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Iceland’s hesitations to join the EU

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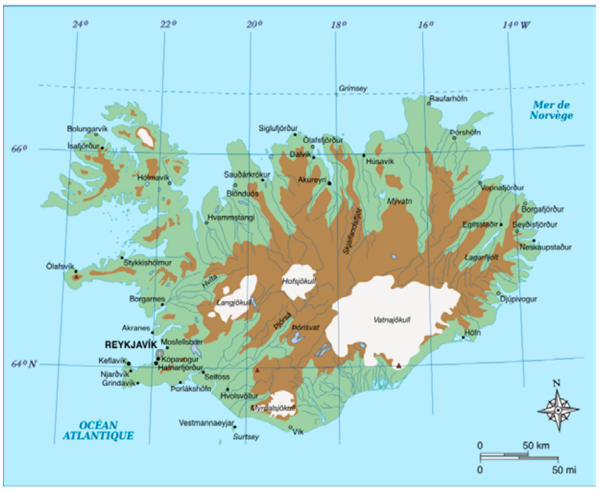
On 29 August, Icelanders will vote in a referendum on whether their government should resume negotiations for membership to the European Union. Against a backdrop of economic and monetary uncertainty and geopolitical instability, this decision by a wealthy nation – one that is also being closely watched by Norway – could redefine the terms of enlargement.



Europe is back in the Icelandic political debate in view of a national referendum, which does not concern the country’s accession to the European Union (EU) per se, but whether or not to resume accession talks. The choice is dividing this remote island nation of 370,000 inhabitants, which seeks monetary stability and security but is staunchly protective of its independence and of its fishing interests.

I • Partial integration

Although Iceland is not a member of the EU, it is already closely linked to it. Along with Norway and Liechtenstein, it has been part of **the European Economic Area** (EEA) since its creation under Jacques Delors in 1994. It thus participates in the Single Market, regularly aligning itself with European standards whilst retaining customs duties. Like the other two EEA states, Iceland was originally a member of the European Free Trade Association (EFTA), an intergovernmental trade organisation (of which Switzerland is also still a member). Since joining in 1970, Iceland has seen most of the other EFTA members leave the organisation to join the European Union (the United Kingdom and Denmark as early as 1972, followed by Portugal, then Sweden and Finland).

Iceland also participates in several EU programmes and policies. It joined in 2001 the **Schengen** Area, which allows for free movement of people. It is associated with the **Erasmus** programme and, since 2021, with the **Horizon** research programme. It also contributes to **European civil protection** (which combats, for example, forest fires and other disasters).

Reykjavik also benefits from some EU **cohesion funds**. It is part of **the European carbon market** (ETS). Its foreign policy has implemented all European sanctions against Russia since the start of the war in Ukraine.

Outside the EU, in addition to EFTA, Iceland has joined several regional organisations since gaining independence in 1944. It is one of the oldest members of **the Council of Europe**, having joined in 1950, one year after its creation. The country is also **a founding member of NATO**, established in 1949. Finally, like the rest of the continent, it has been participating in the **European Political Community** (EPC) since the launch of this informal body in 2022.

II • A membership process cut short

It was in the wake of the severe banking crisis of 2008–2009 – which sparked fierce social unrest (the 'pot-banging revolution'), caused the Icelandic currency to plummet and brought the left to power for the first time in the country's history – that Reykjavik submitted an application for EU membership on 17 July 2009.

Talks began the following year: 27 of the 33 chapters of the acquis communautaire were opened for negotiation, and 11 of these were provisionally closed. **Negotiations were suspended at the end of 2013** following the return to power of the right, which is traditionally sovereignist. This unilateral withdrawal was decided without public consultation. In 2015, the conservative government even officially asked the Council of the EU to no longer consider it a candidate country for accession.

III • A two-stage consultation

The issue of EU membership resurfaced with the return to power of a coalition led by the social-democratic party, which won snap general elections at the end of 2024. This coalition, led by Prime Minister Kristrun Frostadottir, had pledged in its manifesto to hold a referendum on the EU by 2027.

Washington's threats over Greenland, which became explicit in early 2026, have strained the geopolitical climate in the region. Donald Trump's fleeting but repeated confusion between the autonomous Danish island and Iceland, on 21 January at Davos, puzzled Icelanders, who have no national army. This fraught international context prompted the government to bring forward its consultation, against a backdrop of economic concerns as well (read following point below). On 6 March, it announced that a referendum would be held on whether to resume the accession process. The country's parliament, the Althing, formalised the date of the vote in the spring, setting it for Saturday 29 August.

This first referendum is therefore limited to whether or not to authorise the government to negotiate the country's accession with the EU; should the result be a 'yes', the terms of the agreement finalized into an accession treaty – including any exemptions secured and transitional periods – will be subject to a second referendum for approval. The government reiterates that it would itself reject any agreement deemed unsatisfactory for the country's interests. This two-stage consultation does not prevent this first referendum campaign from focusing on the benefits and conditions of joining the EU-27. The government therefore finds itself having to clarify its negotiating objectives already.

IV • The implications of accession

The referendum on 29 August effectively serves as an indirect vote on the euro. The primary objective of joining the EU for the current government in Reykjavik is, in fact, **to adopt the EU's currency**. An economist by training, specialising in international finance, the young head of government set up, upon taking office, a group of experts tasked with examining the pros and cons of retaining the Icelandic króna versus adopting the euro. It is expected that adopting the single currency – or at least pegging it (as with the Danish krone) – would put an end to the **high volatility of the Icelandic currency**. Its fluctuations are damaging to exports, which are vital for this small, highly open economy. The euro would also reduce transaction costs for foreign trade as well as interest rates, which are currently at prohibitive levels.

Beyond the currency, the issue of accession centres on the economic situation. Iceland is currently considered **the most expensive country in the world**, ahead of Switzerland. The general price level is 84 per cent above the EU-27 average, according to a recent study by an Icelandic trade union. Food is particularly expensive (on average, 55 per cent above the EU level, according to the Icelandic Competition Authority). Whilst growth remains moderate at 1.8 per cent this year, according to the IMF, inflation exceeds 5 per cent and the central bank is struggling to keep it in check. Icelanders find themselves in the paradoxical situation of having one of the highest GDP per capita figures – reflecting a high standard of living – whilst simultaneously facing a recurring problem with purchasing power due to fluctuations in prices, interest rates and the exchange rate. **The cost of living varies from month to month.**

The very high price levels are due to significant annual pay rises, resulting from sector-specific trade union negotiations. The average gross annual salary (excluding the public sector) stands at nearly €86,000, according to the OECD (compared with €46,000 in France). Inflation is also fueled by a very tight property market, due to a structural shortage of supply, and more recently by a rise in transport costs following the introduction of a new per-kilometre tax. EU membership would help to combat inflation by eliminating customs duties, which remain high with the European market, the country's main export market. More generally, joining the EU would tackle the lack of competition in a **small, highly open economy that is nevertheless concentrated in certain sectors**. It would finally enable the country not to risk the trade retaliatory measures that the EU implements to defend its industry, such as in the steel sector.

Another major factor driving the push for membership is security. Iceland is a **remote island in the North Atlantic, with no army** despite being a NATO member, and no experience of war. It has been linked to the United States since 1951 by a defence agreement, but is questioning its validity now that the Americans closed their base in Iceland in 2006. The country has only its own coastguard. Moreover, the government is questioning the viability of transatlantic solidarity at a time when the Russian threat continues to be detected even off its shores. Joining the EU would demonstrate the commitment **of a country lacking the capacity to defend its interests by force** and keen to consolidate "free trade and a rules-based order", as summarised by the Icelandic Finance Minister, Dadi Mar Kristofersson (Reuters, 17 June 2026). Although it has no military forces of its own or defence industry, the country has nevertheless committed to increasing its infrastructures in this sector by spending to 1.5 per cent of GDP, up from the current 0.92 per cent, which was down to only 0.2 cent recently. Iceland spends less on defence than Montenegro, another Nato member but much poorer.

V • The framing of an open debate

Opinion polls at the start of the summer show differing results depending on whether the question concerns reopening the accession process – without prejudging future negotiations (around 53 per cent of Icelanders in favour, compared with 47 per cent against, according to a Maskina survey on 16 June) – or EU membership itself (46 per cent in favour, 39 per cent against and around 15 per cent undecided).

The most heated debate centres on **fisheries**. EU membership would mean losing national control over Iceland's marine resources and sharing them with the EU-27 through the setting of annual quotas for authorised catches by species. Participation in the Common Fisheries Policy would also entail opening Icelandic waters to foreign fleets. This is a major issue for the country, where **fishing is a highly dynamic and mechanised industry** that has also invested heavily in fish farming. The sector accounts for 6 per cent of GDP and 40 per cent of its exports (by value), which are mainly directed towards the European market. Concentrated in the hands of a few influential players, these stakeholders are campaigning for a 'no' vote. They find allies in the conservative opposition and some media.

Symbolic of the debate over sovereignty of an island that is fiercely protective of its independence, won from Denmark, fishing also carries an **identity-related dimension**. EU membership would, in particular, call into question whaling, which contributes less to the economy than to Iceland's cultural identity.

Whilst fishing thus captures a categorical rejection of Europe, other significant sectors of the economy – such as pharmaceuticals, energy and aluminium – are more divided on the issue. So much so that employers' organisations have not yet taken a clear public stance on the referendum.

From a sociological perspective, the European debate pits a **Eurosceptic rural population** against an urban population, concentrated in Reykjavik, in favour of reopening negotiations talks with the EU. Iceldanders under 30 are the most supportive (63% according to a Gallup survey on 26 June). As young people are more directly affected by the cost of living – particularly housing costs – they are more receptive to arguments about the economic and monetary stability that membership would bring.

The challenge for the government during the current campaign is to mobilise young people as well as pro-European civil society. An impartial information brochure is to be distributed in all houses throughout the island in August.

The government does not expect a clear 'yes' vote in favour of the EU, but hopes that **a 'yes, maybe' vote** might prevail, 'to see' what the negotiations would bring.

VI . Accelerated negotiations

As the government has emphasised, the referendum here concerns only the resumption of accession talks, without prejudging their final outcome. However, an initial 'yes' vote, if it were by a clear margin, could foreshadow a second, confirmatory vote. A 'no' vote, on the other hand, would not, in principle, lead to the Prime Minister's resignation, as she intends to retain her post. Her political capital would, however, surely be undermined.

Should the 'yes' vote prevail, given the progress made in previous negotiations and the country's alignment with European standards – both in terms of the single market and democracy – **the accession process could be swift** compared with other current candidate countries. Reykjavik would have no interest in allowing the talks to drag on, to the benefit of those opposed to accession. On the contrary, it would be keen to reach a conclusion quickly.

To win the second referendum on accession, the government knows it will first be judged on the fate of Iceland's fishing industry. It would like **to negotiate an exemption** for the country from the European fisheries policy. But such an opt-out would be a source of irritation for other Member States, particularly Ireland and the Netherlands, which would demand the same treatment for their own fishing industries. Without a compromise, the ratification of the accession treaty – which requires unanimity among the Twenty-Seven – would be blocked.

VII. Beyond Iceland

The country's accession to the EU is just as much a matter for the EU-27. Apart from the sensitive issue of fisheries, they are expected to welcome a member state considered to have state of the art **respect for the rule of law**, one that would strengthen the bloc's sensitivity to issues relating to human rights and gender equality, and, finally, one that would be a **new net contributor** to the European budget.

Such accession, which the European Commission supports, would also reframe the debate on enlargement within the EU in more positive terms. It would demonstrate Europe's appeal even to the continent's wealthiest countries, which enjoy a positive image. Iceland's accession would present **enlargement in a different light** and covering another geographical area of the continent.

The Norwegians will also be keeping a close eye on the referendum results. Iceland's accession in the near future would result in its withdrawal from the European Economic Area. Norway would then find itself, along with Liechtenstein, outside the EU and surrounded by Member States even more. The future of the EEA would be called into question. Depending on what Iceland secures in its accession negotiations – particularly in the fisheries sector, which is also a sensitive issue for Oslo – the current Norwegian government, which is in favour of joining the EU, could in turn revive the country's application. However, this would also depend on how the polls develop. The Norwegians have already refused to join on two occasions, in 1972 and then in 1994. Public opinion there remains deeply divided on the issue today.

Should Iceland's accession process be restarted, France, for its part, is cautiously banking on a possible future **linking of the ratification of this accession with that of Montenegro,** the candidate country furthest advanced in its negotiations[1]. Such a linkage could facilitate parliamentary ratification, which remains a very demanding process[2]. Given that an Icelandic 'no' vote on 29 August looks at this stage as a highly plausible scenario, Paris is refraining from any support for accession in the Icelandic campaign in order to limit the negative impact of a rejection on the enlargement process underway elsewhere in Europe. Hence France's very limited public commitment. **A potential Icelandic 'no' vote should remain a setback for Reykjavik, with no wider implications.** However, it remains highly possible that an Icelandic 'no' vote would find some resonance in the European debate it would spark on further enlargement. Political parties opposed to this process would most likely seize upon it.

1 Maillard, S. 'Montenegro's EU Push: Imminent Opportunities and Challenges', Policy Brief, Jacques Delors Institute, March 2024
2 Macek, L. 'The French referendum on EU accession: a ticking time bomb that needs defusing', Policy Brief, Jacques Delors Institute, April 2026

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