EEC. Also, Iceland would never back down from its position on the unilateral extension of its fishing grounds (Gíslason, 1993, p. 203). The European ministers showed ‘great understanding for the problems Iceland was facing, and a large amount of goodwill regarding Iceland’s position’ (Gíslason, 1993, p. 204)*. This in particular seemed to be the case with German representatives, and Einar Benediktsson, an Icelandic diplomat at the time, mentions that ‘the German Government was willing to pay full attention to the problems created by the EEC for Iceland… The importance which this position, taken by the German political leadership, would have had in the negotiations which seemed to be in the offing can hardly be overestimated’ (Benediktsson E. , 2003, pp. 106-7). It is interesting that Benediktsson mentions that the French – who, he says, ‘were those least interested in accommodating Iceland within the EEC’ – seem to have held similar views similar to those of the Icelandic opposition on how Iceland should structure its relations with the EC: simply to seek tariff negotiations (Benediktsson E. , 2003, p. 109).

In October 1961, the Independence Party held its party congress, and Bjarni Benediktsson was elected chairman. The congress mentioned the EC issue in its political resolution:

The nations of Western Europe, with which Iceland has had its most extensive contacts and trade since ancient times, are consolidating their cooperation in economic matters and it is important for Iceland not to be cut off from these developments. Thus our membership of the EEC should be ensured without us having to submit to regulations that cannot under any circumstances apply here. (Morgunblaðið, 24 October, 1961)*.

The uncertainty with respects to the results of British entry negotiations continued throughout 1962, and all that year, Icelandic officials continued their discussions with officials in EC countries. In these, it became clear that
most European statesmen considered associate membership of the EC the best choice in the circumstances, rather than full membership or a customs agreement (Gíslason, 1993, p. 204) and this was the position favoured by Iceland as well (Benediktsson E., 2003, p. 106). Ambassador Einar Benediktsson, who as a young civil servant accompanied Gylfi Þ. Gíslason in his discussions with European politicians, says that the discussions were mainly with Germany, since Gíslason had first discussed the matter with Ludwig Erhard, then Vice-Chancellor of the Federal Republic of Germany and later Chancellor, at a meeting of the World Bank and the IMF in Vienna in 1961 (Benediktsson E., 2009). It was in Iceland’s interest to be involved in the common market of the EEC, since its common tariff on fish products was a severe obstacle to Icelandic exports, but it had to obtain special exemptions involving import barriers against petrol and oil, because of its extensive trade with the Eastern Bloc. It was also Iceland’s position that it could not partake in a common labour market, for fear of an influx of immigrants from Southern Europe. The Germans saw no political problems with Iceland’s participation but, because of these special exemptions, thought it would be wise to aim for associate membership for the time being; full membership would be an option if circumstances changed at a later date. Benediktsson did not recall that any of the other six members of the EEC expressed any particular position on these discussions, except for France, which rather wanted Iceland to negotiate for a tariff agreement (Benediktsson E., 2009).

The government decided to apply for associate membership of the EC (Thorhallsson & Vignisson, 2004a, p. 27), but all such moves were off the agenda when Britain’s application for membership of the EC was vetoed by the President of France, Charles de Gaulle, in January 1963. Interestingly, de Gaulle seems to have mentioned Iceland while defending his veto on British entry into the EC in February 1963. There he named the close ties between Britain and the US as the main reason for his veto, and a rumour that the US was aiming at forming ‘a free trade area incorporating Britain, Ireland, Iceland and other countries’ (Morgunblaðið, 8 February, 1963, p. 1)*. Whether de Gaulle was describing what he thought was the US vision for the future of the EC is not entirely clear.

Iceland took no further steps in this direction until 1967 (Gíslason, 1993, p. 204). The issue was nevertheless a subject of a debate in the parliamentary elections of 1963, especially as regards the different views on fisheries policy held by Iceland and EC countries, and beyond that, the issue of sovereignty (Benediktsson E., 2003, p. 109). In the period 1961-63 this had provoked the
first serious debate on European integration in Iceland. The battle lines were drawn between government and opposition, with the socialist People’s Alliance appealing heavily to nationalistic sympathies; the Progressive Party also did this to some extent (Thorhallsson & Vignisson, 2004a, p. 28). The opponents of EC membership even found ominous connections between the year 1962 and two other significant years in Icelandic history: 1262, when Iceland joined the Norwegian kingdom, marking the end of the Commonwealth, and 1662, when the absolute monarchy of the Danish sovereign was imposed on Iceland (Ingimundarson, 2001, p. 49).

In the political resolution of the Independence Party congress in April 1963, the tone with respect to European matters had changed accordingly and now membership of the EC was not mentioned as an option, but rather expressed as follows: ‘Iceland should be a member of an appropriate economic cooperation in accordance with the national interest and without having to submit to regulations that cannot under any circumstances apply here’ (Morgunblaðið, 30 April, 1963, p. 8)*. Little attention was given to the matter in the speeches of the party leaders at the congress, and when it was mentioned, it was used to attack the position of the Progressive Party (Morgunblaðið, 27 April, 1963, pp. 13-4).

4.1.6 Joining EFTA

In the years that followed, the government began to re-examine membership of EFTA as a way to pull the country out of the severe economic downswing that had taken hold during the latter half of the decade. It was seen as a way of reviving other industries besides the fishing industry and reaching an agreement with the EC on lower tariffs against fish exports to the Community was still seen as a key priority (Snævarr, 1993, p. 356). There were also worries that Iceland’s position in Nordic co-operation was in a way under threat, as this had to some extent come under EFTA during the previous years (Thorhallsson & Vignisson, 2004a, p. 29). Also, government officials had noted a significant change within EFTA towards the question of Icelandic membership (Benediktsson E., 2003, pp. 118-9) and the British themselves had even, as part of a strategy to strengthen EFTA, put forth the idea of bringing Iceland and Ireland into the association (Thorhallsson & Vignisson, 2004a, p. 28). The process of joining EFTA was formally launched in December 1967 with the appointment of a committee of all parties represented in the parliament. Gíslason, still Minister of Commerce, chaired the committee, which consulted extensively with the social partners and organisations representing the fisheries,
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agriculture, industry and commerce. On the whole, their reactions were positive towards the idea that Iceland should join EFTA so as not to be, ‘together with Spain, the only Western European country outside [the European movement for closer commercial and economic cooperation], which had proven to be of considerable economic benefit to their participants’. The committee’s final report stated that an accession agreement for Iceland to EFTA would be a substantial precedent for an agreement with the EC, if and when an enlargement of that body took place. Interestingly, in the report, it is also noted that the reasons for membership of EFTA would not be solely economic, but also the fact that our country is a part of Europe and belongs to the Nordic group of nations. The strong political and cultural ties which Iceland has with these countries are likely to be weakened, if Iceland in the long run stays outside the commercial relations which have become the core of the cooperation of these countries in recent years (Benediktsson E., 2003, p. 124).

The Icelandic parliament voted to apply for membership of EFTA on 12 November 1968; all present members of the ‘Reconstruction Government’ coalition parties (31) voted in favour, together with three members of the opposition Socialist People’s Alliance, thus the motion was carried by 34 votes against 17 (Alþingistíðindi 1968, 1978, p. 90). Four members of the People’s Alliance and all present Progressive Party members were against the application on the grounds that ‘the time was not ripe to apply for membership’ (Thorhallsson & Vignisson, 2004a, p. 30). A group of people gathered in front of the Parliament building in protest at the time of the vote and some, alleged to be ‘young socialists,’ broke a few windows (Morgunblaðið, 13 November, 1968, p. 2). The socialist newspaper Þjóðviljinn however claimed the demonstration was peaceful, and the youths who broke the windows were there to taunt the demonstrators (Þjóðviljinn, 13 November, 1968, p. 2). The request for accession was taken up at an EFTA ministerial meeting in Vienna on 21-22 November 1968, which concluded that the Secretary General would invite Icelandic representatives for negotiations starting in January the following year (Benediktsson E., 2003, p. 125). In a speech at the beginning of the accession negotiations, Gylfi Þ. Gíslason stressed the importance for Iceland to join its friends and neighbours in an ever-increasing cooperative project. He said ‘Icelanders wholeheartedly wish to have their neighbours on both sides of the Atlantic, and not least the EFTA countries, as their friends, and even increasingly closer friends. And they know that the only way to keep a
friend is to be a friend’ (Gíslason, 1993, p. 207). Benediktsson noted in his writings on the subject that the heavy political overtones in this address must be seen in the light of Iceland’s position at the height of the Cold War and the extremely vocal opposition in Iceland at the time to its membership of NATO and the position of the US military base in Keflavík. Benediktsson says that ‘these considerations were never repeated in the negotiations, which were purely technical’ (Benediktsson E., 2003, p. 127).

Iceland joined EFTA in March 1970. In 1972 it concluded negotiations on a Free Trade Agreement (FTA) with the EC on a significant lowering of tariffs on fish exports. In the debate on the matter in the 1960s and until 1971, there was a deep divide between the government and the majority of the parliamentary opposition, which considered closer ties to Western Europe unnecessary and argued that Iceland should not participate in supranational organisations, since this would weaken its sovereignty and independence and give foreign companies the opportunity to run businesses in Iceland. The People’s Alliance was categorically opposed to any participation in Western European economic organisations, and the Progressives wanted to wait and see. The government was accused of betrayal by the opposition and to be preparing for full membership of the EC. The supporters of the government in parliament held a different position. They considered Iceland’s membership of EFTA a necessary step to ensure the welfare of the Icelandic economy, and did not think it would weaken the nation’s sovereignty (Gíslason, 1993, p. 215). To begin with, interest groups in agriculture had supported EFTA membership, but changed their position in 1969, arguing that it would be detrimental for Icelandic society and agriculture. It has been argued that the close connections between these interests and the Progressive Party was the main reason for this change of heart, which took place even though relatively good terms had been negotiated on increased exports of lamb to the other Nordic countries (Thorhallsson & Víg尼斯son, 2004a, p. 32). Interest groups in industry were always very much in favour of EFTA membership, even if it could be argued that in the short run, the most severe impact of membership would be on the country’s industrial sector (Thorhallsson & Víg尼斯son, 2004a, p. 32).

Three main themes were covered in Iceland’s accession negotiations with the EFTA Council: 1. Customs issues, 2. The import regime and 3. Various other issues. Upon entry, Iceland would enjoy full access to the free-trade system established within EFTA. Icelandic protective duties would be lowered by 30%, after which there would be a four-year period of grace. The duties were then to be abolished in equal yearly instalments in 1974-80. Secondly, there were provisions for the lowering of duties on raw
materials and machinery for Icelandic industry. Thirdly, quantitative restrictions and licensing of imports of goods covered by the agreement were to be abolished, except of imports of oils and petroleum necessary to maintain trade with Eastern Europe. Fourth, the rules of competition of the Stockholm Convention were accepted as were the limited provisions for the right of establishment. Finally, Iceland enjoyed the same institutional provisions as other full members of EFTA, and the same voting rights (Benediktsson E., 2003, pp. 128-9).

The Government of Reconstruction finally lost its majority in the general election of 1971. In spite of the serious disagreements in parliament on the issue, the Progressive Party and the People’s Alliance took no measures to back out of EFTA membership when they, together with the Union of Liberals and Leftists, took power (Gíslason, 1993, p. 215). Lúðvík Jósepsson, the new Minister of Commerce and leader of the People’s Alliance, took over responsibility for the country’s involvement in EFTA, pursuing the path previously taken by Gíslason. The political consensus was that since the country had already joined EFTA, membership was to be supported actively (Benediktsson E., 2003, p. 133).

Iceland extended its fishing limits unilaterally in 1972 to 50 miles and again in 1975 to 200 miles. These moves were fiercely resisted by Britain, which had fished in these waters for a long time. Both these instances led to yet more “Cod Wars”, where Britain repeatedly sent their navy into the waters around Iceland to protect British fishing vessels.

The unilateralism of the leftist government in Iceland worried the US. Another cause of worry for it at the time was the change of government in Malta, where the Maltese Labour Party, under the leadership of Dom Mintoff, had taken power and threatened to end the defence agreement with Britain and close its naval base in Malta. In July 1971, a committee was set up within the US administration to assess the situation in Iceland and Malta, with the participation of the Central Intelligence Agency (Ingimundarson, 2001, p. 135). The Cod Wars delayed full implementation of the free trade agreement with the EC until, after the prolonged and degrading Cod Wars with tiny Iceland, Britain recognised the 200-mile fishing limit around Iceland.

The effect of the Cod Wars on the Icelandic psyche should not be underestimated. The nationalist rhetoric unleashed, especially during 1972-3 against the British naval presence in the waters around Iceland added significantly to the opposition against NATO and Western cooperation (Ingimundarson, 2001, p. 21). Ingimundarson argues that at this time, two nationalist currents met and merged – on the one hand, “traditional western”
nationalism, based on 19th century ideals, and on the other an anti-western “third-world” nationalism, where a great power (Britain) was jeopardising the future and the economic independence of a small nation, and the anger was directed at Britain, as the enemy, the US for not protecting Iceland, the international tribunal in The Hague for siding with Britain and Germany and the other Nordic countries for not standing up for Icelandic interests (Ingimundarson, 2001, pp. 340-1).

Similarly, the pride in the apparent victory in these wars reverberated down the years into the later rhetoric of the “útrás” period – the boom years during the “noughties” before the crash – as is best observed in the words of Ólafur Ragnar Grimsson, the Icelandic president, in November 2005 in an interview with the Daily Telegraph: ‘Remember, Iceland is the only country to beat the British navy, not once but three times. When you are stuck in the ocean you believe anything is possible.’ (The Daily Telegraph, 21 November, 2005). It is again interesting to compare the rhetoric of Icelandic politicians during the fateful years of the Cod Wars with the rhetoric of Dom Mintoff in Malta when he was driving the British Navy out of Malta.

4.1.7 Difficult times for European integration
The first enlargement of the EC, with the accession of Denmark, Ireland and Britain, had added to the Community a somewhat sceptical dimension towards the integration process. As a small omen of what was to come, the people of Norway, whose government had signed the accession agreement together with the other three applicants in January 1972, rejected Community membership in a referendum in September that same year. Britain, soon willing to live up to its reputation as “an awkward partner” in the European Community, insisted in 1974 on renegotiating its membership terms. The renegotiation got off to a bad start when James Callaghan, then Foreign Secretary, read sections from the Labour Party manifesto to his fellow foreign ministers in April 1974. Britain’s renegotiation process is seen as the peak of the ‘Eurofatigue’ of the mid-1970s. It took eleven months and dominated two summits, and Britain’s partners in Europe were driven to distraction (Dinan, 1999, p. 73).

At this difficult time in the EC’s history, there was a sharp move away from the supra-nationalism that had set its mark on European integration in the 1950s and ‘60s and towards increasing inter-governmentalism. The formation of the European Council in 1974 is one of the most important developments in this direction. The protectionist tendencies spilled over into intra-Community trade. Technical trade barriers and state aid threatened the
Community and the economic relevance of the EEC was reduced accordingly. In spite of this, new states sought admission: Greece applied for membership in 1975, and Spain and Portugal in 1977.

The 1980s did not begin propitiously for the EC. The terms ‘Eurosclerosis’ and ‘Europessimism’ became popular in the press, and *The Economist* greeted the twenty-fifth anniversary of the Treaty of Rome (20 March 1982) with a tombstone of the EC on the cover, carrying the epitaph: *capax imperii, nisi imperasset* (‘capable of power, if only it had not tried to wield it’) (Tsoukalis, 1991, p. 43). But this was at a time when things were unexpectedly starting to pick up. With an ever-improving economy, enthusiasm for European integration gathered momentum. The beast was not dead yet.

In 1985 the Single European Act (SEA) was signed in Luxembourg; this included the abolition of the last barriers to internal trade and the extension of qualified majority voting (Nugent, 1999, pp. 542-4). Under an energetic new President of the European Commission, Jacques Delors, there was about to be a change in the EC’s fortunes.

Closer involvement in European integration was not considered necessary in Iceland or the other Nordic countries except Denmark, since the free-trade agreements between the EC and the EFTA states which took effect in 1973 had led to a quadrupling of the volume of trade between EFTA and the EC in the period 1972-86 (Pedersen, 1994, p. 23). This, however, led to increasing pressures, especially since the EC countries were gaining speed on their road to integration, and in the late 1980s the EFTA countries’ diplomats in Brussels were beginning to look over the shoulder of the EC Commission, expressing concern at the prospect of being outside the dynamic inner market that was coming into being (Benediktsson E., 2003, pp. 168-72).

### 4.1.8 The EEA debate

The breakthrough came with a speech by Jacques Delors to the European Parliament in Strasbourg on 17 January 1989, in which he proposed to the EFTA countries a new, more structured partnership, with common decision-making and administrative institutions. This was to become the European Economic Area, (EEA) negotiated between EFTA and the EC in 1989-92.

The European Economic Area had first been mentioned in 1984 in the “Luxembourg declaration”, which was the result of a ministerial meeting of EC and EFTA ministers in Luxembourg in April that year. It mentioned several ways to clear away hindrances to trade between the two organisations and promote competition, although they were miniscule compared to the giant steps that were being taken by the EC itself at the time in preparation for the
completion of the inner market, due in 1993 (IP/86/232, 1986). However, Delors’ declaration in 1989 added a totally new impetus to the proposed cooperation. He proposed a new and structured basis for cooperation, with joint decision-making bodies in economic, social, financial and cultural affairs (P/89/72, 1989). It is clear that the purpose of Delors’ declaration was to send a message to the EFTA countries that it would be impossible for them to join the EC, at least until after the completion of the inner market in 1993 (Stephensen, 1996, p. 30). Also, the neutrality of Sweden, Finland, Austria and Switzerland was problematic for the EC during these final years of the Cold War. The EFTA countries were positive, to say the least, to these ideas. To the neutral countries, neutrality was still incongruent with EC membership, members of which were all in NATO, and to the Norwegians and Icelanders it was clearly beneficial to gain better access to European markets without surrendering much of their cherished sovereignty (Stephensen, 1996, p. 31). However, the declaration proved unsuccessful in fending off EC applications from the EFTA countries, and Austria became the first one to apply for EC membership on July 1, 1989. Austria’s application immediately raised some difficult questions on the compatibility of neutrality in international affairs with the EC’s efforts to strengthen cooperation in foreign policy and security (Dinan, 1999, p. 163).

The EEA negotiations were described by one of the European Commission’s chief negotiators as the most complex that the EC had ever been involved in (Dinan, 1999, p. 163). The EFTA countries had to adopt, on the internal market alone, approximately 1,400 existing EC acts, covering over 10,000 pages of legislation. Time and time again, the negotiations were bogged down by disputes over issues ranging from fishing rights, alpine trucking and financial support for the EC’s poorer members. Spain and Portugal demanded access to Norwegian and Icelandic fishing grounds and Austria and Switzerland wanted to limit heavy-truck transportation through its territory for the EC member states. Spain wanted more money from the rich EFTA nations to fund its economic recovery. Switzerland and Iceland held out until the last moment before accepting final offers on trucking and fishing, and the agreement was finally signed on October 22, 1991, only to see its proposed EFTA-EC court ruled by the European Court of Justice as being in contravention of EC law. Renewed negotiations ended in a compromise in February 1992 (Dinan, 1999, p. 163).

Desmond Dinan notes that at the beginning of the negotiations, all the EFTA countries, with the exception of Austria, saw the EEA as a sufficient step into the single market. At the end, two years later, most of them saw the EEA as a staging post to membership. What happened in the meantime?
Dinan names four things. First, most of them saw better economic prospects within the EC than outside it. Second, most of them were dissatisfied with scope they had to influence decision-making as non-EU EEA countries. Third, they feared exclusion from the EMU and the economic benefits it might offer in the future. And fourth, few of them wanted to be left outside while their partners in EFTA joined (Dinan, 1999, pp. 163-4). To Dinan’s four points can be added the end of the Cold War, which removed the obstacle created by pursuing a policy of neutrality. Thus, Sweden applied in June 1991, Finland in March 1992, Switzerland in May 1992 and finally Norway in November 1992.

The government at the start of the negotiations on the EEA agreement consisted of the Progressive Party, with the party leader, Steingrimur Hermannsson, as prime minister, the Social Democratic Party, with Jón Baldvin Hannibalsson, the party leader, as foreign minister and the leader of the People’s Alliance, Ólafur Ragnar Grimsson (later President of Iceland) as finance minister. However, in the campaign before the elections that were due in 1991, both the Progressive Party and the People’s Alliance turned to an extent against the EEA negotiations (Thorhallsson, 2008, p. 79). The Independence Party, which in opposition under the leadership of Þorsteinn Pálsson had been in favour of bilateral negotiations with the EC on fisheries, rather than focusing on the EEA, elected a new leader during the campaign who seemed to be more positive towards the EEA Agreement and European integration in general: Davíð Oddsson. Hannibalsson’s belief that Oddsson was a liberal Europhile contributed heavily to the formation of a new government consisting of the IP and the SDP in the spring of 1991 under Oddsson’s leadership, with Hannibalsson continuing as Foreign Minister (Thorhallsson, 2008, pp. 80-3). The EEA negotiations for Iceland went on unhindered, and on 2 May 1992 the agreement was signed in Porto, subject to approval by the individual national parliaments (Hannibalsson, 1992).

In the autumn of 1992 there was a call for a national referendum on the EEA Agreement and the opposition in parliament put forward a motion to this effect, supported by many in the labour movement and interests in agriculture. A special movement, ‘Solidarity for an Independent Iceland’ (Samstaða um óháð Ísland), was formed to fight against the EEA Agreement. Members of the movement went from door to door, collecting signatures for its cause. It was clear from the start, however, that the government had no intention of holding a referendum. The Foreign Minister and the government were accused of wearing the ‘emperor’s new clothes’ and not daring to let the will of the nation decide (see, e.g., Júlíusson G.,
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1992) and, more importantly, of violating the constitution by giving up Icelandic sovereignty (see, e.g., Snæbjörnsdóttir, 1992, Jónsson H., 1992 and Bóðarson, 1992). The government answered this argument by pointing to a report by a committee of four legal experts on the matter and an opinion given by several other prominent lawyers - five coherent legal opinions commissioned by the Alþingi. Only one of these stated that the EEA Agreement might possibly constitute a violation of the constitution. Also, it concluded, a referendum on the matter would not change anything with respect to an alleged breach of the constitution (Bjarnason, 1992).

According to an opinion poll published on 16 October 1992, a slim majority supported the EEA Agreement, with 46 per cent supporting it while 44 per cent were against it. Support for the agreement had grown, as compared with a poll taken in July which indicated that the majority was against it (Morgunblaðið, 16 October, 1992, p. 2). On the other hand, in an opinion poll published on 5 November 1992, 75.7 per cent of those who adopted a position wanted the EEA Agreement to be put to a referendum (Morgunblaðið, 6 November, 1992, p. 29).

In parliament, as in the negotiations on Iceland’s accession to EFTA, the position of the political parties depended roughly on whether they were in government or not. Thus, ironically, the same parties that had fought for, and concluded, Iceland’s accession to EFTA, the Independence Party and the Social Democratic Party, were now negotiating its entry into the European Economic Area. The Progressive Party, the People’s Alliance, and the Women’s Alliance were in opposition; none of them supported the EEA. However, the position within the opposition parties was not unanimous. In September 1992, the spokesperson for the Women’s Alliance on foreign affairs, Ingibjörg Sólrun Gísladóttir, broke ranks and declared that she could not vote against the EEA Agreement (Alþingi, 1992), even though she supported the proposed referendum. The leadership of the party responded by threatening to relieve her of her position in the parliamentary foreign committee, but the leader of the parliamentary group of the Women’s Alliance withdrew this threat a few days later after a public outcry against “Stalinist” measures (Ástgeirs dóttir, 1992). Gísladóttir even went as far as declaring that she thought Icelandic membership of the European Community was not out of the question and that Icelandic politicians might come to regret a downright rejection of it at a later stage (Morgunblaðið, 1992). She emerged in a strong position from this episode and two years later (in 1994) became the leader of a coalition of the SDP, the Women’s Alliance, the People’s Alliance and the Progressive Party, in municipal
elections in Reykjavík, after which she served as mayor for 9 years. She went on to become the leader of the Social Democratic Alliance in 2005-09 and Foreign Minister 2007-09.

The Progressive Party was also split over the EEA issue. After finding itself in opposition, a serious debate took place within the party, with a slim majority of its parliamentarians following the party leader, Steingrímur Hermannsson, on the issue, while the opposing faction was led by the vice-chairman, Halldór Ásgrímsson. This split led Hermannsson, who had twice served as Prime Minister, to the conclusion that it was time to withdraw from politics (Thorhallsson, 2008, pp. 84-5).

Some argued that the EEA Agreement would lead to a massive influx of workers to Iceland, and that ‘foreign companies in Iceland…could import Greek, Irish, Portuguese or Spanish low-wage workers to work instead of [higher-paid] Icelanders.' (Jónsson H., 1992)*. Still others, surprisingly Svavar Gestsson, a former chairman of the People’s Alliance, proclaimed that it would be the lesser of two evils to join the European Community rather than to have the EEA Agreement. He said he would vote against it in parliament, but would not seek its termination if he were subsequently in government (Morgunblaðið, 23 October, 1992, p. 9). The parliament voted on the referendum proposal on 5 November 1992. It was rejected by 31 votes to 28 (Alþingistíðindi 1992-93, 1993, p. 2583). All members of the opposition parties supported the proposal together with two MPs of the Independence Party (Morgunblaðið, 6 November, 1992, p. 31). With this result it was becoming clear that not much could prevent the ratification of the EEA Agreement by the Icelandic parliament.

The debate intensified as it drew closer to ratification. An example of the debate, which at times sounded as if Iceland were really joining the EC, is to be found in a speech by Páll Pétursson, Minister for Social Affairs 1995-2003, in opposition at the time, and in the forefront of those opposing the agreement: ‘I think it is rather idiotic to imagine that we will have any impact [on decision-making in Europe] although we might wag as the smallest bone in the dog’s tail there’ (Pétursson, 1992)*. The argument that influence in the European Union is miniscule because of the small size of the population was and is quite commonly used, not only in Iceland, but also in Malta before the 2003 referendum.

4.1.9 Digesting Europe: From EEA to EU application

After the ratification of the EEA Agreement, “Europhiles” in Iceland celebrated victory. The Foreign Minister, Hannibalsson, became increasingly positive towards following other Nordic applicants into the European Union. Recognising that this could mean the end for the EEA Agreement, his Social Democratic Party adopted, at its congress in 1994, the position that Iceland should apply for membership of the EU as soon as possible. Although Norwegian voters rejected EU membership later that year, thus saving the EEA by a whisker, this was to become the main topic in the election campaign of the Social Democrats in 1995 (Alþýðublaðið, 7 February, 1995, p. 1). Unfortunately for the Social Democrats, the “no” vote in Norway prevented the gathering of further support for the idea in that campaign (Kristinsson, 1995, p. 333).

For domestic political reasons, the Social Democrats did very poorly in the elections, receiving about 11 per cent of the vote. The party had split, with a popular vice-chairman and government minister, Jóhanna Sigurðardóttir, founding her own party (Kristinsson, 1995, p. 334); this received more or less the support that the SDP lost. The government retained a majority of only one in parliament. The Prime Minister, Davíð Oddsson, decided to change partners in government, the Progressive Party replacing the Social Democratic Party in the coalition with Oddsson’s Independence Party (Kristinsson, 1995, p. 335). After the ratification of the EEA Agreement, Oddsson had become increasingly sceptical towards the EU, and definitely did not share Hannibalsson’s enthusiasm for the European Union. It is clear, though, that in the spring of 1994, when Hannibalsson, returning from a few weeks abroad, was the first to announce that Iceland would seek membership of the EU, Oddsson felt snubbed by the fact that his Foreign Minister had declared such an important change of policy without consulting him and retaliated by saying very firmly that the country was not on the road to EU membership (Thorhallsson, 2008, p. 113, Einarsson E. B., 2002). It is also clear that the EEA issue was difficult for the IP and the party leadership saw it as representing quite enough in the way of European integration for Iceland in three respects – firstly, it was sufficient as a method of ensuring the country’s commercial and economic interests; secondly, further integration might harm the interests of the fishing industry, and thirdly, it was a means of avoiding a full-blown split within the Independence Party on EU matters (Thorhallsson, 2008, p. 111). Thus the new government took all talk of applying for membership of the European Union off the agenda, underlining the unacceptability for Iceland
of the EU’s fisheries policy and insisting that all the country’s vital economic interests were adequately secured by the EEA Agreement (Ásgrímsson, 2000). Oddsson is even quoted as having said at a meeting of the German-Icelandic Chamber of Commerce in Berlin in 2002, that if Iceland had not had the EEA Agreement, it would have joined the EU ‘a long time ago’ (Arnórsson, 2009, p. 123).

The discussion remained relatively dormant until 1999–2000, when there was a brief surge in enthusiasm for applying for membership of the EU, since the fact that Iceland’s opportunity to influence legislation within the EEA was restricted to the preparatory stages was beginning to be seen as an unsustainable situation. The argument was that Iceland should seek membership of the EU so as to be in a position to influence European legislation, the majority of which is automatically incorporated into Icelandic law on the basis of the EEA Agreement (Einarsson E. B., 2009, pp. 261-8). Also, at the time, Iceland was becoming deeply involved in the Schengen scheme, and began full participation in it on 25 March 2001, following several years of preparation and negotiations (Eiríksson, 2004, p. 50). The main purpose of the Schengen scheme is to guarantee the free movement of persons across the borders of the countries involved in the scheme, and to cooperate on safeguarding the outer borders of the area. Thus, the countries involved cooperate closely on matters such as the issue of visas, passport control and collaboration between policing authorities, e.g. on dealing with smuggling, handling asylum applications, etc. (Eiríksson, 2004, p. 50). The main reason behind Iceland’s joining the Schengen scheme was its participation in the Nordic Passport Union, which had been formed by Norway, Sweden, Finland and Denmark in 1957 and which Iceland had joined in 1965. When Denmark decided to join Schengen, it did so with a proviso stating that its decision was subject to the condition the Nordic Passport Union would continue to exist. This eventually led to all the Nordic countries joining Schengen, both the Nordic EU countries and the ones outside the Union (Norway and Iceland) (Eiríksson, 2004, pp. 51-2). The Icelandic government at the time was lukewarm about joining Schengen. Oddsson was sceptical. However, the issue enjoyed broad support within all parties in the Alþingi, with the exception of the Left Greens, who argued that it was costly and seemed to be just another step towards EU membership (Thorhallsson, 2008, p. 100).

National security issues were among the main reasons why ten new states entered the EU in 2004 (Thorhallsson, 2008, p. 126). The attitude of the Icelandic elite to these issues is a factor in understanding the position of Iceland
outside the EU. For much of the period in question, national security issues have not been relevant to the question of EU membership, since it was the view that the defence agreement with the United States and Iceland’s NATO membership would provide plentiful security without EU membership (Thorhallsson, 2008, p. 127). However, in the first decade of the twenty-first century, things took an unexpected turn. On 15 March 2006, the US deputy-secretary of state, Nicholas Burns, announced in a telephone call to Iceland’s Foreign Minister, Geir H. Haarde, that the US would withdraw all its jet fighters and helicopters from Iceland by the end of September 2006 and severely reduce the US military presence in Iceland (Mbl.is, 16 March, 2006). It was suggested by Iceland’s prime minister at the time, Halldór Ásgrímsson, that this might provide a reason for Iceland to look seriously into the option of EU membership to guarantee the country’s security (Mbl.is, 11 April, 2006). Since then, the Icelandic authorities have taken over responsibility for running the air patrolling system over Iceland and Icelandic waters. Several defence agreements have also been made with neighbouring NATO countries, under which they are to provide air patrol services. However, the defence agreement with the US still stands (Gísladóttir, 2008, p. 18) and this turn of events did not have any significant impact on the attitude of the Independence Party towards EU membership (Thorhallsson, 2008, p. 128).

The sixth of October 2008 was a fateful day in the life of the young republic (Jóhannesson, 2009, p. 122). This was when the government of Iceland introduced the emergency legislation that gave it the power to take over the entire Icelandic banking system (Psík. 80 — 80. mál., 2008). The then Prime Minister, Geir H. Haarde, addressed the nation on television and radio and explained the situation, ending his address with the words “God bless Iceland”, words not often heard from the mouths of Icelandic politicians. Suddenly, nothing was the same, and the position of Iceland as a rich and successful state with a growing financial infrastructure and businesses and banks that had been making themselves felt in international markets, changed overnight into that of an international pariah for its reckless financial behaviour (Jóhannesson, 2009). It was not long until European affairs were catapulted into centre stage in Icelandic political debate, finally leading to an application for membership of the European Union on 16 July 2009.

4.2 Malta and Europe

4.2.1 An island at the crossroads of history

Malta joined the European Union on 1 May 2004. This marked the final point of its turbulent and dramatic passage to membership of the Union, a
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passage that can be traced back several decades into post-war Europe, and even further. It was not an easy ride.

Malta and its run-up to EU membership cannot be taken out of the context of the current perception of the last two millennia or so of Maltese history. How this particular nation in the Mediterranean came into being and survived on the crossroads of history is a remarkable story of cohabitation with variously disposed rulers and conquerors, the lifeline in the last millennium allegedly being, as perhaps in the case of the Icelandic nation, the Maltese language.

Malta is actually an archipelago of islands in the Mediterranean, just south (93 km) of Sicily, the largest of which (around 300 square kilometres in size), is the one that gives her name to the Republic of Malta. Its nearest neighbour to the south (288 km) is Tunisia. The population in 2004 was approximately 390,000 (National Statistics Office, 2005). According to official documents, the Maltese are ethnic descendants of ancient Carthaginians and Phoenicians, plus elements of British and Mediterranean origin (European Economic and Social Committee, 2001, p. 30). The official languages are Maltese, which is a Semitic language, derived from 11th century Arabic but heavily influenced by various European languages from the Mediterranean area ever since, and English, a heritage from the days of the British Empire.

Malta is believed to have been occupied as early as 7,200 years ago, in 5,200 BC. Successive waves of peoples inhabited the islands until the Romans set up a colony there in 218 BC (Mitchell, 2002, p. 7). Malta was incorporated into the Roman Empire as a municipium and annexed to Sicily (Frendo, 2001, p. 1.5). There are indications that Malta was rather affluent at the time, probably due to its relatively central position on trade routes in the Mediterranean. A ship transporting the captive apostle Paul of Tarsus, the founder of the Christian church, was supposedly stranded in Malta in 60 AD, and tradition has it that Malta has been Christian ever since (Mitchell, 2002, p. 8), although the inhabitants spoke ‘neither Greek nor Latin’ (Frendo, 2001, p. 1.6). Despite its inclusion in the Acts of the Apostles this account has been refuted by some historians, which caused a considerable controversy in Malta in the 1980s (Mitchell, 2002, p. 7). Christian practices are, however, well documented in Malta as early as the 4th century AD (Frendo, 2001, p. 1.7).

Following the fall of the Roman Empire and Sicily’s capture by Byzantines in the 6th century AD, the Maltese islands came under the rule of Byzantium for several centuries.
In the 9th century, probably around 870, the Arabs conquered Malta through Sicily (Blouet, 1993, p. 36) and for a period of 200-400 years (various accounts are given by different historians) Malta was under Arab rule (Mitchell, 2002, p. 8). Although no real structures and scant literature has been found in Malta from this period, the Arabs made a lasting mark on Maltese society, mostly by replacing one Semitic language, Punic, with another, Arabic, which eventually developed into what we now know as Malti or Maltese (Frendo, 2001, p. 1.6). Not many sources have come down to us from this period in Maltese history, but if Christianity survived the Arab conquest at all, it was the religion of the minority (Blouet, 1993, p. 36).

The Normans drove the Arabs out of Sicily, and are believed to have done so in Malta too. The islands had to be conquered twice by Roger, a Norman king of Sicily, in 1090 and again in 1127. Documents indicate that Malta was overwhelmingly Muslim as late as 1175, and doubts have been expressed as to whether Malta was ever under Norman control at all (Blouet, 1993, pp. 38-9).

Western civilisation began to trickle into Malta during this period, though an estimate of the population made in 1241 indicates that the majority of the Maltese were still Muslim at that date. But even if the Maltese may have been converted to Islam during the Arab occupation, they had definitely returned to Christianity by the fourteenth century (Mitchell, 2002, p. 8). Absentee Sicilian landlords and Iberian kings of the house of Aragon ruled Malta with mixed success. The social division created during this period, when the majority of the population (estimated at about 10,000 in 1419) spoke a dialect of Arabic with Latin, Spanish and Italian words, while an elite group used a Romanic language amongst itself, has continued for centuries, and created the first major modern political controversy in Malta – the language question – which revolved around whether Maltese or Italian should be the medium of education and the courts (Blouet, 1993, p. 45).

In spite of some particular characteristics, Malta had usually been considered one of the many communities of Sicily, and had usually been under the same rule and shared customs with its larger neighbour in the north. Thus, being Maltese rarely meant much more than a ‘purely and narrowly geographical expression’ (Cassar, 2000, p. 6).

### 4.2.2 The rule of the Knights

A watershed in Maltese history occurred in 1530. Charles V, the Holy Roman Emperor, granted the landless knightly Order of St John of Jerusalem and Rhodes, the “Knights Hospitallers”, as they are commonly
called, Malta as a fief, together with the fortress at Tripoli (Blouet, 1993, p. 47). In return, the order was to provide the Emperor with one falcon per year, and seek to garrison Tripoli, which would not be an easy task since it was surrounded by hostile Muslim states (Bradford, 2002, p. 132). The Order of St John was founded in Jerusalem in the 11th century during the period of the crusades. It was driven out of the Holy Land in 1291, and after a short spell in Cyprus, settled in Rhodes before being displaced from there by the Ottomans in 1523 (Blouet, 1993, p. 47).

It would take up too much space to delve into the makeup and history of the order of St John in this brief introduction to Maltese history. Suffice it to mention that the order held property all over Catholic Europe, from which it drew a vast income. It also maintained a large fleet to “battle the infidels” and assist Christian armies in curtailing the Muslim advance in Mediterranean waters. The members of the order were mostly of French origin, although the order had chapters, langues, from various European countries, including Italy, the Iberian peninsula, the German principalities and, before Henry VIII’s Reformation, England (Blouet, 1993, p. 49). All members had to be of proven aristocratic origin and took vows of poverty, chastity and obedience to the order and service to the sick and the poor (Bradford, 2002, p. 32).

The order spent large amounts to fortify the best Maltese harbours, especially Grand Harbour next to Valletta, which it built from scratch and which is named after one of its most illustrious Grand Masters, Jean Parisot de la Valette. The order also built extensively in Malta. Churches, homes and official buildings that it put up are still in use, and these developments were crucial to the development of the island: ‘left to its own devices, Malta could never have become what it did…[The Order] afforded security…through a fortified harbour, a navy and otherwise. Second, it injected monies into Malta’s infrastructural development which would not have been accessible or available otherwise’ (Frendo, 2001, p. 1.14).

The order ruled Malta as a virtual “theocracy” for 268 years, denying the Maltese nobility access to their distinguished order (Bradford, 2002, p. 126), or to form a langue of their own, thus maintaining a clear social cleavage between Europe’s “finest” offspring, in the form of the warrior-monk aristocrats, and the Mediterranean population, whether Romanic speaking or not. However, in spite of the haughtiness of the order towards the inhabitants, ‘in less than three centuries, this experience saw Malta being transformed from a barren rock into a mini-state with a Renaissance bearing’ (Frendo, 2001, p. 1.14).
All this came to an abrupt end in 1798. Revolutionary France had seized the Order’s estates in France in 1792, creating an economic crisis in Malta (Mitchell, 2002, p. 8). This was the second financial blow the Order suffered in Malta, the first being on account of the Reformation, when it lost its estates in the countries which turned Protestant (Frendo, 1994, p. 7). The Revolution in France had its effect on many of the Knights of St John who, despite the revolution’s secular essence, sympathised with it and allowed the annexation of Malta by Napoleon’s troops in 1798. The Knights were ousted from the islands, never to return as rulers (Blouet, 1993, pp. 129-30).

The Knights were not mourned in Malta since many had come to dislike their regime, and the last decades of the Order’s rule were rather tumultuous times. Blouet says:

Nevertheless, the knights had left an almost indelible stamp upon the islands. During their rule the population had increased approximately fivefold, new towns and villages had grown up, the older settlements had developed in size and prosperity. A range of new industries had been introduced. Yet the period cannot be seen simply in terms of numbers, prosperity and material relics; the whole quality of life in the islands was altered… The Knights created prosperity during their stay and in a peculiar way, were responsible for Malta’s economic health in the nineteenth century (Blouet, 1993, pp. 130-1).

The French held Malta for a period of two years. Then after a long and tortuous siege, starting with the Maltese turning on the French garrison after some ill-considered decisions by the latter (Blouet, 1993, pp. 132-6) the French were replaced by their age-old enemies, the British, who came to the aid of the Maltese, and who in turn held the islands as a British colony until Independence in 1964.

4.2.3 British rule and the formation of modern Maltese politics

Although the British at first did not know what to do with their newly acquired islands in the Mediterranean (Blouet, 1993, p. 136), Malta soon became the main outpost for the Royal Navy in the Mediterranean Sea. Frendo describes the period of British rule such:

Material survival, even improvement, could be had out of the world-wide imperial network to which Malta came to belong over another long stretch of time. To the extent that Malta prospered at times, this was because of its role as a strategically placed island flying the British colours. This meant that it was a safe place of empire, where to anchor or to conduct business
from… Successive bursts of prosperity, from which the islanders benefited, generally related to international events in which Britain was directly or indirectly involved… The British period saw modernisation and progress: gas light and then electricity; dredging and new docks; drainage and road works; a tram and even a railway; wharves and a breakwater; barracks and schools. If France had the Enlightenment, Britain had the Industrial Revolution (Frendo, 2001, p. 1.14).

In the period of British control, under which the Maltese enjoyed considerable self-rule, the main battle lines in contemporary Maltese politics were drawn. Both of Malta’s main political parties, the Nationalist Party (NP) and the Malta Labour Party (MLP) were founded during the period of British rule, and the cleavages reflected in them came about – or rather came to the fore – decades before independence.

The background of the two main parties reflects a rather interesting cleavage in Maltese society. This cleavage is sometimes connected to a certain linguistic struggle in Malta which goes back for centuries. In an island ruled by one foreign power after another, the Maltese language offered a buffer between occupied and occupier. It was never taught formally. It represented oral tradition, from mouth to mouth. Maltese never became an official language; it had no noteworthy literature until quite recently… For centuries before that, Siculo-Norman, later Italian, was the language of town and gown, of court and cloister. Not Maltese. But there it was, nonetheless, on people’s lips (Frendo, 2001, p. 1.14).

The current party-political system in Malta can be traced back to events in the early 1880s when the British embarked on a programme which had as its aim the complete Anglicization of Malta. This meant that English, and not Italian, should be the language of education, administration and culture in Malta. Maltese was – as a means of expunging Italian – to be used as the medium of instruction in the first years of children’s schooling, and thus, the Anglicization project, perhaps paradoxically, also advocated the use of the Maltese language. The intended reforms split the Maltese elite in two, with one half, the riformisti, supporting the reforms and the other, the anti-riformisti, opposing them (Pirotta, 1994, p. 106).

The riformisti movement for Anglicization was spearheaded by Sigismondo Savona, Rector of the University of Malta and later Director of Education. He believed it would be in the interests of those seeking employment in government service and the armed forces if Malta were Anglicized. His views were taken up by a Cambridge-educated lawyer and
politician, Lord Gerald Strickland, one of Malta’s most influential politicians of the period (Cassar, 2000, p. xlv).

The Nationalist Party, founded in 1880, has its roots in the nineteenth century Maltese-Italian elite of the islands (Cini, 2002, p. 6), the anti-riformisti or nazionalisti. They believed that the Anglicization was clearly related to British strategic interests (Pirotta, 1994, p. 107) and the party later came to represent the struggle for independence from the United Kingdom (Cini, 2002, p. 6). The motive behind the British pushing for Maltese as the native idiom was to oust Italian influence. This seemed perfectly harmless, indeed advantageous to [them] as it would effectively detach British-employed workers from the more self-supporting educated middle class, while rendering the mass of subjects incommunicado with continental Europe which harboured competing empires, navies, markets and manufacturing industry (Frendo, 2001, p. 1.11).

The struggle over the Maltese language touches on a subject that still makes Maltese hearts beat faster: that is the “Europeanness” of the Maltese. In this context the nazionalisti were right to oppose Maltese as a national language, since Maltese is a Semitic tongue, Arabic-based and in that sense not “European”. ‘Hence, to claim it as one’s language is tantamount to renouncing one’s Europeanness. It would be equivalent to admitting that the Maltese were not, racially or culturally, European’ (Pirotta, 1994, p. 107). Instead, the anti-riformisti movement predicated the continued use of Italian, a policy called latinita or italianità.

The Nationalist Party has drawn its support from the middle class and the Maltese business community, but also from amongst fervent Catholics, and has a tendency to play down class distinction. It has shifted from the stance of conservatism towards representing Christian democracy and neo-liberalism (Cini, 2002, pp. 6-7). The anti-riformisti movement was closely related to the traditional, professional-religious establishment in Malta, whose ‘economic livelihood was less dependent on the British military machine [than that of the riformisti platform]; and their political agenda was also intent on preserving their socio-political status from upcoming social upstarts’ (Pirotta, 1994, p. 108). They saw in the British presence on the islands a danger, not only in the form of Anglicization of the state, but also Protestantization of the Church – thus, promoting the Maltese language was at the time associated with Anglicization and freemasonry (Mitchell, 2002, p. 9).

The Maltese Labour Party has its roots in the working class, and (more ambiguously) in the nineteenth-century English-language faction, (Cini,
2002, p. 7) the rigormisti, mentioned above. It became a political party in the
classical sense in the 1940s, with trade-union backing, and won the 1947
election, ultimately establishing itself as one of the two main political
parties in Malta (Cini, 2002, p. 7). The rigormisti essentially represented the
“new” middle class of importers, contractors and traders flourishing on the
basis of the British military presence in Malta, together with the working
classes at the dry-docks around the Grand Harbour (Pirotta, 1994, p. 108).
The rigormisti platform was thus primarily utilitarian and materialist, and
seen as opening windows of opportunity for upward social mobility. The
onset of mass democracy in the Second World War meant the rise of the
Labour Party as a political force and heralded the demise of the pro-British
“liberals”. The Labour Party inherited the materialist, utilitarian and secular
outlook of the rigormisti movement, and favoured ‘English as a tool for
development and Maltese as a mobilizing force’ (Pirotta, 1994, p. 109). The
party also inherited the pro-British stance of Lord Strickland, which had
previously held the support of many working class sympathisers (Cassar,
2000, p. xlvi). Unfortunately for those favouring Italian as the language of
culture in Malta, the italianità ideology in Malta was wiped out by the
Italians themselves when they joined forces with Hitler in razing Malta to
the ground in massive air raids in the Second World War (Frendo, 2001, p.
1.11). The place previously reserved for Italian was now taken up by
Maltese (Cassar, 2000, p. xlvii).

No discussion on the formation of the Maltese national identity is
complete without taking into account the profound effect that two separate
traumas have had on Maltese understanding of their self-image. The siege
by the Turks in 1565 and the Maltese part in the defence of the islands,
together with the Knights of St John, has of course receded almost into the
realm of myth, since it happened so long ago. It is however significant, also
as a preparation for the second great trauma, the one inflicted by the
relentless Axis bombing of the island in the years 1940-42. The self-image
of the Maltese as a brave and resilient nation stems from these two terrible
events in history (see, e.g., Mitchell, 2002, pp. 42-3). For its part in
defending the island from Axis control in the Second World War, the entire
nation was awarded the George Cross by King George of Britain, in 1942
(Blouet, 1993, p. 209). The Cross is still displayed on the Maltese flag, in
spite of Malta’s being an independent republic since 1974.

A peculiar chapter in Maltese history took place in the period 1954-58.
In this period the Malta Labour Party advocated political integration with
Great Britain, on the grounds that this would bring about a general
improvement in the standard of living (Cassar, 2000, p. xlvi), resulting in a referendum on the issue tabled by the MLP government in 1956. The Nationalist Party and the Catholic Church strongly objected to the idea as it was believed that it would undermine the church (Mitchell, 2002, p. 10). The NP advocated greater autonomy from Britain instead. The government lost the referendum. This severely soured the bonds between the MLP and the Catholic Church in Malta, with consequences for decades to come. After the referendum defeat, the MLP dropped its pro-British stance and opted for a radical particularism that Jon P. Michell says was ‘in many ways more nationalist than the Nationalists’ (Mitchell, 2002, p. 10). The NP – having abandoned hopes for integration with Italy – fought for independence from Britain. This came in 1964.

4.2.4 Independence

In 1962 Malta formally asked for independence from the UK. It was around this time that moves in Malta towards a closer relationship with the nascent European Economic Community began in earnest. Dom Mintoff, the leader of the Malta Labour Party, had first mentioned the idea of a link of sorts with the EC in 1958, although the question did not enter the Maltese political debate to any large extent (Pace, 2001, pp. 123-5). Then in 1961 Herbert Ganado, leader of the Democratic Nationalist Party, which had split off from the main Nationalist Party, reintroduced the issue. He proposed that when Malta gained self-government it would be wise to seek membership of the ‘Common Market’ or at least strengthen its links with it. His main concerns were the economic advantages that he believed would arise from the ties with the EC and employment opportunities for Maltese emigrants, who at the time were flocking to Australia and other distant Commonwealth countries (Pace, 2001, pp. 125-6). It should also not be forgotten that at this time Britain was fast approaching its own application for membership of the EEC, and Malta was at the time heavily dependent on exports to the UK. Ganado’s ideas were heavily represented in his party’s electoral manifesto for the 1962 general election. It was also around this time that a vision of Malta’s future, that has since then featured prominently in the position of the MLP, began to take shape. This is that Malta should serve as a gateway to North Africa, or as a hub in the Mediterranean region, or alternatively ‘a little Switzerland in the Mediterranean’ (Pace, 2001, p. 127).

The Democratic Nationalist Party failed to win a majority in Parliament, but urged the government, formed by the Nationalist Party, from the opposition benches, to seek further ties with the EEC without delay. In the election debate, most of the political parties had taken a stance on the issue of Malta’s ties to the
EEC. The Labour Party said it would consult the electorate in a referendum, and the other main parties, the Progressive Constitutional Party and the Nationalist Party, showed a certain degree of enthusiasm towards closer ties with the EEC. In his extensive book on the subject of Malta’s relations towards the European Union, Roderick Pace says:

What is significant in this case is the fact that the Nationalist Party which had been struggling since its foundation in 1880 to achieve Malta’s independence from the UK, was clearly enthusiastic about the development of the EEC in a federal direction and of Malta’s place within such a process. Indeed, independence was perceived as a means towards achieving national emancipation in order to free Malta to participate within the wider process of European integration (Pace, 2001, p. 129).

Britain applied for membership of the EC on 10 August 1961. At a conference in London of the Prime Ministers of the Commonwealth countries, the Maltese Nationalist Prime Minister, George Borg Olivier declared that ‘We believe that eventually, Malta will join the [EC], both in the event of the UK’s membership and not. We too form part of Europe’ (Pace, 2001, p. 131). Views were expressed that Malta should negotiate some sort of an Association Agreement modelled on such an agreement between the EC and Greece, although the fact that Malta was not yet an independent state posed some problems in that respect. Negotiations on such an agreement were in the pipeline when General de Gaulle actively vetoed Britain’s entry into the EC in January 1963. The close ties of the Maltese economy to the UK meant that plans for further ties with the EC on Malta’s part were pursued no further at this time.

On 21 September 1964, Malta became independent. Ties with Britain were, however, not entirely severed. Malta remained in the Commonwealth, and acknowledged the Queen as head of state (Blouet, 1993, p. 218). In 1965 Malta joined the Council of Europe, and two years later, in 1967, following a second application by Britain to the EEC, Malta wrote to the EEC Commission requesting negotiations on some preferential trade agreements with the EEC (Pace, 2001, p. 496). In December 1970, an Association Agreement was signed in Valletta between Malta and the EEC, just prior to the upcoming elections; the Nationalist government had been under pressure to conclude negotiations on preferential trade with the EEC (Sant, 2003, p. 242). The EEC-Malta Association Agreement came into force on 1 April 1971 (Pace, 2001, p. 496).

The Association Agreement, which was an “old generation” trade agreement, could eventually have culminated in a customs union. According
to Leonard Mizzi, ‘the successive Socialist Administrations of the 1970s until the mid-1980s adopted rather lukewarm relations with the EC and the customs union path was never considered a viable option for Malta and hence was not pursued’ (Mizzi, 2005, p. 3).

4.2.5 Mintoff’s Malta

Even though the NP claimed that independence was the ‘final deliverance from colonial subjugation’ (Mitchell, 2002, p. 10), the MLP did not agree. It started campaigning for a republic and the ousting of the British troops in Malta, whose presence it resented as signifying that the colonial era had not really ended (Mitchell, 2002, p. 10).

The Malta Labour Party narrowly won the 1971 elections. This sent shockwaves through the Maltese establishment, as can be judged from the reaction of the Maltese ambassador in Brussels, in charge of negotiations with the EEC, as described by Alfred Sant, later leader of the MLP but at the time a desk officer in the Brussels Embassy: ‘After a lengthy telephone call to Malta, [the ambassador] came to our office, ashen faced, and told us “It’s all over”. He said that all he had been trying to achieve over the last years… to permanently tie Malta to Europe and the West, for the benefit of all our children, had crumbled to dust’ (Sant, 2003, pp. 273-4). In September that year, the new government informed the EEC of its wish to renegotiate the terms of the 1970 agreement with the aim of broadening its scope. Sant says: ‘as a developing country which had to build up new economic activities in order to compensate for the eventual phasing out of the foreign military base, the island crucially needed the EEC’s help, which had to take the form of an active participation in the economic development of Malta’ (Sant, 2003, p. 292).

The first meeting of the EEC-Malta Council of Association took place in Brussels in April 1972, where the proposals for broadening the agreement were put forth, together with a request that the EEC adopt a GSP (Generalised System of Preferences) towards Malta (Pace, 2001, p. 497). Finally, in 1976, four new protocols were concluded between Malta and the EEC, including provisions for substantial reductions in EEC tariffs on Malta’s main agricultural exports (Pace, 2001, p. 498). After taking power, the Labour government set its sights on severing the final ties with the British and founding a Maltese Republic. This was eventually realised in 1974. After independence, Malta’s security had been safeguarded by the presence of the British naval base and a bilateral defence treaty, signed on independence in 1964, for a ten-year term. Few contemplated the possibility
that the treaty would be terminated in the short term (Pace, 2001, p. 442). However, protracted and hostile discussions between the Maltese Prime Minister and the British Admiralty on the future of the naval base went on throughout the 1970s. The Maltese government started demanding substantial rent in return for allowing Britain to maintain its naval base in Malta. When Britain tried to use economic pressure to get its way, Dom Mintoff, the Prime Minister, went to Libya to raise credit from Muammar Ghaddafi (Sant, 2003, pp. 276-7). Concern was stated in the Western press that Malta was turning into ‘the Cuba of the Mediterranean’ (Sant, 2003, p. 285). The impasse in the negotiations on the base finally resulted in its closure in 1979 (Mitchell, 2002, pp. 10-11). Malta decided to create its own defence force and proclaimed neutrality in military terms. To begin with, this neutrality was recognised only by Italy, a member of NATO. However, this did not stop the Labour government in Malta from forging a neutrality accord with the Soviet Union in 1981, a secret treaty with North Korea in 1982 and a friendship and security treaty with Libya in 1984 (Pace, 2001, p. 187). Neutrality, together with the policy of non-alignment and a refusal to participate in any military alliance, has been enshrined in the Maltese Constitution since 1987 (Pace, 2001, p. 241).

In the 1970s and 1980s, trade relations between Malta and the EC were characterised by free trade in industrial products and some preferential treatment for Malta’s exports of agricultural products, e.g. spring potatoes, and various Financial Protocols (Mizzi, 2005, p. 3). In 1979 the Nationalist Party, which was in opposition at the time, passed a resolution calling for Malta to apply to join the European Community (Pace, 2001, p. 499). That same year the last remaining British naval bases in Malta were shut down in accordance with the decision by the Maltese Labour government a few years earlier, and the British left the islands for good. In 1980 the EC renewed the trade provisions of the Association Agreement unilaterally, even though the legal basis of Malta-EC relations had in fact ended without Malta asking for a renewal. No agreement on the second stage of the Association Agreement, which was supposed to lead to customs union, had been reached (Pace, 2001, p. 499). The Labour administration took a ‘rather lukewarm attitude towards relations with the EEC… [and] there were no pro-active discussions as to how the Agreement could be refined to take into account the newly-evolving economic and political realities’ (European Economic and Social Committee, 2001, p. 3). Pace says these developments can in part be traced to the ‘deteriorating democratic situation on the domestic front,’ (Pace, 2001, p. 187) where concerns were raised over the
situations in EC member states through links between the NP and the Christian Democratic parties in these states. This, in turn, contributed to the stalemate in EC-Malta negotiations of the time (Pace, 2001, p. 188).

At the time, while Malta was ‘insisting on a “Special Relationship” with the [EEC]’ (Pace, 2001, p. 173) the Maltese Foreign Minister also proposed a special relationship with the Arab League, adding that Malta’s economy was ‘dangerously tied to Europe.’ (Pace, 2001, p. 173).

The 1980s were a tumultuous period in Maltese political history. The Labour Party received fewer votes than the Nationalist Party in the 1981 election, but retained its majority in Parliament on account of the make-up of the electoral system and thus remained in government. At this, the Nationalist Party representatives refused to take their seats in Parliament. However, after an agreement had been reached to start negotiations to ensure this anomalous result would not be repeated, they took their seats in March 1983. In November, the NP headquarters were raided by police and paramilitary forces and in December the designate leader of the Labour Party declared that Malta could do with a one-party system (Pace, 2001, p. 500). Political violence continued in 1984, with the Archbishop’s curia ransacked by a “socialist mob” after the Archbishopric had taken legal action against certain initiatives of the government.

In 1987 the Nationalist Party managed to win an extremely close general election and gained a one-seat majority after 16 years in opposition (Pace, 2001, p. 501). When it took power in 1987 it made it clear that a closer relationship had to be pursued with the EC (Mizzi, 2005, p. 3).

4.2.6 Towards the EU

In September 1988, the Prime Minister, Eddie Fenech Adami, declared that Malta would be applying for EC membership no later than 1990, and on 16 July that year, the Maltese government submitted its application (Pace, 2001, p. 502).

The first half of the 1990s was a busy period for the EC/EU. First came the end of the Cold War; then the Treaty on European Union (the Maastricht Treaty) came into force (after being rejected by Denmark in a referendum and later accepted after some modifications for the Danes), with all its ramifications, the largest of these being the completion of the single market, and the ink was not dry on the EEA Agreement when applications started raining in both from EFTA countries and from former Communist states. The EU went through the relatively easy “EFTA enlargement”, adding Sweden, Finland and Austria to its flock. Then in 1995 the European
Council, meeting in Cannes, accepted that negotiations with Malta and Cyprus would begin six months after the end of the 1996 IGC (Intergovernmental Conference), (Pace, 2001, p. 504).

This was not destined to happen. In October 1996 the Labour Party was returned to power in a general election. The Labour government immediately suspended Malta’s membership application and asked the Commission to open negotiations for a free-trade agreement. This in turn concluded in a Communication published by the Commission on EU-Malta free trade within ‘the ambit of the Euro – Mediterranean partnership, to include all trade, no sector excluded’ (Pace, 2001, p. 505).

However, in an unprecedented mid-term general election in 1998, the Nationalist Party was returned to power. The membership application was revived. The first round of EU-Malta negotiations started in late March 2000 (Pace, 2001, p. 506). The Labour Party announced that if it were returned to power, it would terminate the application for membership, and at one point it declared that it would not consider itself bound by the results of any referendum held in the meantime (European Economic and Social Committee, 2001, p. 4).

The debate on Malta’s EU membership was heated, as is to be expected when two main political parties take an altogether different stance on an issue. ‘It is not true that if we do not become full members of the European Union we will be isolated. Those who say so want to deceive young people and the rest of the population,’ said Alfred Sant, leader of the opposition Maltese Labour Party (MLP) at a mass rally in Floriana on 6 March 2003 (Maltastar.com, 2003). This was the last of many political meetings before the referendum in Malta on EU membership on 8 March 2003. His words sound familiar to those who have followed the EU debate elsewhere in Europe, where fear of isolation outside the EU has figured prominently. Sant had an alternative vision for Malta to membership of the EU. He called it “Partnership”.

Alfred Sant said that Labour has nothing against the European Union. Nevertheless, the truth is that full membership would mean that Malta would have to implement all regulations, even those that are not suitable for Malta. On the other hand, with the European Partnership policy the country would be able to implement those EU rules that are suitable for us. (Maltastar.com, 2003).

The idea of a Partnership with the EU was not so different from the situation Iceland enjoyed as member of the EEA or the bilateral agreement Switzerland had with the EU. However, Günter Verheugen, the EU
commissioner responsible for enlargement at the time, made it perfectly clear in a visit to Malta in January 2003, during the country’s negotiation and ratification process, that the partnership option was not viable. Only full membership was on offer (Fava, 2003).

As stated before, Malta possesses one of the purest two-party systems in the world (Cini, 2002, p. 1), and election results usually reflect this fact. The referendum on EU membership was no exception to this rule. Voter turnout is usually exceptionally high and has been over 90% of registered voters in all parliamentary elections since 1971 (Maltadata.com, 2010). Roughly 53% of those who voted in the referendum said “yes” to joining the EU, together with nine other applicant states. Sant’s reaction to the referendum results aroused some interest. He claimed victory on the grounds that a majority of the total electorate had not said “yes”. Some had decided to abstain or to return spoilt papers. Sant counted those with the “no” votes and claimed that “yes” had, by these calculations, received only about 48% of the votes. Sant said at a press conference after the referendum

The response of the Maltese people was that the Maltese who voted ‘no,’ invalidated their vote or did not vote at all exceeded the ‘yes’ vote...The story has been closed with yesterday’s voting. Let’s move on, the people know where we are. Yesterday an absolute minority backed Dr Fenech Adami’s proposal and that means the question is closed (Malta Today, 2003).

Apparently, not all Maltese took Sant’s word for it. On the evening of 9 March there were EU flags flying everywhere around Valletta and Floriana, with people shouting, blowing horns and celebrating the victory of the “yes” camp. The roads were clogged with cars overfilled with people waving the blue flag with yellow stars. Some cars were painted in the EU colours. But this was only one half of the celebration. In other parts of Malta, people were waving the flags of the Labour Party, together with Maltese flags, celebrating the victory Sant declared.

A general election was held in April 2003, roughly a month after the referendum. The only significant issue in this election was EU membership. The NP remained in power with 51.8% of overall votes and 35 parliamentary seats to Labour’s 30 (Pace, 2003, p. 13), and a few days later Eddie Fenech Adami signed the Accession Agreement to the EU in Athens (EU website, 2003). Malta joined the EU on 1 May 2004.
4.3 Conclusion of Part II

Going through the early and recent histories of Iceland and Malta with the aim of identifying themes in the narrative that would make up geo-historical constraints to integration, one finds narratives that can, and will, be pursued further in Part IV on nationalism and national identity. These are related to the fact that these two nations were both, during the best part of the last millennium and until relatively recently, under what has been described as “foreign” rule. They both had their experience of a “fight for independence” and forged a national identity by referring to these experiences.

Secondly, their more recent histories were shaped by the Second World War – though in a markedly different manner. Both went through periods when “third-world nationalism” was prevalent in the rhetoric of their leaders, and when the European integration scheme appeared on the horizon in the early 1960s and onward, both sought ways of responding to it.

As was seen in Part I, both Iceland and Malta had high incentives for integration in the early 1990s though, as suggested by Ingebritsen (1998), Iceland based its approach on the interests of the fisheries sector, a leading sector in the country, which has not perceived membership of the European Union as being to its advantage. As can be seen above, the challenges posed to ideas of integration in Iceland and Malta have been somewhat similar reactions to different concepts of integration. While in Malta the main question revolved around membership of the European Union – an “all or nothing” approach – the questions in Iceland were quite different. Iceland has followed what Gstöhl calls ‘a path-dependent process’ (Gstöhl, 2002, p. 222) and gradually become more and more involved in the integration process through its membership, first of EFTA, then of the European Economic Area (EEA) and finally of the Schengen scheme. Just like Norway and Switzerland in Gstöhl’s analysis, Iceland was able, but not willing, to join a supranational community and aimed rather at limited integration in various forms (Gstöhl, 2002, p. 222).

Malta did not, at the time of seeking membership of the EU, have the option of following the same process of limited integration. It did not have the choice of joining anything similar to the European Economic Area. The ideas of the Malta Labour Party – on partnership with the EU – were somewhat similar to the EEA or the bilateral agreement Switzerland had with the EU, and in the debate, Malta was often referred to as ‘the Switzerland of the Mediterranean’ by opponents of membership (Malta Labour Party, 1996). However, EU officials made it perfectly clear that the
Partnership option was not viable. Only full membership was on offer (Fava, 2003). Thus, the only apparently viable way to relieve the pressure for membership was by joining the EU.

For some of the new member states of the EU, security matters have been paramount in the decision to apply for membership. Some, prior to EU membership, had already taken the crucial step of joining NATO, while others saw membership of the European Union as an alternative to joining the North Atlantic defence apparatus, led by the United States (Ingebritsen, 1998, pp. 96-108). Before the end of the Cold War, some neutral states viewed membership of the EC as a threat to their neutrality in security matters (Dinan, 1999, p. 164), while others had no special national security incentive to seek integration (Archer & Sogner, 1998). The end of that international struggle provided an opportunity for Sweden, Austria and Finland to join the Union (Dinan, 1999, p. 164). The question of national security was not paramount in the decisions by Iceland and Malta regarding European integration. However, the security situation of those countries was a definite strand in the discursive framework: Malta’s neutrality on the one hand (Pace, 2001) and Iceland’s defence agreement with the United States on the other. In Malta, membership of the EU was perceived as a threat to the military neutrality spelled out in the Maltese constitution (Cini, 2000, p. 9). There were, however, clear and simple answers to that question, the most important being that a declaration on neutrality is attached to Malta’s membership treaty confirming that its neutrality was not affected by membership and that the EU already had four other neutral countries (Malta-EU Information Centre, 2003, p. 19). In Iceland, the close military relationship with the United States was seen by some as a superior alternative in security matters to joining the European Union, adding to their perception of the pointlessness of EU membership (Olrich, 2000).

Iceland’s foreign policy tradition is undoubtedly Nordic/North European. Iceland belongs to the Nordic Council, and is a member of EFTA, the EEA and NATO, all of which is perfectly compatible with EU membership. It is possible to argue, though, that being a Nordic country has, historically, been a factor that has tended rather to encourage scepticism towards European integration: Eurobarometer polls show the Nordic EU members at the top of the Europsceptic table. When put into the light of Alexander Wendt’s framework on cultures in international relations, discussed in Chapter 2, it can be argued after having analysed Iceland’s twentieth century history, that it still has to take the step from the Lockean culture of the post-Westphalian period to the Kantian culture of the post-war period (Wendt, 1999). In spite of speaking of “friends” on many
occasions, Iceland seems to define its place in the world by its interests and tends to treat other states as “rivals” or “allies”, not “friends”. The exception to this rule might be the Nordic states, though Iceland staunchly defends its interests against Norway when it comes to fisheries (and vice-versa). This tendency is particularly visible when it comes to the relationship with Britain. Britain and Iceland are not “friends” in the Wendtian definition. Being a “friend” in that respect involves that: 1. Disputes will be settled without war or the threat of war (the rule of non-violence) and 2. A commitment to fight as a team if the security of either is threatened by a third party (the rule of mutual aid (Wendt, 1999, pp. 298-9). Although both are NATO countries, Britain and Iceland hardly hesitate to resort to extreme measures when they deem it in their interest, as the Cod Wars show and as Britain’s use of the Anti-terrorism, Crime and Security Act against Icelandic companies and institutions of the state in the wake of the crash in October 2008 (see 3.2.3) showed so explicitly (Jóhannesson G. T., 2009, pp. 180-1). Valur Ingimundarson even argues that the Cod Wars disprove the theory that democratic states do not wage wars on each other. Not only were there clashes between British warships and Icelandic gunboats, but also threats of a break in diplomatic relations and a withdrawal from NATO made by the Icelandic governments at the time (Ingimundarson, 2001, p. 337).

Table 4.2 Foreign rule indicator.

<table>
<thead>
<tr>
<th>Foreign rule</th>
<th>Country</th>
<th>Iceland</th>
<th>Malta</th>
</tr>
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<tbody>
<tr>
<td>Colonisation or Satellization</td>
<td></td>
<td>Denmark until 1944</td>
<td>UK until 1974</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Norway in the Middle Ages</td>
<td>Knights in the Middle Ages</td>
</tr>
<tr>
<td>Occupation in World War II</td>
<td></td>
<td>British (1940) and US (1941)</td>
<td>No – German and Italian bombing 1940-2</td>
</tr>
</tbody>
</table>

Table 4.3 Foreign policy indicator.

<table>
<thead>
<tr>
<th>Foreign policy</th>
<th>Country</th>
<th>Iceland</th>
<th>Malta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign policy tradition</td>
<td></td>
<td>Nordic</td>
<td>(Commonwealth)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lockean</td>
<td>Lockean/Kantian</td>
</tr>
<tr>
<td>Alignment policy</td>
<td></td>
<td>NATO membership</td>
<td>Neutrality since 1979</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Defence agreement w. US</td>
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As with so many things in Malta, it is not easy to pin down exactly where the country belongs, because of the inherent split in Maltese society. It is clear, however, that Mintoff’s Malta would belong to the Lockean culture, playing on different alliances for different matters. Whether Malta has entered the Kantian culture today as a good EU member is open to debate. Malta belongs to the Commonwealth of Nations (formerly the
British Commonwealth), which puts it in a certain category in that respect. As a factor for integration, it would probably rather be sensitive than reinforcing if it means that something approaching British attitudes towards European integration are somehow reinforced in Malta through that. It is only guesswork at this stage though since no particular research was done on this aspect in the course of this thesis. Summing up in a table the findings of this chapter on Geo-historical constraints, all of the ones in Table 4.2 are potentially delicate, while the ones that tend to make integration unattractive in the latter are printed in *italics*.

Referring to the research question associated with this chapter - (To what extent did the different historical experiences of these two countries explain why Malta took steps to join the European Union while Iceland aimed for limited integration?) - It is obvious that Malta did not have the same geopolitical choices that Iceland had. In the 1970s Malta chose to disassociate itself from the Western fold, when the government of Dom Mintoff expelled the British, declared the country neutral and nurtured ties with “rogue states” such as North Korea and Libya. Iceland - despite the threats made during the Cod Wars - remained a staunch NATO member under the protective wing of the United States. Iceland became a member of EFTA, which later gave it access to the European Economic Area together with its partners in that club, and it decided to stay there when the other members were busy applying for EU membership. Iceland, being a Nordic country, has also enjoyed some level of solidarity with nations which, though small, have a relatively strong voice internationally. All these factors enabled Iceland to relieve the pressures towards further participation in the European integration process in a different manner from Malta. However, as the financial crash of 2008 revealed so painfully for Iceland, its economic security is far from guaranteed by being a part of the Nordic bloc or of the EEA; in fact, EEA membership rather rendered it more vulnerable to severe hardships caused by adhering to its rules without the perceived security of full EU membership, use of the euro as a currency and backing of the European Central Bank. It was left out in the cold, without any friends. Even the US failed to support Iceland in its time of need (Jóhannesson G. T., 2009, pp. 21-2), and when Iceland tried to gather support from other countries for its interpretation of its duties with regard

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75 On 24 September 2008 it was announced that the Federal Reserve would grant the central banks of Australia, Sweden, Norway and Denmark special drawing rights to help combat the looming crisis. The Central Bank of Iceland was not mentioned (Jóhannesson G. T., 2009, pp. 21-2) and later it came to light that the Fed did not want to save the Icelandic banking system which it deemed so large in terms of Iceland’s GDP that it would be too large a bite for it to take on that challenge. (Jóhannesson G. T., 2009, pp. 35-7).
to the deposits in the Icesave accounts, all the Nordic countries went along with the European Union when push came to shove (Jóhannesson G. T., 2009, p. 249). Thus, as Katzenstein's theory would have predicted, Iceland applied for EU membership as a method of gaining this security (Katzenstein P., 1997), making overtures, one might say, to the Kantian culture of mutual “friendship”.

The question thus still remains why Iceland bothered for so long to find ways around EU membership, which clearly was an option, and when all its neighbouring countries decided to take that path (though not all did so successfully). Why expose the country to all the perils of international finance without the shelter of EU membership? This can only be answered by further looking at the political impediments to that option.
5 Part III - Views on European integration

The third part of this thesis is on the role of the political parties in Iceland and Malta in shaping the approach to European integration in the two countries. Ingebritsen’s theory of the political influence of leading sectors of the economy in the Nordic countries is also relevant here (Ingebritsen, 1998, p. 34). Here the “domestic constraints” in Gstöhl’s theory are pursued as accounting for the other half of the political constraints or impediments a country faces when considering participation in European integration. The domestic constraints can be found where a country’s domestic structure ‘comprises a certain institutional pattern and fragmentation of society’ (Gstöhl, 2002, p. 9) and where domestic institutions are sensitive to integration if ‘elites, based on a broad national consensus … perceive them to be both significant and threatened by integration’ (Gstöhl, 2002, p. 9). This in turn leads to societal cleavages that form part of the national identity and mass public culture and which are often capitalised upon by political parties. In her study, Gstöhl considers religious, ethno-linguistic and regional cleavages in particular, and believes them to be significant if the resulting divisions take opposing positions on an integration issue (Gstöhl, 2002, p. 10). The research question associated with this chapter is:

To what extent did the political parties’ ties to economic and societal interests in Iceland and Malta contribute to the opposition to EU membership in these countries and/or how do they explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

5.1 Views in Iceland and the “Four-Party System”

In Iceland, the month of July 2009 was unusually hot; while the weather was by no means bad, this assessment applies primarily to the political temperature. Two gigantic issues were presented in the Alþingi. One was “the Icesave deal”, an issue that had arisen following the economic crash the country had experienced in October the year before, allegedly leaving it with debts amounting to well over double the GDP. The other was a proposal for
application for membership of the European Union. The sixteenth of July was the date set for the vote on the application. After five days of intense debates, only five members of Alþingi were on the list to address the chamber when the session opened at 10 a.m. that morning – the ones chosen by the five political parties in the Alþingi to present their views.

The foreign minister, Össur Skarphéðinsson, of the Social Democratic Alliance, spoke first. He seemed to be in a relatively good mood – realising the historical significance of the moment – and lauded the members of Alþingi for the depth and rigour of the foregoing discussions, calling for cooperation and solidarity through the application process. He also mentioned that a newly-published report showed that traditional agriculture would fare better within the EU and that Iceland would not need any permanent exemptions from the Union’s Common Fisheries Policy, but would be able to find ways within it to defend the interests of the Icelandic fishing industry. He mentioned that the economic benefits of EU membership were profound, and the adoption of the euro would be very important. He also noted the necessity of attracting foreign investment to the country and creating stability for Icelandic families and homes. Then he asked where Icelanders wanted to place themselves in the future. For the best part of the previous century the United States had been Iceland’s closest ally, but this had changed in the aftermath of the sudden departure of US forces from Iceland in 2006. ‘We are Europeans and we have contributed to European culture’, said the foreign minister. Icelanders had to make up their mind on where they wanted to belong. ‘Our culture is part of European culture – Europe is our political, cultural and economic home. Now is the time to make our decision’*.

Bjarni Benediktsson, chairman of the opposition Independence Party, spoke next. Obviously not sharing the foreign minister’s good mood, he started by stating that there would be no possibility for Iceland to obtain any ‘special deals’ with the Union, for instance regarding fisheries. ‘This has been the reason for the fiercest opposition against EU membership, especially within my party’, he said. He continued by saying that there were no reasons why Iceland should submit to the EU’s Common Fisheries Policy, and therefore the Independence Party was against EU membership. Then he discussed the position in Alþingi, i.e. that the government parties were not in agreement on the application. If it went through, he said, this would only be because members of the Left Green Movement went against their own agenda and supported the issue because they wanted the government to survive. ‘When they return with an agreement, this schism

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will be obvious again”, Benediktsson said, claiming that there was not a majority within the government for EU membership. He said it seemed that the foreign minister was prepared to join the EU at any cost. Finally, he called for support for his own minority proposal on a double referendum, one on the application and – if this were agreed – another on the membership agreement. According to him, the supporters of EU membership did themselves no favour by putting the proposal forth in such an inept manner.

The debate went on with the representatives of the three remaining parties in the Alþingi addressing the issue. None of the remaining speakers spoke favourably of the European Union. Then it was time for the vote. Most of the 63 MPs went up to the podium to explain why they were voting as they were. The debate was technical, focussing on how this all had come about and how it would be followed up. Many were doubtful that it would lead to EU membership. It seemed that this was not a fate many had wanted for the country, but rather something that had befallen it, as an accident; even as a disaster. Like the disaster that had rocked the country in October 2008, when its economic miracle went up in flames overnight. It was a fate long considered, yet resisted for just as long. How did this happen?

With respect to moves towards European integration, the main pattern was that the Social Democratic Party was the most positive, often using its power in government to push Iceland in the direction of European integration. (This can be seen in 1959-71, with the first moves and EFTA accession, and in 1989-95 in the debate on EEA and the EU.) The Progressive Party was traditionally rather sceptical towards European integration: some of its members fought actively against EFTA membership and the party was also split on the EEA. However, once in government, the pragmatic view prevailed, and in the late 1990s and the first years of the twenty-first century, under the leadership of Halldór Ásgrímsson, the party took on a new mantle and flirted with the idea of EU membership (Einarsson E. B., 2003, p. 137). The People’s Alliance was the most ardent opponent of European integration (Einarsson E. B., 2003, p. 140). The Independence Party has almost unanimously supported Iceland’s participation in international cooperation, e.g. in NATO, EFTA and the EEA (after it came into government). However, since the early 1990s it has been opposed to Iceland’s membership of the EU, the only large centre-right party in Europe to take this stance (Einarsson E. B., 2003, p. 138).
5.1.1 The view of the Independence Party

Disputes within the European Union are increasing and the lines of conflict are sharp. Polls show that citizens of the countries who agreed to enter the Union in referenda last year are regretting the whole thing already. But it is too late to regret. Referenda in the EU are never repeated if the majority says “yes”, only if it says “no”… If Iceland were a member of the EU and followed the staunchest advocates of European integration to an ever closer union, it would be safe to say that the Icelandic Parliament would be in a position very similar to the one it was in in the first days of the resurrected Alþingi 150 years ago (Morgunblaðið, 20 June, 1995, p. 32)*.

These are the words of Davíð Oddsson, the then Prime Minister of Iceland, in his National Day address on 17 June 1995. He had then just recently switched partners in government, ousting Jón Baldvin Hannibalsson’s Europhile Social Democratic Party for the Eurosceptic Progressive Party. In this address, he set the tone for the discourse of EU opponents within the Independence Party for more than a decade.

Davíð Oddsson was a popular mayor of Reykjavík in the 1980s and the early 1990s. In 1991, as recently-elected deputy chairman of the Independence Party, he stepped forth and challenged the chairman and leader of the opposition and former prime minister, Þorsteinn Pálsson, at the Independence Party congress, and won a rather narrow victory. Following a general election a few weeks later he formed a government with the Social Democratic Party and became Prime Minister. He went on to be the longest continuously-serving prime minister Iceland has had, stepping down for his coalition partner in the Progressive Party, Halldór Ásgrímsson, thirteen years later in 2004.

Oddsson was a towering figure in Icelandic politics in the last years of the twentieth century and the first years of the twenty-first. The Independence Party had been a dominant force in Icelandic politics throughout the post-war period, and Oddsson took it to new heights in power and influence. Although championing Iceland’s participation in the EEA Agreement, Oddsson had a sceptical view of its potential membership of the European Union. In the debate on the EEA he stated his opinion on joining the EC in no ambiguous terms, saying that he was ‘in [his] heart totally opposed to joining the EC, totally opposed to it’ (Oddsson, Speech in Alþingi, 1992)*. As a young mayor he nevertheless flirted with the idea of Iceland’s eventually joining the EC (Einarsson E. B., 2003, p. 139, Gissurarson, 1990). However, this was nothing but a brief and insignificant interlude in Oddsson’s opinion on the matter. It is safe to say that his
personal conviction against EU membership was a major factor in shaping the view of the Independence Party towards the issue during the last two decades. Moves towards a positive stance concerning EU membership, for instance in the youth movement of the Independence Party, were thwarted early on by the prime minister (Morgunblaðið, 27 September, 1994, p. 9). Oddsson’s position on this, and other matters, led to his being blamed by Icelandic EU enthusiasts for inhibiting the discussion on the issue (see, e.g. Hjörvar, 2001). Oddsson repeatedly used strong words when stating his opposition to membership of the EU. In a speech to a gathering of Icelandic businessmen in February 2000, in the wake of an opinion poll showing that only 32 per cent of Icelanders wanted to apply for membership of the European Union, Oddsson attacked the EU in these terms:

The bureaucracy of the EU, and the extent of its law-making in areas not related to trade and the common market, are ever increasing. The extent of the Union’s meddling in affairs that up until now have been subject to the democratic processes of the individual member states, such as taxation and social services, increases steadily. The smaller member states have less and less influence over their own affairs and receive fewer important posts than before. The sharp reaction of the Council of Ministers to the elections and the forming of government in Austria is a lucid example of these interventions and has raised them into a new and hitherto unknown dimension (Morgunblaðið, 16 February, 2000, p. 34)*.

In 2002 he became involved in an exchange of words with the EU’s ambassador and head of the European Commission’s delegation to Norway and Iceland, when he stated that the EU was ‘the most undemocratic bureaucratic monstrosity concocted by man’ (Morgunblaðið 30 June, 2002, p. 56)*. Asked by journalists what he thought of these words, the EU ambassador replied that they were ‘hardly worthy of an answer’ which Oddsson in turn replied to saying that the ambassador had, in saying this, angrily attacked the Prime Minister of an independent state. Since this was how EU officials talked to politicians outside the Union, he said, one could imagine how they would behave if the country were a member (Morgunblaðið 30 June, 2002, p. 56). When the foreign minister and chairman of the Progressive Party, Halldór Ásgrímsson showed an increasing willingness to discuss the matter of an Icelandic application for membership of the European Union, his moves were met with fierce resistance by Oddsson and his followers. Oddsson even declared that it would need him ‘to lose his mind’ for him to embrace Icelandic membership of the EU (Oddsson, 2002). The foreign ministry, headed by Halldór Ásgrímsson, calculated the proportion of the EU’s legislation
adopted by Iceland to be around 80%. Ásgrímsson used this figure in his address to the Icelandic Parliament in 2003, saying that it added to the necessity of considering the option of EU membership. In 2005, when Davíð Oddsson had stepped down for Ásgrímsson as prime minister, himself becoming foreign minister, the ministry calculated that particular figure again, and came to the conclusion that in fact the figure was closer to 6.5%, thus stating that EU membership was not that urgent for this particular reason (Einarsson E. B., 2005, pp. 549-62). However, nothing had in fact changed except for the head of the foreign ministry. ‘It simply fitted Oddsson’s politics better to say that EU membership would mean a much greater transfer of sovereignty to Brussels than was already the case in the EEA’ (Einarsson E. B., 2009, p. 336).

The Independence Party had not formed any special policy towards the EC when the EEA negotiations started in 1989 (Stephensen, 1996, p. 152). During the negotiation period, with the party in opposition, it gradually became clear that it supported the main aims of the EEA regarding the four freedoms. It also took the position that bilateral negotiations on fisheries with the EC should be conducted on the side. The party congress in 1990 declared that Iceland should remain involved in developments on integration within the EC, and that it was already doing so through the EEA negotiations, which the IP wanted to be conducted in such a way that the nation would retain its independence and unchallenged authority over its resources on land and sea. Iceland should not, however, any more than other European nations, exclude the possibility of EC membership in advance (Stephensen, 1996, p. 159).

When Oddsson formed a government with Jón Baldvin Hannibalsson’s Social Democratic Party in 1991, the government manifesto stated that its aim was to conclude negotiations on the EEA, so as to guarantee uninhibited access for Icelandic fisheries products to European markets. It is also stated that it was out of the question to relinquish any form of control over fishing in Icelandic waters in exchange for market access. No mention was made of the idea regarding bilateral negotiations which the Independence Party had named in the election campaign (Stephensen, 1996, p. 160). In government, the party supported the EEA Agreement, with the exception of three MPs who voted against it, mainly because they were worried about the fate of Icelandic agriculture (Thorhallsson, 2008, pp. 83-4). As is stated above, it has been the view of the party leadership since then that the EEA Agreement is a sufficient step for Iceland in the direction of European integration (Thorhallsson, 2008, p. 111).
Shortly before stepping down as prime minister in 2004, Oddsson made a speech at the University of Oxford, where he stated his reasons for opposing Iceland’s membership of the EU. First he mentioned fisheries management:

Of those elements directly opposed to our interests, the first to mention is the EU’s Common Fisheries Policy. The basic principle, that major fisheries policy decisions are made not by member countries but by EU institutions, is unacceptable for Iceland in all respects. From a historical perspective it would be peculiar, to say the least, to give up jurisdiction over the fishing grounds around Iceland less than thirty years after achieving final victory in the Cod Wars against our neighbours and good friends here in Britain (Oddsson, 2004).

The second reason he mentioned was monetary union. ‘The fact that our goods exports are not particularly diversified – and still dominated by fisheries products – would make monetary union an enormous risk for us’ (Oddsson, 2004). Thirdly, Oddsson mentioned as a further substantial disadvantage of EU membership ‘that Iceland would probably need to make one of the highest per capita contributions to EU common funds, on account of its very high national income. It is equally certain that Iceland would pay much more to the EU than it would receive in return’ (Oddsson, 2004). He went on to say:

Because of the weakness of their own arguments, advocates of EU membership often put forward claims about weaknesses in the EEA Agreement, which are supposed to show that we must join the EU, but prove to be very thin on closer examination. These mostly either centre on technical issues or complain about Iceland not having representatives on certain committees and therefore lacking influence. No one has ever managed to point out the damage that this lack of influence has caused to Iceland’s economic interests (Oddsson, 2004).

He then concluded by saying that one of the main challenges facing Iceland in the next few years would be how it took advantage of the opportunities presented by globalisation. ‘Icelandic businesses and individuals have growing opportunities to operate and work outside Iceland. Thus, we need to ensure that Iceland remains an attractive environment for companies and individuals to conduct their business in’ (Oddsson, 2004).

Oddsson stepped down as chairman of the Independence Party in October 2005. In his final opening address at the party congress in Reykjavik, he lashed out (to a standing ovation of 1,000 delegates) at those who were urging for an application for EU membership. He said:
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It is clear that membership of the EU would be costly for Iceland. EU commissioners for fisheries have been here to explain that there would be no exceptions for Iceland from the Common Fisheries Policy… Some have a hard time accepting this and prefer to close their eyes to the facts… The ticket for entry would cost us thousands of millions each year. And who would want to buy such a ticket that changes nothing for our access to European markets but would transfer control over Iceland’s fisheries resources to Brussels and gradually take away our real economic independence? No one, one would think. But it does not seem to matter how awful the show is, poorly acted and with a bad ending; you can always find some crackpot who will buy the ticket at an inflated price (Oddsson, 2005)*.

The party congress elected the vice-chairman, Geir H. Haarde, as Oddsson’s successor at the helm. Haarde did not take any steps to challenge Oddsson’s policies and the stance of the Independence Party remained the same (Morgunblaðið, 17 October, 2005, p. 21). The Independence Party also joined hands with the Left Greens in a committee, formed by the Office of the Prime Minister in 2004, consisting of members from all parties represented in the Alþingi, to look into Iceland’s position with regard to European integration. The committee submitted its report in March 2007. In a joint conclusion by these unlikely partners on the opposite sides of politics, the IP in government and the Left Greens in opposition, they stated:

The immediate conclusion to be drawn from the Committee’s report is that there are no pressing interests with a bearing on the development or welfare of Icelandic society that call for joining the European Union. Of the interest groups that sent representatives to the Committee’s meetings, only the Federation of Icelandic Industries expressed the view that EU membership was desirable. It is evident that opinion on the question is divided within Iceland’s political parties, and a decision by the government to apply for membership of the EU would result in profound political unrest both within and between the parties (Committee on Europe, 2007, p. 9).

The committee’s main conclusion was that the Agreement on the European Economic Area had ‘stood the test of time and that it should be developed further as the basis for Iceland’s relations with the European Union’ (Committee on Europe, 2007, p. 1). In 2009 an update of this report, made in collaboration with the social partners in Iceland, came out, with the committee reaching no overall conclusion. However the IP members wrote a special conclusion stating that Iceland should seek to adopt the euro unilaterally in cooperation with the International Monetary Fund (IMF) (Nefnd um þróun Evrópumála, 2009, p. 60).
In the wake of the Icelandic economic collapse in 2008, prime minister Geir Haarde announced at a press conference that the Independence Party’s central committee had decided to bring the party congress forward to January 2009 and to set up a special committee within the party to re-evaluate its stance on the EU. ‘We have always emphasised that the nature of our relations with other European nations should depend on an assessment of our [Icelandic] interests. We do not make our decisions according to some blind faith or religion, but only how we deem Icelandic interests to be served’ (Mbl.is, 14 November, 2008)*. He added that he himself had not changed his mind on EU membership, but he would view the results of the committee ‘with an open mind’ (Mbl.is, 14 November, 2008)*.

The “European Committee” as it was called, set up sub-committees on seven topics which held many meetings around the country, and according to the final report of the committee, these were attended by about 1,500 party members in total (Evrópunefnd Sjálfstæðisflokksins, 2009, p. 6). A special website was set up where anyone could review the progress of the work and take part in discussions on the topics. It soon became obvious that EU opponents were rallying supporters to the party congress and to the meetings of the committee, and the report did not prove to be the watershed in the stance of the IP that some had hoped for.

The party congress in January was not to take place. Under a wave of demonstrations unparalleled in Icelandic history, the government fell on 26 January and Haarde announced that due to illness he would not seek re-election as chairman of the party or to parliament. The congress took place on 26-29 March 2009. A new chairman was elected, the MP Bjarni Benediktsson (not to be confused with his great-uncle and namesake, who had been chairman of the Independence party in 1961-70). Before his election, Benediktsson had aired views that could be considered positive towards an application to the EU, especially on the grounds that Iceland would be able to adopt the euro (Benediktsson & Gunnarsson, 2008) and (Morgunblaðið, 15 December, 2008).

However, the IP did not change its stance towards an EU application, and in the congress resolution on European issues it was stated that the re-evaluation process had not changed the view that Iceland’s interests would be best served by staying out of the European Union, and that if the Alþingi should come to the conclusion that Iceland should apply for EU membership, then there should be a referendum on that decision (Sjálfstæðisflokkurinn, 2009).

The Independence Party has traditionally been open to Iceland’s participation in international (especially Western) cooperation. It staunchly supported NATO membership and the defence cooperation with the United
States (Thorhallsson & Vignisson, 2004b, p. 105); it supported joining EFTA, and after it came to power in 1991 it supported the EEA. Within it there had even been support for joining the nascent European Communities in the early 1960s (Morgunblaðið, 29 July, 1961, p. 10, 1 August, 1961, p. 10). However, since the 1990s it has been opposed to Iceland’s membership of the EU, the only large centre-right party in Europe to take this stance (Einarsson E. B., 2003, p. 138).

There are three main factors that explain the position of the Independence Party during this period. The first is the close ties the party has with the fishing industry, and especially with the Federation of Icelandic Fishing Vessel Owners (LÍÚ), as has been demonstrated by Thorhallsson and Vignisson (Thorhallsson & Vignisson, 2004c, p. 97). Their study shows that in seven consecutive parliamentary terms, from 1956 to 2003, about 30% of the IP’s members of the Alþingi had direct connections with the fishing industry (Thorhallsson & Vignisson, 2004c, p. 81). They conclude that their study shows that Ingebritsen’s theory on the influence of leading sectors of the economy on party policies through close contact with dominant sectoral interests applies in the Icelandic case (Thorhallsson & Vignisson, 2004c, p. 97). Even despite the fact that few sectors are more reliant on international trade than the fishing industry, the interest of Icelandic quota-holders is to have direct access to those distributing the quota – i.e. the Icelandic government. The fear is that with EU membership, this direct access to quota distribution might be reduced or lost. Also, the fact that until the turn of the century, the Independence Party was the only truly “national” party, by virtue of its size relative to other parties in Iceland, played a part in the stance it took on the EU issue. The IP had an average national following of 39% between 1931 and 2007, while support for the second largest (most often but not always), the Progressive Party, in the same period was roughly half that size, on average (23%) (Kristinsson, 2006, p. 91) and (Hagstofa Íslands, 2009). Thus, even though the IP has received much of its following in the urban area around Reykjavík (Kristinsson, 2006, p. 92), it has usually drawn a good part of its parliamentarians from rural constituencies, and has usually had the first or the second MP from each constituency in the proportional representation system (Hagstofa Íslands, 2009) making them the spokesmen for rural issues, which are often dominated by fisheries and agriculture.

Secondly, there is the special brand of nationalism and the role of safeguarding the nation’s independence which is embodied in the name of the party (Einarsson E. B., 2009, pp. 296-7) – although it would be stretching
the point to consider nationalism as unique to the IP. Icelandic nationalism and national identity will be discussed further in Chapter 6.

Thirdly, there is the mixture of Atlanticism (Thorhallsson & Vignisson, 2004b, p. 105) Thatcherism and the isolation of the Icelandic elite (a large sector of which supports and works actively within the IP (Kristinsson, 2006, p. 92)) from European – especially continental – elites (Kristinsson & Thorhallsson, 2003, p. 151). This last particular factor would be embodied in the views of those IP members who are most active within the anti-EU organisation, Heimssýn, which was founded in 2002 with the objective of ‘looking to the world as a whole for cooperation and commerce, and not only parts of it like the European Union’ (Heimssýn, 2009).

The sceptical attitude within the Independence Party is not unanimous. Within the party there are also strong advocates of an EU application and these have emerged recently, especially in the months following the economic collapse in October 2008. Amongst those who at one time or another have put forth the view that Iceland should apply for membership, both the chairman, Bjarni Benediktsson (before his election as chairman) and the former vice-chairman, Þorgerður Katrín Gunnarsdóttir, have suggested this, however cautiously (Mbl.is, 3 November, 2008). In February 2010 this group even founded a special organisation “Sjálfstæðir Evrópumenn” (Independent Europeans) with the aim of furthering positive attitudes towards EU membership within the party. Interestingly, Þorsteinn Pálsson, a former prime minister and leader of the party, was among the founding members of this group, together with other former and current members of the Alþingi (Sjálfstæðir Evrópumenn, 2010).

There are also those who are more vocal in proposing EU membership, especially the leaders of the Confederation of Icelandic Employers, who are active within the IP (see, e.g., (Mbl.is 17 October, 2008) and (Mbl.is, 31 December, 2008). Some powerful and well respected individuals from within the party also voiced their concern for the stance of the party. For instance, Jónas Haralz, one of the main ideologues behind the economic policy of the Government of Restoration in the 1960s, said in the run-up to the election in 2009 that the view of the party was ‘a tragedy’ and that it must be based on misunderstanding (Visir.is, 8 May, 2009). However, opposition to the EU, based mainly on the above three factors, seems to be difficult to overcome within the party, as the results of the Party Congress in March 2009 show. Even after a full-blown national economic collapse, the path that other European nations have chosen to alleviate lesser economic hardships seems to be too much for the majority of the political actors
within the Independence Party. On 16 July 2009, 14 IP MPs voted against the proposal for EU membership application. One voted for it, and one, the vice-chairman, Þorgerður Katrín Gunnarsdóttir, abstained (Alþingi, Atkvæðagreiðsla 41080, 2009).

5.1.2 The view of the Progressive Party

Judging from the views of comparable parties in the other Nordic countries, the Progressive Party should be amongst the most Eurosceptical of parties. In the other Nordic countries, most parties with an agrarian past have a history of being sceptical towards the European integration process (Einarsson E. B., 2003, p. 137). Despite its opposition to the EEC in the early 1960s and EFTA in the late 1960s, this has by no means always been the case. The Progressives were at the helm of the government which started the EEA negotiations, though with certain reservations (Einarsson E. B., 2003, p. 136). Already in 1988, the party had taken its position on European integration trends. It warned that full membership of the EC should not be an option, saying that Iceland should adjust itself to the forthcoming integration in Western Europe, especially to ensure a safe market for Icelandic products (Stephensen, 1996, p. 117). When the party ended up in opposition in 1991, its position on European integration became more negative; this had also been apparent in its election campaign and was one of the main reasons given for the decision by Foreign Minister Hannibalsson to form a government with the Independence Party under Oddsson’s leadership after the elections, rather than continuing with the Progressives and the People’s Alliance (Thorhallsson, 2008, pp. 76-77). In opposition, the party was split over the EEA issue. When the Alþingi voted on it, a one-member majority of the party’s parliamentarians voted against it, but the minority, under the leadership of vice-chairman Halldór Ásgrímsson, abstained. Ásgrímsson went on to become the party leader, and after the elections in 1995 he formed government with Oddsson’s Independence Party, succeeding Hannibalsson as Foreign Minister.

Halldór Ásgrímsson, leader of the Progressive Party between 1994 and 2006, and Iceland’s former prime minister, foreign minister, and fisheries minister, started the twenty-first century by suggesting ways of bypassing the strict terms of the EU’s Common Fisheries Policy (CFP), if Iceland were to become a member. In an address in Germany in 2002 he spoke in no ambiguous terms, saying:

we participate in almost all of the EU's fields of activities and demonstrate our solidarity. The problem is that while we have shown ourselves willing to partake of almost all items on the menu, we have
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not been invited to the dinner on terms that we could realistically consider. But as I have pointed out, there is a possible solution. It is up to the politicians, both in Europe and Iceland, to shape the future on that basis. We are looking forward to working together with our friends in that spirit (Ásgrímsson, 2002).

His words caught the ears of the Norwegian media (Aftenposten nettutgaven, 14 March, 2002) which made much of them, reading into them an intention on the part of Iceland to apply for membership. The Eurosceptic Icelandic newspaper Morgunblaðið put more emphasis on his saying on the same occasion that ‘membership of the European Union is not at present on the agenda of the Icelandic government’ (Mbl.is, 14 March, 2002)*. Ásgrímsson slowly but steadily worked at gaining acceptance for pro-EU views within the Progressive Party (Thorhallsson & Vignisson, 2004c, p. 82).

Ásgrímsson was often in a position to find a compromise between opposing views, for example at the party congress in February 2005 (Mbl.is, 28 February, 2005). The congress started out with a proposal suggesting that membership negotiations should be started with the EU during the current electoral period and the results put to a referendum concurrently with the general election in 2007 (Mbl.is, 24 February, 2005). However, during the congress this was watered down to the following compromise proposal:

The Progressive Party shall continue to collect information and work at the development of negotiation objectives and a possible preparation for accession negotiations with the European Union. The results of that work shall be submitted to the next party congress. If accession negotiations with the EU take place, the results of such negotiations shall be put to a referendum (Framsóknarflokkurinn, 2005)*.

Ásgrímsson described this result as a watershed in the attitudes of the Progressive Party towards the issue, where for the first time, membership of the EU is mentioned as a possible option (Ásgrímsson, 2005).

Ásgrímsson stepped down as leader of the party in 2006. His successors at the party helm, Jón Sigurðsson (2006-07) and Guðni Ágústsson (2007-08), who took over after Sigurðsson’s resignation following the general election of 2007, in which the Progressive Party sustained its most dismal defeat in its history and suddenly found itself in opposition, were less positive towards the possibility of Iceland’s EU membership (Gunnarsdóttir, 2008), though Sigurðsson changed his tune after resigning as chairman and became a firm advocate of a membership application (Sigurðsson, 2008). Ágústsson, having strong ties to the agricultural sector and the rural areas,
and being a former minister of agriculture (1999-2007), met with increasing opposition from within the party – especially among younger Europhile former followers of Ásgrímsson, and resigned in a surprise move on 17 November 2008 (Mbl.is, 17 November, 2008). He was temporarily succeeded by the vice-chairman, Valgerður Sverrisdóttir, but at the party congress in January 2009, Sigmundur Davíð Gunnlaugsson, a 33-year-old former TV reporter, was elected chairman. He had joined the party a month earlier. Although the party approved an unambiguously Europhile resolution during the congress, in which it was stated that Iceland should apply for membership of the EU ‘on grounds of a clearly-stated agenda from the Alþingi and where the preservation of sovereignty and Iceland’s sole rights to the country’s resources should be paramount’ (Framsóknarflokkurinn, 2009)*, the new chairman was rather lukewarm in his support of such moves (Fréttablaðið, 21 February, 2009, p. 22) and, together with 5 members of the PP, voted against the membership application in Alþingi 16 July 2009 (Alþingi, Atkvæðagreiðsla 41080, 2009).

In a governmental report published in April 2009, the PP declared itself positive towards an application if certain objectives were kept in the foreground in membership negotiations. These were that Iceland would be able to opt out of the EU at any time, the food-security of the nation would be secured, Icelandic agriculture would be defined as Arctic agriculture, the production of domestic livestock and its purity would be preserved, Iceland would, on account of its small population, have the right to keep special legislation regarding ownership of land and real estate, a stability pact would be secured with the European Central Bank until the adoption of the euro, Iceland would have a sole right to its natural resources and its national culture and language would be preserved, together with the acknowledgement of Icelandic as one of the official languages of the EU (Nefnd um þróun Evrópumála, 2009, p. 55).

The European path of the Progressive Party can partly be explained by its struggle to gain ground in the urban area in and around Reykjavik where two thirds of the Icelandic population lives. Supporters of the party in the metropolitan area are more Europhile and more to the right than those in rural areas, (Kristinsson, 2006, p. 96) and it is evident that if the party wants to broaden its support base, this is where its opportunity lies. Another factor is directly connected to neo-functional theories, since the party held the Foreign Ministry from 1995 to 2004, and again from 2006 to 2007, precisely during the period of its relative change of heart on European matters. Many prominent functionaries from within the party gained direct
access to European cooperation and thus gradually warmed to it. However, the PP’s European strategy has not proved to be the support-raiser that was hoped for: the party’s performance in recent elections has been the weakest in its history (Hagstofa Íslands, 2009). It has even lost following in the rural areas, and a former party MP, Bjarni Harðarson, decided to set up a new party for the election in 2009 with a direct anti-EU agenda (Mbl.is, 8 January, 2009). This party, however, gained no significant following in opinion polls, so withdrew its candidacy (Mbl.is, 4 April, 2009) and Harðarson urged his followers to vote for the Left Greens instead (Harðarson, 2009). The process gave birth to a new word for those opposing Iceland’s entry into the EU: *fullveldissinnar* (‘sovereignists’) (see, e.g., Harðarson, 2009).

### 5.1.3 The view of the Social Democratic Alliance

For much of the twentieth century there was a long-standing dream, among many on the left, of settling the disputes between the Socialists and the Social Democrats and merging the two parties into a large social democratic party that would compare favourably in size with similar parties in neighbouring countries. After several attempts, which usually resulted in even greater fracturing of the left wing, this eventually led to a merger of three parties into the Social Democratic Alliance (*Samfylkingin*) in 1999-2000 (Samfylkingin, 2007), or four counting the splinter-group from the Social Democratic Party which put up candidates in the general election of 1995; this was *Þjóðvaki* or ‘National Awakening’, led by Jóhanna Sigurðardóttir, a maverick politician who went on to become the first female prime minister of Iceland in 2009. The Alliance first fielded candidates in the election of 1999 and gained roughly 27 per cent of the votes – realising the aforementioned dream regarding party size. However, it remained in opposition.

Before the merger, the Social Democratic Party (*Alþýðuflokkurinn – jafnaðarmannaflokkur Íslands*) had been the only Icelandic party that had application for EU membership on its agenda. It was rather small compared to other Nordic social democratic parties, traditionally with between 11 and 16 per cent of the electorate behind it. It had to dampen its European enthusiasm somewhat out of consideration for its SDA partners: the Women’s Alliance (*Kvennalistinn*) and the People’s Alliance (*Alþýðubandalagið*). When the new party was formed in May 2000, its newly-elected leader, Össur Skarphéðinsson, said that the future task of Icelandic politicians would be to ‘define the objectives of an Icelandic application for membership of the EU’ (Skarphéðinsson, 2000).
Skarphéðinsson, previously a member of the Social Democratic Party, chose to take a cautious line in order not to arouse disputes within the new Alliance.

At the SDA’s founding congress, a proposal was made by the Young Social Democrats and a liberal faction, suggesting that Iceland should apply for membership of the EU as soon as possible. It was quietly side-lined by the congress, although most of the speakers who referred to the matter were fairly positive towards it (Einarsson E. B., 2000). This may reflect the fact that, before the merger, many of those most fervently opposed to EU membership in the People’s Alliance had joined a splinter group which became the Left Green Movement (*Vinstri hreyfingin grænt framboð*).

Skarphéðínsson, a Europhile at heart, continued to try to raise support in the SDA for an EU membership application. A report was presented to the SDA’s first regular party congress underpinning a positive attitude towards a membership application (Einarsson E. B., 2001). The congress decided to put the matter into the hands of all party members, and conducted a postal election in autumn 2002, in which they were asked whether Iceland should ‘define the objectives of a membership application’ and aim at applying for EU membership. Those who replied answered overwhelmingly in the affirmative, thereby positioning the party on the positive side of the attitude spectrum towards European integration (Einarsson E. B., 2003, p. 136). The matter was put aside by the party leadership in the election debate in 2003. In a radio interview on 25 March that year, Skarphéðínsson said that the European question could wait; it was on the horizon, not at the centre, of the political debate (see, e.g. Pétursson B. T., 2003, Bjarnason, 2003). The matter had simply not yet arrived at the heart of the Icelandic political debate.

The Alliance received 31 per cent of the votes in the general election in 2003, the government parties (the Independence Party and the Progressive Party) maintaining their majority and continuing their cooperation, with Davíð Oddsson as prime minister. The Alliance had put a former mayor of Reykjavik, Ingibjörg Sólrún Gísladóttir, up as a candidate for premiership in a left-of-centre government, and she received the credit for the gains the party had made in the elections. She decided to run against Skarphéðínsson as party chairman at the party congress in 2005, and won.

Gísladóttir first set her mark on the European debate in Iceland in 1992, when she went against the party line as the spokesperson for the Women’s Alliance on foreign affairs in Parliament, declaring that she could not vote against the EEA Agreement (Alþingi, 1992). As mayor of Reykjavik for 9 years (1994-2003), Gísladóttir had become one of Iceland’s most powerful politicians, and after the general elections in 2007, in which the Alliance...
received 27.8 per cent of the votes, she became Foreign Minister in a
government of the Independence Party and the Alliance (known as
Þingvallastjórnin or ‘the Þingvellir Government’ – a reference to the site of
the negotiations at which the coalition agreement was made), with Geir H.
Haarde continuing as Prime Minister. EU membership was not high on the
Alliance’s election agenda in the run-up to the elections. The new
government’s white paper stated that developments in Europe should be
closely watched, and changes evaluated in view of their relevance to
Icelandic interests (Stjórnarráð Íslands, 2007). However, there was an
understanding between the coalition parties that an EU application was not
on the agenda during this parliamentary term.

Unforeseen events were on the horizon. As is traced in Chapter 3, in
October 2008, Iceland’s economy collapsed, together with the majority of
the country’s banking system. At the same time, Gísladóttir fell ill and had
to undergo treatment for cancer which took up most of her time during these
fateful weeks. Discontent with the apparent inability of the government to
handle the situation grew, and during vociferous demonstrations outside the
parliament building and in the centre of Reykjavík, the party grassroots
revolted. On 21 January 2009, the largest local branch of the Alliance, the
one in Reykjavík, demanded the ousting of the Independence Party from the
government (Mbl.is, 21 January, 2009). From that day on, the government
was effectively moribund, and on 1 February 2009, a minority government
of the Social Democratic Alliance and the Left Greens, under the leadership
of Jóhanna Sigurðardóttir and with the support of the Progressive Party,
took power. Elections were called for April 25. No steps were taken towards
EU membership during the stewardship of the minority government. The
Alliance held its party congress on 27-29 March 2009, at which Gísladóttir
stepped down as chairman and Sigurðardóttir was elected with 97.9% of the
votes (Samfylkingin, 2009). At the conference, it also became absolutely
clear that the Alliance would aim at an EU application for Iceland ‘as soon
as possible’ if it were in government after the elections due less than a
month later (Samfylkingin, 2009a).

And so it was. The Alliance received 29.8 per cent in the elections, and
20 seats (out of 63) (Kosning.is, 2009). For the party, these elections were
historic, since for the first time it became the largest party in the Alþingi. At
the same time, the Independence Party scored the worst outcome in its
history, 23.7 per cent and lost 10 seats (from 26 to 16). In third place came
the Left Greens with 21.7 per cent and 14 seats, then the Progressive Party
with 14.8 per cent and 9 seats, and finally a new party, the Civic Movement
Views in Iceland and the “Four-Party System”

(Borgarahreyfingin), with 7.2 per cent and 4 seats (Kosning.is, 2009). The Civic Movement is the offspring of the tumultuous times following the economic crash and the uprising against the ‘Þingvellir Government’ in January 2009, which has become known as the ‘Pots and Pans Revolution’ (Búsáhaldabylttingin) because of the protesters’ method of making their presence felt: beating pots and pans with spoons and ladles to make noise outside the Alþingi building. The former minority government now had a solid majority, and the main question asked the day after the elections was whether the two parties would reach agreement on the European issue.

The morning after the elections it seemed that not only had the government gained a majority, but so too had support for an EU application in the Alþingi. During the election campaign, the Progressives had argued for an application, though subject to strict conditions. They received 9 seats in the election. The new party, the Civic Movement, had also called for a EU application, and it received 4 seats. Thus, together with the 20 MPs of the Alliance, there seemed to be a majority for application in the 63-seat parliament. Having this card up their sleeve, the Alliance managed to have the Left Greens, who wanted to stay in government, agree to an application on the grounds that it would be a way to let the people decide the issue in a referendum. This seemed to work for the Left Greens (see Jónasson, 2009); the government continued and on 16 July 2009, all Alliance MPs voted for an EU application (Alþingi, Atkvæðagreiðsla 41080, 2009).

The reasons for the Europhile attitudes of the Alliance have not been thoroughly dissected to date. It seems that, in part, the party inherited the positive attitude of the Social Democratic Party, which had already decided at its party conference in 1993 that EU membership would be in Iceland’s best interests. The SDP had a long heritage of Europhile attitudes. As described above, its leaders were in the forefront in the initial discussions on Iceland’s EEC membership in 1961, in the debate on EFTA in the late 1960s and in the negotiations on the European Economic Area in 1989-93. The Alliance’s first leaders were overwhelmingly Europhile. Óssur Skarhéðinsson’s views have been described above. Ingibjörg Sólrun Gísladóttir had made her mark on the EEA debate when she decided to take a different route from that of her party at the time, the Women’s Alliance, as is discussed in Chapter 4, and probably many of those within the parties forming the Alliance who did not want to move in the direction of EU membership might have found it easier to find their place within the Left Green Movement. Europhiles within the party were also well organised from the start, many of them active within its youth movement. Already at
the founding congress, they put forth a Europhile proposal that eventually led to a vote on the issue amongst all party members in a postal election in 2002. Also, the Social Democratic mantle the Alliance put on immediately may have made it easier for views that were already established within the SDP to become adopted as party policy.

5.1.4 The view of the Left Green Movement

There was an ideological reason for the historical split between the Social Democrats and the Socialists. Thus, factions of the Socialist People’s Alliance and the Women’s Alliance (Kvennalistinn), a party formed in 1983 (Samfylkingin, 2007) to further women’s rights, did not want to join the new Alliance. The Left Green Movement (Vinstri hreyfingin grænt frambóð) often nicknamed the “Left Greens” (vinstri græn) was founded at a similar time under the leadership of the long-term parliamentarian and former minister of agriculture, Steingrímur J. Sigfússon. It has remained smaller than the Alliance, gaining 9.1 per cent of the votes in the election 1999 and roughly the same result in 2003. However, in the election of 2007 it started gaining ground and in 2009, having been the main opposition force against what was seen as the zeitgeist leading to the economic collapse, it received the largest support in its history, 21.7 per cent and 14 seats in the Alþingi, gaining 5 MPs (Kosning.is, 2009).

The Left Green Movement upheld the attitude of its predecessors, the Socialist Party and the People’s Alliance, towards Western cooperation. The Socialist Party had been fervently opposed to Iceland’s joining NATO and its followers were in the forefront of the riots of 30 March 1949 when the Alþingi voted on membership (Morgunblaðið, 1 April, 1949, p. 1). The People’s Alliance, which was a merger of the Socialist Party with and some splinter-groups, had been opposed to all moves in the direction of European integration at the beginning of the 1960s when the government was looking for ways to connect the country to the Western European trade blocs. The PA was mostly opposed to Iceland joining EFTA and the party as a whole opposed the EEA Agreement when it was ratified, even though the government in which it subsequently participated took the initial steps to involve Iceland in the EEA (Stephensen, 1996, p. 102). Although this generally applies to the parliamentarians of these parties, their attitudes were broadly reflected in the attitudes of their supporters too (Einarsson E. B., 2003, p. 140).

The issue of sovereignty has played a prominent role in the opposition of the Socialists/PA/Left Greens towards Western alliances. The Left Green manifesto of 2005 stated that the party opposed Iceland’s membership of the
European Union since ‘it would harm Iceland’s sovereignty and its say over the nation’s resources on land and at sea. Instead of the slow and steady absorption of the country into the European Union, relations should be developed on the lines of simpler bilateral agreements on trade and cooperation’ (Vinstri hreyfingin - grænt framboð, 2005)*. The same applies to the resolution passed by its party conference in 2007, which said ‘Entry into the EU with the resulting loss of sovereignty and independence is out of the question’ (Vinstri græn, 2007)*. In the party’s manifesto of 2009, however, this stance was somewhat softened, not explicitly stating that the party opposed EU membership, even though the same caveat on sovereignty and resources was still to be found (Vinstri græn, 2009). The resolution of the party conference in 2009, on the other hand, stated that ‘now as before the Left Green Movement believes that Iceland’s interests are best served outside the European Union’ (Vinstri græn, 2009a)*.

One must see the opposition by socialists in Iceland towards European integration in the light of their opposition towards multilateral Western institutions in general. The language used by Socialists to describe those who were in the forefront of negotiating Iceland’s entry into NATO was not always pretty: ‘the blackest scum in Icelandic politics, the most notorious traitors, ... pure-bred trash from the inner core of a morally deprived upper-class, [has sacrificed] country and nation, life and limb on the altar of the common fight of the Western bloc against socialism in Russia’ (Rev. Gunnar Benediktsson, quoted in (Hálfdanarson, 2001, pp. 178-9)*). Despite its history of opposition towards moves in the direction of European integration, the People’s Alliance had not formed a specific policy on Icelandic participation in the European integration process when the EEA negotiations started; nevertheless, one can read from its manifesto of 1987 that the “four freedoms” were not held in high esteem, but rather seen as a capitalist tool to maintain the social and economic injustice of the market system in general. Internationally, in its view, Iceland should focus on relations with ‘other small nations, the neutral nations and third world nations’ (Stephensen, 1996, p. 81), a policy Dom Mintoff, the longstanding leader of the Labour Party in Malta, would have appreciated.

In the wake of the economic collapse in 2008, the Left Greens suggested that it would be possible to leave the decision on EU membership to the nation in a referendum; this position opened the door to further participation in the government coalition with the Social Democrats after the elections in April (Vinstri græn, 2009b). These elections were not only a watershed in Icelandic electoral history, as has been mentioned above, but also in terms
of the attitudes of members of the Alþingi towards European integration in Iceland. On election night it became clear that parties favouring an application for EU membership (the Alliance, the Progressives, and a new party, the Civic Movement) could form a majority government. This put severe pressure on the Left Greens to pave the way for an EU membership application, and this particular matter was at the top of the agenda in the following discussions. On 10 May 2009, the new government of the Alliance and the Left Greens, under the premiership of Jóhanna Sigurðardóttir, was announced (Vimeo.com, 2009). The following text is taken from its platform outlining the agreement reached by the two parties, which were clearly on opposing sides of the European divide in Iceland.

A decision on Iceland’s accession to the European Union will be in the hands of the Icelandic nation, which will vote on the accession treaty following the conclusion of accession negotiations. The Foreign Minister will present a parliamentary resolution to the spring session of the Althingi proposing an application for EU membership. Support for the eventual treaty once it is available will depend on various conditions concerning Iceland’s interests in fisheries, agriculture, regional policy, currency matters, environmental and resource issues, and public service. Extensive consultation will be carried out both within the Althingi and with stakeholders on the objectives and the basis for negotiations. The parties agree to respect the differing emphasis in each party concerning EU membership and their right to express their opinions and campaign in the wider community in accordance with their positions, and make provisos concerning the outcome of the negotiations as was the case in Norway in a similar situation (Prime Minister's Office, 2009).

A government motion on an application for membership of the European Union was presented to the Alþingi by the foreign minister, Óssur Skarphéðinsson, on 28 May. It was short: ‘The Alþingi resolves to ask the government to submit an application for membership of the European Union, and after the ensuing negotiations, to hold a referendum on the expected membership treaty’ (Alþingi, Þskj. 38 — 38. mál., 2009)*. This motion was passed by the Alþingi on 16 July, with 8 Left Green MPs voting for it, while 4 voted against, including the minister of fisheries and agriculture, Jón Bjarnason. One abstained (Alþingi, Atkvæðagreiðsla 41080, 2009).

5.1.5 The view of other Icelandic political parties in Parliament

The four-party system mentioned above has, for most of the period since independence in 1944, had to live with one or two smaller – usually splinter –
parties in Parliament. With the exception of the Women’s Alliance and, most recently the Civic Movement, these have not been active participants in the debate on European integration. As is described above, the Women’s Alliance opposed the EEA Agreement, with the notable exception of Ingibjörg Sólrún Gísladóttir, later chairman of the Social Democratic Alliance, into which the WA merged in 1999 – 2000. Several WA parliamentarians were very vocal in their opposition to the EEA Agreement, however, and took a large part in founding the ad hoc “no” movement (Samstaða um óháð Ísland) that was formed during the debate and collecting signatures for a petition calling for referendum on the agreement. The movement’s chairman in 1991-93, the period of the debate, was a Women’s Alliance MP, Kristín Einarsdóttir (Alþingismannatal (frá 1875), 2009).

The years 1999–2009 saw the emergence of a splinter-party from the Independence Party, the Liberal Party (Frjálslyndi flokkurinn), with a few members in Parliament. The party’s main raison d’etre was its opposition to the current system of fisheries management in Iceland. It was opposed to membership of the EU on the grounds of the EU’s Common Fisheries Policy (Frjálslyndi flokkurinn, 2003). It has been speculated that it also gained some support in the elections in 2003 and 2007 on being the party that raised questions regarding the increase in the number of immigrants to Iceland in the first decade of the twenty-first century (Einarsson E. B., 2002, p. 102). The party received 2.2 per cent of the votes in 2009 and lost all four seats (Kosning.is, 2009). The result probably spells the end of its existence as a national force.

As mentioned above, a new party, the Civic Movement (Borgarahreyfingin) scored success in the election of 2009, replacing the Liberal Party as the “fifth” party in the Alþingi with 7.2 per cent of the national vote and 4 seats (Kosning.is, 2009). The Civic Movement was born out of the Pots and Pans Revolution (Búsáhaldabyldingin), and its main focus was on the economic and social problems created by the crash and how to deal with them. In its manifesto it declared its intention to disband once these objectives had been achieved (Borgarahreyfingin, 2009). The Civic Movement did not make a decision before the elections on supporting Iceland’s possible membership of the European Union, but it was supposed that it supported membership negotiations (Bertelsson, 2009), and the government concluded an agreement with it for its support for the proposal. A strange debacle took place the day before the vote on the membership application. The main spokesman for the Civic Movement, Þór Saari, announced that three of the four MPs of the Movement would withdraw their support for the membership application if the government did not
reject the Icesave Agreement that had been negotiated (Mbl.is, 15 July, 2009). The government flatly refused to do this and under an outcry of disbelief, from the leadership of the Civic Movement amongst others (Mbl.is, 17 July, 2009), three of four Civic Movement parliamentarians reneged on their formerly agreed support for the membership application (Alþingi, Atkvæðagreiðsla 41080, 2009).

An interesting study has been made on the “European identity” of the ministers for foreign affairs in Iceland between 2003 and 2007 (Baldursdóttir, 2008). There were five ministers in this period: two from the Independence Party, two from the Progressive Party and one from the Social Democratic Alliance. The study shows that none of them had what could be called a high sense of European identity. Thus, the ministers from the Independence Party, Davíð Oddsson and Geir Haarde, had a low sense of European identity; the two from the Progressive Party, Halldór Ásgrímsson and Valgerður Sverrisdóttir, had a medium sense of European identity, and Ingibjörg Sólrun Gísladóttir also showed only a medium sense of European identity, even though she scored highest in the survey of the five ministers in question (Baldursdóttir, 2008, pp. 66-7).

5.1.6 The view of the public in Iceland

It is not the aim of this thesis to go through research on public opinion towards an EU application or EU membership. Figure 5.1 shows how opinion polls in Iceland have revealed public attitudes towards applying for membership of the EC/EU or between May 1989 and March 2010. Research has been done on the issue, at least since 1989, where the polls between 1989 and 1999, and also one poll in February 2003, were made by the Social Science Research Institute at the University of Iceland. The latter ones have been made by Gallup in Iceland. The question in the polls made by the Institute was “Telur þú æskilegt eða óæskilegt að Ísland sæki um aðild að Evrópusambandinu?” which translates “Do you regard it as desirable or undesirable that Iceland should apply for membership of the EC/EU?” In the Gallup polls the question has been “Ertu hlynntur eða andvígur aðild Íslands að Evrópusambandinu?” which can be translated as “Are you for or against Iceland’s membership of the European Union?”

Generally, the public has been slightly more favourable towards full participation in the EC/EU than against it. There have been some sharp exceptions to this, however. The first “negative” period was when the Independence Party – and especially the party leader and prime minister,
Dávíð Oddsson – unambiguously rejected EU membership for Iceland in 1994-96. A “positive” period can be found in 1998-2002, when there was increasing discussion on the matter, Iceland was moving into the Schengen area, and the euro was coming into being. Then a sharp negative downturn can be witnessed in February 2003, when the EU was negotiating a severe increase in Iceland’s contributions to the Union’s development funds on account of the country’s participation in the EEA and prior to enlargement of the Union – and thus of the European Economic Area. Two opinion polls show unparalleled opposition among the public towards EU membership/membership application. This was also the period just preceding the parliamentary elections (of spring 2003), in which the issue of EU membership was quietly side-lined by Össur Skarphéðinsson, the leader of the Alliance, as a primary focus in the ensuing elections.

In August 2003, those favouring EU membership were again in majority, a majority that was on a slow and steady rise until the economic crash of October 2008. An opinion poll in February 2009 showed that 45.5 per cent were opposed to membership of the EU, while 39.8 per cent were in favour (Capacent Gallup, 2009, p. 10) and in the following months the opposition increased to 60 per cent in March 2010 (Capacent Gallup, 2010, p. 3). 77

76 In 1989-99 the question was on membership application; in 1999-2009 the question was on membership.
77 It must be noted that in March 2010 there was a referendum on the Icesave issue (see 3.2.3), called by the President of Iceland when he refused to sign an agreement with the UK and Netherlands on the repayments of loans these countries had issued to reimburse depositors losing out on the collapse of the Internet banking scheme Icesave. Icelanders tended to blame the EU for the affair.
However, in spite of brief stints of opposition towards EU membership among the Icelandic public, Icelandic elites have never quite warmed to the idea. This has been the focus of some research, e.g. by Kristinsson and Thorhallsson, (Kristinsson & Thorhallsson, 2003). Their conclusions are that the “realist” conception of foreign policy, the rather weak links of the elite with the core states of the EU and distance from Europe’s old battlefields, together with the disproportionate connections between the elite and the fishing industry and agriculture on account of the regionally skewed composition of the Icelandic parliament, are the strongest factors in explaining this difference in attitudes. Kristinsson and Thorhallsson believe these factors effectively ‘blocked’ any moves on the elite level towards an application for EU membership, (Kristinsson & Thorhallsson, 2003, pp. 158-9).

As can be seen from the opinion polls conducted since 1989 in Iceland, public opinion towards EU membership is also highly volatile and the outcome of a possible referendum on membership following successful accession negotiations is by no means certain in either direction. The membership issue has been latent in Iceland, and judging from the debate in Norway, Sweden and Finland prior to their referenda on membership, where most of the political and business elite was for membership, a “yes” in an Icelandic referendum would be far from certain unless there is a serious change of heart towards the issue at the elite level, especially within the Independence Party.

5.2 Views on European integration in Malta

5.2.1 The duopoly of politics

As has been stated before, Malta possesses one of the purest two-party systems in the world, (Cini, 2002, p. 1), and election results usually reflect this fact. Since 1966, Malta’s politics have been dominated by a virtual duopoly of the Malta Labour Party (MLP) and the Nationalist Party (NP). Election results have always been very close, with only a few thousand votes separating the parties and the difference in their numbers of parliamentary seats being 1-5 (Pace, 2003, p. 12). Since independence in 1964 the Nationalist Party and the Labour Party have alternated in government, the NP in the periods 1964-71, 1987-96 and again from 1998 to the present (2010), with the MLP in the interceding periods 1971-87 and 1996-98.

5.2.2 The view of the MLP

Under the leadership of Dom Mintoff (1949-83), the MLP established itself as a socialist party in terms of its rhetoric, even though it has been suggested
that, in reality it looked much more like a sort of Gaullist party – revolving around a strong “presidential” leader (Cini, 2002, p. 9).

Substantial changes in the party programme took place under the leaders following Mintoff’s long-standing leadership, first Karmenu Mifsud Bonnici and later Alfred Sant. Much of the ‘hard core socialism, and economic interventionism which characterized party policy has been shed’ (Cini, 2002, p. 11). It has been suggested that one of the reasons why the party lost the 1998 election was a consequence of the unpopular austerity measures it was introducing at the time, alienating core supporters (Cini, 2002, p. 12) and leading to a bitter dispute between Dom Mintoff – still active within the party – and the new leader, Alfred Sant (Mitchell, 2002, p. 160).

As has been mentioned above, the question of EEC membership came up straight away in the 1960s when Britain was conducting her overtures towards membership. However, it was not until the late 1980s that the animal we know today as the European Union started taking shape. The NP’s position as early as 1979 was that Malta should seek membership, but the first comprehensive document on Malta’s membership from the MLP was published in 1990, called Malta and the E.E.C. Economic and Social Aspects (Information Department, MLP, 1990). This is a collection of resolutions, policy documents, discussion papers and reports produced by the party, and was to lay down the groundwork for its stance on European integration until the signing of the Accession Agreement in Athens in 2003.

The document opens with a policy statement approved by the General Conference of the Labour Party on 22 March 1990, spelling out the party policy on ‘Malta and the Common Market’. It starts by stating a guiding principle of the Maltese Labour Party: ‘in the political and economic relations it seeks to establish with the rest of the world: to do what is best for Malta, in a context that also contributes as far as possible to the well-being of others according to the need for solidarity among man’, (Information Department, MLP, 1990, p. 3). It then proclaims that it would be out of place to proclaim that ‘Malta should become part of Europe.’ Malta is a part of Europe, and has always been a part of Europe, ‘much the same as it has always been part of the Mediterranean’ (Information Department, MLP, 1990, p. 3).

It then proceeds to discuss ‘safeguarding the national identity’ from a political standpoint and draws a parallel between the Maltese identity and Malta’s neutrality.

Malta is free and does not want ever again to be a military base… Being free, Malta can follow an independent foreign policy, according to what
it considers most suitable, consonant with its basic principles, peace, and
the common good… Both its geographical position as well as the
national policy adopted by the representatives of all the people and
enshrined in the Constitution, give Malta a clear identity: a small island,
but recognizable by all (Information Department, MLP, 1990, p. 5).

It then goes on to present three choices facing Malta: Firstly, that Malta
establish a customs union with the ‘Common Market’, such as was intended
under the Association Agreement. Secondly, that Malta applies for full
membership. And thirdly, that Malta seek a new relationship with the ‘Common
Market’ on a ‘new basis’ (Information Department, MLP, 1990, p. 6).

Each option is then evaluated in the document, coming to the conclusion that
a Customs Union would not be fitting, since it would ‘weaken Malta’. It would
not have any immediate political effect, but the economic effect of Malta’s having
to adopt the **common external tariff** of the ‘Common Market’ would be
disadvantageous, since it would lead to higher prices for Maltese consumers. As a
result of this, Malta’s political position would also be threatened, since ‘its
international stances would be influenced by undue considerations for the
economic situation (Information Department, MLP, 1990, p. 6).

The second option, full membership, and its ‘far-reaching implications’ is
seen to ‘be against the interests of the Maltese people’ (Information Department,
MLP, 1990, p. 6). In terms of internal politics, i.e. the development of democratic
institutions, ‘the island has a democratic political system which is even better than
that of some of the member countries’ (Information Department, MLP, 1990, p.
7). On foreign policy the document says:

The Island’s foreign policy is anchored in neutrality and non-alignment,
in Malta’s distinct identity and ability to act independently. Full
membership would affect all this. The Common Market is more than an
economic union… If Malta becomes a full member, it would have to do
as the other members do. This would evidently be in conflict with
Malta’s constitutional neutrality and non-alignment. Malta would be
swallowed up in the policies of the much larger member states. It would
lose the ability to act independently and thereby, its identity.
(Information Department, MLP, 1990, p. 3).

The document goes on to discuss the economic aspects of membership
and states that if, as has been concluded, membership were politically
disadvantageous for Malta, but economically advantageous, there would
arise a need to decide where to lay the emphasis. Anyhow, this would not be
necessary, since the Labour Party has concluded that membership would
‘engender grave perils for every sector of the population, other than those
whose livelihood and good fortune do not depend on what actually happens on the island’ (Information Department, MLP, 1990, p. 8). Irrespective of whatever might happen in negotiations on Malta’s entry into the EC, the document concludes that the effects of full membership on the basis of regulations and conditions currently in force can be assessed concretely. This is reminiscent of the opinions long held in Iceland that there would be no way of circumventing the EU’s Common Fisheries Policy in accession negotiations, and thus no application should be made (Einarsson E. B., 2009, p. 300). The document then states that a customs union would have unfavourable implications, as is mentioned above. Changes in indirect taxation would include the change to VAT (a change which the Nationalist government made, without this being necessitated by EU membership, a few years into its term, and the Labour government of 1996-98 revoked), which would raise the cost of living. Foreign companies, including banks, would be allowed to operate in Malta; other EC citizens would also be able to open businesses, work and acquire property in Malta, and all this would lead to suffering on the part of ‘every class of society’ (Information Department, MLP, 1990, pp. 8-9).

The influx of foreigners would increase social tensions in Malta. Whether Maltese citizens would benefit from, in turn, able to seek employment in other EC countries, was seen as doubtful, since ‘[t]he Common Market has a very high rate of unemployment, which, notwithstanding the impressive economic well-being of the region, remains stubbornly up’ (Information Department, MLP, 1990, p. 9). Thus, all things considered, the option of full membership of the ‘Common Market’ is one that ‘can be very realistically and clearly considered to be inimical to Malta’s interests’ (Information Department, MLP, 1990, pp. 9-10). The document then goes on assessing what it calls ‘the Malta Labour Party’s option.’ This, in short, revolved around a long-term agreement based on setting up a free-trade zone in industrial products between Malta and the EC. ‘Such an agreement would not expose Malta to a loss of its freedom of political action and, moreover, of its identity, at a time when developments in Europe and in the Mediterranean region call for flexibility...’ (Information Department, MLP, 1990, p. 11). Finally the document states:

The Malta Labour Party, through this document, affirms that it wants to move closer still to the Common Market. Carefully, seriously, in a measured way. In a way which will contribute to Malta’s welfare today without destroying the younger generation’s heritage tomorrow. (Information Department, MLP, 1990, p. 12).
This was the position of the Malta Labour Party in 1989 as published in 1990. It did not change a lot from this initial position throughout the fourteen years that followed until the country had signed the Accession Agreement in Athens in 2003.

The signing of the Accession Agreement can be said to have closed one chapter in the debate on European integration in Malta and opened up a new one. Now the focus was on the Labour Party. Signs of change were quick to appear, with a few Labour MPs declaring that ‘EU membership was no longer an issue’ (Pace, 2004, p. 115). The need to prepare the MLP for European Parliamentary elections, due in June 2004, made it more urgent for the party to clarify its stance on EU issues and face the new reality of EU membership (Pace, 2004, p. 115). Asked whether the MLP had changed its opinion on EU membership following the referendum, Evarist Bartolo, former Minister of Education and National Culture in the Labour Government of 1996-98 and MLP spokesman on EU issues, said:

The MLP always made it clear that we are a democratic country, we take part in the parliamentary democracy and this issue would be resolved in the general election in 2003. The year 2003 came and the elections were won by the party that supported membership and we made it clear that we were going to respect the democratic choice of the electorate. Now we have to move on and try to do our best for Malta in this new reality. We can’t keep on arguing, or saying when something comes up ‘we told you so, it would have been better to have it our way’. We can’t do that (Bartolo, 2004).

Bartolo said that once in the European parliament, the MLP would not add its voice to the Eurosceptic ones of Scandinavia and Britain, although the Labour Party would ‘continue to make [its] point that there are areas that should be left in the autonomous hands of the nation states.’ He said that this went for defence policy and for some areas of taxation. ‘We believe that the European Union should be a cooperation of nation states and should not become a superstate’ (Bartolo, 2004). In the first European Parliament election in Malta, the Labour voters rewarded those candidates who, in their eyes, were most favourably inclined towards the European Union (Pace, 2005, p. 128). According to Evarist Bartolo, the reasons for the party’s stance were economic and political, and not ideological:

It was not a matter of a belief that the European Union is something negative in itself. The leaders of the Labour party made it clear that they consider the EU in itself a positive development for peace and prosperity on the European continent, and believe that it is important that the
European Union becomes a world player, and that the United States does not dominate the planet on their own. The position of the Malta Labour Party, its point of departure, was always how the regulations and rules of integration and the European Union were going to affect the reality of Malta (Bartolo, 2004).

Bartolo said that politically, the party knew that as a small country Malta already had a restricted decision-making space, and ‘joining the European Union would obviously restrict that space even further. And we need that space to design policies that we think are appropriate for a small country’ (Bartolo, 2004). He mentioned that they also wanted to make sure that Malta’s joining the EU would not threaten the country’s constitutional neutrality. ‘Our best defence has always been to be friends with those around us, that means not taking sides. That means remaining neutral in conflicts and to be able to play a role of mediation in conflict’ (Bartolo, 2004). Asked what he thought would be the main effects EU membership would have on Malta and its citizens, Bartolo said it would open them more consciously to what was happening on the continent. ‘Malta has been an open society in the last thirty years. That became possible once Malta became independent and could shape her commercial and external policies, which she couldn’t do as a colony. Britain dictated before which external relations we had.’ Before independence, he said, connections with the outside world were usually one way: sending thousands of people abroad because there were not enough jobs in Malta. ‘The contact with the outside world was dominated by this emigration. Now, with EU membership, it will be more structured’ (Bartolo, 2004). Bartolo said there were certain factors that could help the Maltese to define their identity in this new reality and one of them was the language. ‘We can make sure, like happened before, that our language will help us to remain a people with our own identity.’ He said Malta and Gozo had been invaded and conquered and controlled by outsiders for centuries. ‘The only defence we had for not being completely taken over by the conquerors was the language... Our only means we had to survive was our language. I think that will still remain there to help us to keep our own personality’ (Bartolo, 2004). Malta’s relationship with the EU should not develop in a paranoid or defensive manner:

We should have self confidence to accept that we are European, that we are Maltese, and that we are Mediterranean. I think that is something that we should come to terms with. Unfortunately you can still find racism and cultural prejudice in Malta, which made people want to join the European Union. Not to be associated with Arabs, not to be associated with the Mediterranean, as if we were moving north. By
joining the European Union we would become fairer, taller and more civilized. I think we should accept ourselves. That we can be shorter, darker and more Mediterranean. We should be at peace with our own personality (Bartolo, 2004).

In December 2002, just three months before the election, Bartolo wrote in the *Malta Sunday Times*: ‘EU membership would wipe out the political and economic gains we have made as a country since the granting of national independence in 1964. Malta would go back to being a colony, although our new colonialism would come wrapped in the glitter of EU membership’ (Bartolo, 2002). But did he believe, after the referendum, when it had become clear that Malta was joining the Union, that it would have an adverse effect on Maltese national identity? That the Maltese would be like ‘a colonised people’?

It depends on our own attitude. If we have an inferiority complex, – if we join the European Union with a colonial mentality – then it will have a negative effect. If we join the Union full of self-confidence, at peace with our own personality and bring with us into the European Union our own contribution – to be different – then the effect on our identity can be positive. But it depends on our own attitude. (Bartolo, 2004).

From the outset, the Malta Labour Party was more interested in developing an idea of a distinctly Mediterranean identity (Mitchell, 2002, p. 28), an identity that inevitably clashed with the Latin-Italian-European identity advocated by the Nationalist Party (see below). This particular policy at times stressed the cultural links between Malta and an Arab-Semitic culture, especially during the administration of Dom Mintoff, and the anti-colonial repertoire that entailed (Mitchell, 2002, p. 28). This definitely added to the political constraints the Maltese faced when debating entry into the European Union, in that it offered an alternative route to the European one – a specifically Mediterranean one, but as will be discussed below in Chapter 6, the implications of this were not straightforward, but double-edged.

### 5.2.3 The view of the Nationalist Party

The Nationalist Party (NP) is a centre-right party – the party of the middle class, of business and the Church, and associated with the ‘establishment and elite’ (Cini, 2003). As is described above, it was founded in 1880, has its roots in the nineteenth-century Maltese-Italian elite of the islands (Cini, 2002, p. 6), the anti-riformisti or nazionalisti movement of the time, that later came to represent the struggle for independence from the United Kingdom (Cini, 2002, p. 6).
Since 1979 the NP had fought actively for Malta to be a full participant in the European integration process, as a member of the EC and later the EU. In February that year, the Party’s Executive Committee approved a resolution which called upon the Maltese government (the NP was in opposition at the time) to ‘take advantage of the pending negotiations on the second stage of the association agreement to start negotiations leading to Malta’s eventual membership of the European Community “under the right conditions”.’ (Pace, 2001, p. 171). Earlier, it had negotiated and signed the Association Agreement with the EC in 1970, which was supposed to turn into a customs union between the EC and Malta over two five-year periods, (Cini, 2003). That however, never happened, due to the change of government in 1971.

The NP’s stance on EU membership can be summarized in the words of the then Prime Minister of Malta, Eddie Fenech Adami, when addressing the Paul Henry Spaak Foundation in Brussels in 1994: ‘Today we have the opportunity of anchoring our country to an emerging political union which shares our moral values, our Christian culture and our beliefs in democracy, the rule of law and social justice’ (Pace, 2001, p. 200). Pace describes the reasons behind Malta’s application for membership of the EU under the leadership of the NP thus: Firstly, to overcome Malta’s peripheral geographic position in relation to Europe by linking itself closer ‘to the heart of European affairs’. Secondly, to consolidate its economic links to the EU, and finally, to enhance its security in a region ‘notorious for its instability’ (Pace, 2001, p. 200).

According to Jason Azzopardi, member of parliament and NP spokesman on external relations and EU affairs, there were two main reasons to move towards the EC: political and economic. ‘The social and the cultural aspects are also crucial in this sense. Politically we feel part of Europe. And economically there is no doubt. Three quarters of all our commerce is with the EU and the bulk of all our imports are from the EU’ (Azzopardi, 2004). ‘Number two was that logic dictated it. There is this group of countries who are moving closer towards integration and if you don’t form part with this bloc you run the risk being left be the side or marginalized’, (Azzopardi, 2004). Azzopardi also believed the social legislation of the EU would benefit Malta with the raising of standards.

You can theoretically of course introduce those standards without joining the EU, but as you know, you study when you have an exam, when you don’t have an exam you don’t put yourself in it 100%. Now we have a benchmark that we have to align ourselves with. As members we will be morally obliged to follow those standards. So it’s good to be
integrated economically, but the social and cultural aspects of membership should not be dismissed. (Azzopardi, 2004).

As several interviews with leaders in Maltese society reveal, the answer to the question ‘why were the two parties so split on EU membership?’ can usually be traced back to this political split. In the words of Gejtu Vella, Secretary General of the Maltese labour union UĦM, ‘they do not agree on anything’ (Vella, 2004). Azzopardi answered in the same vein the question of why EU membership was such a deeply controversial issue in Malta, and the two main parties had such different opinions on the matter: ‘There was a blind honest reason: partisan politics’ (Azzopardi, 2004). Michael Parnis, Deputy General Secretary of Malta’s other large labour union, the GWU, attributed the split to a ‘divide and rule’ mentality, presented by the last colonial masters of Malta, the British:

The British managed this island with a ‘divide and rule’ mentality. Now we see that Malta is divided in almost everything. There are two of everything. There was a time when we even had two football federations. We have two major trade unions, we have two major parties, in every major town there are two football teams, we have division in towns and villages even over saints and feasts. Even in cigarettes we have Rothman’s blue and Rothman’s red. We have blue and red in beer. It’s very strange, Malta is like that. Every issue in Malta is divided in two. (Parnis, 2004).

Evarist Bartolo agreed that Malta was a split society: ‘the culture is such that in every village, even if you believe in the same god, sometimes in fact even if you believe in the same saint, you have two churches and two band clubs. So that can be part of the cultural paradigm’ (Bartolo, 2004).

Parnis believed the two parties’ stances were almost coincidental. ‘I say that if the Labour Party had been in government at the period the Nationalist Party applied for membership of the EU, I’m sure that the Labour Party would have said ‘let’s join the European Union’.’ He believed that if this had been the case, the NP would have been against membership, but since ‘this issue was raised by the Christian Democrats, or the Nationalist party, Labour had to be against’ (Parnis, 2004). Vella said that it came as no surprise to the Maltese that the two major political players on the island, the Nationalist Party and the Labour Party, opposed each other on almost everything. ‘We have this unfortunate situation. They do not agree on anything; they even change tax regimes when there is a change in government’ (Vella, 2004). He said that it was very unfortunate that ‘on this small island’ the two main political parties do not join forces on the most important issues. ‘Instead, they seem to be always at each other’s throats
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to make sure they gain political mileage. So I believe that what we saw on the issue of the membership of the EU was a tug of war between the two main parties’ (Vella, 2004). He said:

as a matter of fact, now a few months after the referendum, the MLP has switched their position from being against membership to being for it and making sure that Malta reaps the benefits of membership.’ Had Malta been in a position where both main parties had supported membership, that could have been much more fruitful for the country. We would not have wasted so much energy on things that were not that important, we could have used that energy to make sure that our economy and our social structure will continue to be upgraded. (Vella, 2004).

Evarist Bartolo said the two parties had a different opinion ‘because if one party says we want full membership at all costs, this was bound in a two-party system to become controversial’ (Bartolo, 2004). He thought this division was created by the approach of the Nationalist Party, but he believed the approach of the Labour Party could have contributed towards political convergence. The Labour Party ‘always believed’ that Malta was not simply facing the challenge of her future relations towards the European Union, but also other challenges, such as attracting new investment, changing the economy, solving the deficit problem, solving the structural problem. ‘So many challenges at the same time, and we said, let’s do it in a gradual, structured way’ (Bartolo, 2004). Fr. Vanni Xuereb, Spokesman on EU issues for the Archdiocese of the Catholic Church in Malta, believed the partisan attitude of Maltese politics was reflected in the EU debate:

If you look at our history you can see that whenever one political party has had a position on some issue the other party has always been completely against. In the 1950s when the Labour Party wanted integration with Great Britain, the Nationalist Party was against. When the Nationalist Party wanted to negotiate independence in the ‘60s the Labour Party was against. There is a history of an almost natural antagonism between the two factions. Opposition means to oppose what the government proposes. I think the main reason was a question of internal politics. Once the Nationalist Party was proposing membership, the Labour Party had to be against. I think there was no ideological reason for it. So as soon as the referendum was over, the Labour Party, although it maintained it had not changed its position, in fact changed its position. Once the antagonism was no longer there, once the need to oppose was no longer there, then of course, it is no longer an issue to be against. (Xuereb, 2004).

It is also clear that seeing Maltese history in the context of European history was useful to the Nationalist Party in its project to achieve European accession
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(Mitchell, 2002, p. 28). Its stance was no mere coincidence: it was born as a reaction to the anti-colonisation efforts of the Labour Party during Mintoff’s time, but also had its roots in Nationalist traditions, as reflected in the words of George Borg Olivier in 1961: ‘We believe that eventually, Malta will join the [EC], both in the event of the UK’s membership and not. We too form part of Europe’ (Pace, 2001, p. 131). Malta had its cherished place in European history – as the defender of Christendom during the time of the Knights and the North African campaign during the Second World War (Mitchell, 2002, pp. 27-8). The Nationalist Party was the guardian of this heritage against the anti-colonial, Mediterranean aspect stressed by Mintoff’s MLP.

5.2.4 The view of the public in Malta

One might say that the basic test of the Maltese public attitude towards that of the government was demonstrated in the outcome of the referendum. At least that is where the stakes in asking were highest. If the result had been negative, the government’s plans for EU membership would most certainly have been thwarted, as they were in Norway in 1972 and 1994. But it was not. In the referendum, in which 270,650 votes were cast (representing 90.85% of registered voters), 52.9% voted in favour of EU membership, while 45.7% voted against and 1.4% returned spoiled papers (Pace, 2004, pp. 114-5).

Public opinion polls had for a long time shown that a steady majority was in favour of joining the EU, and it is possible that party affiliation and political rivalry resulted in a closer outcome in the referendum than actually reflected will of the public on this issue. Thus, according to an opinion poll conducted by the Sunday Times of Malta after the signing of the Accession Agreement (on 1 June 2003), 81.3 per cent wanted the Labour Party to embrace EU membership. It has been speculated that this indicates that support for membership runs deeper than the result of the referendum shows and cuts across party lines (Pace, 2004, p. 117). In the general election in April 2003, roughly a month after the referendum, which might be called a new referendum on the EU membership issue, the NP remained in power with 51.8 per cent of overall votes and 35 parliamentary seats, against Labour’s 30 (Pace, 2003, p. 13).

5.3 Conclusion of Part III

In Gstöhl’s theory, the political constraints a country might face in the run-up to EU membership consist of “domestic constraints” and “geo-historical constraints”. The latter were discussed in the previous chapter and the former are the subject of this one. Gstöhl says that there are certain
institutional patterns and fragmentations in a country’s domestic structure, which are sensitive to integration issues if the domestic elites perceive them to be significant and threatened by integration (Gstöhl, 2002, p. 9). Such societal cleavages form part of national identity, if they belong to a nation’s historical memories or are a part of the mass political culture. According to Gstöhl, they are important if the divisions they create take opposing positions on an integration issue, while cross-cutting cleavages entail cross-pressures that produce a moderating influence (Gstöhl, 2002, p. 10).

It is clear that the sensitive domestic constraints in Iceland with regard to European integration are to a large extent connected with the position of the fishing industry in the country’s economy and politics, and to a lesser extent with that of agriculture (see, e.g., the rationale following the resolution on Iceland’s EU membership application (Alþingi, Nefndarálit um till. til þál. um aðildarumsókn að Evrópusambandinu., 2009)). This can be seen by the stance which the fishing industry, in particular, has taken on all moves towards European integration in Iceland, and its dominance in the debate on EU membership on the elite level within the political forum. It is probable that the direct connections between the two parties that have the longest history of involvement in government, the Independence Party and the Progressive Party, and the fisheries and the agricultural sectors, as demonstrated by Thorhallsson and Vignisson (Thorhallsson & Vignisson, 2004c, p. 97), have barred moves towards an openly positive stance on EU membership within these parties, particularly within the Independence Party. Until 2009, no majority government had been formed during the time of the Icelandic Republic without the dominant participation of either or both of these two parties. This conclusion is in support of Ingebritsen’s theory on the importance of sectors regarding steps taken towards European integration (Ingebritsen, 1998). One might ask if Ingebritsen’s theory does not apply any longer, in the light of Iceland’s membership application in 2009. Two factors must be taken into account in this context. Firstly, the parties in government when the application was approved, the Social Democratic Alliance and the Left Greens, have significantly weaker connections with the fishing industry than do the IP and PP (Thorhallsson & Vignisson, 2004c, pp. 80-2). This is the first majority government these parties (and their predecessors) have been able to form without either the IP or the PP. Secondly, Norway serves as an example of the influence of primary sectors in Ingebritsen’s theory. Norway negotiated membership with the EC twice and much of the political elite supported membership. It
was turned down both times in referenda. The same fate might well await Iceland’s membership application.

The domestic constraints facing Malta consist rather of the stance taken by the Maltese Labour Party to dissociate Malta from the West in the 1970s and the longstanding and historically rooted polarisation in Maltese politics. It is clear that the polarised political culture in Malta contributed to opposition to EU membership, which supports Cini’s explanations leading in the same direction (Cini, 2002). In the same manner, this political reality helps to explain the steps Malta took towards joining the EU when the Nationalist Party took power in the late 1980s, aiming to separate Malta from the Mintoff period of anti-Western views and consolidating Malta’s position within the European fold. The confrontational political tradition also made it possible for the NP to take such a stance without much consideration for the views of the MLP and its followers. After taking power at the beginning of the 1970s the MLP started moving Malta away from the “European” aspect of society and cultivating a “Mediterranean” aspect instead, by strengthening links with the countries of North Africa and by adopting an “anti-colonial” stance in international affairs, leading to the founding of the Maltese Republic in 1974 and the final ousting of the British Navy in 1979. This could be said to have been a way of creating an image of a “self” that was different from a “European other”; Gstöhl mentions that this was the view in Norway and Switzerland, involving a willingness to hold on to the idea of separateness from the Union (Gstöhl, 2002, p. 200). It is interesting, however, that this idea of separateness was not shared by the opposition and in the course of time it led to a strengthening of the European stance of the NP which, as soon as it came to power in the late 1980s, started to move Malta in the direction of EU membership.

In Iceland, the manoeuvres available to parties in government have never been that simple. The majority governments in Iceland have always been coalition governments, and until 2009 these always involved the participation of either the Independence Party or the Progressive Party, both of which have extensive ties to sectors that are sensitive to integration issues and perceive these sectors as being significant and threatened by integration. These parties – especially the Independence Party – have preferred ‘limited integration’ (Gstöhl, 2002, p. 222) in various forms. Even in the wake of the economic crash of October 2008, when pressure mounted on Iceland to look into adopting the euro, the IP still wanted to find ways to maintain operational sovereignty and adopt the euro without joining the EU, for instance in cooperation with the International Monetary Fund (Nefnd um þróun Evrópumála, 2009, p. 60). It is safe to assume that with Iceland’s
application for EU membership of 16 July 2009, these ideas are off the agenda, at least until the results of negotiations and a referendum on membership are in.

Tables 5.1 and 5.2. sum up the domestic constraints assessed so far in Iceland and Malta. The potentially integration-sensitive institutions/aspects in Table 5.1 are printed in *italics* while in Table 5.2 the sensitivity to integration depends on the mobilisation power of the cleavages.

**Table 5.1 Institution/aspect indicator.**

<table>
<thead>
<tr>
<th>Institution/aspect</th>
<th>Country</th>
<th>Iceland</th>
<th>Malta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alignment policy</td>
<td></td>
<td>NATO membership</td>
<td>Neutrality since 1979</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Defence agreement w. US</td>
<td></td>
</tr>
<tr>
<td>Economic sectors</td>
<td></td>
<td>Fisheries sector</td>
<td>Manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Agricultural sector</td>
<td>Tourism</td>
</tr>
<tr>
<td>Political system</td>
<td></td>
<td>Multi-party system</td>
<td>Two-party system</td>
</tr>
</tbody>
</table>

**Table 5.2 Cleavage indicator.**

<table>
<thead>
<tr>
<th>Cleavage</th>
<th>Country</th>
<th>Iceland</th>
<th>Malta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional</td>
<td></td>
<td>Capital area - countryside</td>
<td>Geographical</td>
</tr>
<tr>
<td>Social</td>
<td></td>
<td>None</td>
<td>Nationalist – Labour</td>
</tr>
<tr>
<td>Cultural</td>
<td></td>
<td>None</td>
<td>“European” – “Mediterranean”</td>
</tr>
</tbody>
</table>

So, to return to the question of the extent to which the political parties’ links with economic and societal interests in Iceland and Malta contribute to the opposition to EU membership in these countries and/or how they explain why Malta took steps to join the European Union while Iceland aimed for limited integration, one can say that in Iceland, the links between the fisheries and agricultural sectors and the Independence Party and the Progressive Party have been instrumental in shaping the path Iceland has taken towards limited integration. These links also reflect the only serious cleavage in Icelandic society, the one between the metropolitan area and the rest of the country. The defence agreement with the United States was, although to a much lesser extent, another integration-sensitive aspect, i.e. security was not an issue to be considered in relations to EU membership. The multi-party system in Iceland has made it difficult to form governments without either of these two parties. This changed in the period 2006-09. First, the Americans left the country, thus reducing the security effect of the defence agreement with the US. Second, in 2009, for the first time in
history, there was a majority government without either the IP or the PP. The main change, though, was the perception that, due to the election results in spring 2009, there seemed to be a majority in favour of an EU membership application, based on what the parties had said in the election campaign. The Alliance was, as always, in favour, the PP was positive, although with some conditions, and the Civic Movement was believed to be in favour as well, so the Alliance had a leverage on the Left-Greens and was able to pressure them to support a membership application if they wanted to remain in government.

In Malta, neutrality was a sensitive issue, and it was exploited by the MLP as an argument against membership. Also, the ties of the manufacturing sector to Labour through the largest union and its worries for the future of the shipbuilding industry were a factor in the opposition. Tourism was more ambiguous. The greatest obstacle was the cultural and social split reflected in the two-party system, which is to some extent reflected in a geographical cleavage, albeit not urban-rural but rather between working class dockyard districts and the mercantile districts of Valletta. However, this paved the way for the country to enter the EU, since, due to the political traditions, the majority had its way regardless of the will of the minority.

In the next part we go deeper into the makeup of national identity and nationalism in these countries, continuing the pursuit of political constraints facing European integration in Iceland and Malta.
6 Part IV – National identity and nationalism

This fourth part is on the different notions of national identity and nationalism in Iceland and Malta, and the political impediments to European integration these entail, together with a short discussion on religion in the two countries.

Baldur Thorhallsson and Hjalti Thor Vignisson state in their 2004 paper that the ‘fisheries sector is far from being the only controlling variable, overshadowing all others, in explaining Iceland’s response to European integration’ (Thorhallsson & Vignisson, 2004c, p. 98). Also, through his extensive work on the subject, Guðmundur Hálfdanarson comes to the conclusion that ‘the nationalistic tenor of Icelandic politics [is] one of the main explanatory factors’ behind the attitude that has rendered ‘Iceland immune from the logic that has driven European integration in the past decades’ (Hálfdanarson, 2004, p. 140). Einarsson’s conclusions are of the same type (Einarsson E. B., 2009). The Common Fisheries Policy (CFP) has in political circles been considered the major impediment to the discussion on membership of the European Union, or at least has been used by politicians as an excuse for inactivity (see, e.g., Bjarni Benediktsson’s words in 5.1). Whether the discussion on the CFP would fall under the category of being “economic” is open to debate, although the discourse surrounding the “fisheries variable” points to the conclusion that it might really be a proxy for another factor at work: nationalism. It is by no means unthinkable that it would not change much if decisions on the size of fishing quotas in Icelandic waters were formally taken in Brussels, rather than Reykjavik, or if parties other than Icelandic nationals were allowed to invest in the Icelandic fishing industry (see, e.g., Skarphéðinsson’s words in 5.1). On the other hand, on nationalistic grounds, these scenarios are harder to swallow.

It has been shown, e.g. by Einarsson, that this factor is very important in the EU debate on the elite level in Iceland (Einarsson E. B., 2009, p. 319). National identity in Iceland and Malta are thus due for a closer look, which is one of the topics of this chapter. The research question associated with this part is:
Icelandic nationalism

To what extent did notions of national identity and nationalism contribute to the political constraints facing Iceland and Malta and how do they help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration?

To answer this question, the theoretical framework of Anthony D. Smith on the origin and development of modern nations and different categories of nationalisms (Smith A. D., 1991) is used to analyse the attributes of nationalism in the two countries, their development, character and history and their influence on decisions regarding European integration. A discussion on the topic of religion will follow.

### 6.1 Icelandic nationalism

At the cold World's End, in the blue eye of the High North,
Our Isle looms alone
Where our Nation was forged from the tortures of Fire and Ice
In Nature’s graceful embrace;
And here our Golden Age gleaned and “Saga” has kept her ancient Runes,
Imbued the Nation with power, in the torturing ever-dark Night.
Oh, sweet is our land,
Our life's root at hand.
Our calling, our toil
Tied to this soil
As long as breath fills us with might. *

(Steingrímur Thorsteinsson. in Íslenskt söngvasafn, 1915) 78

In the words of Guðmundur Hálfdanarson: ‘In the period 1830-50, Icelanders chose to be counted as a separate nation with all the rights and responsibilities this entailed … Ever since, the liberty of the nation has been the final objective of Icelandic politics – the lifeblood Icelandic rulers have the duty to preserve.’ (Hálfdanarson, 1996, p. 27)*. This period marked the

---

78 Á heimsenda köldum vor ey gnæfir ein
Í ysta norðurs hafsauga bláu,
Þar fóstraðist þjóð vor við elds og isa mein
Og áhrif af náttúrunni háu;
Og hér hefir glansað vor gulltíðar öld,
Og geymt hér hefir Saga sína formu rúnaspjöld,
Drykkjað þjóð með þrött
Á þrauta dimmri nótt;
Ljúft oss land vort er,
Því lifsrót vor er hér.
Vor köllun, vor dāð
Knýtt er fast við þetta láð
Svo lengi vér lifsins anda drögum.
beginning of the campaign for independence from the union with Denmark, which had then lasted for almost five centuries.

6.1.1 The making of a legend

Sigríður Matthíasdóttir, analysing the rhetoric of prominent figures in Icelandic society and politics in the first half of the twentieth century, finds similarities between Icelandic nationalism and German nationalism in the nineteenth, in spite of very different external surroundings. ‘In both cases we have communities that were on the losing side of the demands of modernity for economic progress and individualism.’ (Matthíasdóttir, 1995, p. 51)*. She says that Icelandic nationalism, like German, falls under the category of nationalism of the weak as formulated by Hans Kohn and John Plamenatz, and that although Icelandic society was backward, the nation had a rich literary heritage and a language that had been preserved with minor changes through the centuries. ‘These conditions were ripe for ideas of superiority based on the feelings of inferiority’ (Matthíasdóttir, 1995, p. 51)*.

Hálfdanarson says that Icelanders have never looked upon their struggle for independence as anything but self-evident, because ‘in their eyes the nation is a natural fact and not a political idea.’ (Hálfdanarson, 1996, p. 27)*. He says that Icelanders do not give a second thought to the idea that the world could have developed in an entirely different manner; Iceland could have become a part of a larger Danish state, taken part in the construction of a Pan-Nordic state or been merged into a European whole. He says that the last option ‘has been open to us for some time and the reluctance of Icelanders to open a critical debate on that option shows … the strength of the Icelandic sense of nationality.’ (Hálfdanarson, 1996, p. 27)*. Hálfdanarson says it is simple to explain why theories of primordial nationality have been so resilient in Iceland. The Republic is still young and the struggle for independence still alive in many people’s memories. Also, many circumstances and conditions in Iceland differ from those of Europe (Hálfdanarson, 1996, p. 9).

Guðmundur Jónsson suggests that nationalism is so interwoven into the Icelandic mentality that there has not been a serious attempt to evaluate it in a deep sense and to look at it as a special force in the forging of the community. He also argues that up until recent years, with the upsurge of internationalism, there has not been any strong force to counter nationalism in Iceland (Jónsson G., 1995, p. 65).

Árni Bergmann, a novelist and a former editor of the Icelandic socialist newspaper Þjóðviljinn, is among those who identify with Icelandic
Icelandic nationalism

nationalism and use its concepts to oppose Icelandic participation in European integration. However, Bergmann says nothing would be further from him than identifying with any kind of nationalistic jingoism. He says nationalism is not a known entity, but ever-changeable, and can be used both for good and evil ends (Bergmann, 1994, p. 47). His view is that in this day and age, the rich are internationalists, since it is in their interest to be able to transfer their wealth between countries at will, with no regard for the needs of their country. Meanwhile, the poor become nationalists, since they do not have the money or the education to reap the benefits of the “opportunities” of the international system (Bergmann, 1994, p. 47). Bergmann draws a parallel between having the opportunity of participating in the decision making of the European Union and participating in the running of the Danish kingdom in the nineteenth century through having four Icelandic members of the Danish parliament. Icelanders did not accept that offer and went for full independence from Denmark. ‘Probably many “realists” at the time thought this bore witness to stupidity and a superiority complex’, he says, referring to the concept of shared sovereignty within the EU and the non-viability of the old concept of full independence (Bergmann, 1994, p. 57).

Icelanders are overwhelmingly Protestant, with the Lutheran Church defined in the Icelandic constitution as the “Church of the Icelandic Nation”, with the state obliged to support and protect it (Lagasafn. Íslenск lög, 2009). In 2008, about 80% of the population belonged to the National Lutheran Church. Another 5% belong to independent Lutheran congregations that are indistinguishable from the national church in doctrinal matters (Hagstofa Íslands, 2009c). Despite the fact that the last stand of the Catholic Church in Iceland in 1550 assumed a nationalistic aura over the years, the Lutheran Church presents itself as the bulwark of Icelandic nationality. Thus Karl Sigurbjörnsson, Bishop and head of the National Church, says that the watershed that came with the Reformation in Europe revolved around the question of nationality. The national language became an important factor in the works of Martin Luther and his successors. ‘It might be said that with the Reformation the first seeds of the nation state were sown,’ says Sigurbjörnsson.

The Reformation was against the Pope, the [Holy Roman] Emperor and the Catholic Church as a supranational institution. The Nordic countries gained a new raison d’etre. Sweden became a nation state shortly after the Reformation and the Icelandic language was revived as a literary language with a new Bible in Icelandic. Thus the church and the
Sigurbjörnsson says that the national churches in the Nordic countries, to which, he says, over 90 per cent of the inhabitants belong, have long regarded themselves as the defenders of nationality in a clearer sense than churches in most other European countries. ‘This has, without a doubt, to do with Luther’s emphasis on the vernacular and the sense of togetherness people in these countries feel with the religion and the church’ (Sigurbjörnsson, 2000)*.

The Reformation reached Iceland in a definite form after highly tumultuous times in the kingdom of Denmark-Norway. Civil war broke out in the kingdom in 1534 and lasted for two years. This appears not to have been a religious war, since both parties to it were rather in favour of Lutheranism. However, its aftermath gave the king, Christian III, the opportunity – and financial necessity – to proceed with a rapid and complete religious reform of the kingdom (Karlsson, 1994, pp. 108-9).

An important chapter in the Icelandic historical narrative took place in the wake of these events. At this time Iceland was divided into two bishoprics, centred on Skálholt in the south, west and east, and Hólar in the north. In 1541 the last Catholic bishop in Skálholt was arrested and taken out of the country. His property and that of the bishopric, was confiscated by the king’s agents. A Lutheran bishop took the seat at Skálholt, but died shortly after. Thus the bishop of Hólar, Jón Arason, as the only remaining Catholic authority in the Nordic countries, sent a petition to the German Emperor, Charles V, asking for assistance in his struggles and to have a new bishop appointed at Skálholt. The Lutherans did the same, and both appointees sailed to Denmark the same summer. Naturally, the Lutheran was appointed bishop by the king, and Jón Arason was outlawed. He managed to rally an opposition and take Skálholt by force. However, the king’s men arrested him and two of his sons, and they were promptly executed. Even though many of those who took part in the execution of the bishop were later hunted down and killed by grieving members of his family, there was no further opposition to Lutheranism in Iceland (Karlsson, 1994, pp. 123-127).

Ironically, although Lutheranism prevailed in Iceland, and in the later “struggle for independence” the Lutheran clergy served as an ‘intermediary link between the political elite in Copenhagen and the farming population of Iceland’ (Pétursson P., 1996, p. 280), the story of Arason’s opposition to
Icelandic nationalism

the king’s men has survived in the national memory as an example of a last stand for Iceland’s sovereign status (Laxness E., 1977, p. 123).

Guðmundur Hálfdanarson says that the isolation that formed Icelandic popular culture for centuries has ended, and that just as nationalism was the way Icelanders chose into modernity, modernity will finally undermine the strongest foundations of nationalism (Hálfdanarson, 1996, p. 29).

Árni Bergmann considers Hálfdanarson’s words to be a part of the political agenda that Iceland should give up her independence and eventually join the bandwagon of European integration. He claims that for this purpose, nationalism is vilified as the source of self-righteousness, hatred and loathing of other nations and an attempt made to make Icelanders co-responsible for the horror it has led to. This he will not accept, and he claims internationalism can just as easily be used for evil purposes. He claims that for small nations like Iceland, nationalism has been a source of good and is ‘laden with positive energy’ (Bergmann, 1997, pp. 147-9)*.

Birgir Hermannsson says that Icelanders are prone to look at Icelandic political phenomena, such as democracy, as something particular to the nation. Icelanders ‘seek democracy in their own history, rather than in universal – and foreign – ideas…’ (Hermannsson, 2005, p. 331). This, Hermannsson says, is ‘grounded in a particular political perspective on how they remember their past.’ Hermannsson says that the basic premises of this collective memory of the Icelanders can be expressed in the following conceptual oppositions, where the aim is ‘to gain the good things on the left side, and avoid the bad things on the right side’, for which a certain vigilance is required. (Hermannsson, 2005, pp. 331-2).

<table>
<thead>
<tr>
<th>Commonwealth^79</th>
<th>Foreign state/monarch</th>
</tr>
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<tbody>
<tr>
<td>Self-rule</td>
<td>Ruled by foreigners</td>
</tr>
<tr>
<td>Freedom</td>
<td>Resistance, then docility</td>
</tr>
<tr>
<td>Icelandic culture/language</td>
<td>Cultural contamination/impurity</td>
</tr>
<tr>
<td>Historical cultural continuity</td>
<td>Cultural rupture/break</td>
</tr>
<tr>
<td>Progress</td>
<td>Decline</td>
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^79 The Icelandic Commonwealth from c. 930 until 1262, when Iceland became part of the Norwegian kingdom.
Like Hálfdanarson, he claims that for Icelandic politicians, the independence struggle did not end in 1944. ‘[1944] was not the last step on the way to independence. ‘That last step we should never take’, the first President of Iceland said on 18 June 1944. The last step to independence would mean the end of independence: the struggle for independence never ends.’ (Hermannsson, 2005, p. 332). Hermannsson believes there is no reason to expect any abrupt changes in the official use of the collective nationalistic memory of Icelanders given the investment the Icelandic state has made in the cultural capital of it. He says Iceland’s image abroad, as projected by the government and the tourist industry, is also extensively tied to it (Hermannsson, 2005, p. 333). Nevertheless he says it is obvious that collective memory changes.

In the long run it must be both relevant and popular. Political culture will undergo change as the society more generally; globalization, European integration and immigration have their impact in Iceland as in other countries. Collective memory cannot be “frozen” to the degree that new scientific knowledge is permanently excluded. We should, however, remember that Icelandic society has changed drastically since the main staples of the collective memory were established. We should therefore expect cultural change of this kind to be gradual and – perhaps – generational (Hermannsson, 2005, p. 333).

When this will occur is naturally quite uncertain. Hálfdanarson also believes that the winds of change will eventually catch up with the Icelandic body politic which, he says, lacks the tradition to discuss matters of this sort, since the discourse of Icelandic politicians has its roots in the struggle for national independence. He says it is necessary for them to take a conscious stance on the political development in Europe – ‘for this purpose, the ideals of a bygone era will not suffice’ (Hálfdanarson, 2001, p. 251)*.

### 6.1.2 Icelandic nationalism in European context

Michel Bruter distinguishes between two concepts of Europeanness, or European identities, one being “civic” and the other “cultural”, where the civic one – having its roots in the French Enlightenment and Revolution, and thinkers from Rousseau to Habermas – links the legitimacy of political communities to the ‘existence of political institutions that are implicitly accepted by society through a social contract’ (Bruter, 2005, p. 11). The latter, developed by German thinkers such as Fichte and Herder, ‘links the legitimacy of political communities to a corresponding ‘nation’, defined by a common culture (and principally… a common language)’. For the
prominence of the nationalist rhetoric in Icelandic politics, to express Icelandic identity in terms of, or complementary to, a European civic identity has hitherto been difficult, even though Icelanders overwhelmingly see themselves as European and celebrate their European heritage (Hálfdanarson, 2002, p. 14).

It has, however, been noted that attitudes towards European integration are strikingly similar in Scandinavia and Britain, which seem to be in a category of their own in this respect, (see, e.g. Magnússon, 2000). Peter Lawler identifies a relationship between what he calls an “internationalist progressivism” of the Scandinavian states (Norway, Denmark and Sweden) – which he claims is a key element in their claim to be “exceptional” states – and the high level of antipathy towards European integration within them (Lawler, 1997, p. 566). In effect, the debate on European integration in these countries revolves around the future of what he calls “Scandinavian exceptionalism”, which is the popular belief that these countries have created states that are unique, and should even serve as an example to the outside world. He identifies three normative positions in the debates about Europe in these three countries: i) membership of the EU or a deepening of its cooperation would mean a welcome end to the ‘costly myth of exceptionalism’; ii) EU membership as the only way to come to terms with new national and global economic and political realities, whilst preserving essential features of exceptionalism; and iii) membership should be opposed since it would accelerate the erosion of the ‘superior’ form of society found in these countries. Lawler says that despite its progressivist gloss, Scandinavian Euroscepticism could be viewed as a familiar mix of collective nostalgia and nationalism... Such sentiments... provide, nonetheless, only a part of the story. A more adequate analysis requires also a closer investigation of the blending of nationalism and internationalism in Scandinavian political discourse (Lawler, 1997, p. 566).

Although its manifestations are different, Icelandic nationalism does clearly contain an “exceptionalist” strand – perhaps even without the “progressivist gloss” Lawler mentions in the case of the Scandinavian countries. The “progressivism” in the realist attitudes to international politics which Kristinsson and Thorhallsson maintain the Icelandic elite has generally upheld (Kristinsson & Thorhallsson, 2003, pp. 150-2) is open to debate. However, the uniqueness of the Icelandic nation, and even its national model, serve as a powerful impediment to the possibility of envisaging the inclusion of Iceland in an EU that can be depicted as a super-
state of sorts. As Hálfdanarson says, ‘[s]een in the context of European history, the formation of the Icelandic nation-state follows a fairly normal pattern, described by theorists such as Ernest Gellner and Miroslav Hroch. Under the leadership of a small group of intellectuals, nationalists turned a pre-existing culture into a nation’ (Hálfdanarson, 2002, p. 6). This was in turn portrayed as a natural God-given way of classifying men in different nations as being bound to follow a different inherent destiny. This myth still survives in modern Iceland, thus resisting ‘growing doubts among mainstream politicians and opinion makers in Europe about the future of the nation-state system and its capacity to deal with the post-modern conditions.’ (Hálfdanarson, 2002, p. 6).

6.1.3 Application of Smith’s framework to Icelandic nationalism

Applying Smith’s theoretical framework on the origin and development of modern nations (Smith A. D., 1991, pp. 19-42) (presented in 2.3.2) to Iceland, the first question we need to answer is Who is the Icelandic nation?

To answer the questions Smith associates to this first question in the Icelandic case, there is no ambiguity about the collective proper name: “Íslendingar” (Icelanders). There is – or was until a recent influx of immigrants – a powerful myth of common ancestry, the settlement saga, the documented family lineage, which has most recently been presented with the aura of accurate science by the biopharmaceutical company deCODE Genetics (Íslensk erfðagreining ehf. & Friðrik Skúlason, 1997 - 2009), granting Icelanders free access (though registration is required) to their genealogical database, including attempts at tracing Icelandic family trees back 1,200 years or so. There are several shared historical memories, especially related to the “struggle for independence”, the Cod Wars and the medieval sagas, and it is safe to assume that the many important historical memories, such as the foundation of the Republic on 17 June 1944, are in fact shared. The bulk of the Icelandic people share one or more differentiating elements of common culture. Homogeneity in Iceland is relatively great; no dialects are spoken, most Icelanders (80%) belong to the same church, the National Church, plus 5% who belong to free congregations with identical doctrinal teachings (Hagstofa Íslands, 2009c), and celebrate the same holidays. They go through a centralised state-run primary school system and many continue through a similar secondary-school system. There is a clear association with a specific “homeland”. Iceland, being an island, has very clear boundaries and no borders with
Icelandic nationalism

another state. The association of the Icelandic people with their harsh but scenic country is very strong and the Icelandic natural environment plays a large part in Icelandic nationalist rhetoric (Hálfdanarson, 2001, pp. 192-216). There is definitely a sense of solidarity for significant sectors of the population, and although the urban/rural cleavage is clearly a factor in political discourse and public debate, Icelanders have a strong sense of community and of belonging to the same nation, and regularly show support, through actions and declarations on the political stage, for the will to uphold a generous welfare system and a costly programme of rural development. Despite this relative uniformity, Icelanders have to face the increasing influence of globalisation and immigration on the homogeneity of their society (Hálfdanarson, 2001, p. 17).

To answer Smith’s second and third questions, ii) Why and how did the nation emerge and what were the general causes and mechanisms that set in motion the processes of nation-formation? and iii) When and where did the nation arise, and what were the specific ideas, groups and locations that predisposed the formation of this individual nation at a particular times and place, i.e. what type of nationalism developed in Iceland prompting the struggle for independence, one has to look to Smith’s categorisation of “vertical” and “lateral” ethnies. The Icelandic case seems to fit the “vertical” ethnie category relatively well. Smith describes the vertical ethnie such that

its ethnic culture tended to be diffused to other social strata and classes [than the aristocracy and higher clergy]. Social divisions were not underpinned by cultural differences: rather, a distinctive historical culture helped to unite different classes around a common heritage and traditions, especially when the latter were under threat from outside. As a result the ethnic bond was often more intense and exclusive, and barriers to admission were higher (Smith A. D., 1991, p. 53).

As examples of cultures of this kind Smith names the Druse, the Sikhs, the Irish and the Basques, together with the Israelite tribal confederacy that ‘evinced a more exclusive ethnocentric zeal and active mobilization of all strata for protracted wars.’ (Smith A. D., 1991, p. 53). Smith says that in all these communities ‘there were marked differences between strata, and even class conflict, but ethnic culture was not the preserve of one stratum to the exclusion of the others’ (Smith A. D., 1991, p. 53). The serious struggle for Icelandic independence originated in the first half of the nineteenth century, mostly amongst Icelandic students and intellectuals in Copenhagen, and based its claim on ideas on the specific nationhood of the inhabitants of this island in the North Atlantic (see, e.g., (Jóhannsson, Proppé, & Jakobsson (eds.), 2003) where a
number of Icelandic scholars debate the origins of the Icelandic nationality, identity and ethnicity). In Iceland, from the time the original steps were taken by the initiators of the struggle for independence, in the period 1830-50, and notwithstanding the debate between members of the Icelandic elite in the eighteenth century mentioned in Chapter 4 (Hálfdanarson, 2006), no real opposition was found in Iceland to the idea. As Hálfdanarson says: ‘No group in Iceland fought for closer relations with the Danes – no significant political actor in Iceland ever disputed that Icelanders were a specific nation – and thus the Danish government found precious few allies in Iceland for maintaining the country in the union with Denmark.’ (Hálfdanarson, 2001, p. 37)*.

The same can be said of ethnic nationalism in other Nordic countries: it stood in the way of developments similar to those that took place in Germany at the time, with the move towards the unification of the German princedoms into one nation. No such development took place in the Nordic area, since separate nationalisms had already taken hold in the individual Nordic countries (Hálfdanarson, 2002a, pp. 87-8). Although Icelandic nationalists had much weaker arguments for their demands than those in the larger countries in Scandinavia, their particular brand of nationalism developed along ethnic lines with claims based on their possession of a separate culture, language and literary heritage (Hálfdanarson, 2002a, p. 87).

It thus seems that the Icelandic case, at least prior to independence, fits into the “ethnic nationalist” category, with vertical (demotic) ethnies, vernacular mobilization and secession from a larger political unit to set up a new “ethno-nation” in its place.

Smith’s categorisation of the post-independence desire to include ethnic kinsmen outside present boundaries has been lacking; this is probably mostly due to the lack of such kinsmen (in the Icelandic view) and the alleged uniqueness of the Icelanders themselves. 80

This particular factor aside, there is no question about the strength, resilience and influence of Icelandic nationalism and national identity on Icelandic politics. Nationalism has been a dominant force in Icelandic politics for almost two centuries, and its influence has not receded to the back of the stage yet. The obstacles raised by this particular fact against deeper participation by Iceland in European integration are substantial.

80 If one does not count the ‘West-Icelanders’ (Vestur Íslendingar) – descendants of Icelandic emigrants to Canada in the 19th century, who are still in a sense considered by Icelanders as fellow countrymen, though no-one has yet proposed annexing Manitoba into the Republic of Iceland!
6.2 Maltese nationalism and identity

Malta, a ship with a cargo of sun and fragrance of violets,
A ship suspended between two pale blues: the sea and the sky clear as
Our Lady’s veil,
A ship at anchor because there is no wind.
But if a small breeze should blow, its heart would be content, and I
know what it will do:
Slowly, slowly, its keel will move, as in a dream towards beautiful
Sicily.

*John (Giovanni) Cremona* 81

The above poem, entitled ‘Malta’, was written in the 1930s by a Maltese
poet wishing for an Italian future for the island. It demonstrates well the
ambivalence inherent in the history of Maltese nationalism and identity,
where the schism did not revolve around the question of whether Malta was
unique or not, but rather to which element of European society the nation
belonged. Four to five broad interlinked categories can be named in this
context, with *Italian – Catholic – Continental European* elements on one
side and *British/European – Mediterranean* on the other. This particular
schism has been the root of the fiercest battles in Maltese politics for the
better part of two centuries.

Language and religion have long been held to be the crucial factor in
Maltese nationalism (Cassar, 2000, p. xi). Henry Frendo argues that Maltese
nationalism rotated in time around a triple paradox: ‘the championing of Italian
as a non-Maltese national language; the active promotion of Maltese vernacular
by the British imperial power as a means of expunging Italian; and the gradual
emergence of Maltese as a national tongue and as the prime expression of anti-
British sentiments’ (Frendo, quoted in Cassar, 2000, p. xli).

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81 ‘Malta’ by John Cremona, published in Nuovi Scrittori e Poeti di Malta, con prefazione di
Enrico Mizzi; antologia compilata da Cremona, Gauci, Liberto e Montanaro, 1935, (printer/
publisher) Gauci, Strada Forni 116, Valletta, Malta. The Italian original is as follows:

Malta, nave con un carico di sole e odor di viole,
Nave sospesa fra due cilestrini: del mare e del cielo, tarsi come il velo della Madonna,
nave ancorata perché vento non c’è.
Se spirasse un po’ di vento
Il suo cuore sarebbe contento, e so quello che farebbe,
Ché pian piano la sua chiglia
Come in sogno muoverebba
Verso la bella Sicilia.
6.2.1 Language in Maltese nationalism

It is held that a ‘rudimentary language-based Maltese nationalism’ came into existence as early as the eighteenth century, particularly due to the efforts of Mikiel Anton Vassali, later to become regarded as the ‘father of the Maltese language,’ but at the time regarded by his opponents a ‘dangerous freemason’ (Mitchell, 2002, p. 8). As discussed earlier, the Maltese language was at the centre of the tug of war between the Italianate group forming the Nationalist Party in the nineteenth century and the pro-British section of society, favouring the use of Maltese. Maltese nationalists tended to view Maltese in its ‘uncultivated’ form as a ‘dialect recalling the Saracen domination, too restrictive, unbecoming of a modern, secular and European society’ and they were suspicious of, and resisted, the upgrading and use of the language (Frendo, 1994, p. 14). The association of the Maltese language with Vassali’s proto-nationalism was also a source of antagonism among the Italianate group towards its use, in which they saw the threat of the Anglicization of the state and the Protestantisation of the Church (Mitchell, 2002, p. 9). Maltese colonial nationalism emerged during this period of fermentation. It raised *italianità* as its standard and continually resisted Maltese language education in schools, which they viewed as a means of Anglicization (Frendo, 1994, p. 14).

However, Maltese gradually attracted adherents, and even those formerly using Italian started to make use of it as well (Frendo, 1994, p. 15). In the period following the Second World War, the Maltese language gained acceptance as a powerful national symbol for both sides of the political divide. Today, even though most Maltese are multilingual, speaking English and Italian, Maltese is the language of everyday life. Jon Mitchell says the Maltese language has become grist to the mill of both pro- and anti-European elements in Maltese political discourse, and that it serves as a practical tool for the exclusion of ever-present foreigners from local discourse. In a situation where the country is over-run by tourists for much of the year, it achieves a kind of closure from the rest of the world allowing the Maltese to speak among themselves without being heard (Mitchell, 2002, p. 64).

As has been mentioned above, Maltese is a Semitic language, and thus related to Arabic, Hebrew, Aramaic, etc. It has, however, borrowed heavily from Indo-European languages, especially Italian. This development was resisted by some, especially in the inter-war period, and the use of *Malti safi* or “pure Maltese” was advocated (Borg, 1994, p. 28). Today many words in
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Maltese exist that have a “native” term and an Italian equivalent, and the choice between them tends not to be random, but often reflects the cultural aspirations, educational background and ‘not infrequently, political affiliations’ (Borg, 1994, p. 29) of the speakers. Alexander Borg says that the political newspapers use distinct rhetorical and linguistic styles and the Labour organ inclines to the use of Semitic words, while the Nationalist one rather uses Romance equivalents (Borg, 1994, p. 28). It is not to be forgotten that Maltese political parties developed around the language debate, which represented a ‘a clash of cultures and interests, a recurring and explosive issue in colonial politics… an inability, in the circumstances, to reach a consensus on self-identity’ (Frendo, 1994, p. 14).

In the 1980s a new notion of national identity was actively promoted by the Labour government, an identity based on “pan-Mediterraneanism”. This identity was regarded as being opposed to the Nationalist Italianità and focused on the African/Arabic/Semitic links in Maltese language and folklore. The Nationalists saw these moves as a ‘a threat to two of their main constituents – the established bourgeoisie and the Church’ (Mitchell, 2002, p. 11).

6.2.2 Catholic Malta

Together with language, the Catholic faith is a prevalent theme in Maltese nationalism (Cassar, 2000, p. xl). As has been mentioned above, the Maltese trace their Christian heritage back all the way to the founding apostle of the Christian Church, Paul of Tarsus, St Paul or San Pawl as he is known in Malta. Although the directness of the linage has been contested due to evidence for the widespread practice of Islam in Malta during Arab rule, Christianity came back “with a vengeance” when the country was ruled as a virtual theocracy by a Christian religious order, the Knights of St John, between 1530 and 1798. The Roman Inquisition set its mark on Maltese society, and quite a few of the Inquisitors in Malta went on to become cardinals in the Vatican, two of them even becoming popes (Frendo, 1994, p. 14). The Maltese regularly show a higher degree of religious activity than most other European nations. Carmel Tabone emphasises the importance of religion in the social life of the average Maltese family: ‘To be a healthy family, one that enjoys unity and peace, entails being close to God. A family that does not have God’s blessing because it is too remote from Him can never aspire to live in happiness’ (Tabone, 1994, p. 235).

Father Vanni Xuereb was the spokesman on EU issues for the Archdiocese of the Catholic Church in Malta during the referendum debate in 2003. In addition to being a priest he holds a degree in European Studies.
He agrees that religion is undoubtedly one of the main factors that constitute Maltese national identity and that it is ingrained in the soul of the country. ‘You [the author] were here on the 10th of February, when we celebrated the feast of St Paul. If you came here in summer, you would have a repetition of this every weekend the whole summer through’ (Xuereb, 2004) he said, referring to the elaborate celebrations in Valletta at the feast, well documented as an example of a typical Maltese celebration in Jon Mitchell’s book *Ambivalent Europeans. Ritual, Memory and the Public Sphere in Malta* (Mitchell, 2002). ‘Even people who are not such keen churchgoers will feel that this way of celebrating what, ultimately, is a religious holiday, is a part of their identity as Maltese’ he said (Xuereb, 2004). He also mentioned that most Maltese have their children baptised and that most, even those who are not regular churchgoers, will want their children to make their first communion and receive the sacrament of confirmation and marry in church. ‘It not just a religious phenomenon, it is also cultural. It is a part of being Maltese to do this’ (Xuereb, 2004).

Henry Frendo agrees that Catholicism in Malta played ‘a central and unchallenged role in Malta’s life right through, and for long after, Reformation and Revolution on the continent, evolving into a national ethos.’ (Frendo, 1994, p. 8). In his analysis of Maltese values, Anthony M. Abela states that on the ‘map of European values Malta stands at the extreme end of traditionality. However, the Europeanised Maltese are stronger in their post-traditional values and, as such closer to Europe than the locally-bound Maltese’ (Abela, 1991, p. 265). The post-traditionalists are, however, ‘a small minority’ of the Maltese population (Abela, 1991, p. 257). Abela believes the traditional value orientation of the Maltese can be explained by the transmission of values in the family and the influence of the institutions of the Church. ‘Religion permeates a closely-knit society, and social life is regulated by the reproduction of religious and moral values’ (Abela, 1991, p. 266). He says that Church agents however transmit both traditional and post-traditional values (Abela, 1991, p. 266).

Frendo says the ‘idea of Europe in Malta has its genesis as much in Roman Catholicism as in the centuries of fighting, fearing, enslaving and being enslaved by the Muslim ‘Turks’ or ‘Moors’.’ (Frendo, 1994, p. 9). Asked whether he thought the Catholic nature of Maltese society worked in favour of European Union membership for Malta, Fr. Xuereb said the nature of the Catholic Church was universal. ‘We speak of the EU as “unity and diversity;” we speak of the Catholic Church also as “unity and diversity”... A Catholic identifies himself with a Catholic in Great Britain and wherever,
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and the nature of the Church is not just local’ (Xuereb, 2004). Fr. Xuereb said that this made it easier for a Maltese citizen or a German citizen who is Catholic to identify himself with other European citizens. He said that in his experience there seemed to be as much support within the Protestant and Orthodox Churches towards European integration as there was within the Catholic Church. He believed, however, that on the popular level, the collective manifestation of religion was not as pronounced in Protestant circles as it was in Catholic. ‘In the Orthodox Church, religion is perhaps more a sense of national identity. Take Russia, take Serbia and other countries where Orthodoxy is strong. There is more a sense of national identity than to look at religion as being something supranational, beyond the reach of the nation state, and that might make it more difficult for religion to act as a catalyst for supranational integration’ (Xuereb, 2004).

Asked whether the Church took part in any way in the debate on Malta’s membership of EU, fr. Xuereb said it never pronounced itself officially in favour or against. ‘The reason was “realpolitikal” because it was a controversial issue divided along party lines, and given the history of confrontation, particularly between the Church and the Malta Labour Party, the Church did not want to be drawn again into a fight and argument with either of the political parties’ (Xuereb, 2004).

Looking behind the scenes, Evarist Bartolo said the Church in Malta had a somewhat ambivalent attitude towards joining the EU.

In this case [the Church] had its own ambivalent attitude, in the sense that they were also afraid that opening themselves more to Europe would mean eventually further secularisation and a weakening of the role of the church. Perhaps that is why there was so much sensitive discussion on issues like divorce, abortion, same-sex marriages etc. That is, all the sort of “evil things” that happened over there would also come over here. You must also remember that to a certain extent the European dream is a compromise between the Christian Democrats and the Social Democratic parties in places like Italy, Germany and France. So it is kind of a compromised model bringing together part-secularism, part-confessionalism. It is something that the European Union itself has not resolved yet. That is why we have all this controversy over issues such as a reference to God and religious beliefs in the new constitution. And this in fact is going to be one of the major challenges that the European Union faces in the future, especially with the rise in the Muslim population (Bartolo, 2004).

Fr. Xuereb said that the Roman Catholic Church, including the Pope himself, was in favour of enlargement and that the general attitude of the
Church was that enlargement was a good thing (Xuereb, 2004). ‘Of course, there are certain issues that Church leaders have expressed concerns about, but as to the official attitude of the Church towards fears that regard values, which are regarded evil in the Maltese legislation at the moment, [abortion and divorce], I think the official line is that this is something which is and remains our decision. The EU does not enter into these matters’ (Xuereb, 2004). Asked whether he believed that Malta had a special role within the European Union, Fr. Xuereb was in no doubt: ‘Yes, I do believe that. When John Paul II visited Malta for the first time in 1990, he spoke of the need for Malta to propose its values to the rest of the European continent. In a sense I think the Christian values are still ingrained in the Maltese culture, in the texture of what makes up Malta. Even in the Labour Party, the majority of members are committed Catholic Christians who uphold these values even in their public life.’ He expected that the Maltese minister in the Council of Ministers would actively promote these values, ‘which of course are also fundamental principles of the European Union’ (Xuereb, 2004).

Religion is clearly a defining factor in shaping the institutions, morals, laws and identities a society inherits, and Anthony D. Smith says: ‘For the greater part of human history the twin circles of religious and ethnic identity have been very close, if not identical… Though one cannot argue conclusively for ethnic causation, there are enough circumstantial cases to suggest strong links between forms of religious identity, even within world religions, and ethnic cleavages and communities’ (Smith A. D., 1991, p. 7). Recently, with the collapse of the bipolar international system, there has been an increasing interest in looking towards religious factors as relevant in international politics. Perhaps the best-known example of this is Samuel P. Huntington’s controversial book The Clash of Civilizations and the Remaking of World Order, in which he aims to define the new cleavages opening up in the wake of the Cold War (Huntington, 1997). To many in the post-9/11 world, his work had an eerily prophetic vision of things to come, while there is most certainly a serious difficulty in analysing what comes first, the particular events leading to a “clash of civilizations” or the use of the rhetoric of a celebrated academic theory to rationalise acts of war and terror connected to the intense and on-going struggle for power and oil in the Middle East, for example. Many others have analysed the apparent backlash against “secularisation” and the increasing impact of religion on global politics. 82

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It is quite possible, and even likely, that the fact that Iceland is, and for almost 500 years has been, predominantly Protestant, and Malta predominantly Catholic, has been important in shaping recent attitudes towards European integration in these countries, making it easier for the proponents of EU membership in Malta to create an alternative to the vision of an independent and sovereign nation outside the European Union.

Statistical analyses show a correlation between the proportion of Protestants in EU countries and opposition to the European Union (Magnússon, 2004). This is neither a coincidence, nor unrelated. Although Social Democratic parties were instrumental in their support of it, the European ideal came from the outset from Catholic thinkers in Christian Democratic (Catholic) circles, and was first realised in primarily Catholic countries with the strong support of the Catholic Church. Catholics are accustomed to acknowledging a supranational authority, the Papacy, and a supranational community – the Catholic Church. Proponents of EU membership in Catholic countries can take advantage of that fact. As seen in the words of Fr. Xuereb above, their language of a European identity and community with other European nations is familiar to Catholic ears.

This is much more difficult in Protestant countries. The sovereign nation state and its ethnic nationalism, the one of blood and language, is an ideal that rings true in Protestant countries, where Protestant thinkers adhere to local spiritual and secular authorities (Sigurbjörnsson, 2000).

In a modernist fashion, Dag Thorkildsen says that the question of why the concept of the nation became such a powerful idea in the nineteenth century is linked with the modernisation of society. The legitimacy of the pre-modern society came from religion and the state was symbolised by the prince; ‘modern society needed another and more functional ‘glue’ that could keep it together. Legitimacy did not come from God, but from the people itself, in the same way as the primary obligation of the individual became the nation and the people, not the prince and the will of God’ (Thorkildsen, 1996, p. 252). Thus, according to this line of argument there might be a direct connection between early secularisation and an early sense of identification with the “nation”, an identification that has taken several generations to take its current form.

It is worth a mention that the European Community had a distinctly Catholic appearance in the first decades of its existence. Not only do the six original member states, taken collectively, have a vast majority of Catholic citizens, but the major players in the creation of the Community were men for whom the Catholic faith was more than just a mere formality. Hugo
Young describes the devotion of a few of the leading actors in the following manner: ‘But more significant was the religious affiliation of all three [Robert Schuman, the French Foreign Minister, Konrad Adenauer, the German Chancellor and Alcide De Gasperi, the Italian Prime Minister]. They were more than routine Roman Catholics. Church was important to their project: a church the British never warmed to... Britain in 1950 was still an emphatically Protestant country, in which Catholicism was something foreign and therefore suspect’ (Young H., 1998, p. 50). The Catholic nature of “Europe” was a generous source of prejudice against it, which acquired a strong political formulation for people who ‘saw in the Schuman Plan the beginnings of a Vatican conspiracy or, even more luridly, an attempt to recreate the Holy Roman Empire. And such speculations were not confined to fusty old imperialists and Little Englanders’ (Young H., 1998, p. 50). Even men like Ernest Bevin, the Foreign Secretary at the time of the Schuman Plan, could instinctively show prejudice against Catholics (Young H., 1998, p. 50).

### 6.2.3 Other factors of Maltese national identity and the impact of EU membership

According to Benedict Anderson, and in fact Habermas, it is the public sphere that is the primary producer and disseminator of national identity (Mitchell, 2002, p. 17). Mitchell says this is not so in Malta, where national identity has been debated, contested and challenged. ‘Like modernity, the public sphere has had different historical trajectories in different socio-cultural contexts’ (Mitchell, 2002, p. 17).

The political cleavage in Malta is not only social and linguistic, but to some extent geographical as well. Thus there are very clear patterns in electoral results according to districts. The line divides the ‘broadly Nationalist (PN) north, and the socialist (MLP) south – the frontier between the two being an imaginary line from the inlet of Grand Harbour at Marsa, across through Qormi and to the coast east of Zebug’ (Mitchell, 2002, p. 161). Mitchell explains that since the late nineteenth century there have been two main sources of employment in Malta – ‘mercantilism and the various trades associated with the harbour life, and the dockyards’ (Mitchell, 2002, p. 161). He draws attention to the fact that both were centred on Grand Harbour but, significantly, on opposite shores. ‘The harbour traders, merchants and marketeers were found to the north, in Valletta. The dockyards were located to the south, in the creeks of Senglea and Cospicua’ (Mitchell, 2002, p. 161). He then says that as the employers,
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the merchants and shop-keepers of Valetta came from a long-established entrepreneurial petit-bourgeoisie, they in turn were the people who became associated with, and sought office in, the Italianate political parties of the late nineteenth century. Mitchell says that the dockyards, on the other hand, were run by the ‘British Imperial government, which helped develop an upwardly mobile Anglophile middle class to run its bureaucracy... From this group emerged the Maltese Labour movement, and eventually the Malta Labour Party’ (Mitchell, 2002, pp. 162-3).

Mitchell believes the links between family, place and party provided a vehement and permanent allegiance to the political parties. One of his interviewees in Valetta answers, when asked if he would consider voting for Labour: ‘Never. Never, never, never… I was born a Nationalist – my father’s Nationalist and my Grandfather was Nationalist… Even if I think the Labour Party are right, and the Nationalists are wrong. In that case I wouldn’t vote. But vote Labour – never’ (Mitchell, 2002, p. 165).

It was possible to detect a difference in tone in my interviewees’ answers when asked what effect EU membership would have, in their opinion, on Maltese national identity, where their answers broadly reflected the positions of their respective institutions towards EU membership. Gejtu Vella of the UĦM, which favoured membership, said the effect would certainly not be negative. Malta had managed to ensure that the Maltese language would continue to be used and that it would also be an official language of the European Union. ‘We can thus speak in Maltese in all our dealings with the Union. We will also continue to enjoy our cultural, historical and religious aspects and they will not be affected by joining the European Union. On the other hand, our cultural heritage could even be further encouraged by the EU. There are many EU institutions on the cultural stage that will now be of benefit to our nationals’ (Vella, 2004). Azzopardi, a Member of Parliament for the NP agreed: ‘Most definitely positive. For instance, Maltese is now an official language of the EU, which is for us a source of pride and satisfaction, and our language is our foremost demonstration of our identity’ (Azzopardi, 2004). Louis Apap Bologna, of the Chamber of Commerce, says Malta has always been within Europe. ‘Basically it is a European country with a Mediterranean propensity’ (Apap Bologna, 2004).

Michael Parnis, of the GWU, which campaigned heavily against EU membership, believes the impact of membership on Maltese national identity will be neutral, but his words reflect the feeling that, by joining the EU, Malta has returned to colonial status: ‘I don’t think things will change. We have been colonised for a long time. The fact that Malta was a colony is something that is in our blood. We fare well when colonised. I think the Maltese will still remain
Maltese’ (Parnis, 2004). He noted that the Maltese ‘had the Arabs here in Malta for 500 years. The Maltese still remained Maltese. Our religion was here from the beginning of time two thousand years ago, it is still here. Our language is still here’. He believes that ‘despite the fact that we will be the smallest nation in the European Union, I don’t think that will change our language. It is a living language. We use it every day, we use it in our law courts, we use it in Parliament, we use it when we deliver speeches and I don’t think there will be any changes to that’ (Parnis, 2004). Evarist Bartolo, the previous MLP minister for Education and National Culture, said the fate of Maltese national identity within the EU depended on the Maltese people’s own attitude: ‘If we have an inferiority complex, – if we join the European Union with a colonial mentality – then it will have a negative effect. If we join the Union full of self-confidence, at peace with our own personality and bring with us into the European Union our own contribution – to be different – than the effect on our identity can be positive. But it depends on our own attitude’ (Bartolo, 2004).

### 6.2.4 Application of Smith’s framework to Maltese nationalism

When the Maltese nation is viewed in the light of Smith’s framework on the origin and development of modern nations (Smith A. D., 1991, pp. 19-42), some ambiguities become apparent. Firstly, there is the question of who constitutes the Maltese nation. Even though there is no debate on some factors involved, such as a collective proper name, and an association with a specific homeland, the language debate and even disputes on the origins of the Maltese people, which the Italianate movement believed to be ‘of Italian descent’ (Pirotta, 1994, p. 107), cause anomalies. There are historical memories in the country that, related to this particular cleavage, are not shared – in fact some of the most important historical memories in the latter half of the twentieth century.

Thus, there is no consensus on Malta’s “national day” between the two factions; instead, there are several views, coinciding with Labour and Nationalist affiliations. Until independence, Malta’s national day was Otto Settembre, (8 September) which Mizzi’s Nationalist Party first celebrated as such in 1885, recalling ‘Malta’s victory in her two great sieges: 1565 and 1943’ (Frendo, 1994, p. 18). This was replaced in 1964 by Independence Day, also in September, and in the 1970s Mintoff’s government added a few national “feasts”: Republic day, marking the founding of the Republic on 13 December 1974, Sette Giugno (6 June) recalling an insurgency against the British in 1919, and 31 March, when, in 1979, ‘the last British soldier left’
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(Frendo, 1994, p. 18). A different emphasis is laid on these different occasions when it comes to party affiliation. Thus, Nationalists tend to focus on Independence as the moment to celebrate, while Labourites focus on the expulsion of the British forces and celebrate the date when Malta became ‘really free’ (Mitchell, 2002, p. 166). This does not necessarily mean that there is no Maltese nation, but rather, there is a lack of agreement amongst the vast majority of the population on important aspects of what it means to be Maltese.

Secondly, when answering Smith’s second and third main questions, why, how, where and when the nation emerges and specifying the patterns of identity formation and the specific ideas, groups and locations that predisposed and triggered their development and formation, one sees that parallel developments have taken place. Although there are certainly some attributes of a vertical or demotic ethnie in the \textit{italianità} faction, (see above), probably more prevalent are the features of what Smith terms a “lateral” ethnie. He says this is usually composed of aristocrats and higher clergy, though it might include the members of the bourgeoisie such as richer merchants and government officials. Smith describes its main characteristics as follows.

It is termed lateral because it was at once socially confined to the upper strata while being geographically spread out to form often close links with the upper echelons of neighbouring lateral ethnies. As a result, its borders were typically ‘ragged’, but it lacked social depth, and its often marked sense of common ethnicity was bound up with its esprit de corps as a high status stratum and ruling class (Smith A. D., 1991, p. 53).

This was the movement that developed the colonial nationalism based on the use of Italian, with extensive ties to the upper class, the clergy and the merchants, and developed into the Nationalist Party. The roots of one of its main paradigms, the use of Italian instead of Maltese (or English), proved not to be too deep for it to wither away when the country faced hostilities from Fascist Italy – to be replaced by a somewhat Italianised Maltese. This developed into a territorial nationalism with a pre-independence movement based on a civic model of the nation, seeking to eject foreign rulers, the British, and substitute a new nation-state for the old colonial territory. Smith calls this \textit{anti-colonial} nationalism; Frendo calls the nationalism of the \textit{italianità} faction \textit{colonial} nationalism (Frendo, 1994, p. 14), apparently referring to the same thing.

However, for Malta, this is not the whole story. Besides the territorial and (anti-) colonial nationalism, another type of nationalism was being developed,
based on the use of Maltese. This development – which in hindsight looks like a perfect demonstration of *divide et impera* – was encouraged by the British, who probably thought the colonial nationalism of the elite more potentially harmful to their military interests in this Mediterranean naval stronghold. This was especially true since the promotion of the use of English instead of Italian and the creation of a new anglicized elite was possible in the process. This particular identity developed under the wing of the Maltese Labour Party under Mintoff’s leadership in the 1950s, and even advocated political integration with Great Britain, on the grounds that it would bring about a general improvement in the standard of living (Cassar, 2000, p. xlvi), resulting in a referendum on the issue tabled by the MLP government in 1956. The other type of identity developed in the Nationalist Party, and the Catholic Church strongly objected to the idea as it was believed to undermine the church (Mitchell, 2002, p. 10). The nurturing of Maltese-language-based nationalism, however, eventually exploded in the face of the British in the 1970s, when it resulted in their complete expulsion from the islands, in a period when imperial interests had found unlikely new guardians in the former Italianate faction. This particular fact is harmonious with what Smith would say about political developments under territorial nationalisms of the sort: ‘pre-independence movements, whose concept of the nation is mainly civic and territorial will seek first to eject foreign rulers and substitute a new state-nation for the old colonial territory; these are anti-colonial nationalisms’ (Smith A. D., 1991, p. 82). The MLP, having previously proposed a union with Britain, finally ejected the British in 1979. After independence, the Maltese behaved in a way that Smith would describe as behaviour under a typical category of territorial nationalism: they sought to ‘bring together and integrate into a new political community often disparate ethnic populations and to create a new ‘territorial nation’ out of the old colonial state; these are integration nationalisms’ (Smith A. D., 1991, p. 82). However, the case must not be overstated. The Maltese are not two different nations or ethnic groups living on the same set of islands, but there is a deep split in the Maltese national character which is reflected in the duality of Maltese social life and politics, and which puts the Maltese squarely in Smith’s territorial nationalism category.

### 6.3 Conclusion of Part IV

It is obvious that small states such as Malta and Iceland would not exist if it were not, together with favourable geo-political conditions, the will of the people and the elites to have it that way, and that they, and even others, see some rationale for these particular entities to exist. Nationalism has been a binding force for these nations and has been in the forefront of the political
debate. In Malta, one of two significant political parties is even named the Nationalist Party. Its counterpart on the right in Iceland is named the Independence Party – not an altogether unrelated concept.

Some manifestations of Icelandic and Maltese nationalisms reveal similarities. Thus, despite their small size, in times of crisis both states tend to project a self-image of “power states” on the international scene when it comes to defending their interests, both utilising what has been called “the tyranny of the weak” to their benefit. Iceland did this, for example, during the Cod Wars, and Malta did it when negotiating with the British over the naval base. Some Icelanders even talk of the outcome of the Cod Wars as if they had won a military victory. The same applies to some of the reactions by the Icelandic authorities in the aftermath of the economic crash in Iceland in October 2008, e.g. the response by the manager of the Central Bank to the prospect of repaying debts which other nations believed Iceland was obliged to pay to creditors and depositors of the Icelandic banks abroad, which he flatly denied (Mbl.is, 7 October, 2008). This policy, however, proved unsustainable under overwhelming international pressure. A study of Icelandic nationalism in relation to environmental matters found that much of the discourse on Iceland’s contribution to environmental matters worldwide is ‘strongly coloured by nationalism’ and even ‘chauvinism often signified in sentences that start with ‘we are small and few but can contribute so much because of …’ (Jóhannesson I. Á., 2005, p. 506). This supports the theory that Iceland at least still has to take the leap from the Lockean culture of the post-Westphalian period to the Kantian culture of the post-Second World War period (Wendt, 1999). Despite rhetoric referring to friendships it defines its place in the world by its interests and treats other states as “rivals” or “allies”, not “friends”, and in return it is treated in the same way.

There are some marked differences in how nationalism manifests itself in Iceland and Malta, differences that most likely played a part in the political obstacles which those who favour European integration have had to face in these countries.

Despite its small population – and given that it finds ways to maintain economic stability and security – Iceland could be considered the “ideal” nation state. It is an isolated island with a homogenous population speaking a language devoid of dialects, with a founding myth akin to the biblical theme of the creation of the Nation of Israel, great literary achievements in the past, and a common “enemy” of sorts in the form of a long-time former colonial master, Denmark. As Hálfdanarson points out, Icelanders never looked upon their struggle for independence as anything but self-evident, because “in their eyes the nation is a natural fact and not a political idea’
(Hálfdanarson, 1996, p. 27)*. Icelanders never gave a second thought to the idea that history could have taken a completely different course, that Iceland’s status could have been quite different from what it is now and that Icelanders could have turned out to be something quite different. This in turn put a powerful tool into the hands of politicians, since reverting to nationalist rhetoric is the easiest route to an Icelandic heart – for a long time an almost undisputed route – since, as Hálfdanarson emphasises so thoroughly, ‘defending the independence and sovereignty of the nation has been the final objective of Icelandic politics – the vital aim Icelandic rulers have the duty to preserve’ (Hálfdanarson, 1996, p. 27)*. This particular feature of Icelandic nationalism, one that fits Smith’s category of “ethnic nationalism” relatively well, creates a serious political impediment to Iceland’s move towards the European Union: probably – if one wants to speculate – the most serious one.

This was not the case in Malta. Although Maltese politicians regularly use rhetoric that can be classified as nationalistic, and national symbols are widely respected and displayed in Malta, there has not been any consensus as to the political makeup of the Maltese nation and the country’s destiny similar to that found in Iceland. The nineteenth-century “nationalists”, who eventually formed the Nationalist Party, did not champion the Maltese language. Quite the opposite, their vision for Malta was an Italian one. Also, those who actually used and celebrated the Maltese language, were nevertheless quite happy to propose, and campaign for, Malta’s integration with the United Kingdom in the 1950s. Thus, two nationalisms can be found in Malta on the opposite sides of the well-documented political divide in the country. However, both fit the description of the aristocratic/higher-clergy territorial nationalism of the “lateral” ethnie, where the nationalism of the Nationalist Party and formerly the italianità faction stresses Malta’s Romance/Italic/European roots, while the nationalism promoted by the MLP stresses its Semitic roots and its bonds southwards across the Mediterranean.

In this manner, Smith’s framework can help to cast light on the cleavage apparent in Maltese politics and society, and also on the situation in Iceland, where for most of the twentieth century there was solid unity behind the vertical ethnie portrayed in Icelandic nationalism and national myths. This unity behind the concept of a nation which is basically ethnic and genealogical is more potent as a weapon against European integration when invoked as such than a disunited concept of a nation that is rather civic and territorial. In that manner the Icelandic ethnic nationalism poses a greater political impediment to integration than did Malta’s territorial nationalism.
Looking at Gellner’s theory of zones of nationalism in Europe (Gellner, 1998), one sees that Iceland would fall into zone 1, where nation-states were easily created, centred on dynastic capitals, although its independence would count as a minor ‘adjustment to the map as a result of nationalism’. Malta, having been denied participation in the unification of Italy on account of its being a British naval base, falls into zone 2. This can add to the explanation of why nationalism evolved in a different manner in Iceland and Malta. Another way to describe it would be to refer to the difference between Friedrich Meinecke’s _Staatsnationen and Kulturnationen_ as described by Hálfdanarson (Hálfdanarson, 2006, pp. 240-41). The former developed from a multi-ethnic composite monarchy to _une et indivisible_ nation-state, where the citizens spoke one language, and enjoyed equal rights. The latter signalled a future where nation-state boundaries were drawn along cultural lines, breaking up existing empires or uniting small states into one polity. ‘As it turned out, only the second type gained support in 19th-century Iceland, as cultural nationalism became hegemonic in Icelandic politics’ (Hálfdanarson, 2006, pp. 240-41).

This also reflects the difference in the conceptual constellation regarding European integration in the respective countries. Whereas in Iceland, no acceptable way has been found of expressing the wish to abandon the sovereign nation-state and join a larger political unit, in Malta one can express such views. One can claim that at least half of the population understands and supports this viewpoint, even though the other half is against and perhaps even alienated by it.

Remarkably, the “sceptical” half of Maltese nation was not alienated by the discourse on entry into the European Union, which further underpins the theory that nationalism in Malta does not fit the ethnic brand. In fact, after the referendum was over – contrary to what happened in Sweden, Finland and even Britain and Denmark (all countries in Gellner’s zone 1) – attitudes towards the country’s membership of the European Union fell into place with those of other Mediterranean countries, and were relatively positive (Pace, 2004, p. 117).

It is also likely that Iceland’s protestant heritage added indirectly to the political impediments that proponents of European integration faced when arguing for it, while no such situation resulted from Malta’s Catholic heritage. It is tempting to say that Malta’s Catholic heritage lowered the political impediments to integration, but that cannot be stated with the same level of likelihood.
This, then, answers the research question addressed in this chapter, i.e. to what extent notions of national identity and nationalism contributed to the political constraints facing Iceland and Malta and how they help to explain why Malta took steps to join the European Union while Iceland aimed for limited integration. The political impediments created by Iceland's protestant (Lutheran) heritage and ethnic nationalism were higher than those created by Malta's Catholic heritage and territorial nationalism.

Thus, we must add these factors to the analysis of the sensitivity of institutions/aspects. They are listed in Table 6.1 below the factors listed in Table 5.1 (grey) the potentially integration-sensitive identities are printed in italics.

**Table 6.1 Modified institution/aspect indicator.**

<table>
<thead>
<tr>
<th>Institution/aspect</th>
<th>Country</th>
<th>Iceland</th>
<th>Malta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alignment policy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NATO membership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defence agreement w. US</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Economic sectors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisheries sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Political system</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-party system</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Religion</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lutheran</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nationalism</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethnic</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Neutrality since 1979

Manufacturing

Tourism

Two-party system

Catholic

Territorial
7 Part V – Political impediments

7.1 The debate in Iceland and Malta: a content analysis

In this chapter a simple form of content analysis is used to examine positions in the debates on EU membership. Finally an assessment will be made of the level of the political impediments or constraints for Iceland and Malta, based on Chapters 4-6.

Content analysis is a simple form of discourse analysis, which in its current form owes much to the analysis of social history and contemporary culture by Michel Foucault (e.g. Foucault, 1972, 1980), in which he describes the constructing character of discourse, i.e. how discourse actually defines, constructs and positions human subjects (Luke, 1995). There are severe limitations to discourse analysis that must be taken into account. Discourse data does not tend to lend itself to distributional surveying; thus it is not possible to identify with any confidence recurring instances of ‘the same’ discourse phenomenon. Despite its limitations, and with them in mind, the identification of certain recurring arguments in the debates in Iceland and Malta can help to explain the different historical and political perspectives in these two countries, and thus, by linking them to Gstöhl’s model, add to our understanding of the different trajectories taken in relation to European integration in the last two decades. It is also helpful to keep in mind, as is emphasised by Wæver and Hansen, (2002, pp. 26-7), who use discourse analysis in their research, that what is being analysed is not what the individual decision makers really believe, nor the shared beliefs among the population, but the codes that are used when actors relate to each other. Thus the discursive structures are not properties of the Maltese or Icelandic people, or of their politicians, but rather of the Maltese or Icelandic political arena. Thus it is important not to slide between discourse and speech, on the one hand, and perceptions and thought on the other.

Two periods are analysed in the Icelandic debate and one in the Maltese debate. The first period is September 2002-March 2003, which was the period preceding the referendum on EU membership in Malta (which took place on 8
March 2003) and also covering the run-up to the general election in Iceland in spring 2003. Thus, both Maltese and Icelandic sources from that period are analysed. The second period, from which only Icelandic sources are analysed, is September 2007-April 2008. This is the period when Iceland was beginning to feel in earnest the mounting pressure on its currency, the *króna*.

The sources used are Morgunblaðið (Morgunblaðið, 8 October 2002 - 20 March 2003) and (Morgunblaðið, 29 July 2007 - 22 April 2008), then Iceland’s largest daily newspaper and the venue of choice for most of those who wanted to participate in a public political debate in Iceland, regardless of party affiliation, and the *Malta Times* and the *Sunday Times* (The Times of Malta and The Sunday Times of Malta, 1 September 2002 - 27 February 2003), leading English-language newspapers in Malta, and *L-Orizzont* (L-Orizzont, 12 February 2002 - 30 December 2002), a Maltese-language newspaper. A total of 108 articles in Morgunblaðið were examined (from 2002-03 and 2007-08), 68 in the *Malta Times* and the *Sunday Times* and 93 in *L-Orizzont*, the aim being to cover most articles on the subject in the periods in question. 83

### Table 7.1 Content analysis.

<table>
<thead>
<tr>
<th>Units of analysis</th>
<th>Newspaper articles</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources</strong></td>
<td><em>The Malta Times</em></td>
<td><em>L-Orizzont</em></td>
</tr>
<tr>
<td><strong>Periods</strong></td>
<td>1.9.02-27.2.03</td>
<td>12.2.02-30.12.03</td>
</tr>
<tr>
<td><strong>No. of articles</strong></td>
<td>68</td>
<td>93</td>
</tr>
<tr>
<td><strong>No. in Malta</strong></td>
<td>161</td>
<td></td>
</tr>
<tr>
<td><strong>No. in Iceland</strong></td>
<td>108</td>
<td></td>
</tr>
</tbody>
</table>

The method used in analysing the articles is not to isolate all the particular arguments in each article but to identify the line of argument prevalent in each. Where two differing strands are found in an article, they are counted separately, thus the number of articles does not match the number of arguments. The arguments found in the debates in Iceland and Malta are divided into the following categories: *General economic arguments*, *the euro*, *agriculture*, *fisheries*, *fishing/hunting*, *sovereignty*, *cultural arguments*, *system-affecting state arguments*, religious arguments, arguments stating that *the EU is generally bad*, *security arguments*, *fear of isolation*, *partnership* (the option favoured by the MLP) and *political other* (see Table 7.2). These factors were chosen after a

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83 My examination of *L-Orizzont*, a Maltese-language newspaper, was made with the assistance of Lara Pace under the supervision of Prof. Roderick Pace at the University of Malta.
careful analysis of the arguments in the articles and then the articles were sorted into these categories. They are thus a result of the judgement of the researcher, and broader or more specific categories might possibly have been used. Nevertheless, these factors give a good indication of the main arguments in the debates in the countries.

Table 7.2 Categories of arguments.

<table>
<thead>
<tr>
<th>Iceland – opponents</th>
<th>Malta – opponents</th>
<th>Iceland – proponents</th>
<th>Malta – proponents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>EU bad</td>
<td>Cultural</td>
<td>Cultural</td>
</tr>
<tr>
<td>General economic</td>
<td>General economic</td>
<td>General economic</td>
<td>General economic</td>
</tr>
<tr>
<td>EU bad</td>
<td>Fishing/hunting</td>
<td>Fisheries</td>
<td>Isolation</td>
</tr>
<tr>
<td>Fisheries</td>
<td>Partnership</td>
<td>Political other</td>
<td>Political other</td>
</tr>
<tr>
<td>Political other</td>
<td>Political other</td>
<td>System affecting state</td>
<td>Religious</td>
</tr>
<tr>
<td>Sovereignty</td>
<td>Religious</td>
<td>The euro</td>
<td>Security</td>
</tr>
<tr>
<td>The euro</td>
<td>Security</td>
<td></td>
<td>System affecting state</td>
</tr>
<tr>
<td></td>
<td>Sovereignty</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These arguments are in turn categorised according to the variable dimensions in Gstöhl’s domestic constraints (see Table 7.3 and Table 7.4). The ones that are printed in *italics* are only used by opponents of EU membership. 84

Table 7.3 Arguments linked with institutions/aspects.

<table>
<thead>
<tr>
<th>Institutions/aspects</th>
<th>Alignment policy</th>
<th>Economic sectors</th>
<th>Political system</th>
<th>Religion</th>
<th>Nationalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>arguments</td>
<td>fear of isolation</td>
<td><em>agriculture</em></td>
<td>political other</td>
<td>religious</td>
<td>sovereignty</td>
</tr>
<tr>
<td></td>
<td>security</td>
<td>fisheries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>system-affecting state</td>
<td>general economic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>the euro</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7.4 Arguments linked with cleavages.

<table>
<thead>
<tr>
<th>Cleavage</th>
<th>Regional</th>
<th>Social</th>
<th>Cultural</th>
</tr>
</thead>
<tbody>
<tr>
<td>arguments</td>
<td><em>agriculture</em></td>
<td><em>Partnership</em></td>
<td>Cultural</td>
</tr>
<tr>
<td></td>
<td><em>fishing/hunting</em></td>
<td></td>
<td><em>EU bad</em></td>
</tr>
</tbody>
</table>

84 Note that agriculture, even though being an economic sector, is put in the regional cleavage category in Table 7.4, and thus coloured grey in Table 7.3.
Arguments used by the proponents

An examination of the debate on integration in the Icelandic press and the largest English-language and Maltese newspapers in Malta at the time reveals a strikingly different emphasis on sovereignty issues in the two countries. Primaries in Iceland’s largest political parties took place in late autumn 2002, occasioning much posturing on issues such as membership of the EU. In the actual election debate in early 2003, the EU issue became much less visible, and was treated almost as something that should be kept out of the debate so as not to ruffle any feathers unnecessarily (see 5.1.3.).

A word on the use of English in Malta: generally speaking, Maltese people have a working knowledge of Maltese and English. In 1934, Maltese replaced Italian as the official language of Malta, alongside English. Maltese and English remain the official languages in Malta today. Maltese is the spoken language at practically all places of work in Malta, though a mixture of Maltese and English is often used. English is generally used for writing purposes. At the University of Malta, English was declared the only official language in 1947, while Maltese was declared official alongside English in 1971. Nowadays, throughout the education system, both Maltese and English are used. Frequently Maltese, mixed with English in various ways, is used as a spoken medium, while English is used for writing purposes. In government a significant amount of departmental correspondence takes place in English. In Parliament, Maltese is spoken while written reports are kept in both Maltese and English (Camilleri, 1992).

7.2 Arguments used by the proponents

A survey of the aforementioned newspapers in the period 2002-03 shows that those supporting a membership application by Iceland most often used economic arguments other than the adoption of the euro to support their positions and the argument that Iceland would ‘regain sovereignty’ inside the EU and in effect become a ‘system-affecting state’, as defined by Keohane (1969), and Pace (2001, pp. 402-03)). Three people mentioned that having the euro would be good for the Icelandic economy. Only two of the membership supporters felt the urge to respond to the concerns about fisheries raised by those opposing membership, arguing that there was no indication that EU membership would be bad for Icelandic fisheries and that fisheries were becoming less and less important in the Icelandic economy. Only one person used the argument ‘we belong in Europe’ and one other mentioned that ‘nationalism was out of date’ (Morgunblaðið, 8 October 2002 - 20 March 2003), (see Figure 7.1.).
Figure 7.1 Arguments of proponents of Iceland’s EU membership 2002-2003.

Figure 7.2 Arguments of proponents of Malta’s EU membership, English language press 2002-2003.

Those supporting membership in Malta (in the English-language press) used arguments similar to those used by the advocates of EU membership in Iceland. Thus, 36% (22 of 62) used direct economic arguments – generally that membership would be good for the stagnant Maltese economy. Eight used arguments that could be put in the ‘system-affecting state’ category mentioned above. Fear of isolation and of being ‘left behind’ outside the EU (a factor not seen in Iceland) was an argument used by eight of EU advocates in Malta as well and 5 used cultural arguments. Other political argument were used by eight directly addressing the arguments of
Arguments used by the opponents

opponents on a party-political level (The Times of Malta and The Sunday Times of Malta, 1 September 2002 - 27 February 2003), (see Figure 7.2).

When Iceland was beginning to feel increasing pressure on its miniscule currency in late 2007 and early 2008, the debate on EU membership was given a new boost in the form of calls to adopt the euro or some other currency. Looking at the period July 2007-April 2008, one can see that the largest section of pro-EU arguments at the time are economic, the majority of them involving the proposal to adopt the euro. Although this sample is not large enough to use as a basis for exact statistical information, it gives an indication of the strength of the “euro argument” as seen by proponents of EU membership in that period (Morgunblaðið, 29 July 2007 - 22 April 2008), (see Figure 7.3).

![Bar chart showing arguments for EU membership in Iceland (2007-2008)](Figure 7.3 Arguments of proponents of Iceland’s EU membership 2007-2008.)

### 7.3 Arguments used by the opponents

As is to be expected in the light of the discussion on Icelandic nationalism above (see 6.1), almost two-thirds of those who opposed Icelandic membership in 2002-03 referred directly to the preservation of sovereignty and independence; a further 13% invoked these reasons indirectly, mentioning the loss of control over fisheries resources. Almost one-fifth used other economic arguments, e.g. agriculture. Only one person mentioned contact with the US as an alternative for Iceland (Morgunblaðið, 8 October 2002 - 20 March 2003) (see Figure 7.4).

‘The final stage of the “integration process” is the founding of the United States of Europe. Membership of the EU would mean the end of Icelandic independence and sovereignty’, said Ingvar Gíslason, a former Minister of Education for the Progressive Party (Gíslason I., 2002)*. ‘Do Icelanders want to go back to eking out a miserable existence as they did during the period of
the Danish monopoly? I think it is better to stay out of the EU and remain an independent nation as long as possible’, said Einar Gíslason, a schoolteacher (Gíslason E., 2002)*. ‘It took us hundreds of years to liberate this country from the Danes. Are we going to live to see a tough band of traitors sell our country into the hands of much crueler rulers?’, asked Karl Jónatansson from Reykjavík (Jónatansson, 2002)*. And in a similar vein: ‘The [Social Democratic] Alliance (and Halldór Ásgrímsson) want [Iceland] into the EU although any sane man can see that this is the same as selling the country into the hands of the king of Norway [in 1262]... and look how well that went!’, said Ragnar Eiríksson, a farmer (Eiríksson R., 2002)*, comparing the current age to the ‘Age of the Sturlungar’ in the thirteenth century. ‘EU membership is joining a superstate where we would have no say in it at all’, said Eyþór Arnalds, a member of the board of Heimssýn (the anti-EU organisation) (Arnalds, 2002)*.

![Bar chart showing arguments of opponents of Iceland's EU membership 2002-2003.](image)

**Figure 7.4. Arguments of opponents of Iceland's EU membership 2002-2003.**

In 2007-08, the focus on the euro was reflected in the arguments used by the opponents, who directly tackled the euro question, either by arguing for the króna or other currencies, in about one-fifth of the cases. Other economic arguments – including those related to agriculture – accounted 10%, so the euro issue obviously had a very significant and direct impact on the debate in Iceland. However, one emphasis remained: in a majority of the cases, the sovereignty issue was touched upon in one form or another (54%). It is interesting to note, concerning the prevalence of the fisheries argument at the elite level for a long time, that in the newspaper debate in 2007-08 this was directly mentioned only once of the instances as the main argument used by opponents of Iceland’s membership of the EU (Morgunblaðið, 29 July 2007 - 22 April 2008), (see Figure 7.5).
Arguments used by the opponents

Figure 7.5 Arguments of opponents of Iceland’s membership 2007-2008.

Ingvar Gíslason, the former minister, wrote again on the issue: ‘The chairman of SGS 85 believes the theory that the future of working Icelanders depends on Iceland joining the EU, a federal superstate, and thus relinquishing completely the political independence and sovereignty of Iceland... In truth, I trust the judgment of Davið Oddsson... better than that of some calculators finding pleasure in calculating Iceland’s independence to hell, if not the króna, then our own mother-tongue’ (Gíslason I., 2007)*. ‘The transfer of sovereignty of the member states to the EU will be forced through without consulting the people’ said Ragnar Arnalds, a former chairman of and Minister of Finance for the People’s Alliance and chairman of Heimssýn, writing on the Lisbon Treaty (Arnalds R., 2007)*. ‘In view of the unconditional surrender of the freedom of economic negotiations with nations outside the EU and the extensive law-making powers of the EU, there is a great amount of isolationism and loss of sovereignty in accession negotiations with the EU. The loss of sovereignty with EU membership is not only opposed to the patriotism of the Progressive Party, it is in serious opposition to the long-term economic interests of the nation’, said Bjarni Harðarson, an MP for the Progressive Party at the time (Harðarson B., 2008)*.

Economic arguments against membership were used much more frequently in Malta than they were in Iceland. Of those opposing membership in the English-language press in Malta, 38% cited economic arguments (EU policy did not suit Malta, unemployment would rise, tourism would suffer, etc.). ‘The implementation of regulations on the circulation of products and services would undermine a number of companies which have

85 Starfsgreinasamband Íslands, the Federation of General and Special Workers in Iceland.
developed business with Libya,’ said Alfred Sant, the leader of the Labour Party (The Times of Malta, 2003). ‘Many pro-EU membership campaigns, especially in Malta and Gozo, have been built on the platform that membership would mean that once in the EU the calendar would have only one date on it: December 25’ said Evarist Bartolo, spokesman for the Labour Party on EU issues (Bartolo, 2002). ‘European Union membership not only imposes a financial burden with respect to tax payments made by Malta to the EU but also as a result of the obligatory requirement to participate in EMU’, said Leo Brincat, Labour Party spokesman on the economy and finance (Brincat, 2003).

Figure 7.6 Arguments of opponents of Malta’s EU membership, English language press 2002-2002.

In the period, almost a third referred, directly or indirectly, to sovereignty issues. Former Labour leader and Prime Minister, Karmenu Mifsud Bonnici said ‘EU integration devours Malta’s independence. I do not want my country to lose its precious independence and sacred freedom…’ (Bonnici, 2002). ‘In its obsessive, compulsive drive to steer Malta into EU waters, the government is committed to jeopardise the entire nation’s foundations’, said Charles Vassalo of Ghargur (Vassalo, 2003).

Around one in ten mentioned the “Partnership option”, created and advocated by the Malta Labour Party (The Times of Malta and The Sunday Times of Malta, 1 September 2002 - 27 February 2003), (see Figure 7.6). Religious arguments, such as opposition to abortion on the opposing side and the Pope’s support for European integration on the other, appeared in Malta, albeit not in large proportions, while arguments referring to religion were non-existent in Iceland. ‘[T]he Pope is no canvasser for the EU!
Individual priests may certainly be, anywhere. But they certainly cannot speak for the Church. If anyone doubts my facts, there is only one solution. Visit the www.vatican.va site, click on the English version and be guided there. Facts are sacred’ said Joe Brincat (Brincat J., 2002).

In Malta, it was interesting, in the light of the “language issue” in Maltese history mentioned above, to go through the English-language and the Maltese-language press separately to find out if there were any significant difference in the arguments used, e.g. with issues of sovereignty mentioned more frequently in the Maltese-language press, but this was not the case; If anything, such arguments were used rather less frequently in the Maltese-language press than in the English-language press (16% compared to 29%). Economic arguments were invoked in half of the instances in the Maltese speaking press, (L-Orizzont, 12 February 2002 - 30 December 2002), (see Figure 7.7).

![Figure 7.7 Arguments of opponents of Malta’s EU membership, Maltese language press 2002-2003.](image)

### 7.4 Conclusions

The conclusions that can be drawn from this analysis are that the proponents of EU membership in Iceland and Malta used similar arguments to underpin their case – first and foremost economic arguments, and secondly “system-affecting state” arguments (see Figure 7.8). The majority of arguments used in both countries fell into these two categories, although the diversity of arguments for EU membership was greater in Malta than in Iceland, where three quarters of the arguments were economic or “system-affecting state” arguments. Also, the issue of the euro occupied much more space in the debate in Iceland than in Malta, especially in the latter period examined.
Part V – Political impediments

The differences between the arguments used by opponents of EU membership in the two countries were more striking (see Figure 7.9). In Malta, economic arguments against membership were much more frequently used than in Iceland – possibly since, in the periods in question, the economic changes anticipated as a result of membership were perceived to be much

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**Figure 7.8 Arguments of proponents in Iceland and Malta (% of all).**

**Figure 7.9 Arguments of opponents in Iceland and Malta (% of all).**

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86 n=92 (number of arguments categorized).

87 n=152
greater in Malta than they would be in Iceland; apart from the euro issue, the Icelandic perception before the economic crash was that the country had already reaped much of the economic benefits of EU membership by having joined the EEA. The largest difference consisted of the overwhelming use of the “loss of sovereignty” argument in Iceland; this seems to have bothered the Maltese to a much lesser extent.

This general reading of the debate in Iceland is in harmony with the findings of Hálfdanarson (2004), Thorhallsson (2004e) and Einarsson (2009) that protecting Iceland’s sovereignty and independence is paramount in the Icelandic political debate concerning European integration issues. The debate in Malta was much less influenced by the language of sovereignty and independence, and much more focused on arguments cited by the opposition MLP, such as the partnership option that the party itself had proposed. Economic arguments dealt with the threat of unemployment and the claim that the cost of membership would probably outweigh the benefits. Some also strongly criticised the fact that the funds, which the government allegedly promised would follow EU accession talks, would not be forthcoming. There is one factor that might explain at least some of the technical aspects of the debate in Malta compared with the more ideological themes in the Icelandic debate. This is the fact that in Malta, the discussion focussed on an agreement with the European Union, while in Iceland, the debate was on whether to apply for membership. It will be interesting to revisit the debate in Iceland when (if?) the Icelandic negotiators return with an accession agreement.

The debate in Malta reflected the serious partisan and political split that existed in the country, on which see Godfrey A. Pirotta (1994) and in particular Michelle Cini (2002). Cini says that to maintain a difference between the two parties in a period of political convergence, the split on the EU question came in handy. ‘It is for this reason, that maintaining the party political division on Europe was so important. Whether pro-EU or anti-EU, this division has become emblematic of the differences between the two parties, at a time of convergence in other policy domains’ (Cini, 2002, p. 13). The answers in the interviews in Malta presented above reflect this fact well.

To say that the language of sovereignty is less prevalent in Malta than in Iceland is not the same as saying it does not exist. It clearly does. The Maltese have a strong sense of national identity, which is frequently displayed and mentioned. But it is different from the one found in Iceland. This in turn has an effect on how Malta’s relations with Europe, and potential EU membership, were portrayed in the debate and how they were ultimately conceived by the elites and the nation. To rephrase Gstöhl: the
perception of the integration scheme was closer to Maltese national features than to Icelandic ones, because of the different importance of operational sovereignty versus international voice opportunities (Gstöhl, 2002, p. 222) this was due to the different nature of nationalism in the two countries, which is illustrated in Sections 6.1 and 6.2 above.

Another peculiarity leaps to the eye when analysing the debates in Malta and Iceland on European integration issues: the fact that the discussion is almost entirely dominated by men, many of them middle-aged and older. In Malta – in cases where gender could be deduced from the names of the writers (this applies to most cases) – 96.7% of the articles were written by men, 3.3% by women. In Iceland, the situation was not very different: 88.7% of the articles were written by men and 11.3% by women. It must be taken into account that many of the male authors contributed articles to the press again and again, but this also applies to the women. Those who write once are likely to write again on the same issue. However, the reason for this is itself a topic for a separate study.

7.5 Conclusion of Part V

7.5.1 A final assessment of the political impediments

To refresh our memory on what the political impediments to integration are, they are either domestic or geo-historical obstacles to renouncing operational sovereignty (Gstöhl, 1998, p. 86). The obstacles are considered integration-sensitive if they are perceived to be negatively affected by integration, and the crucial point is not that they are really endangered by integration, but that they are perceived as such. So to assess if they are low, medium or high one has to assess the perception of the elite (the government) at any given time as to their seriousness. Above we have sorted out the make-up of the main obstacles. Below we assess how they come in to play.

7.5.2 Geo-historical constraints

Looking at the geo-historical constraints, first it should be recalled that they consist of the compatibility of foreign policy of the nation in question with the integration area, on the one hand, and of the experience of foreign rule on the other.

7.5.2.1 Compatibility of foreign policy

Iceland’s foreign-policy tradition could be categorised as Nordic/North European. Iceland is deeply involved in Nordic cooperation and is a member of EFTA, the EEA and NATO. All this puts it in a certain category
Conclusion of Part V

in the world when it comes to its foreign-policy tradition and is perfectly compatible with EU membership, though its being a Nordic country has rather tended to promote scepticism towards European integration. However, Iceland’s international relations seem to have a lot in common with the Lockean culture as described by Alexander Wendt. This is not necessarily incompatible with EU membership, though it can pose problems, particularly when it comes to Iceland’s willingness to stir up a fight with its neighbours, which are often EU countries and are backed by the EU in their disputes. This has not changed significantly over time, although there are indications, e.g. in the Icesave debate mentioned above, that the government of the Alliance and the Left-Green has been more willing to negotiate the end result rather than “fight it out” as a good part of the opposition has been willing to do. It is too early, though, to say whether this marks the beginning of a real change in Iceland’s foreign policy or not. While insufficient research has been done to make it possible to make a similar assessment of Malta’s recent foreign policy, its tradition under Dom Mintoff was most certainly Lockean as well. Iceland’s alignment policy has consisted, on the one hand, of NATO membership, which Gstöhl deems compatible with EU membership (Gstöhl, 1998, p. 183), and on the other hand of the defence agreement with the United States, which, at least while the American base was stationed in Iceland, was an integration-sensitive issue. Maltese neutrality is integration-sensitive, as can be seen from the use that has been made of it – though relatively rarely – by opponents of EU membership. In sum, the foreign policy indicator for Iceland was strong until 2006, when the Americans left; then it moved to medium, as Iceland sought new ways of ensuring national security in much closer cooperation with its European allies. After the change of government in 2009, the importance of this indicator changed to low, yet was still mentioned as a rationale for EU membership in the commentary to the proposal for the membership application in Alþingi (Alþingi, 2009). This indicator is low for Malta during the period 1989 until joining the EU in 2004, with the exception of 1996-1998, when the MLP was in power. During that period it was high.

7.5.2.2 Experience of foreign rule

The foreign rule indicator looks at the importance of past foreign rule, and to a lesser extent the experience of World War II. For both countries the indicator is significant and frequently used in the discourse in both countries in the form of the sovereignty issue. It touches on the sense of national identity in both countries. The experience of World War II is less significant
in that respect. This indicator has remained strong in Iceland and also in Malta, though less so. In the wake of the elections in 2009, it seemed that it would no longer pose an obstacle in the way of an EU membership application; thus, it was low at this time.

Summing up, the geo-historical constraints were strong for Iceland until the parliamentary elections in 2009 when they turned low. They were low for Malta throughout, with the exception of 1996-1998, when the MLP was in power. During that period they were high.

7.5.3 Domestic constraints
Domestic constraints consist of the sensitivity of institutions/aspects and cleavages towards integration.

7.5.3.1 Societal cleavages
Looking first at the cleavages, the most serious cleavage in Iceland is the metropolitan-rural cleavage which, in the debate on EU membership, manifests itself particularly in the argument on the future of agriculture and, to a lesser extent, of fisheries. It is also a factor in the political landscape in Iceland, where the rural areas have traditionally been strongly represented in the Alþingi, especially by the Independence Party and the Progressive Party. This cleavage is significant and has its effect on the debate in Iceland. In Malta the main cleavage is the social one represented in the two major political parties, a reflection of the cultural cleavage between the “European” identity and the “Mediterranean” identity. This cleavage had a strong influence on the debate in Malta, but it worked both ways. When the NP had the upper hand it worked in favour of EU membership, when the MLP was in power it was the other way around. Thus, while in Iceland the effect of the cleavage on European integration is medium throughout the period, the effect in Malta was weak with the exception of 1996-1998, the years Labour came into power.

7.5.3.2 Sensitivity of institutions/aspects
Looking at the institutional indicators as they are presented in Table 6.1 one sees that with the exception of NATO membership they are all potentially integration-sensitive. The sectoral factor exerted a strong influence on the approach of the elite, especially within the Independence Party, towards European integration. The multi-party system has made it difficult to form a government where the integration-sensitive sectors are not represented, and Iceland’s Lutheran heritage, though not very significant in the debates, is
not supportive of integration. Finally, the most significant factor, ethnic nationalism in Iceland, is strongly represented in the debate in the overwhelming emphasis on issues of sovereignty and independence. It is clear that the institutional/aspect indicator is highly integration sensitive throughout the period. In Malta the situation was different. The neutrality indicator was, as mentioned above, integration sensitive, but perhaps not overwhelming in the debate. The integration sensitivity of the manufacturing sector was reflected in the prevalence of economic arguments against membership in the debate, though the economic opportunities, e.g. in the tourism sector, tended to outweigh it. The two-party system reflected the double-edged effect outlined above in the discussion on cleavages and, even though religious arguments were definitely used against membership of the EU, Catholicism is, for its supra-national character, rather conductive for European integration. Finally, territorial nationalism in Malta was less integration sensitive than the ethnic variety in Iceland. This is also reflected in the lower occurrence of sovereignty arguments in the debates in the two countries. Therefore, the institutional/aspect indicator for Malta was rather weak. This being so the domestic constraints for Iceland were high for the period until the elections 2009 when they become low, while they were low for Malta, except for the years 1996-1998 when they were high.

Summing up for the calculation of the political impediments, the political impediments for Iceland remain “high” throughout the period 1989 – spring 2009 when they turn “low” and for Malta they are “low” except for 1996-1998 when they are “high” (see Figure 7.10).

![Figure 7.10 Iceland’s and Malta’s political impediments.](image-url)
8 Conclusion

8.1 The results of the application of Gstöhl’s model

8.1.1 What the model shows

The general purpose of this thesis is to test the theoretical framework of Sieglinde Gstöhl and how it explains the routes Malta and Iceland have taken towards EU membership. For this, a modified version of Sieglinde Gstöhl’s model on economic incentives for membership of the EU and political impediments has been used, together with a deeper discussion of nationalism and national identity in Iceland and Malta, followed by an analysis of the debate in periods of importance to the integration process in the two countries. To reach a conclusion, a series of research questions are asked, one general and five specific. Four of the specific ones have been tackled in the chapters above. It is time to sum up the findings and assess what information can be read from them with regard to the dependent variable – the level of integration aimed at – what it can tell us on the usefulness of Gstöhl’s framework and how it can help in answering the fifth specific research question before answering the general one and testing the hypothesis. For this purpose we put into a table (Table 8.1) the estimated strength of economic incentives and political constraints at important dates in the integration process in these two countries in the period 1989 – 2009.

Table 8.1 Incentives and impediments to integration.

<table>
<thead>
<tr>
<th>High Political Impediments</th>
<th>Medium Political Impediments</th>
<th>Low Political Impediments</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Economic incentives</td>
<td>Medium Economic incentives</td>
<td>Low Economic incentives</td>
</tr>
<tr>
<td>High</td>
<td>Medium</td>
<td>Medium/low</td>
</tr>
<tr>
<td>EU application 2009 (IS)</td>
<td>EC application, 1990 (M)</td>
<td></td>
</tr>
<tr>
<td>EU application revival 1998 (M)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Medium/low</td>
<td>Low</td>
</tr>
<tr>
<td>EEA, 1989 (IS)</td>
<td>Frozen application 1996, (M)</td>
<td>EEA member, 1993 (IS)</td>
</tr>
<tr>
<td></td>
<td>Euro debate, 2006 (IS)</td>
<td></td>
</tr>
</tbody>
</table>

The table demonstrates how, in the early 1990s, Malta and Iceland were in a similar position in terms of economic incentives to participation in the European integration process; these incentives were medium to high (denoted with an arrow in Table 8.1). In Malta, the overall export
The results of the application of Gstöhl’s model

dependence was high, and the traditional Gstöhl model would give us the results of high incentives right up to the time of entry into the EU. However, the modified model indicates medium incentives due to important economic indicators being better in Malta than in the EU average (unemployment, growth, inflation). This also gave the opponents of EU membership arguments against joining, and economic arguments were – when looking at the debate – those most frequently used against membership in Malta. When the EC application was frozen in 1996, the economic incentives were medium (the modified variable) to high (overall export dependence); however, the political impediments had moved to high due to a change of government. When the EU application was revived again in 1998, the economic incentives were high and the political incentives were medium.

In Iceland, the political impediments were high for most of the period in question. Since neither agriculture nor fisheries were in a significant manner affected by the EEA, the political impediments against joining it were low, but EC/EU membership was never politically achievable at the time, due to the high political impediments against that move. Although the Social Democratic Party, in government at the time, proposed an EU application in the election debate of 1995, its leading coalition partner, the Independence Party, was opposed to such a move. After the EEA was established, Iceland moved to the bottom right-hand corner of Table 8.1, with high political impediments to further integration and low economic incentives for it. This would seem to explain why Iceland did not seek EU membership in the period (as did most of its partners in EFTA), but rather sought limited integration. Iceland’s political impediments, as defined in the model, stayed high throughout the period before the parliamentary elections in 2009. The strength of ethnic nationalism in the debate and the institutional impediments this entailed made it difficult to allow for such a things as an EU membership application. This, then, answers the fifth research question on whether the economic incentives facing Malta were higher than those facing Iceland, and whether the political constraints facing Iceland were higher than those facing Malta and if so, to what extent that helps to explain why Malta took steps to join the European Union while Iceland aimed for limited integration. During the entire period, strong economic incentives to integration remained consistently in place for Malta. The export dependence dimension of Gstöhl’s model would give that result, while the modified dimensions used in this thesis give a rather more varied result. It is also quite obvious that the domestic political impediments in Malta changed with the changes of government (since the party system in Malta allows for complete changes in policy by the government on any matter), first in 1987 from high to
low, then from low to high in 1996 and again to low in 1998. The obstacles which remained were fought out and positively decided in a referendum in March 2003, and again in the general election in April of the same year.

In Iceland, the crash that led to high economic incentives to an EU application also led to fresh elections, which paved the way for an EU application to be approved by the Alþingi. Paradoxically, results on election night showed that there would be a majority in favour of applying, though this did not coincide with the new government coalition when this was eventually formed. For the first time in history there was a majority government without the participation of either the Progressive Party or the Independence Party, and for the first time since the negotiation of the EEA treaty in the early 1990s the Independence Party, with its extensive connections with the fishing-quota holders, was not in government; this can be said to have removed the final obstacle on the way to an EU membership application. The way was open for a deal between the Social Democratic Alliance and the Left Greens on letting an application through. It was close, but on 16 July 2009 it finally happened and at least the membership application process most likely still enjoys a majority support in parliament, even though EU membership per se might not!

8.2 Reviewing the hypothesis

The general research question of the thesis is: Given the extensive opposition towards EC/EU membership in Iceland and Malta, why did Malta take steps to full membership of the European Union by applying for it in 1990 and joining in 2004, while Iceland aimed for limited integration until 2009? The main hypothesis tested states that the main reasons why Malta applied for EU membership in 1990 and eventually joined the European Union in 2004, while Iceland aimed for limited integration until 2009 are:

1. Malta’s economic incentives remained high since the early 1990s, while Iceland’s economic incentives decreased from high to low with the creation of the EEA. They became high again with the economic crash in Iceland in 2008.
2. Different options for integration were available to Iceland and Malta, making Malta aim for full membership of the EU, while Iceland could aim for limited integration, i.e. the lowest level of integration available to relieve the economic pressure to integrate.
3. Iceland’s political impediments, generated by its ethnic nationalism and leading economic sectors, were higher than those created by Malta’s political cleavage and territorial nationalism.
Reviewing the hypothesis

Below these general statements of the hypothesis are evaluated in the light of the results of Gstöhl’s model.

**8.2.1 Economic incentives to integration**

At the beginning of the 1990s, both Iceland and Malta had high economic incentives to seek participation in European integration projects. Both sought these opportunities in the final years of the 1980s and the beginning of the 1990s, Iceland by participation in the EEA process, Malta by applying for membership of the EC.

Iceland managed to secure its most important economic interests at the time by joining the EEA, together with Austria, Finland, Norway, Sweden and Liechtenstein, so lowering the economic pressure towards further integration. Even though Austria, Finland and Sweden later joined the EU, the EEA Agreement remained in force, securing Iceland the “four freedoms” and most of the economic benefits of the internal market. Malta did not have a similar opportunity, as it had resisted embarking on the second phase of the Association Agreement leading to a customs union with the EU. Malta was thus left with fewer options of either joining or entering uncertain bilateral negotiations with a reluctant EU. Its membership application was, however, side-lined for years by the EU, which was busy with the enlargement to include the EFTA states and the fallout of the Cold War, with the result that nearly one-and-a-half decades elapsed between Malta’s application and its actual accession.

Malta – now a member of the EU – relies much less on primary sectors than Iceland has done for the last 50 years or so. Combined, its agriculture and fisheries sectors amount on average to 2% of Malta’s Gross Domestic Product (GDP), (National Statistics Office Malta, 2005); the corresponding figure for Iceland during 1990-2005 was 13.7%, with fisheries as the main export industry (Hagstofa Íslands, 2009). This particular feature can be said to lend its support to Ingebritsen's theory, which argues that the economic structure of the Nordic countries is a decisive factor in their joining or not joining the EC/EU. For most of the period in question, the attitude of the primary sectors in Iceland had a hampering effect on moves towards EU membership, while the importance of tourism and manufacturing in Malta had the opposite: a positive influence.

In the period in question, Iceland’s currency was floated, exposing the inherent instability in having a minor currency in a globalised environment; first it was exceedingly strong, which damaged export industries; later the currency crashed, with unforeseen consequences for homes and businesses; the situation
was exacerbated by the collapse of the banking sector at the same time, pulling the perceived economic incentives up from medium to high.

Thus, while Iceland’s economic incentives to join the European Union went from high to low with the establishment of the European Economic Area in the early 1990s and then through medium to high again in 2008, Malta’s incentives to join remained medium to high right until her accession to the European Union in May 2004. This goes far in explaining why the two countries ended up on different paths in the integration process. Therefore it is clear that the economic situation in Malta contributed to the perceived necessity of EU membership. In Iceland, the relatively good economic situation in the period in question strengthened the arguments of those who opposed EU membership. No such ominous clouds were to be seen on the horizon as to entail the inevitability of EU membership; the perceivable benefits brought by the EEA seemed fully sufficient (although some people were beginning to mention the desirability of adopting the euro). It was better to watch the affairs of Europe from afar, and be free to decide one’s own course of action as regards relations with the rest of the world. However, since the economic collapse of 2008, and especially the collapse of the króna, the economic incentives to join the EU and adopt the euro have gone from low, through to medium up to high, culminating in the membership application of 16 July 2009.

8.2.2 Different options

Addressing the second part of the hypothesis, it is clear that Malta lived with geo-historical constraints that were different from Iceland’s. Iceland followed what Gstöhl calls ‘a path-dependent process’ (Gstöhl, 2002, p. 222) and gradually became more and more involved in the integration process through its membership, first of EFTA and then of the European Economic Area (EEA). In Malta, despite the ideas of the Labour Party regarding a free-trade agreement or “Partnership,” the question was really one of full membership of the European Union or nothing. After Iceland took the step of joining the EEA, the incentive towards joining the European Union, which was relatively high in the beginning of the 1990s, was perceived as miniscule for over a decade. Even in the wake of the crash of October 2008, when pressure mounted on Iceland to look into adopting the euro, some people still wanted to find ways of maintaining operational sovereignty and adopting the euro without joining the EU (Nefnd um þróun Evrópumála, 2009, p. 60). Malta did not, at the time of seeking membership of the EU, have the option of following this process of limited integration. It
Reviewing the hypothesis

was made perfectly clear by EU officials during Malta’s negotiations and ratification process that nothing similar to the EEA or the Swiss option was on offer. It was full membership or nothing (Fava, 2003). Thus, the only apparently viable way to relieve the pressure towards membership was by joining the EU.

Thus, Malta did not have the options Iceland had on the grounds of its EFTA membership and its being a Nordic country and a NATO member, so being able to relieve the pressures towards further participation in the European integration process by means other than EU membership. However, as the crash revealed so painfully for Iceland, its economic security was not guaranteed by being a part of the EEA; rather, this exposed it to serious hazards caused by having to adhere to EEA rules without having the security of full EU membership, the euro as its currency and the backing of the European Central Bank. Katzenstein's theory would have predicted that Iceland would apply for EU membership as a way to gain this security (Katzenstein P., 1997). Whether this will lead to membership is another matter. Thus different geopolitical situations of Iceland and Malta gave them different choices for relieving the pressures towards European integration, which explains why Malta did not take Iceland’s route of gradual integration. However, it does not by itself explain why Iceland did not apply for EU membership until after the crash of 2008.

8.2.3 Political impediments to integration

As the difficult fight and close referendum in March 2003 showed, substantial political obstacles faced Maltese politicians in their bid to join the EU, just as in Iceland. The hypothesis here is that they were more substantial in Iceland.

The political situations in Malta and Iceland differ in an important respect: the party systems. While Malta has a two-party system, where the party in power has a full mandate to push through its agenda, even in the face of complete disagreement from the opposition, and can also depend on the full support of its followers in a referendum on the issue, this is not the case in Iceland. Even though Icelandic politics have been confrontational, they have not been so in the same clear-cut manner as has been the case in Malta. So, even when the largest political party in Iceland puts EU membership on its agenda, it cannot get it through without help from other political parties, and – if the case of Norway can be used as a comparative example – even the support of all the largest parties would not guarantee that membership would be accepted in a referendum.
It is clear that the polarised political culture in Malta – the political reality that it is possible for a government party to push through its agenda no matter what – contributed to the opposition expressed against EU membership, which supports Cini’s findings on the political split in Malta (Cini, 2002). In the same manner, this political reality helps to explain the steps Malta took towards joining the EU when the Nationalist Party took office in 1987, aiming to distance Malta from the position adopted in the Mintoff period of anti-Western policy and rhetoric and consolidating its position within the European fold. The confrontational political tradition also made it possible for the NP to take such a stance without any consideration for the views of the MLP and its followers. In Iceland, the manoeuvres available to parties in government have never been that easy. Majority governments in Iceland have always been coalition governments, and until 2009 these always included either the Independence Party or the Progressive Party, both of which had extensive links with sectors that were sensitive to integration and perceived these ties as significant and threatened by integration. The fact that the party that has upheld the most vocal opposition through the years against European integration – the Left Greens – supported (or let through) an application for EU membership when in government, seems to suggest that these links played a significant role in that respect.

The sensitive domestic constraints in Iceland facing European integration are particularly related to the position of the fishing industry, and to a lesser extent agriculture, in the country’s economy and politics. The direct connections between two of Iceland’s parties, the Independence Party and the Progressive Party, which remained in government for the longest, and the fisheries and the agricultural sectors, as shown by Thorhallsson and Vignisson (2004c, p. 97), (even though the latter cannot be defined as a “leading” sector), barred moves towards an openly positive stance on EU membership within these parties, the Independence Party in particular. Even though the Progressive Party, in its push to gain support in the urban area, took a more positive stance, it remains deeply split on the issue. This is in direct support of Ingebritsen’s theory on leading sectors. The fishing industry in Iceland has all the characteristics of a leading sector in Ingebritsen’s theory: it accounts for a disproportionate share of export revenue and held the attention of government, regardless of which parties were in government (Ingebritsen, 1998, p. 36). It has thus been able, due to Iceland’s proportional-representation voting system, to block moves towards EU membership, at least until 2009, when it happened for the first time in the history of the republic that the two parties with the most extensive connections with the industry were not represented in a majority
government. If Iceland successfully negotiates EU membership, then the power of the leading sector will be tested in a national referendum.

The domestic constraints facing Malta consisted of the stance taken by the Malta Labour Party to dissociate Malta from the West in the 1970s and the polarisation in Maltese politics. The strengthening of a “Mediterranean” aspect of the Maltese self-image by the MLP in the 1970s and the adoption of an “anti-colonial” stance in international affairs, leading to the founding of the Maltese Republic in 1974 and the final ousting of the British Navy in 1979, nurtured an image of a “self” that was different from that of a “European other” which, as mentioned by Gstöhl, was the view in Norway and Switzerland and which led to a willingness to hold on to this idea of separateness from the Union (Gstöhl, 2002, p. 200). It is interesting, however, that this idea of separateness was not shared by the opposition and in the course of time this led to a strengthening of the European stance of the NP which, as soon as it came to power in the late 1980s, started to move Malta in the direction of EC/EU membership. But how was this possible? This leads us to assess how notions of national identity and nationalism contributed to opposition to EU membership in Iceland and Malta.

There are some marked differences in how nationalism manifests itself in Iceland and Malta, differences that most likely played a part in determining the political obstacles those who favour European integration have had to face in these countries. This in turn created a powerful tool in the hands of Icelandic politicians, since reverting to nationalist rhetoric is the easiest route to an Icelandic heart – and for a long time an almost undisputed route. This particular feature of Icelandic nationalism, one that fits Smith’s category of “ethnic nationalism” relatively well, creates a serious political impediment to Iceland’s approach to the European Union, and very probably the most serious one.

However, this was not the case in Malta. Although Maltese politicians regularly use rhetoric that can be classified as nationalist, there has not been a consensus as to the political makeup of the Maltese nation and its destiny comparable to that found in Iceland. The nineteenth-century “nationalists”, who eventually formed the Nationalist Party, initially did not champion the Maltese language. Quite the opposite, their vision for Malta was an Italian one. Also, those who eventually used and promoted the Maltese language were nevertheless quite happy to propose, and campaign for, Malta’s integration with the United Kingdom in the 1950s. Thus, two separate nationalisms can be found in Malta on the opposite sides of the well-documented political divide in the country. Both, however, fit the
description of the aristocratic/higher-clergy territorial nationalism of the “lateral” \textit{ethnie}, where the nationalism of the Nationalist Party, and formerly the \textit{italianità} faction, stressed the language’s Romance/Italic/European roots, while the nationalism promoted by the MLP stressed its Semitic roots. In this way, Smith’s framework can help to cast a light on the cleavage apparent in Maltese politics and society, and also on the situation in Iceland, where for most of the 20th century there was solid unity behind the vertical \textit{ethnie} portrayed in Icelandic nationalism and national myths. This unity behind the ethnic and genealogical concept of a nation is more potent as a weapon against European integration when used in such a manner then a disunited civic and territorial concept of a nation.

It is likely that the Protestant heritage of Iceland and the national focus of its church add indirectly to the political impediments which the proponents of European integration face when arguing in favour of it – while the supranational Catholic heritage of Malta did not offer such impediments.

Thus, in this manner, the political impediments created by Iceland's leading sectors and its ethnic nationalism were greater than those created by Malta's political cleavage and territorial nationalism, and this helps to explain why Iceland did not take the step of applying for EU membership earlier, but rather took the route of piecemeal integration through the EEA and the Schengen Agreement.

8.3 The general narrative and theoretical considerations

The general narrative of this thesis is that as European states, Malta and Iceland were, at least since the early 1960s, under pressure to participate in the European integration process. This pressure was present both in the sense that increasing interdependence on the international stage called for increased integration on a regional scale in the form of the EC/EU, and also in the Liberal intergovernmental sense that the EC turned out to be a successful intergovernmental regime designed to manage economic interdependence through negotiated policy co-ordination, which created economic incentives for peripheral European states to join in the process.

There were, however, limits to the depth to which states were prepared to go at any given stage. This can be seen, not only in the case of small peripheral nations, such as Malta or the Nordic countries, but also in the reactions of countries such as Britain, and even France, to the integration process: in the British case, first by the founding of EFTA, and later in the country’s unwillingness to take part in all EU projects, such as the euro or the Schengen Agreement. In France’s case it took the form of the “empty
The general narrative and theoretical considerations

chair” crisis, which led to the Luxembourg Compromise. As to countries outside the Union, political impediments such as high levels of nationalism (Norway, Iceland), and neutrality (Sweden, Finland, Austria, Switzerland), were factors that made these countries find ways of integrating without fully joining the process through the EEA, although at a later stage they all took the step of applying for EU membership.

Certain options were available to the two countries relating to their geopolitical position and history. Thus, Iceland had the possibility of integrating gradually, without taking on the full obligations of EU membership. This option was not available to Malta. The counterfactual question of what would have happened if the Maltese population had turned down EU membership in the referendum must be asked. It is likely that some time would have passed before the Union sat down with Malta again to find ways for it to relieve the high pressures towards integration. The outcome of such negotiations can only be the subject of speculation. Norway was already a member of the EEA when the electorate rejected EU membership in a referendum, and Switzerland’s position in the heart of geographical Europe makes it inconceivable for the EU not to find ways to deal with its position, so the illustration value of these cases regarding the options Malta would have had is not self-evident.

An interesting article appeared in the *Times of Malta* on the occasion of the Icelandic application to the EU. It was written by one of Malta’s Members of the European Parliament, Simon Busuttil. In it he says:

> Since small states tend to have very open economies relying more heavily on trade and foreign direct investment, the impact of international turbulence on them is usually bigger… The EU offers precisely this kind of peace of mind to its small member states. Indeed, when Iceland was struck down by the world financial crisis, it sought shelter in the EU. But gates cannot open fast enough in times of emergency. That is when the costs of being out of Noah’s ark start to weigh heavily. History has shown Malta’s choice of EU membership to have been the better policy. We can count on the benefits and the protection that come with being part of the club. For, notwithstanding its many imperfections, the EU has succeeded in delivering prosperity to its member states and got them to show solidarity with one another and work together to overcome common threats and crises (Busuttil, 2009).

The political impediments these countries faced were also different. In Iceland, the issue of sovereignty and a high degree of ethnic nationalism, with difficulties in accepting the notion of a “civic European identity” (Bruter, 2005, p. 11), together with the Icelandic one, probably constitute
the greatest impediment to participation in the European integration process. The very essence of Icelandic politics is the preservation of sovereignty and independence (Hálfdanarson, 2001, Einarsson E. B., 2009). Iceland has, since gaining independence, been perfectly willing to accept the erosion of de facto sovereignty, first by putting the defence of the country into the hands of a foreign superpower, the US, and secondly (together with Norway and Liechtenstein), by integrating more deeply into the law-making system and the economy of the European Union than any other non-member state, with minimal opportunities to actually influence the law-making process. The important aim has been to maintain operational sovereignty as described by Gstöhl (2002), by not joining the Union and thereby not sharing sovereignty formally, but sharing civic identity with other EU nation-states. The fisheries argument is almost a proxy variable for this all important underlying factor, although there are many indications of the validity of Ingebritsen’s theory of “leading sectors”.

In Malta, the main reason for the challenges posed to EU membership was the confrontational nature of Maltese politics. The content analysis shows that the issue of sovereignty was significantly less in the forefront in Malta, which has a weaker emphasis on operational sovereignty than Iceland, although the emphasis on de facto sovereignty is definitely there as well, as was shown by the ousting of the British in 1979. The Nationalist Party, traditionally and culturally sympathetic to middle and upper-class Italian/Catholic ideals of European integration (Cini, 2002, pp. 6-7), managed to brand itself as the party of the “European way”. It was perfectly comfortable with the notion of civic European identity, which was championed by the EU; this was reminiscent of the orderly period of British colonial rule and membership of the EU was seen as a return to ‘ordered, non-clientelist politics’ (Mitchell, 2002, p. 167), clientelist chaos politics being the image of the Mintoff period and Labour rule in their minds – a “system-without-system”. The Labour Party, having nurtured its own category of anti-colonial nationalism, went on the defensive and aligned itself with blue-collar worries about unemployment in sectors that might lose their competitive edge within the Union. Due to the confrontational nature of Maltese politics, this spiralled into a head-on clash on EU membership, where alternatives, in response to reactions from the EU and apparently based on rather weak assumptions, were created and advocated in relative haste. After the issue of membership had been settled in a referendum and a general election a few weeks later, attitudes towards the European Union fell into place with attitudes in other Mediterranean EU
countries, which were relatively positive (Pace, 2004, p. 117). To this may be added the fact that since joining the EU, the Malta Labour Party has embraced EU membership (Bartolo, 2004).

**8.3.1 A final thought on Gstöhl’s model**

Having gone through the exercise of analysing the European integration processes in Iceland and Malta in terms of Gstöhl’s framework, it is my conclusion that the model works well to throw the spotlight on the main factors influencing the process both ways. It shows the layout of the process and helps to map the broad lines of what factors are at work in the economy and society which either work in favour of the integration process or against it. Gstöhl claims that she is working in a liberal intergovernmentalists fashion to forge a middle ground between realism and liberalism in IR theory, or rather intergovernmentalism, which focuses on international interaction, and neofunctionalism, which has the subnational actors in view (Gstöhl 1998, p. 63-4). I have assumed that since Gstöhl’s model is flexible, it is capable of doing even more in theoretical terms. It allows for a modification of the variables used to try out different ideas on what might play a role in the process, and thus can even work as a bridge between Liberal intergovernmentalism and constructivism, with its emphasis on cultural factors in the integration process. It has been part of the aim in this thesis to include in the model the “cultural” factors constructivists use to explain reluctance towards integration, and how – as Gstöhl would put it – some countries strive for limited integration, while other go for full integration in one step.

The indicator Gstöhl uses in her “economic incentives” variable, i.e. market access, is highly relevant when countries in the economic sphere of the European Union are outside the common market; however, once they are in the market, e.g. when they join the European Economic Area, other factors come into play, such as the desire for macroeconomic stability, economic security and growth. The modifications in this thesis were intended to address this, and in Iceland’s case these factors tell a credible tale. In Malta however, Gstöhl’s indicator might be more relevant, since the pull of the market access weighed heavily for Malta. The additional economic indicators, used with the ‘market access’ indicator, give a slightly more nuanced picture, and can add to the understanding of the economic arguments against membership.

Although Gstöhl, in her model, places the incentives on the economic side and the impediments on the political side, it must not be forgotten that
there are most certainly also political incentives for participation in the integration process, as history shows, and Gstöhl herself acknowledges. These may involve considerations of national security, as in Finland’s case in the EFTA enlargement – and the consolidation of democracy, as witnessed in the Mediterranean from 1981 to 1986 and in the eastern enlargements of the EU in 2004 and 2007. One could add the incentive of wanting to create a more “orderly” state, with less clientelist politics – as in the case of Malta, and as might be witnessed by Iceland’s accession. In all these cases there were economic incentives too, but political factors can also work for the integration process, as this thesis demonstrates. The model thus allows room for these, as they come into play by lowering the political impediments to integration the country faces. The conclusion regarding Gstöhl’s model is that it proved very helpful for answering the research questions posed, and provides a framework for the general narrative on the engagement of Iceland and Malta with European integration.

The model allows for the variables to be taken out of the frame of the perception of the elite at any given time and for the strength of the variables to be evaluated, e.g. from the point of view of the general population, so as to try to give an indication of the outcome of a national referendum on membership. It also enables policymakers and activists to analyse the sensitive issues in an integration debate in much more detail and with greater nuance than, for instance, can be done with public opinion polls or focus groups. It is therefore tempting to follow up on this analysis with a few policy recommendations.

8.3.2 Policy recommendations

Although this thesis is not meant as a policy document, there are however points that are worth pondering for policymakers interested in furthering European integration, both in applicant countries as well as in the EU. First, there is the issue of political impediments, and especially those related to sovereignty and national identity. It makes sense to tackle political impediments with political incentives. Those who want to argue for EU membership would be well advised to emphasise the complementary aspect of national identities and European identity: the fact that one can at the same time solidly belong to a nation and be deeply involved in cooperation between European nations, and that EU membership can be a way of reinforcing national identity rather than losing it. However, it is likely that this approach will be more difficult in countries with a strong sense of ethnic nationalism. It is not easy to change or add to the perception of self, and definitely not a short-term project to be
achieved in a one-time political campaign. There are however, as Gstöhl mentions in her thesis, ways to emphasise the strengthening aspect of EU membership on sovereignty; opportunities for influence and co-determination that are being sacrificed with a narrow focus on self-determination (Gstöhl, 1998, pp. 698-9). EU membership might be a way for a country in Iceland’s position to strengthen sovereignty that has been eroded by participation in the integration process without the voice opportunities that would come with EU membership. Another political incentive would be to work against the clientelist politics of small states.

Another way to counter the effect of strong ethnic nationalism would be to tackle more publicly the untrue myths associated with national history. The Icelandic national myth, described in Chapter 6, which was the main theme of 20th-century history books, has been refuted by countless modern historians. However, they have not managed to exorcize these false myths, which still find their way even into policy papers written by people who should know better. 88 What might be drawn as a general policy lesson from Gstöhl’s model is that proponents of European integration should tackle the arguments on the appropriate level. Economic arguments might not work well on nationalist arguments and vice versa.

### 8.4 Final words

In his book *Democracy in Europe*, Larry Siedentop argues that in recent years, the ‘language of economics has largely driven out the language of politics ... in Europe’ (Siedentop, 2000, p. 30). He says Europe’s political classes have connived in this development, as if they acknowledged, privately, that public policy is now a matter for experts rather than the people and their representatives. He says this development, which he calls *economism*, has deep roots in the ‘European project’. ‘It can be traced back at least to the idiom of Jean Monnet and others who helped to create the European Coal and Steel Community shortly after World War II’ (Siedentop, 2000, p. 33). This was convenient at the time, since all political integration with the ‘semi-pariah’ state, West Germany, would have been

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88 An example of this is a report written by a committee commissioned by the Prime Ministry of Iceland in March 2008, (Nefnd forsætisráðherra um ímynd Íslands, 2008) chaired by the rector of Reykjavík University. In it Icelanders are described as being a people who came to this country looking for freedom and a better life, living through the ages in poor conditions until suddenly, after gaining freedom and independence, becoming one of the richest nations in the world, due to the fact that they are hard working, daring and resourceful children of nature longing above all to be free (p. 25). The Association of Icelandic Historians publicly opposed these ideas of the committee.
unthinkable. But now, says Siedentop, we are paying the price for this, since economism has made it easier to skip the difficult questions: ‘How and at what pace can different national political cultures be fused, while fostering a pan-European culture of consent? The truth remains that, to the extent that they exist at all, democratic political cultures in Europe today are closely tied to and dependent upon nation-states’ (Siedentop, 2000, p. 34).

The economies of the Nordic countries are small and export-dependent, although their primary exports vary greatly (Lawler, 1997, p. 567). For the Swedes, who for a long time have cherished their neutrality, membership of the EU involved, among other things, a question of reviving a declining welfare state (Gstöhl, 2002, p. 173). Significant Swedish industrial conglomerates put immense pressure on the government to apply (Ingebritsen, 1998, pp. 146-7). Finland, despite embracing the European symbolism with more enthusiasm than Britain, Denmark and Sweden, had, together with the security aspect of its application, a huge economic incentive to join, since important markets for it had collapsed with the breakdown of the Soviet Union. In Norway and Iceland, the two Nordic countries outside the European Union, economic considerations have indisputably played major roles in the decisions made by governments towards European integration. Economic considerations were at the forefront in the negotiations on the EEA Agreement, which deeply binds these countries to the economic aspects of the internal market. Economic considerations have now led to Iceland’s application. It has long been suggested that the political clout of the fishing and agricultural sectors in Iceland is so great that it is difficult for an Icelandic administration to go against their wishes (Thorhallsson, 2001, p. 275). Although the sectors themselves are diminishing in importance in relative terms, their clout, and that of the fishing industry in particular, should not be underestimated. But those opposing membership of the European Union never seem to doubt that the outcome of membership would be detrimental for these sectors (Spegillin - Interview with LÍÚ chairman, Friðrik J. Arngrímsson, 2009), even though that might not be the case at all. This might indicate that it is really not the structure of the economy or consideration for the well-being of the primary sector that shapes the debate, but rather the great political impediment to integration created by the nationalism of a newly-independent country that defines the scope and form of economic rationality.

Economism is the language of European integration, so it is no surprise that it figures prominently in any debate on it, though one will find it more frequently in the arguments of the proponents rather than the opponents of membership. This is understandable, since the European project is a project using economic means for a political end. However, nationalism is one of
the most potent political forces invented, and will not recede quietly into the background while European integration and independent sovereign states are seen as opposing goals. In Malta it took the form, for example, of the crowd at the MLP’s mass meetings opposing the European Union, waving Maltese flags and shouting ‘Viva Malta, viva Malta’, as if the nation and the island itself were under threat. Its manifestation in Iceland has shaped the discourse of Iceland’s relations with the outside world, whether with Denmark in the 19th and early 20th centuries, with the US in the latter half of the 20th century and most recently with the European Union. To defend the sovereignty of the nation is to defend something intensely sacred.

As of now, Iceland is taking the first steps in the process of negotiating its EU membership. If the negotiations end in an agreement, the result will then be put before the Icelandic people in a referendum. The outcome is far from certain.
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