Iceland's Path to EU Membership

27 MAY 2026

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Executive Summary:

Context:

Iceland and the European Union (EU) have a complicated, yet deeply interconnected relationship. As a member of the European Economic Area since 1994, Iceland is clearly politically and economically oriented towards Europe. Despite this seemingly pro-European posture, the island nation's relationship with the EU is contentious. Iceland is highly protective of its economic sovereignty and its ability to exercise sole control over vital fishery and metal industries. Furthermore, a series of high profile political scandals, most notably the "Cod Wars," have damaged the EU's reputation within the Icelandic populace. However, a changing political, economic, and security landscape in both Europe and the Arctic make it clear that both Iceland and the EU would benefit from increased integration, with the ultimate goal being Iceland's full ascension to the EU as a member state.

Iceland's relationship with the EU in recent history is dominated by the spectre of the 2008 global financial crisis. Iceland, like many other European states, endured a severe financial crisis following the collapse of global markets. In 2008, the nation's three largest banks, which together made up 85% of the total Icelandic banking system, collapsed (Hilmarson, 59). Following the collapse of the banking sector, the value of the Icelandic Krona plummeted and unemployment rose sharply, dragging the economy into a protracted recession. The deep pain caused by this crisis coupled with the Icelandic electorate's loss of confidence in domestic governance spurred newfound enthusiasm for EU ascension (Hilmarson, 2016).

This enthusiasm carried the Social Democratic Alliance, who had made accession a key point of their campaign, to an unprecedented victory in the 2009 elections. Shortly thereafter, the Icelandic parliament voted in favor of ascension and the Ministry of Foreign Affairs (MFA) began the ascension process on July 27, 2009. However, the initial enthusiasm for EU accession soon gave way to grinding debate over the key policy issues that had long kept Iceland away from the EU, namely disputes over fisheries and agricultural policies,

capital controls, and Iceland becoming a "system ineffectual state" within the European political sphere (Hilmarson, 2016).

Indeed, the Icelandic economy is export driven, with the largest being agricultural products, specifically marine and aquacultural, consisting of 40% of value from exported goods (Responsible Fisheries). Furthermore, 12% of total GDP comes from the export of fish and 7% of the Icelandic workforce is employed in the fishing industry (Government of Iceland). Given this reliance upon the sector, the protection of sovereignty over its Exclusive Economic Zone (EEZ) is a foundational issue in foreign policy and is best demonstrated through the defensive actions taken against incursions by British, Dutch, and German fishing vessels from the late 1950s-1970s (Blims, 2023).

As a result, Given the significance of this sector for the domestic economy, it is easy to foresee that it will constitute a significant sticking point in any negotiation over accession. Looking back at the failed 2009 ascension process, limited insights can be gained on how to proceed in future negotiations, as the process failed before true negotiations of fishing and agriculture had even begun (Himlarsson, 2016). However, as previously mentioned, there were significant concerns raised over the potential future of the sector. Chiefly among which was the likelihood that Icelandic companies would be swallowed up by large companies from the mainland and that the waters would be overfished, leaving domestic companies struggling, and thus refusing to support ascension (Himlarsson, 2016).

When comparing the Icelandic case with other ascension cases, Sweden offers some guidance solving a lack of agreement over economic sovereignty. Sharing the sticking point regarding fishing rights within the Baltic Sea, an agreement was struck whereby quotas were implemented for non-Swedish entities, based upon data from 1989-1993, thus protecting the domestic industry (European Parliament, 2015). But more importantly, the Swedish case demonstrates the EU's willingness to compromise over key issues, and that these vital issues should not act as a deterrent for Iceland.

The persistent issues over a perceived loss of sovereignty and control over domestic fisheries eventually lead to the ruling Social Democratic Alliance losing control over the Icelandic parliament in the 2013 elections, with the ruling coalition (made up of the centrist and rightwing Progressive and Independent Parties, respectively), publicly announcing that they felt they had no legal obligation to continue the process started by the previous government. Iceland's application for full EU membership was formally withdrawn in 2015 (Hilmarson, 2016). However, the upcoming referendum on the resumption of European Union membership negotiations takes place in a fundamentally different world. Hence, the Keflavik base is closed, the Trump administration has imposed tariffs on Iceland and made explicit territorial claims over Greenland, and the NATO reliability that once made Eurosceptic sovereignty arguments coherent has not merely weakened but is now generating Iceland's primary security vulnerability rather than resolving it.

Furthermore, the melting of Arctic ice is simultaneously opening vast hydrocarbon reserves, new transcontinental shipping routes, and militarised strategic corridors that no

current EU member state is geographically positioned to monitor, govern, or commercially exploit. Iceland's accession would directly fill this vacuum (Scassola, 2013; Ómarsson). For Iceland itself, the economic opportunity represented by the Arctic ice recession cannot be fully realised without the institutional stability, single market access, and foreign investment confidence that EU membership provides through regulatory certainty and political anchoring. Hence, bringing Iceland under the collective security and institutional framework of EU membership would simultaneously provide Iceland with the political and regulatory stability that transforms its Arctic positioning from latent geographic advantage into realisable economic dividend. This makes it clear that both the EU and Iceland can find a shared vision; one which combines continued economic sovereignty with common security objectives.

Recommendations:

Step 1: Settle fishing rights early through a tailor-made CFP arrangement

If a full opt-out from the CFP is not realistic, its standard application would be politically unacceptable in Iceland. Therefore, the EU should should recognize Iceland's waters as a distinct Special Management Area within the CFP, allowing the country to preserve primary control over stock management through a two-track quota arrangement: first, constitutionalised national quota shares for stocks historically and predominantly fished within the Icelandic EEZ, equivalent to or exceeding Iceland's current domestic allocation under its own Fisheries Management Act; and second, adoption of the Danish model for external vessel access, whereby catch certificates are issued to non-Icelandic operators only when the fishing vessel is effectively administered, controlled and directed from Iceland (Circolo, 2024). Moreover, any quota access granted to EU fleet operators should be anchored to a genuine economic contribution to Iceland's coastal communities. For the issue of whaling, Iceland has already moved domestically toward suspension of whaling (Circolo, 2024), so accession could formalise this shift legally with negligible economic or cultural impact.

Step 2: Linking Energy and Fisheries in a Single Negotiating Round

The negotiating challenge here is bilateral: persuading Icelanders that accession does not mean surrendering resource governance, while persuading sceptical EU Member States that Iceland is not an enlargement burden but a strategic energy acquisition. The solution to both problems is the same instrument: designation of the Iceland–Europe energy interconnector as a Project of Common Interest under Article 171 TFEU, enabling its EU co-financing.

Crucially, this energy chapter should also be negotiated as part of a coordinated High North package alongside fisheries arrangements and Arctic

strategy: as the only EU Member State with full Arctic Council voting membership, Iceland would provide the Union with direct institutional access to the intergovernmental forum governing High North energy development, shipping routes, and environmental policy. Negotiators should propose a

Step 3: Negotiating Iceland's Agricultural Chapter through A CAP Transition Package

In navigating the agricultural chapter, the Austrian accession model should be the primary negotiating template. Upon accession in 1995, Austria faced comparable anxieties as a smaller agricultural economy exposed to higher-yielding competitors, yet found that EU regulatory alignment improved outdated domestic systems though CAP funding.

Approximately €550 million were allocated to Austrian farmers during a transitional period who absorbed short-term income losses and enabled long-term sectoral restructuring through specialisation (Falkner, 2002). Iceland should negotiate a comparable CAP transition package, using the accession period to identify comparative advantages, especially in

high-quality niche production such as Icelandic lamb and geothermal greenhouse cultivation. Simultaneously, Iceland's residual veterinary and phytosanitary derogations should be a formally bundled component of the agricultural chapter rather than isolated exemption requests. Ireland and the United Kingdom's island-status precedents for animal health derogations (European Food Safety Authority, 2007) provide the legal and political foundation for Iceland's biosecurity exemptions. Hence, packaging these alongside CAP transition funding requests demonstrates good faith in regulatory convergence while securing the biosecurity protections that Iceland's island ecology requires.

Step 4: Negotiating Iceland's CSDP Chapter through a Unified Arctic Security Package

Iceland should negotiate a unified Arctic Security Package within the CSDP chapter, comprising three interlocking elements: a formalised EU-Iceland Arctic Council posture, explicit Article 42(7) TEU defence guarantees replacing the deteriorating U.S. bilateral axis, and a defined Icelandic role in EU Council deliberations on High North security emergencies. While Iceland commits to full Article 42(7) TEU mutual defence obligations and

NATO-consistent CSDP participation, the EU formally recognises Iceland's Arctic Council membership as its institutional contribution to High North security governance. In return, Iceland also receives explicit Council standing in any security emergency affecting its territory or Arctic waters. In this sense, the Malta precedent demonstrates that small-state leverage is both achievable and institutionally durable (Harwood, Moncada, & Pace, 2018). This package is particularly strategic with regard to Eurosceptic Icelanders. Indeed, the message of this negotiating step has to be concrete; EU membership delivers what Washington no longer can

in terms of guaranteed collective response, with Iceland's own vote determining its terms.

Step 5: Negotiating Euro Adoption Following the Swedish-Model Transitional Framework

Euro adoption is legally obligatory for all new EU members under Article 119 TFEU, but the Swedish precedent demonstrates that a credible transitional pathway exists: Sweden joined in 1995, formally committed to euro adoption, and has not adopted it by remaining compliant

and delaying ERM II entry indefinitely without negotiating a formal opt-out (Indruchová, 2013). Iceland should follow this architecture, committing formally to euro adoption without providing a fixed timeline, while initiating credibility-signalling measures that demonstrate monetary convergence intent: publicly aligning the Central Bank of Iceland's inflation target with ECB standards, and beginning coordinated management of króna fluctuations in preparation for eventual ERM II entry. This transitional architecture would allow Iceland the political time and institutional space necessary to build domestic consensus around future eurozone accession while avoiding the formal opt-out that would be constitutionally unacceptable to the EU and set a precedent damaging to the broader enlargement framework.

Endnotes:

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