

What features determine
small states' activities in
the international arena?
Iceland's approach to foreign
relations until the mid-1990's

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Abstract

The aim of this paper is to analyse the features that have determined Iceland's international activity and to what extent Iceland has been an active participant in the international system. The paper focuses on the period from the time Iceland took full charge of the conduct of its foreign policy from Denmark in 1940 until 1994, fifty years after Iceland became a Republic and joined the European Economic Area (EEA). At the time of Iceland's entry to the United Nations (UN) in 1946, it had the lowest population of all UN member states. Iceland soon joined most of the international organizations created in Europe and internationally after the Second World War. Iceland's neighbouring states, the Nordic states, became pro-active within the UN and other international institutions, and the interesting question is to what extent Iceland, as a small newly-independent state, became involved in the international community.

The paper aims to answer the following three questions. First, what domestic and international features have determined Iceland's international activity? Second, has Iceland been reactive or pro-active in the international system? Third, did Iceland concentrate mainly on multilateral relations within international organizations, as the small-state literature generally claims is beneficial for small states, and as many states have done, or on bilateral relations in its international approach?

The paper argues that Iceland was reactive in the international community and did not take an active part in international organizations such as the UN, NATO, EFTA, the World Bank and the Council of Europe in the period under study. Instead, Icelandic governments concentrated on bilateral relations with neighbouring states and important trading partners, i.e. the Nordic states, Britain and the United States (US), in terms of both defence and trade. The paper claims that Iceland's international activity was characterized by the pursuit of self-determination throughout this period, despite the country's becoming a republic in 1944. This is particularly the case concerning Iceland's moves to gain control over the 200-mile zone surrounding the island and its attempt to exercise full control over its whaling policy. It is also evident in its reluctance to join supranational institutions in Europe. The commitment to self-determination is manifested in a battle to keep decision-making within the country instead of solely following decisions taken in European institutions. Furthermore, the legacy is that Iceland's pursuit of self-determination – expressed in terms of independence from Denmark and control over its national resources – was carried through by unilateral decisions within the country and solved by bilateral relations, and not within multilateral international organizations. Moreover, the character of Nordic co-operation, which is built on bilateral contacts and a loose institutional framework within the Nordic Council, along with the development of the bilateral relationship with the US early on in the Second World War, paved the way for an emphasis on bilateralism at the expense of multilateralism (defined as a close co-operation between a number of states within a framework of international institutions).

Introduction

Iceland is a small state as defined by the small-state literature in traditional terms, i.e. as regards its population, size of GDP, military capacity and capabilities of the foreign service – the only exception could be its relatively large territory, both in terms of land and its exclusive fishing zone. The position of small states in the international system is characterized by vulnerability. Small states are more vulnerable than large states in political, economic and strategic terms (Archer & Nugent 2002; Commonwealth Secretariat 1997; Commonwealth Secretariat 1985). Small states have fewer resources (military, administrative and diplomatic) than large states with which to influence the international arena (Handel 1981; Thorhallsson 2000; Archer & Nugent 2002). Therefore, they tend to be reactive in the international system compared to the more pro-active character of large states. Moreover, international pressure, both in terms of economic and political pressure, forces small states to adjust their domestic political and economic system accordingly in order to secure stability (Katzenstein 1985; Katzenstein 1984). Small states cannot expect to be as influential as large states in international institutions such as the UN, the World Trade Organization (WTO) and the European Union (EU). However, the influence of small states in a peaceful world characterized by co-operation between states may increase as compared to their influence in a world of military pressure and conflicts. Small states may move from being ineffectual and become more effectual in such a system (Handel 1981).

The key question for all small states is how they can try to overcome the vulnerability associated with their smallness and, furthermore, how can they move from being reactive states in the international system and become more pro-active. It is of fundamental importance for them to be able to influence the international structure and its rules if they are not simply to be swamped into total dependence.

Keohane distinguishes between large and small powers by examining whether their leaders have a decisive impact on the international community. States can be classified into three types: 'system-determining, or system-influencing' i.e. those that can influence the international system through unilateral or multilateral action, 'system-affecting' i.e. those that cannot influence the international system on their own, but can do so together with other states, and 'system-ineffectual' i.e. those that adjust to the international system and cannot change it (Keohane 1969, 295-6). The interesting question, from the perspective of this paper is: What category did Iceland belong to in the period under study?

Katzenstein argues that responses of European small states to global pressure and European integration are characterized by their history and recent policy choices. The domestic features of each and every state shape their policy-making. Small states are not pressured by the international system to follow a particular path regarding co-operation with neighbouring states. They do have a

choice and can determine to what extent they participate in the international community (Katzenstein 1997). For instance, it is up to each and every small state to decide to what extent it takes part in the European integration process. Small states like Iceland, Switzerland and Norway, along with the smallest states in Europe, Andorra, Monaco, Liechtenstein and San Marino, have decided to stay outside the EU. Moreover, they participate to a different extent in European integration. Other small states like Denmark, Sweden and Ireland, though members of the EU, do not take part in all aspects of it.

On the other hand, the international system may restrict states' choices, and particularly small states' choices. For instance, the Cold War constrained the actions of a number of European small states (Katzenstein 1997; Ingebritsen 1998). Also, options available to Central and East European states under communist rule were clearly restricted and policy-makers in states such as Finland and Austria found that they were bound in their international approaches by the structure of the international bi-polar system. Moreover, all states in Europe have, in one way or another, had to respond to the ongoing European integration process. They cannot simply ignore it if they are not to become politically isolated and suffer economically. However, as is stated above, they do have a choice to what extent they participate in the process. They can also decide to what extent they become active within international organizations set up to lead European integration and the world. For instance, Switzerland chose not to be active in the international community (Lazowski 2005) while the Nordic states, Sweden, Denmark, Norway and Finland, decided to take an active part in world affairs in the post-war period (Ingebritsen 2002; Jakobson 2005). Member states of the EU can try to maximise their influence in all policy areas, as Sweden tried to do in its early days of its membership of the Union, or to be more selective and focus mainly on policy sectors that are of direct domestic interest. This has been the case of Finland, for instance, ever since it joined the EU (Arter 2000). We are concerned with the extent to which Iceland's domestic features, such as its history and policy choices, determined its international approach, as a small state, in the international system. The paper also examines to what extent Iceland's international approach was constrained by the international system?

Neumann and Gstöhl (2004) identify three dominant International Relations (IR) theories: Realism/neorealism, neorealism versus neoliberal intergovernmentalism and rationalism versus social constructivism. First, they claim that the main focus on small states within both the realist and neo-realist approach has been on small states' lack of capabilities. The main focus is on measuring capabilities, it being assumed that having capabilities implies willingness to act. Neumann and Gstöhl criticize this starting point in the realist approach to the study of the international behaviour of small states and argue that the tendency to focus on capabilities may lead scholars to be dismissive of small states. Moreover, the question of capabilities is often restricted to military power 'and simply assumes that everything else will wither into irrelevance in the long or

even short run' (Neumann & Gstöhl 2004, 15). Second, neoliberal inter-governmentalism focuses on economic issues and how international institutions may provide shelter for small states and enhance their influence; thus, the institutionalization of small and large states matters for their power potential. Third, constructivism emphasises the importance of international norms, identity and ideas for world actors. Neumann and Gstöhl suggest three ways to study small states in the international system built on these three theories: small states can be studied on the basis of a broad definition of capabilities, their participation in international institutions and relations between states. However, they emphasize the importance of moving away from a sole focus of difference in capabilities.

This paper examines Iceland's relations with its closest neighbours and its activity (or lack of activity) within international institutions from 1940 until the mid-1990s. It is particularly interesting to look at the case of Iceland as a new small state in the international system in this period. The theories presented above will be used to explain Iceland's foreign relations in order to establish whether they provide a solid ground for analysing the behaviour of a small state in the international system in the period under review. Of course, the restrictions on Iceland's capabilities as a result of its being a small state, such as its limited economic and manpower resources have to be taken into account, but these do not necessarily determine the approach of states, as Neumann and Gstöhl point out. For instance, the importance of ideas concerning self-determination and the legacy of how self-determination has been achieved may have a profound influence on actions of the political elite.

The paper presents eight case studies in a search for the 'character' of Iceland's international approach. The cases demonstrate Iceland's most enduring, salient or divisive foreign relations or issues in the period, i.e. the persistence of the close co-operation with the other Nordic states, the significant relationship with the US, the conflict-ridden Cod Wars with Britain, its controversial whaling policy and its concern with how to guarantee market access to the European market in the ongoing integration process. Also, Iceland's politicians' most important policy goal for about a century from mid 19th century to 1944, greater independence from Denmark, will be studied in order to examine its legacy and influence on Iceland's approach to foreign relations. Special consideration will be given to Iceland's activeness or lack of activeness within the Bretton Woods institutions, of which the country became a founding member shortly after becoming a republic. Iceland's role in several other international institutions, such as NATO, EFTA, the UN and the Council of Europe, will be examined in connection with other cases.

The paper begins with an examination of the impact of the struggle for independence from Denmark on Iceland's international activities after Iceland took full charge of the conduct of its foreign policy. This is followed by an analysis of Iceland's relationship with its closest neighbours, the Nordic states, and the impact which the form of the Nordic co-operation has had on Iceland's

other foreign relations. Third, the paper examines the fishing disputes between Iceland and Britain. Particular effort is made to explain the unilateral decisions of governments in Iceland to extend the country's economic zone on four occasions. Fourth, the paper will study Iceland's withdrawal from the International Whaling Commission (IWC) in 1992 and how this decision fits into Iceland's approach to foreign relations. Fifth, the paper examines the close relationship between Iceland and the US, both in terms of defence and trade. Sixth, Iceland's approach to European integration is analysed in order to explain the reluctance of Icelandic politicians to participate in the European integration process. The seventh case examines the reasons for Iceland's activeness within the International Monetary Fund (IMF) compared to its limited interest in taking an active part in the other Bretton Woods institution, the World Bank, in the period under review. Finally, the eighth case examines the development of the Icelandic foreign service and how it correlates to Iceland's approach to foreign relations. The development of the foreign service, particularly its activity abroad and the ability of the Ministry for Foreign Affairs to engage in long-term policy making, is important as an indication of Iceland's capability, as a small state, to play an active part in the international arena. The case examines the role of Iceland in a number of international institutions.

The aim of this paper is not to study the important changes that have taken place in Iceland's international approach in the last decade. A policy change has occurred, leading to a more active approach within the international system. This policy change was marked by Iceland's membership of the EEA in 1994 and has since been manifested by its increased participation in international institutions such as the UN. For instance, Iceland decided in 1998 to present its candidature for a seat in the UN Security Council in the period 2009-2010. The reasons for this policy change would require treatment in a separate paper.

The Legacy Of The Independence Campaign

Ever since the granting of Home Rule in 1904, Icelandic governments have made a priority of maintaining close relationships with the country's neighbouring states and most important trading partners. Iceland's closest overseas contacts have been with the other Nordic states, particularly Denmark, and with Britain and the US. Iceland became a sovereign state in 1918 and was in full charge of its foreign policy from that time. However, Denmark undertook to implement this policy through its foreign service, as Iceland had no foreign service of its own. In 1940, the Danish government became unable to attend to Icelandic foreign affairs due to the German occupation. As a result, Iceland took full charge of its foreign relations and a foreign service was established. Iceland had campaigned peacefully for independence (mostly through legal

arguments) for over a century, and in 1944¹ the union with Denmark was dissolved and Iceland became a republic, with 92,000 inhabitants. The independence struggle is seen by many Icelanders as having been won by national unity based on Icelandic culture and uniqueness and led by distinguished national heroes (Hálfðanarson 2001). There is a tendency to ignore the international environment which triggered the various steps taken towards full independence, such as the Romantic movement in European culture, the influence of political liberalism, constitutionalism and nationalism and outbreaks of wars in Europe. Iceland's independence is not seen as a direct consequence of international events in the way that, for example, the independence of the Baltic states is seen as following from the end of the Cold War, or the independence of many third-world states is seen as the consequence of de-colonisation, with or without the mediation of an international organisation (such as the UN Special Committee on Decolonization). However, the fact remains that Icelandic political leaders managed to secure increased freedom from the Danish parliament and crown without any direct external assistance. The pride of full victory and the boost it gave Icelanders and Icelandic society in general could be distilled in the claim: 'We did it on our own'. The image of Icelanders being able to secure self-determination without having to use multilateral co-operation within international institutions as a protection forum prepared the ground for the emphasis that Icelandic politicians have put on bilateralism.

Nordic Co-Operation: Lessons Learned By Iceland

The relationships between the Nordic states, the states which Icelanders feel closest to (Hardarson 1985, 310), have been characterized by co-operation rather than integration. Iceland became a founding member of the Nordic Council, created in 1952, along with Norway, Denmark and Sweden (Finland joined in 1956). Ambitious schemes have been put forward concerning Nordic integration, but most of them have failed (Thomas 1996) and instead lesser schemes have been implemented, the most noticeable one being a passport union in which Iceland has participated since 1955 (Halla Norden 2005), a common labour market (agreed in 1952 and extended to Iceland in 1982) and the right of migrant Nordic citizens to claim social security on the same basis as the nationals of the state in which they are living. Even though much has been achieved under the umbrella of the Nordic Council (in the form of scientific,

¹ The government and constitutional history of Iceland can be divided into six periods: 1) The Settlement 874-930. 2) The Commonwealth 930-1262. 3) The Monarchy 1262-1662 (Iceland was part of Norway 1262-1380 but became part of the Danish Kingdom in 1380). 4) Absolutism 1662-1874. 5) Constitutional Monarchy 1874-1944 (a sovereign state from 1918). 6) The Republic 1944. For instance, see Nordal & Kristinsson 1996.

academic and cultural activities), the success of Nordic co-operation rests more on 'shared culture and common objectives and values than on integrating institutions' (Thomas 1996, 17). Thus, the relationship between the Nordic countries has taken the form of state-to-state relations in which each state's specific characteristics are highly valued and preserved. On the other hand, member states of the EU have become accustomed to co-operation within a supranational forum. Whenever disputes have occurred between individual Nordic states they have been resolved on a bilateral basis. For instance, this is the case concerning fishing rights in the waters between Iceland and Norway. The Nordic Council has not provided a framework to solve such disputes, though frequent contacts between Nordic politicians under the umbrella of the Nordic Council may contribute to greater understanding of each others' position. Accordingly, Nordic co-operation, which many Icelandic politicians are familiar with, may have strengthened their belief that Iceland's interests are best served by bilateral contacts under a relatively loose umbrella organization rather than by multilateral co-operation under a strict institutional framework. This may be the case particularly since Nordic co-operation is generally seen in Iceland as being successful in all respects, and whenever individual Nordic states clash, their governments are determined to find a common ground and are most often successful in doing so.

Unilateral Actions And Bilateral Solutions: The Cod Wars

Iceland's eagerness to extend its fishing zone from 4 miles in 1952 to 200 miles in 1975 and its uncompromising negotiation tactics indicate the continuation of Icelandic politicians' striving for self-determination. Iceland's approach during the Cod Wars also indicates a willingness to put international law on the side in the belief that what was good for Iceland was also the right thing to do (Jóhannesson 2002, 443). Iceland's success in the Cod Wars is particularly interesting in view of the country's diminutive capabilities compared with those of Britain, its main opponent. Iceland's relations with Britain have been close, the British market being of particular importance for Icelandic exports, though repeated fishing disputes put considerable strains on the relationship from the early 1950s to the mid-1970s.

On four occasions, Iceland managed to extend its fishing zone, despite strong protests from Britain and, at times, dangerous clashes at sea between the British Navy and the small Icelandic Coastguard vessels, in which the lives of Icelandic seamen and coastguards were put at risk. Iceland's extension of its fishing zone in 1952 was in accordance with international law, Iceland following the example of Norway which had received a favourable ruling in the International Court of Justice in The Hague on the legality of its extension to 4 miles a year earlier. On the other hand, doubt has been expressed concerning the legality of the extension to 12 miles in 1958, but legal rights were not of key

concern for Iceland (Jóhannesson 2002, 444). In 1961, a settlement was reached between Iceland and Britain: Britain accepted a 12-mile fishing zone around Iceland; Iceland agreed in return that if it extended its fishing zone further without approval from Britain the case could be referred to the International Court of Justice.

However, Iceland again extended its fishing zone in 1972, this time to 50 miles, claiming that the agreement of 1961 was no longer in effect, despite protests from Britain. Britain referred the case to the International Court of Justice, but Iceland decided to disregard the Court. The Court criticised the unilateral extension to 50 miles and stated that Iceland could not unilaterally exclude Britain from fishing outside the previously agreed limit. On the other hand, the Court recognized that Iceland was entitled to a preferential share in the distribution of fishing resources because of its dependence upon coastal fisheries. Moreover, the Court noted two concepts that had been accepted as part of customary law: a fishing zone extending to a 12-mile limit from the baseline and, more importantly for Iceland's position in the case, the concept of preferential rights of fishing in adjacent waters in favour of coastal states that depend heavily on coastal fisheries. (International Court of Justice 1974). Ingimundarson (2001, 223) argues that Britain's legal position was stronger after the ruling. However, in 1973 Britain approved the 50-mile extension in exchange for restricted fishing rights within the zone for a limited time period. This was because the British government realised that US military interests in Iceland would be at risk if the dispute with Iceland were to continue. The uncertainty of the future of the US military base in Iceland contributed to the British decision to give in: the Icelandic government had threatened to terminate the bilateral defence agreement with the US. Moreover, Iceland's membership of NATO would have been at risk if the British Navy had not left the 50-mile fishing zone (Ingimundarson 2001).

However, Iceland's unilateral actions in the name of conservation and equitable exploitation of marine resources were not over. In 1975, the country yet again extended its fishing zone, this time to 200 miles. Iceland had taken part in international discussions within the UN Seabed Committee in 1968-1973 and the UN Conference on the Law of the Sea, which opened in 1974, about the rights of coastal states to extend their exclusive fishing zones. South American states had already extended their fishing zones to 200 miles in 1952, and a number of developing countries formally proposed a 200-mile exclusive fishing zone for coastal states in the early 1970s. However, these proposals had met considerable opposition and no agreement had been reached on the right of states to extend their fishing zones to 200 miles (Schram 1982; Schram 2001). The trend regarding the right of coastal states to extend their exclusive fishing zones was moving in the right direction for Iceland, but Icelandic politicians were not prepared to wait for an improvement in their international legal rights and the formal approval of the international community. Competition between political parties as to which of them was most eager to

assert Iceland's right to self-determination regarding the use of 'its' waters, contributed to the decision to extend the fishing zone. Jóhannesson (2002) argues that Iceland might have been able to prevent the first three Cod Wars, either by developing less confrontational negotiation tactics in the disputes or simply by waiting a few years for favourable developments in the international law of the sea. He also claims that Icelandic politicians were unreasonable in the negotiations, which contributed heavily to the serious clashes between Iceland and Britain in the last Cod War of 1975-76. In the dispute, Iceland even broke off diplomatic relations with Britain and used its strategically important geographical position to the utmost to get NATO member states to put pressure on Britain to accede to Iceland's demands (Jóhannesson 2002). Britain accepted the 200-mile extension in 1976, but only two years later an international agreement on the rights of coastal states to extend their fishing zone to 200 miles was on the table, and this was formally accepted in 1982.

Iceland managed unilaterally to extend its fisheries zone despite unfavourable international law and heavy protests from powerful neighbours (including, besides Britain, West Germany). These 'victories', no doubt, reinforced the view of leading Icelandic politicians that Iceland could be successful on its own without having to negotiate and make compromises within multilateral international forums. This is not to say that the international environment did not contribute to Iceland's success. On the contrary, the direction of development of the law of the sea was in Iceland's favour, and Iceland's strategic position played a key role in achieving a British acquiescence following pressure from the US and other NATO members. Furthermore, the position of Iceland as a small state, with fisheries constituting the basis of practically all its exports, in a difficult dispute with a former world power, created sympathy with the Icelandic position (Jóhannesson 2002). On the other hand, all political parties tried to use the extension of the fisheries zone to their advantage by playing the nationalistic card. The political discourse at the time was characterized by concepts of nationalism (Ingimundarson 2001). A 'myth' has developed among Icelanders concerning Iceland's 'unilateral successes' during the Cod Wars, which has strengthened Icelandic pride and national identity. Politicians at the time nurtured the development of this myth and were happy to live up to it. Thus, the Cod Wars reinforced bilateral solution-seeking at the expense of finding solutions within multilateral frameworks.

The Continued Commitment To Self-Determination: The Use Of National Resources And The Case Of Whaling

Since the end of the Cod Wars, one could say that Iceland's determination to use its natural marine resources to the full and without external interference has been manifested in its attempts to continue whaling. Iceland's withdrawal from the International Whaling Commission (IWC) provides a clear example of the willingness of Icelandic politicians to 'do it their own way' and an attempt to by-pass an international multilateral institution in favour of a commitment to a policy of self-determination. Iceland's whaling policy has been criticised considerably by a number of countries including the US, Britain and Sweden. The US has even considered imposing a trade embargo on Iceland because of its whaling. In the 1980s, international anti-whaling groups campaigned vigorously against Iceland's whaling policy, encouraging consumers in Europe and North America to boycott Icelandic products. When Iceland faced the fact that it would not be allowed to continue its whaling for commercial purposes, it left the IWC² in 1992. The IWC had reaffirmed its whaling ban for commercial purposes in the late 1980s (the ban was originally approved in 1982 and took effect in 1986 but was supposed to end in 1990). A narrow majority in the Icelandic national parliament, the Althingi (29 votes against 28) decided not to protest against the original decision to ban commercial whaling in 1982. Iceland was therefore bound to abide the decision of the IWC. The majority in parliament argued that Iceland should not protest against the ban because its fisheries exports might be put at risk if whaling were to be continued, and also because Iceland had made a point of complying with international law concerning the use of marine resources. On the other hand, those who were in favour of a formal protest argued that the scientific committee of the IWC had not recommended a ban on whaling and that too much was being made out of the potential influence of the anti-whaling lobby (Morgunblaðið 6 May 1997). They argued that decision not to protest against the ban was a mistake (Halldórsson & Stefánsson 2001) because Iceland was now faced with an unlimited time ban on commercial whaling but was not prepared to follow international rules and stop whaling. The government claimed that the whale stocks in Icelandic waters were not in any danger; this was contrary to the claims of others about the necessity to conserve whale stocks. The Icelandic minister of fisheries stated that the work and decisions of the IWC were not in tune with Iceland's policy and Icelandic interests, since a conservation policy prevailed over the use of whales as part of natural resources (Morgunblaðið 6 May 1997). The decision to withdraw from the IWC was not in step with the

² The IWC was established in 1946 under the International Convention for the Regulation of Whaling. The purpose of the Convention is to provide for the proper conservation of whale stocks and thus make possible the orderly development of the whaling industry. Membership is open to any state in the world that formally adheres to the Convention.

procedure followed by other whaling nations, such as Norway and Japan, which continued to work and promote their policy within the IWC.

Iceland had continued whaling for scientific purposes from 1986 to 1989 under a provision allowing member states of the IWC to decide themselves whether or not to allow whaling for scientific purposes. However, in 1989 Iceland gave in to international pressure and stopped whaling. After resigning from the IWC in 1992 it made an attempt to start whaling again by creating an international organization, NAMMCO,³ with other whaling nations to challenge the authority of the IWC. This attempt failed, and subsequently, as the international anti-whaling lobby started to lose momentum in the late 1990s, the Icelandic government decided to reapply for membership of the IWC so as to be able to resume whaling for scientific purposes (Halldórsson & Stefánsson 2001), thus accepting the international framework of the IWC as a mechanism for the control of commercial whaling and the conservation of whale stocks. In 2002, member states of the IWC accepted the Icelandic application for membership after repeated rejections because of Iceland's determination to start whaling for scientific purposes, which was seen by many as an excuse for commercial whaling. In 2003, after a decade in 'the wilderness', Iceland resumed whaling for scientific purposes on the basis of IWC rules.

The policy of ignoring international norms and rules concerning whaling had completely failed. On the other hand, an attempt had been made to convince individual member states of the IWC, particularly Iceland's important trading partners, outside the multilateral institutional framework to abandon their stand against Iceland's whaling policy. Iceland's failure to pursue its whaling policy outside the IWC is in sharp contrast with its success in the Cod Wars. There may be two reasons for this. First, other whaling nations were not prepared to ignore international norms and rules, i.e. within the multilateral framework of IWC. They continued to lobby for their whaling policy within it. Second, Iceland could not use any such means as its important strategic military location to support its case of whaling and put pressure on its opponents, as it had managed to do in the Cod Wars.

The Unique Relationship With The United States

Iceland's close relationship with the United States dates back to a wide-reaching defence agreement from 1941. The US guaranteed the defence of Iceland, in return for which it received access to sites for military facilities in the country. Iceland was now part of the US's defence territory. The military defence agreement included a promise on the behalf of the US to make beneficial trade agreements with Iceland and to support Icelandic interests in all respects. The

³ North Atlantic Marine Mammal Commission. The commission works on scientific research concerning whale stocks in the North Atlantic.

US government recognized Iceland as a free and sovereign state and the countries exchanged ambassadors in connection with the agreement (Roosevelt 1941; Kristjánsson 2001). In 1944, the US became the first country to officially recognize Iceland as a Republic. In 1946, the countries signed another defence agreement (the Keflavík Agreement), replacing the previous one, which provided the US a continuation of the use of military facilities for its air force in Iceland. The agreement restated the policy change in Iceland from neutrality, in the inter-war period, to a special and close defence co-operation with the US (Kristjánsson 2001; Ingimundarson 1996). Since 1951, Iceland's relationship with the US has been founded on a bilateral defence agreement, under which military facilities are provided by Iceland. This, together with Iceland's membership of NATO since 1949, has been the cornerstone of Iceland's defence policy. The defence agreement contains significantly greater obligations which go beyond those stated in the terms of Iceland's and the US's membership of NATO. This puts Iceland in a special position among the NATO members concerning its relations with the US. For instance, Iceland's membership of NATO does not commit the country to host military forces. However, should the defence agreement with the US be terminated, Iceland is committed to make military facilities available to the US again in the event of an armed attack on one or more of NATO members (Defence Agreement; Jónsson 1989).

All governments in Iceland, except for two left-of-centre governments, in the post-war period, have emphasized a good relationship with the US authorities. However, the bilateral defence agreement, and particularly the US military base in Iceland, were extremely controversial and overshadowed other political issues in Iceland during the Cold War. This dispute proved to be more divisive than the economic and social issues that originally gave rise to the longest-standing parties in the Icelandic political landscape (Hardarson & Kristinsson 1987). The political discourse in this dispute was characterised by concepts of nationalism, and the dispute sharpened nationalistic feeling (Ingimundarson 2001).

The US has paid for Iceland's defence, and its military base in Keflavik has provided an important boost for the economy. The US government also made a valuable contribution to building up the infrastructure in Iceland, starting with the Marshall Aid programme, and helped the government out of economic recessions up until 1970 (Ingimundarson 2002). Iceland's trade with the US has also been of importance. For instance, its merchandise exports to the US market remained largely in the 25-30 per cent range and never under 20 per cent, as a proportion of the total, in the period 1968-1986. In the last two decades, the importance of the US market has declined, due in part to the creation of the internal market of the EU (Thorhallsson & Vignisson 2004).

The close relationship between the two governments is manifested in the fact that Iceland was one of the few Western European countries to participate in the 'coalition of the willing', thus supporting the US invasion of Iraq in 2003.

The government has wholeheartedly continued its support of the US presence in Iraq and its war on terror. Iceland also supported the US in the war in Afghanistan and Kosovo, and the US government's position on the enlargement of NATO, both when it opposed the admission of more members in 1999 and when it agreed to allow new members to enter the alliance a few years later.

Icelandic governments have been more enthusiastic about maintaining a good working relationship with the US government than they have been in making an impression within NATO. Relations with the US were mainly in the hands of individual ministers, and the government itself and a handful of officials who were well connected in Washington (Ingimundarson 1996; Ingimundarson 2001; Kristjánsson 2001). On the other hand, limited knowledge among Icelandic politicians and civil servants has prevented Iceland from playing an active part in NATO. In the 1950s, Iceland's lack of involvement in NATO was so obvious that American representatives specially requested the Icelandic government to play a more active role in meetings within NATO, where Icelandic officials seldom spoke (Ingimundarson 1996, 409). However, Iceland's limited emphasis on the NATO defence link continued. For instance, one person in the Ministry for Foreign Affairs handled all relations with NATO in 1989, and the Icelandic delegation to NATO consisted of three officials and two staff secretaries. The Norwegian and Danish delegations were much larger at this time, containing 30 and 40 people respectively (Jónsson 1989). The 1990s saw increased pressure on Iceland by other NATO members to share some of the defence burden and become more active within the alliance (Interview (a) in the Icelandic Ministry for Foreign Affairs).

Icelandic governments have seen themselves as relying to a greater extent on the US than on NATO regarding defence. The bilateral defence agreement and the US military presence in Iceland are the key to this perception. Since the end of the Cold War, the Icelandic government has continued to emphasize the importance of the bilateral defence agreement and regarded all proposals by the US government for a reduction of its defence presence in Iceland as unacceptable. The government takes the view that the defence agreement guarantees the defence of Iceland and that the country does not have to bolster its security by taking part in the Common Foreign and Security Policy (CFSP) of the EU and the development of the European Security and Defence Policy (ESDP). This is contrary to the case in Norway, where governments have been attracted to the EU for security reasons. A number of leading Norwegian politicians have emphasised the importance of EU membership in order for Norway to become more actively involved in defence developments in Europe. Otherwise, if it does not have a seat at the EU's decision-making table, they argue, Norway may become marginalized with regard to security and defence (Archer & Sogner 1998). Unlike governments of the other Nordic states, the Icelandic government has not made multilateral co-operation with other

European countries on security and defence a priority. Nor has Iceland taken an active part in the policy-making processes of other security organizations in Europe, i.e. the Organization of Security and Cooperation in Europe (OSCE) and the Western European Union (WEU).

Under the defence agreement, all decisions regarding operations by US forces in Iceland are to be taken on the basis of bilateral consultation with Iceland. In other words, the US government is not allowed to extend or reduce its military activity in Iceland without the consent of Icelandic authorities. Leading Icelandic politicians, presidents and prime ministers, have been in close contact with US presidents and have regarded themselves as being able to exercise considerable influence on US policy towards Iceland in terms of defence. (Morgunblaðið 6 June 2003; Morgunblaðið 16 August 2003; Ingimundarson 2001; Ingimundarson 1996; Kristjánsson 2001; Bailes & Thorhallsson (forthcoming)). In 1994, the Icelandic government managed to convince the US authorities to minimize their proposed reduction of military activity at the Keflavík base. Moreover, moving outside the period under study, the furious reaction of the Iceland government in May 2003 when faced with an announcement by the US government concerning withdrawal of the four F-15 jet fighters and the helicopter rescue team located at the Keflavík base, which was supposed to take effect four weeks later, led to a postponement of the decision by President Bush.⁴ The Icelandic government does not hesitate to claim short-term victory and has restated its view that leading US politicians and other decision-makers can be convinced by Icelandic politicians and diplomats. Thus, they have claimed that the close bilateral relationship is still in place and serving Icelandic defence interests.⁵

Reluctance To Participate In European Integration

Governments and most political parties in Iceland have also emphasized the importance of bilateral relationships with states in Western Europe. They have preferred bilateral trade agreements to participation in European integration. Governments have nevertheless had to respond to the ongoing integration process in order to secure Icelandic interests and take decisive steps to bring Iceland closer to Europe through membership of the European Free Trade Agreement (EFTA), the European Economic Area (EEA) and the Schengen Agreement.

Iceland did not consider the possibility of participating in the first steps towards European integration in the early and mid-1950s. Iceland's key

⁴ The decision to cut down US activities in Iceland originated in the Department of Defence where the Secretary of Defence Donald Rumsfeld saw no justification for maintaining US forces in Iceland.

⁵ See detailed discussion in Bailes & Thorhallsson, forthcoming.

economic interest, namely free trade in marine products⁶, was not on the agenda in the creation of the European Coal and Steel Community (ECSC), and due to its bilateral defence agreement with the US it did not have to seek security guarantees from the proposed European Defence Community (EDC). In the late 1950s and early 1960s, Icelandic governments, like other governments in Western Europe, became increasingly worried about their trade prospects with member states of the EEC, and in particular about their seafood exports to the EEC market. As a result, in 1957-59, Iceland took part in negotiations concerning the proposed free trade area that was supposed to consist of the members of the Organization for European Economic Cooperation (OEEC) (Alþingistíðindi B 1959, 561-562).⁷ Also, the Icelandic government examined in detail the pros and cons of joining the European Economic Community (EEC) in 1961-63, following the EU applications by Britain, Denmark, Norway and Ireland. However, the government came to the conclusion that many obstacles stood in the way of full membership of the EEC for a small country like Iceland, as it had concluded concerning the free trade area (Benediktsson 1961; Frjáls menning 1962, 47-48). Furthermore, investigations by Icelandic officials of attitudes within the EEC Commission at the time indicated that it would have been difficult for Iceland to achieve its planned negotiation aims (Andersen 1961). The Icelandic government found it impossible to accept the EEC's principle of equal rights of employment and right of establishment because of the smallness of the nation (Benediktsson 1961; Independence Party 1961; Alþýðublaðið 6 February 1962); various provisions regarding manufacturing industry, agriculture and trade with Eastern Europe were seen as an obstacle to a full membership, and the government took the view that Iceland would need a long time to adapt and abolish protective tariffs (Alþýðublaðið 14 July 1961); also, the government was not prepared to grant other countries the same fishing rights as its own nationals had in Icelandic waters (Alþýðublaðið 14 July 1961). On the other hand, the Icelandic government decided to apply for associate membership of the EEC, but the French veto of the British application hindered the enlargement process. It is important to note that it is not certain how an Icelandic application for associate membership, including demands for considerable concessions from EEC rules, would have been received in Brussels.

Iceland was not invited to take part in the negotiations leading to the foundation of EFTA in 1960 because of its fisheries dispute with Britain (Benediktsson 2003). However, in 1970, Iceland joined EFTA in the hope of a trade agreement with the European Community (EC). Along with other EFTA members, Iceland signed a bilateral trade agreement with the Community in

⁶ Marine exports accounted for 92.3 per cent of all goods in 1952 (National Economic Institute 14 December 2001b).

⁷ This proposal was made in response to the establishment of the EEC.

1972⁸ which remained in place until the Agreement on the European Economic Area (EEA) took effect in 1994.

Interestingly, in the late 1980s and the early 1990s, all political parties, except for the small Social Democratic Party (SDP), preferred a new bilateral trade agreement with the European Community to participation in the EEA. All parties, with the exception of the SDP, stated provisos regarding Iceland's participation in the EC's four freedoms i.e. the free movement of goods, services, finance and people. They emphasised the importance of free trade in fish and marine product but opposed foreign investment in the Icelandic fisheries sector and fishing by foreign vessels in Icelandic waters. They favoured restrictions on agricultural imports but disagreed on the extent of the free movement of workers and the right of foreign nationals to buy property in Iceland. The parties also hesitated to commit themselves to a policy advocating an institutional framework that was being set up in the negotiations leading to the EEA Agreement. However, the main political parties⁹, all of which had been in government during some part of the negotiation process in 1988-1993, decided to follow the other Nordic states and take part in the process. The Social Democrats strongly advocated membership of the EEA. The party was in government for the whole period, and switched coalition partners, after the election in 1991, partly to guarantee support for the Agreement in the Althingi.

Iceland also hesitated to take part in the Schengen scheme in the mid-1990s when the first steps in that direction were being taken, and only did so to secure the free movement of Icelanders in the Nordic states within the Nordic Passport Union and after it had guaranteed itself a greater involvement in the Schengen decision-making framework than it had gained within the framework of the EEA (Interview (b) in the Ministry for Foreign Affairs 2002; Eiríksson 2004).

Historically, all political parties have opposed membership of the EU, with the exception of the SDP in the period 1994-1999 and the SDA¹⁰ from 2002. This is in sharp contrast with the pro-European attitude of the political elite in other European states. For instance, the leading political parties in Norway have advocated membership ever since the early 1960s. Several reasons have been put forward explaining the reluctance of the Icelandic political elite to take part in European integration. The most common explanation is the EU's 'unfavourable' fisheries policy (the Common Fisheries Policy) and Iceland's insistence on unrestricted control over its waters – a non-negotiable standpoint adopted by Icelandic governments. Other explanations for Iceland's

⁸ The agreement did not come into force until 1976, when the fishing dispute between Iceland and Britain had been resolved.

⁹ The SDP, the Independence Party, the Progressive Party and the People's Alliance.

¹⁰ The left-of-centre parties (the SDP, the People's Alliance (the former Socialist and Communists party) and the Women's Alliance) formed the Social Democratic Alliance (SDA) in 1999.

unwillingness to join the EU include: its close defence and trade relationship with the US (the country has no need to seek security guarantees from the EU because of its defence agreement with the US); the smallness of its central administration (its lack of staff and other resources until the mid-1990s to gather information on any considerable scale on the development of European integration, thus making the government rely on powerful interests groups in the fisheries and agrarian sectors in forming its European policy (Thorhallsson & Vignisson 2004)) and the political discourse in Iceland ('the sense that the Icelandic nation forms an organic unity and that the unified nation must not relinquish its sovereignty and independence' (Hálfðanarson 2004, 140)). As a result, many Icelandic politicians have hesitated to advocate Iceland's participation of the EU. Furthermore, three distinctive features of the Icelandic political elite contribute to its reluctance to participate in the European project. First, there is an unequal distribution of seats in the Althingi, in favour of the rural constituencies. This gives the primary sectors, fishing and agriculture – which oppose EU membership – a pivotal role in decision-making. Second, Iceland's foreign relations have been concentrated on states which stand outside the core of the European Union i.e. the original member states and states which are most in favour of European integration. In other words, Icelandic politicians', bureaucrats' and businessmen's contacts have been with their counterparts in the Nordic states, Britain and the US. Ideas and practices reach policy-actors through contacts and the flow of information. Ideas and practices reach policy-actors primarily through such contacts. The idea and the importance of the European project are felt less strongly in the middle of the Atlantic Ocean than on the European Continent and its immediate surroundings. Third, and importantly, the Icelandic political elite has had a realist conception of foreign policy. This is mainly shaped by a constant commitment to national self-determination and a search for concrete economic advantages (Kristinsson & Thorhallsson 2004).

This last point leads back to the earlier discussion of the importance that Iceland's governments have attached to bilateral contacts at the expense of multilateralism. Iceland's primary foreign policy aims throughout the twentieth century were to obtain full control over 'its' territory – land and waters – and to gain better market access for its fisheries products overseas. All political parties subscribed to these aims though they differed, at times, on how to achieve them. Membership of a supranational institution like the EU was seen by most politicians as contradicting these aims. Icelandic governments decided to become partly engaged in the European project in order to secure market access for the fisheries sector but rejected active participation in it. Membership of the EEA was practical for economic reasons, and participation in the Schengen scheme was undertaken to secure the continuation of Nordic co-operation as regards the free movement of people. These agreements, together with the defence agreement with the US, have been perceived by most politicians as serving Icelandic core national interests, in terms of economics

and security. They have seen few reasons to alter the situation and press for further engagement in European integration. Referring to the country's accession to the EEA Agreement, the Icelandic Foreign Minister argued that Iceland had got everything for nothing, meaning that it had gained access to the EU market without having to diminish its independence and sovereignty, according to the interpretation of agreement by the government at the time.

In their political discourse, Icelandic politicians find it hard to admit that they have assigned considerable decision-making power to the institutions of the EU through the EEA Agreement. Iceland's step-by-step adaptation to European integration has been sold to the general populace in terms of better market access for Icelandic fisheries products in Europe. Governments have repeatedly rejected claims that Iceland has 'lost sovereignty' in the process of gaining access to the markets (Thorhallsson 2004(a)). This was also the case with EFTA membership and the bilateral trade agreement with the EC. In the case of Schengen membership, the government claimed that Iceland's participation in the decision-making process had been guaranteed without the EU institutions being given authority over Iceland (Pétursdóttir 1999; Eiríksson 2004, 55). However, Iceland does not have the right to vote in the mixed committee, which was formed to give the non-EU member states, Iceland and Norway, access to decision-making. If Iceland does not accept new rules, which it has to adopt independently, this entails the termination of the agreement. Accordingly, Iceland may take part in decision-shaping, but not formal decision-making, and its scope of action in terms of rejecting new rules is very limited. Politicians find it impossible to admit or publicise this because of the political discourse based on the importance of self-determination (Hálfðanarson 2004).

To Give Or Take: Participation In The IMF And The World Bank

The importance that Iceland attaches to the work of the International Monetary Fund (IMF) and its limited interest in the work of the World Bank are a clear reflection of its international approach, in which direct economic benefit is seen as the prerequisite for international co-operation.¹¹ Reports issued by the Ministry for Foreign Affairs in 1997 and 2003 state that Iceland has done little to increase its expertise and contributions towards development aid (Ingólfsson & Haralz 2003; Haralz 1997). As a result, Iceland has had difficulties in taking on duties within the group of the Nordic and Baltic states in the World Bank Group (Haralz 1997). In 2003, the government was encouraged to take a more active part in the administration and work of the World Bank Group (Ingólfsson & Haralz 2003). Iceland's development aid, as a percentage of its GDP, has been considerably smaller than that given by the other Nordic states. Also, in 2001, all states in the Development Assistance Committee (DAC) of

¹¹ Iceland became a founding member of both institutions in 1945.

the OECD, with the exception of Italy and the US, contributed a higher percentage of their GDP to development assistance than did Iceland. Iceland has not played much part in the work of the UN institutes that deal with development assistance, except for the Food and Agriculture Organization (FAO); however, this participation has first and foremost been connected with its direct economic interests and little emphasis has been placed on the FAO's development assistance (Ingólfsson & Haralz 2003). However, Iceland's co-operation with the other Nordic states (and, since the early 1990s, the Baltic states) in the World Bank Group and the IMF has granted it a role within these institutions. For instance, it has appointed representatives to serve on the governing bodies of the World Bank Group through the membership of the Nordic and the Baltic states. Also, it has on three occasions (1960-62, 1980-83, 1991-93) chaired the delegations of these states to the IMF (Central Bank of Iceland 2005).

Iceland became active within the IMF because of the direct economic benefits that it received. In the first decades following independence the Icelandic economy was very unstable. The government lacked economic expertise and was particularly concerned with the stability of the Icelandic króna. Thus, the objectives of the IMF¹² went hand-in-hand with Icelandic aims. The IMF provided important economic advice to Iceland through its regular surveillance of the economy. It also provided technical assistance to the Icelandic Central Bank and other financial institutions. Moreover, Iceland received financial assistance, in the form of beneficial loans, from the IMF. Leaders of the Icelandic Central Bank encouraged Iceland's participation in the IMF and led the way for a more active approach within it, in contrast to Iceland's smaller-scale engagement in other international institutions (Interview at the IMF 25 August 2005; Institute of Economic Studies 25 August 2005).

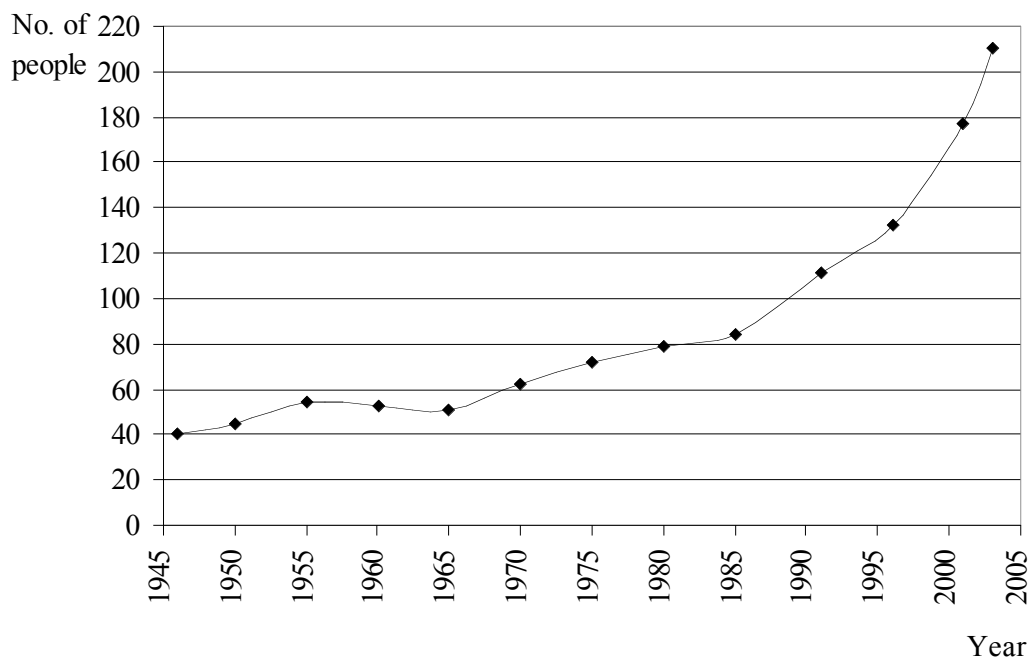
Iceland's policy focus on direct economic benefits from international co-operation explains the country's involvement in the IMF. The role of the World Bank did not coincide with Iceland's interests concerning direct gains from international activity. Thus, there was little enthusiasm in the Ministry of Industry, which oversaw Iceland's membership of the Bank, for playing an active role in its work. Iceland attached very little importance to granting development aid until the mid and late 1990s, and as a consequence the work of the Bank was not prioritised to the same extent as the work of the IMF (Interview at the IMF 2005).

¹² The objectives of the IMF were to promote international monetary co-operation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

Administrative Capabilities And International Participation

One of the consequences of Icelandic politicians' lack of enthusiasm about participation in the international community was that limited importance was attached to developing the capacity of the foreign service in the period under study. Politicians focused entirely on concrete economic advantages and securing the country's defence interests by building a long-lasting relationship with the US. The number of embassies/missions established abroad and the number of personnel in the foreign service reveal a slow development of the foreign service from the immediate post-war period until the late 1980s, with rapid growth taking place only after the mid-1990s. For instance, in 1970, 62 personnel were employed in the foreign service - the number having risen by only 22 since 1946 (see Figure 1). In fact, the number of personnel working in the foreign service dropped in the ten-year period from 1955 to 1965. In 1985, 85 people were employed in the foreign service - the number having risen by a third since 1970. However, in the following fifteen years the number of people working in the foreign service more than doubled, as Figure 1 shows.

Figure 1. The number of people working in the Icelandic foreign service from 1945 to 2003, all personnel included.

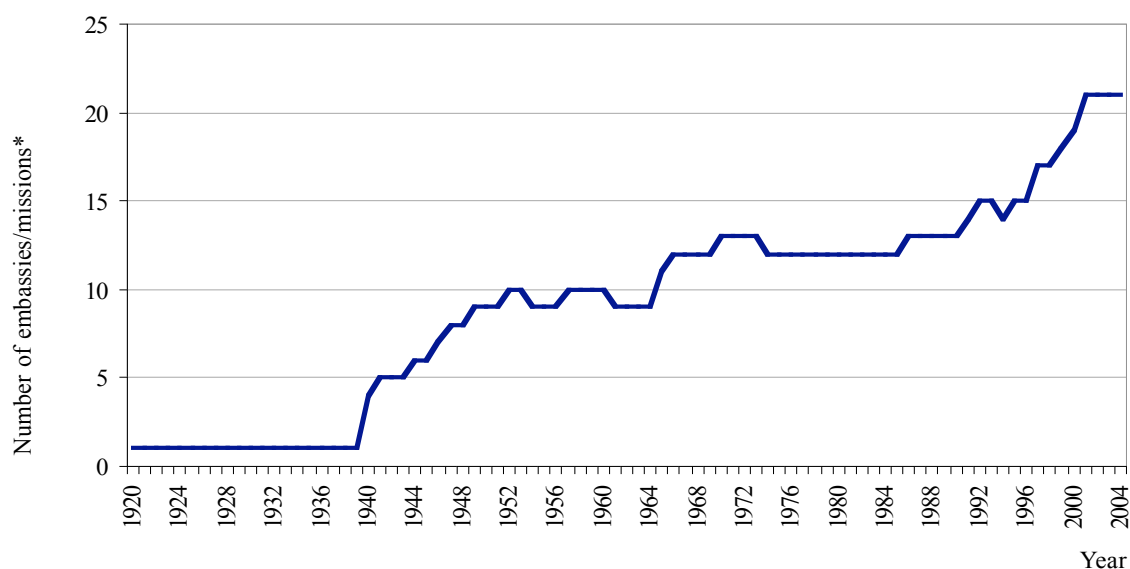


Source: Ministry for Foreign Affairs (between 1946-2003): Ministry for Foreign Affairs (May 2003).

The number of Icelandic embassies abroad (defined as the number of separate foreign service offices i.e. embassies, permanent missions and consulates-general with special ambassadors, permanent representatives or consuls-general) indicates a very limited growth in Iceland's international activities until

the late 1990s. Moreover, the locations of the first embassies/missions reflect the priorities in Iceland's foreign policy (Kristinsson & Thorhallsson 2004). Iceland established its first embassy, in Copenhagen, in 1920; the second one, in London, was not established until 20 years later. The third was established in Stockholm, also in 1940, after the occupation of Denmark. The first consulate-general was established in New York the same year. The consulate-general was the first diplomatic mission opened after the establishment of the Icelandic foreign service earlier that year. An embassy in Washington followed the defence agreement in 1941 and the fifth was established in Moscow in 1944. In 1949, Iceland had established 9 embassies/missions¹³ but in the 40 years following, the number of embassies/missions rose by only 4 (see Figure 2). In 2004, Iceland's foreign minister stated that the establishment of embassies to serve individual states abroad had not been a priority for forty years, i.e. from when the embassy in Bonn was opened in 1955 until the opening of the embassy in Peking in 1995. In the mid-1990s, the government claimed, it was very urgent to establish embassies in countries where Iceland had important interests to look after (Ásgrímsson 2004). Most of the embassies/missions/ consulates-general, including four permanent missions, were established in connection with Iceland's participation in international organizations during this period.

Figure 2. The number of Icelandic embassies/missions abroad*



*The number of Icelandic embassies/missions, defined separate foreign service offices abroad i.e. embassies, permanent missions and consulates-general with special ambassadors, permanent representatives or consuls-general.

Source: Ministry for Foreign Affairs 2005.

¹³ Iceland opened an embassy in Paris in 1946 and Oslo in 1947. A consulate-general was established in Hamburg in 1949 (becoming an embassy in 1952; this was moved to Bonn in 1955) and in Prague in 1950 (this was closed in 1953).

Iceland appointed a permanent representative to the UN in 1947, who also served as the ambassador to the US in Washington, DC. A permanent mission to the UN was not opened in New York until 1965. Iceland established a permanent mission to NATO in 1952 and a permanent mission to EFTA at the time of entry in 1970, but only established a separate mission to the European Economic Community (EEC) in 1986. (Iceland's permanent mission to NATO had handled the country's representation to the EEC since 1967, when it moved from Paris to Brussels.) Furthermore, Iceland did not establish a permanent mission to the Council of Europe until 1997; the country's permanent mission to the OSCE opened in 1992 in Vienna but closed in 1993 because of financial cuts; it was reopened in 1999. This also serves other international organizations in Vienna and functions as the embassy of Iceland in Austria. In the same way, the embassy in Paris has served as a permanent mission to the OECD and UNESCO, and the permanent mission to EFTA in Geneva has served international organizations located there, such as the WTO and UN institutions.

When Iceland joined EFTA in 1970, its administrative capacity was so limited that it only had one diplomatic representative in Geneva, where the EFTA headquarters were located, with secretaries in one-and-a-half positions. The other Nordic missions provided important assistance to Iceland, and support from the EFTA Secretariat was indispensable (Benediktsson 2003, 135-40). The smallness of the Icelandic foreign service also accounts for Iceland's limited participation in NATO, as is stated above (Jónsson 1989, 13). Furthermore, limited knowledge of military affairs was evident within the Icelandic administration throughout the period under study, and was a hindrance for Iceland in NATO (see Ingimundarson 1996, 409; Jónsson 1989, 17). Ministers and governments obviously did not attach priority to developing a high level of knowledge of security affairs within the administration. The foreign service only had resources to concentrate on Iceland's core interests as defined by the government, such as the extension of the fisheries zone and finding a suitable solution regarding market access for Icelandic fisheries exports on the EEC market. The government put considerable efforts into the negotiations concerning the EEA Agreement in the early 1990s, but as soon as the outcome of the negotiation process was clear and membership had been achieved, the number of people working on EEA/EU affairs in the Ministry of Foreign Affairs was reduced. As a result, the ministry lacked staff and expertise to deal with the agreement during the first years of membership (Thorhallsson 2001). The limited emphasis on long-term policy-making in the central administration made ministries very dependent on interest groups and assistance from other external sources (Kristinsson 1993). The lack of expertise and limited number of staff hindered the administration from engaging in the development of a general policy on European and security affairs. The administration itself cannot be blamed, however, and it is remarkable how much it achieved despite its smallness: witness the EFTA negotiations in the

1960s and the negotiations leading to the EEA Agreement. The Icelandic foreign service was not built to engage in much international activity and remained very small until the last decade of the twentieth century (Thorhallsson 2004(b); Thorhallsson 2002).

Governments and ministers did not engage in any deliberate development of the administration to enable it to deal with more general information gathering and long-term policy-making on European and security affairs. This meant that no 'data bank' was created on Iceland's possible policy options regarding European integration for ministers to turn to in a search of policy objectives. For instance, in 1994, the Minister for Foreign Affairs sought the advice of experts in the University of Iceland on the consequences that EU membership would have for Iceland. The experts' report was the first detailed report published by the government on Iceland's position on the European integration. The increased capacity of the central administration, and particularly of the ministry for foreign affairs, since the mid-1990s is manifested in the fact that in 1999 the foreign minister initiated a detailed report on Iceland and European integration which was conducted within the administration itself. More reports have followed, the vast majority of them written within the administration.

Iceland's limited activity within the UN and the Council of Europe provide further examples of the consequences of the lack of enthusiasm regarding international participation. Iceland did not take over the rotating chairmanship of the Council of Europe until 1999 because up to then, it argued that it did not have the administrative capacity to tackle the duties involved. Also, Iceland has not undertaken the presidency of the UN General Assembly as, for instance, did Malta (a country of similar size but less advanced economically) in 1990, Lebanon in 1958 and Ireland in 1960-61. Moreover, Iceland is the only Nordic state that did not apply for a seat in the Security Council in the period under study, the prime reason being the lack of political enthusiasm regarding participation in the international community. Iceland's reactivity within the UN is in sharp contrast with the pro-active role of the other Nordic countries (Jakobsen 2005).

Conclusion

Historically, Icelandic governments have pursued bilateral relations as a form of contact in the international system rather than multilateral relations within international institutions. The image of Iceland's being able to secure its core national interests bilaterally, without having to use international institutions as a protection forum from larger and more powerful states, was particularly strengthened by its repeated success in extending its fishing zone despite vigorous protests and clashes with Britain. Moreover, Iceland's defence policy has been based primarily on its relations with the US since 1941. This has been manifested in the importance which Icelandic governments ever since have placed on the relationship with the US and limited activity within NATO. Furthermore, the legacy of the independence struggle, i.e. the image that Icelanders were able to secure self-determination on their own without having to rely on multilateral co-operation, paved the way for an emphasis on bilateralism. This was also the case of the relationships between the Nordic states, based on bilateralism and co-operation within a loose institutional framework rather than integration.

Icelandic politicians have managed to secure Iceland's economic and security interests through bilateral relations. As a result, they have hesitated to move towards a more multilateral international environment, and did not see much reason to participate actively in international organizations such as EFTA, NATO, the UN, the OSCE, the Council of Europe and the World Bank. For instance, Iceland did not show much interest at all in playing an active part in the UN, despite the impressive example which the other Nordic states provided. The government did not develop functionally capable units within the central administration in order to become an active participant in these institutions. Also, from the 1950s until the late 1990s, the Icelandic government resisted pressure from the US and other NATO members to play a more active part in the decision-making processes of the alliance. Furthermore, the international approach of Icelandic politicians has been on concrete economic advantages (markets for fisheries products and the extension of the fisheries zone) and securing the country's defence (building a long-lasting close relationship with the US). This is also manifested in the prioritization of the work of the IMF and limited interests in the activity of the World Bank. Thus, Iceland has been a member of most important post-war international institutions, but did not seek influence within them in the period under review.

Accordingly, Iceland seems to belong to Keohane's 'system-ineffectual' category, i.e. as a state which simply adjusts to the international system and cannot change it. This is at least the case regarding Iceland's participation in multilateral organizations. Furthermore, Icelandic politicians' emphasis on bilateral relations, and lack of enthusiasm regarding active participation in international institutions, indicate a different view of the international arena from that of other Nordic politicians, who have sought active involvement in

multilateral organizations. This prevents Iceland from belonging to Keohane's 'system-affecting' category' of states, i.e. those that can influence the international system together with other states.

Icelandic politicians have been sceptical about their country's capacity to influence decisions taken in the international organizations mentioned above. They seem not to have believed that Iceland, as a small state, could influence decision-making and secure its interests within multilateral institutional frameworks. Though it is slowly changing, this perception has continued, and some politicians repeatedly claim that as a small state, Iceland would not have any influence within the EU (Oddsson 2002). Also, the financial burden of international co-operation is still employed as an argument in the debate on whether or not the country should become more active internationally and continue its campaign to become a member of the UN Security Council in 2009-10: Oddsson, as the foreign minister 2004-2005, and a number of MPs, raised doubts about the continuation of the campaign because of the high estimated cost involved (Morgunblaðið 2 March 2005; Morgunblaðið 30 April 2005(a); Morgunblaðið 30 April (b); Morgunblaðið 14 July 2005). Furthermore, the application to join the Security Council has been criticized because it does not give Iceland any direct benefits (Morgunblaðið 27 January 2005) and doubt has been cast on the country's administrative capacity to participate in the Security Council (Morgunblaðið 25 January 2005). Accordingly, the legacy from the period under study, in terms of scepticism about participation in the international community, is clearly present in the debate today.

Icelandic governments have taken radical unilateral decisions concerning the extension of 'Icelandic waters' and been successful in their approach. This contradicts the small-state literature concerning the vulnerability of small states, their reactive nature and the importance they allegedly attach to working within multilateral organizations. Iceland's unilateral actions leading to the Cod Wars can be explained by the nation's continued commitment to a policy of self-determination and the neo-realist approach which focuses on how states prioritise self-reliance and survival (Knudsen 1996). Icelandic leaders once again tried the unilateral approach when they decided to withdraw from the International Whaling Commission (IWC). The failure of this tactic, compared to the successes in the Cod Wars, could be explained by the more advanced international structure and form of decision-making concerning whaling in the international system, i.e. within the framework of the IWC, compared to the less advanced rules and structures concerning the extension of exclusive fishing zones at the time of the Cod Wars. Thus, international norms and rules may not always benefit small international players. Small states, such as Iceland in the case of whaling, may be restricted in their actions by multilateral institutions. If a small state can create sympathy and understanding of its unilateral actions, as Iceland managed to do in the US and the Nordic States during the Cod Wars, it may have as much chance of succeeding outside multilateral institutions as within them. The small-state literature cannot take it

for granted that multilateral co-operation within international institutions constitutes the best framework for small states to secure their interests. For instance, politicians in Iceland, and the most powerful interest groups in the country, those of the fishing industry and agriculture, have favoured the less restricted structure of decision-making within EFTA and the EEA compared to the supranational character of the EU. This search for a continuation of domestic manoeuvres, and the belief that Icelandic interests are best served outside multilateral organizations, combined with a political discourse based on self-determination, are manifested in Iceland's involvement in European integration: partial engagement in the project, with a refusal to enter it more fully, since self-determination is seen as serving the state's interests best.

Small states in Europe still have considerable room for manoeuvre, i.e. regarding the extent to which they are prepared to participate in European integration, as Katzenstein argues. Iceland has used this room for manoeuvre to stay outside the EU. It also used the scope of the international system to take unilateral decisions and extend its exclusive fishing zone. However, it has been pressured by the ongoing integration process to follow its neighbours and take part in European integration in order to secure its key economic interests. Also, constraints of the international set-up pressed Iceland to rejoin the IWC and work according to its rules. On the other hand, Iceland still attaches great importance to its bilateral security policy with the US at the expense of multilateral co-operation within the CFSP and the EDSP in the EU. The present governing elite sees no reason to change its security policy and turn towards the growing supranational structure of the EU as long as the US guarantees the defence of Iceland and the elite believes that it can convince the US to maintain its military presence in the country. Also, governments clearly favour bilateral defence co-operation with the US compared to an alternative under which NATO, or some of its other members within its framework, would take over responsibility for Iceland's defence.

Neumann and Gstöhl (2004) claim that small-state studies cannot simply adapt to the realist literature which assumes that capability is the key concept in determining the behaviour of states. The realist focus on capability does not help to explain Iceland's success in the Cod Wars and the continuing success of the Icelandic government in keeping the US defence presence in the country. These cases indicate that one might become dismissive of Iceland as a small state by focusing entirely on its capacity compared to the capabilities of its larger neighbours. The neo-realist approach, emphasising states' own self-reliance and survival, is more helpful, but since all states are subject to the same structural pressures this cannot, by itself, explain why states behave differently (Thorhallsson & Wivel (forthcoming)). Nor does neo-liberal intergovernmentalism help to explain Iceland's international approach up until the mid-1990s. This is because Iceland has focussed on bilateral relations for securing its core interests rather than problem-solving within multilateral organizations. On the other hand, constructivism, which emphasises the importance of discourse,

may help to explain how Iceland's foreign policy in this 60-year period was constructed within a framework of a commitment to a policy of self-determination. For instance, Wæver argues that concepts such as 'state', 'nation' and 'people' can explain and even predict states' foreign policies (Wæver 2002, 20). Also, Tiilikainen (1998), Marcussen *et al.* (1999) and Hálfðanarson (2004) argue that the domestic discourse may explain the willingness of states to participate in European integration.

The political discourse in Iceland was determined by the pursuit of full control over the country's surrounding waters after 'territorial' independence had been secured. Moreover, the controversial defence relationship with the US and its military presence in the country fuelled the national rhetoric, each camp – for or against the US link – claiming to represent the truly independent Iceland (Ingimundarson 2001). The country's approach to international affairs bears the hallmark of this discourse throughout this period, governments deciding that Icelandic economic and security interests were better served by bilateral relations than within the structure of international organizations. Within their bilateral relations, Icelandic governments were less restricted in their scope of action, both domestically and internationally, than they would have been within multilateral institutions. They had greater freedom to continue to pursue self-determination, take unilateral decisions and stick to their policy objectives in bilateral negotiations than would have been the case within institutions such as NATO, the EU and the UN.

To conclude, the pursuit of self-determination – over land, waters and resources – structured the political discourse in Iceland throughout this 60-year period. Also, the Icelandic political elite's first experiences of international relations were in the form of successful bilateral relations which secured core Icelandic national interests. This combination of a discourse based on the importance of self-determination and politicians' experience and ideas about how Icelandic interests would be best served led to an international approach based on bilateralism at the expense of multilateralism.

This case study of Iceland's international relations indicates that the behaviour of small states in the international arena cannot be placed in a uniform mode. Small states do have a room for manoeuvre and can adapt to the international system, its norms and rules, according to how they see their interests best served. From the early 1940s, Iceland, as a new small state, decided to follow a pattern in its overseas relationship based on how its core economic and security interests would best be served. The dominating idea was that self-determination would secure the best possible outcome in this respect, and the way to achieve this was by pursuing bilateral relations with close neighbours rather than taking an active part in international organizations. Accordingly, Iceland sought to limit its vulnerability by pursuing self-determination and, at times, the only way to succeed was to take unilateral decisions contrary to the general norms and rules of the international system. Shortly after becoming a republic, Iceland joined most of the international

organizations created after the Second World War, but did not seek an active role within them. Icelandic policy-makers were sceptical that Iceland's core interests, including self-determination, would be guaranteed within them. As a result, governments invested limited resources in building up a foreign service capable of taking an active part in these institutions. The administrative capacity was directed towards building solid bilateral relations with close neighbouring states in order to secure economic access and security protection. The small-state literature must combine an assessment of the aims of small states' elites, and their perceptions of domestic affairs and the international system, with a consideration of their capability when seeking to account for their international approach. Furthermore, the history of the overseas contacts, political discourse, norms and even legacies of success or failure of the state in question must be studied in order to gain a better understanding of small states' activities in the international arena.

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