

Iceland's Relations with its Regional Powers:

Alignment with the EU-US sanctions on Russia

Baldur Thorhallsson and Pétur Gunnarsson



Publisher: Norwegian Institute of International Affairs
Copyright: © Norwegian Institute of International Affairs 2017
ISBN: 978-82-7002-337-0

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Visiting address: C.J. Hambros plass 2d
Address: P.O. Box 8159 Dep.
NO-0033 Oslo, Norway
Internet: www.nupi.no
E-mail: info@nupi.no
Fax: [+ 47] 22 99 40 50
Tel: [+ 47] 22 99 40 00

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Published by the Norwegian Institute of International Affairs

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Summary

The paper examines the Icelandic government's consideration to withdraw its support for the sanctions against Russia over Ukraine in 2015. The consideration came as a surprise to many since Iceland in the past has habitually aligned itself closely with the United States and the European Union in such matters. The Icelandic fishing industry lobbied hard for the sanctions to be lifted to avoid Russian counter-sanctions on Iceland. After considerable internal debate, the government decided to uphold the sanctions, but settled on a policy of not taking part in EU's foreign policy declarations about the sanctions. This move is interesting given Iceland's traditional positioning between two gravitational centres in world politics: the EU and the US. The paper discusses what this case tells us about Icelandic policymakers' room for maneuvering in the formulation and enactment of its foreign policy, and about Iceland's foreign policy bonds to the US and the EU.

Introduction

Iceland's foreign policy has traditionally been founded on three core pillars: the relationships with the United States (US) and the European Union (EU) and membership of NATO. Iceland, which has been described as a reluctant European, is formally outside of the EU, but has in the past aligned itself habitually with EU's foreign policy positions. Adherence to the EU's foreign policy declarations is regulated through statements on political dialogue made by governments of the EU and EFTA countries in connection with the signature of the EEA Agreement (Althingi 1993).

Iceland's decision to follow the US-EU's lead and impose sanctions on the Russian Federation and other affiliated actors over the Ukraine crisis in 2014 was a controversial example of its alignment with the EU's foreign policy; it entailed high costs for the nation's economy following Russia's decision to impose countersanctions on Iceland in 2015. Iceland has a long history of trade with the Russian Federation (IMFA 2016a; Reykjavik Economics 2016) and the fishing industry exported a great deal of marine products to Russia prior to the counter-sanctions.

The very efficient and powerful fisheries lobby groups have had a great deal of influence on Icelandic foreign policy formulation, including Iceland's membership of EFTA and the EEA, and play a leading role in maintaining its status as a non-EU member (Thorhallsson 2004; Ingebritsen 1998). After Russia imposed sanctions on Iceland in summer 2015, there was a series of protests, most notably from the main fishing-lobby group, Fisheries Iceland (SFS). The two largest political parties (the conservative Independence Party and the centrist agrarian Progressive Party), in government coalition at the time, were torn between the idea of maintaining a foreign policy, which best served direct economic interests, on the one hand, and maintaining a good relationship with its closest and most important allies, the EU and the US, on the other. The Prime Minister and leader of Progressive Party went as far as to proclaim that the country could not simply follow the EU blindly in adopting sanctions against Russia (Eyjan 2016). With that comment, the former PM, perhaps unintentionally, touched on an idea which will be in the foreground in this analysis: Iceland's relations with large powers such as the EU and the US, their implications and the fine line between autonomy and dependence in the formulation of a small

state's foreign policy. Also, consideration will be given to the question of whether there is a hegemonic element to this relationship, due to Iceland's relative smallness as compared with the two entities – referring to the close cooperation between Iceland on the one hand, and the EU and the US on the other (see Eriksen and Fossum 2015).

Describing participation by non-EU countries in the EU's sanctions, Hellquist (2016; pp. 18-19) states that these were considered relatively "cheap" when they consisted mainly of targeted measures against individuals accused of violations of human rights and democracy. She identifies such measures as the Union's default foreign policy option in dealing with almost any crisis. However, the cost involved for Iceland in applying sanctions was high. As Hellquist describes it: "Sanctions have brought friction and confusion to relations in the wider Europe," which describes well the Icelandic scenario (Hellquist 2016, pp. 19-20).

Interestingly, after intensive debate in Iceland on whether or not to prolong the restrictive measures against Russia, Icelandic policy-makers came up with a new arrangement: Iceland would continue to implement the EU sanctions but would not take part in the EU's declarations about the sanctions. Accordingly, Iceland has not taken part in the EU's declarations about the sanctions since autumn 2015, although it implements them. This marks a breach with the established Icelandic practice and leads us to this puzzle. The question which will be examined in this article is therefore why Icelandic politicians considered withdrawing their support for, and yet subsequently reaffirmed their participation in, the sanctions? What was Iceland trying to achieve from its new policy approach by which it implemented the EU's sanctions but did not take part in its declarations? Or, to put it the other way around: why did Iceland participate in the measures in the first place, then consider withdrawing its support and then decide to continue with them?

The paper is structured as follows: First, we elaborate the concepts of autonomy, dependence, and hegemony to gain a better understanding of how they relate to the case we will be reviewing. Second, we will explain Iceland's relations with its regional powers: the US, the EU and Russia. Third, the paper will examine Iceland's participation in the sanctions. A number of interviews were conducted to shine light on the decision-making of the Icelandic government. The concluding part summarizes the main findings and discusses their implications for the nature of the relationship between Iceland and its regional powers in connections with the concept of autonomy, dependence and hegemony.

Relationships between small and large states: Autonomy versus Dependence

Iceland, being a small state in a world full of complexities and interdependence, has to balance two underlying factors in its foreign policy decision-making; autonomy and dependence. The standard argument regarding small states is that they usually prefer international cooperation due to their inability to control the external environment. They will opt for increased institutionalisation, e.g. in European and global politics, so as to be able to channel their interests through international institutions such as the EU (Ingebritsen et al. 2006). This is done through close alliances and formal cooperation. Small states seek shelter provided by larger states and regional or international organizations mainly in order to reduce risk before a possible crisis event, obtain assistance in absorbing shocks when risk goes bad and help in cleaning up after the event (Thorhallsson 2011). Iceland, with only about 330,000 inhabitants, is a small economy, with a relatively large territory, no military and a small public administration and foreign service, and is therefore especially vulnerable in the fluctuating international economy and in defence and security terms.

Accordingly, Iceland, like other small states, has sought political, economic and societal shelter provided by its larger neighbouring states and international organizations. Political shelter is secured through membership of NATO and the Defence Agreement with the US. Also, political shelter is secured by the Nordic states in terms of diplomatic support in international organizations. Nordic cooperation and the EEA Agreement have provided essential societal shelter in terms of transferring norms and values to the remote small community (e.g. in the form of the free movement of people, access to research funds and student exchanges). Furthermore, Iceland has sought partial economic shelter through its membership of the EEA and, for a long time, received aid and financial support from the US (Thorhallsson 2011). On the other hand, Icelandic policy-makers have sought to preserve the country's autonomy and, thus, it has not joined the EU.

There is a constant tug of war between the autonomy of a nation state, which is an integral part of realist thought, stressing the

sovereignty and independence of nation states (Waltz 1979), on the one hand, and dependence upon other actors on the other. This dependence can vary in form, but in the context of our case study, Iceland's interconnectedness with, and dependence on, its large and powerful immediate neighbours, the EU and the US, has had a major impact on the formulation of its foreign policy. This tension between autonomy and dependence has been used to describe how a non-EU state, Norway, has conducted its foreign policy, in close consultation with the Union, while retaining a certain level of autonomy in its policy preferences – where the balance between autonomy and dependence is the primary result of strategic calculation by the Norwegian authorities of their economic and foreign policy political interests (Riker 2016, p. 8).

Eriksen and Fossum (2015, pp. 1-3), have gone a step further in explaining the power relationship between non-member states and the EU. They explain the power relationship between the non-members, Norway, Iceland and Switzerland, and the EU in terms of the idea of hegemony. This relationship, in which these countries are strongly affected by laws, regulations and directives passed by the EU, but are not formal member states, is considered by Eriksen and Fossum as a hegemonic relationship. Through various association agreements, non-member states are variously affected by the dominance of the EU. A hegemon is defined in international affairs, as an actor – or a state – that wields power over subordinate actors. The EU is not a hegemonic state per se, but the relationship itself, between non-members and the EU, can nevertheless be considered as hegemonic. The problem with this power relationship is that of power asymmetry and arbitrary power. Dominance occurs “when citizens are subjected to others’ will” (Eriksen and Fossum 2015, p. 3). Norway, Iceland and Switzerland, which are still closely interconnected and integrated into the Union, put themselves in this position voluntarily. Therefore, Eriksen and Fossum argue that the EU does not play the role of a hegemon intentionally, but this hegemonical relationship exists due to the complex nature of the interdependence between these small states and the Union (Eriksen and Fossum 2015, pp. 3-5).

The US has often been described as a hegemon on the world stage. Agnew (2005) describes the US as a hegemonic power that convinces, cajoles, and coerces others that they should do what the US wants. His conception of hegemony is not based on military power, but rather on a complex intermingled relationship between economic, political and military power that creates a mixed result of hegemony. It can therefore exist based both on formal institutions, such as binding agreements, and on informal institutions, such as shared values (Agnew 2005). Accordingly, what makes Iceland particularly interesting as a

case study is its close relationship with the US, which has been described as Iceland's closest ally when it comes to foreign and security policy (Ingimundarsson 1996, 2007; Thorhallsson 2013, p. 10); Iceland even went as far as to support "Coalition of the Willing" in 2003.

Furthermore, Iceland has a very solid relationship with Russia even though the two countries disagree on important matters such as democracy and human rights and there is a fundamental difference between the two on Ukraine (High-Ranking Official in the Icelandic Ministry for Foreign Affairs, January 2017, interview). Iceland has a good bilateral relationship with Russia and works closely with it in regional organizations such as the Arctic Council and Council of Baltic Sea States. There are no disagreements between the two countries about the rules of the game in these regional organizations (High-Ranking Official in the Icelandic Ministry for Foreign Affairs, January 2017, interview; High-Ranking Russian Official, Reykjavík, November 2016, interview).

Iceland participates in a wide variety of restrictive measures. It mainly adopts two sorts of restrictive measures. These are, firstly, sanctions decided by the United Nations (UN) on the basis of Article 41 of the UN Charter (which Iceland, like all UN member states, is obligated to implement), and secondly, sanctions on the basis of the EEA Agreement, in which the EU decides to impose sanctions and EFTA/EEA member states are invited to join (IMFA 2016c).

Iceland has adopted most of the restrictive measures imposed by the EU since it signed the EEA Agreement (IMFA 2016c). Among the most notable restrictive measures Iceland has in place are those directed towards countries such as Afghanistan, North Korea, Iran, Libya, Somalia, South Sudan, Syria and Russia. In most cases they were adopted on the basis of both EU and UN decisions (IMFA 2016d). Of those that are not supported by both include, of course, the sanctions against Russia, which are based on a Council Regulation concerning restrictive measures in view of the situation in Ukraine from 2014 (European Council 2014-16).

Iceland and the Regional Powers

Defence and Security: the United States and NATO

Iceland, a founding member of NATO, has since the Second World War relied heavily on the US when it comes to defence and security (IMFA 2016a). In 1941, in the middle of a World War, Iceland signed a broad defence and trade agreement with the US. In 1951 it signed a new bilateral defence agreement with the US, allowing a military base in Iceland. These were extremely controversial topics in the Cold War atmosphere (Thorhallsson 2013, pp. 10-11). Until the late 1960s, Iceland received considerable economic aid and favourable trade arrangements with the US. Moreover, the US continued to pay for the running of the Icelandic international airport in Keflavík and its military base in the country contributed considerably to the Icelandic economy until it was closed in 2006. This marked an end of an era in Icelandic foreign and defence policy. As a country without an army, Iceland has relied heavily on the US and NATO policy-making due to a lack of defence and security expertise in the country itself (Thorhallsson 2013, p. 11).

Iceland's relationship with the US and NATO has been described as: “[...] an extreme case of an ‘Atlantic’ choice in terms of defence identity and an exceptionally clear rejection of the ‘European’ choice in terms of joining the integration process,” (Bailes and Thorhallsson 2006, p. 329). Interestingly, in 2016, the Department of Defense of the US and the Icelandic Ministry for Foreign Affairs issued a reminder of their security alliance stating that: “The DoD and MFA reaffirm their continued commitment to close cooperation on defence and security matters,” shortly after Iceland confirmed its participation in the restrictive measures against Russia (IMFA and DoD 2016).

Despite the close security and defence relationship between Iceland and the US, the same is not as apparent in regard to trade. In 2015, exports to the US accounted for 5.7 per cent of Iceland's total exports by value. Imports from the US to Iceland accounted for 7.9 per cent of total imports to Iceland – both considerably lower figures than those from the EU (Icelandic Statistics 2016a).

Vital trade and foreign policy partnership with the European Union

Iceland's relationship with the EU is one of the pillars of its foreign policy, according to the Icelandic Ministry for Foreign Affairs (IMFA 2017a). It is based mainly on the Agreement on the European Economic Area (EEA) which came into effect in 1994, uniting EU member states and EFTA/EEA states into a single market (IMFA 2017b). Iceland has furthermore been a participant in the Schengen Agreement since 2001 (Thorhallsson 2004).

Historically speaking, one can describe Iceland's relationship with the European integration process as being "on the edge," or say that Iceland is "partially engaged," in it (Thorhallsson 2004; 2013). Historically, all major political parties have been opposed to membership of the EU, with one exception: the Social Democratic Party/Alliance. There are two explanations that have proven most salient to explain Iceland's partial engagement in the project: the importance that Iceland places on unrestricted control over its waters and fisheries policy (Thorhallsson and Vignisson 2004, pp. 67-102) and the important role that the political discourse in the country places on sovereignty and national identity (Hálfðanarson 2004). Other important explanations have to do with Iceland's close relationship with the US (Thorhallsson and Vignisson 2004, pp. 103-127), the realist conception of foreign policy of the Icelandic political elite, which "... is mainly shaped by constant commitment to national self-determination, a search for concrete economic advantages from all overseas activities and preference for bilateral relations over multilateralism" (Thorhallsson 2013, p. 13), and protectionism in the agrarian sector, the powerful fisheries and agrarian lobby and a weak public administration which relies on expertise from powerful economic sectors (Thorhallsson 2004, p. 1-17).

In July 2009, few months after the Icelandic economic crash, the Althingi, the Icelandic national parliament, instructed the government to apply for membership of the European Union. This move was led mainly by the aforementioned Social Democratic Alliance. After three years of accession talks (2010-2013), a new Euro-sceptic government was elected in Iceland, which put a halt to the negotiations (IMFA 2017b). In 2015, the Foreign Minister sent a letter to the EU Presidency saying that the government did not wish to resume the accession process and that the government did not regard Iceland as a candidate country any longer (IMFA 2015). However, the letter fell short of withdrawing the EU membership application.

Interestingly, two new pro-European political parties formed the latest coalition government with the Euro-sceptic Independence Party in January 2017. The parties will have a free vote in the Althingi on whether or not to hold a referendum on accession talks with the EU (if such a bill is introduced) toward the end of the parliamentary term (which will be not later than autumn 2020). Accordingly, the new government leaves it up to the Althingi to decide whether or not to hold a referendum on the continuation of the accession talks. The three opposition parties in the parliament are all in favour of holding a referendum on the accession talks (though they are divided on the membership question itself). Hence, a referendum on whether or not to continue the accession talks might materialise at the end of the parliamentary term.

Taken as a whole, the EU and the EFTA member states (i.e., other states in the EEA) are by far Iceland's most important trading partner. In 2015, exports to the EEA accounted for around 78.1 per cent of Iceland's overall exports and 60.7 per cent of Icelandic imports (Icelandic Statistics 2016a, 21). This shows how important the single market is for Iceland's foreign trade. Its exports to the EU consist mainly of fish and fisheries products. Iceland is the fourth largest exporter of fish and fisheries products to the EU after Norway, China and Ecuador in terms of value. In 2013, Iceland's exports totalled more than EUR 945 million, or 5.4 per cent of all EU fish imports (European Commission 2017).

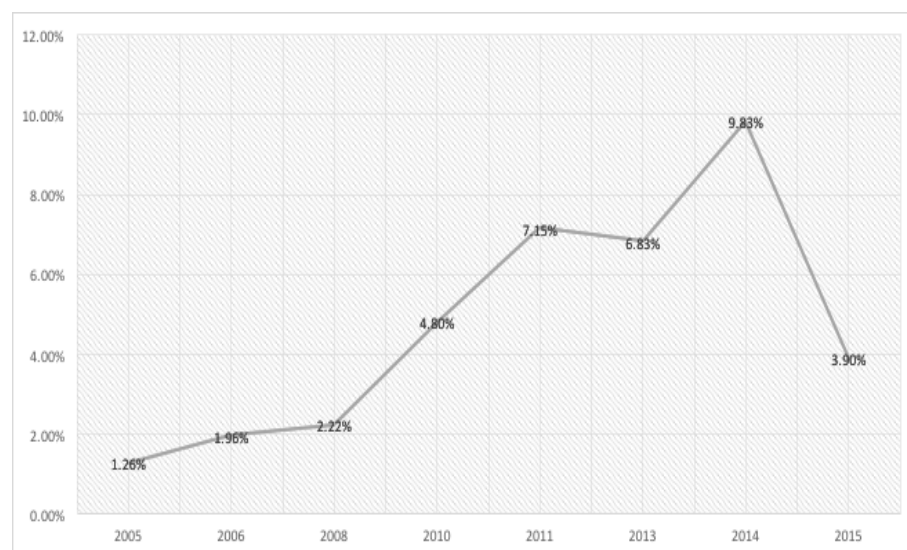
Trade relations with Russia/USSR

The history of trade between Iceland and Russia, at the time the Soviet Union (USSR), stretches back as far as the 1920s. At first, trade was minimal, but gradually, it increased and peaked in the 1950s (Reykjavik Economics 2016, p. 18). Direct relations between the Soviet Union and Iceland were established in 1943 (Russian Embassy to Iceland 2016). In the period 1956-1960 the USSR became the most important export market for Icelandic goods, more important than the US and Germany, with a market share of 18.2 per cent (Reykjavik Economics 2016, pp. 18-19). Moreover, the Soviet Union provided Iceland with a vital trade link during a landing ban on Icelandic fish in British ports during the Proto Cod War of 1952-1956. The supporters of lifting the sanctions against Russia reminded policy-makers of this fact in the public debate during the summer months of 2015 and the fact that this Russian trade link saved Icelanders from economic hardship. A trade representative of the USSR was stationed in Iceland between 1975 and 1995 (Russian Embassy to Iceland 2016). Accordingly, Iceland maintained a trading relationship with the Soviet Union throughout the Cold War, simultaneously retaining a close relationship with its main allies, the US and Western European countries. Throughout the period, trade with the

USSR remained relatively stable, until the collapse of the Soviet Union in the early 1990s when exports to Russia also collapsed (Reykjavík Economics 2016, pp. 20-21).

After the Russian economy recovered somewhat, exports from Iceland to Russia, especially of seafood, increased substantially. This was partly due to increased mackerel catches in Iceland after 2011 (IMFA 2016, p. 18). The Russian market is furthermore where the value of exports has increased the most. It grew by 845 per cent between 2004 and 2012, from ISK 1.8 billion to ISK 16.7 billion per year. Icelandic fisheries companies mainly export pelagic species such as mackerel, herring, capelin and blue whiting to Russia (Promote Iceland 2012, p. 2). In 2014, exports of marine products to Russia accounted for around 10 per cent of all marine exports, by value, see Graph 1 (Statistics Iceland 2016b).

Graph 1. Icelandic marine exports to Russia as a share of the total value of marine exports



Source: (Statistics Iceland, 2016b).

After Russia imposed countermeasures on Iceland in August 2015, there has been a noteworthy decrease in exports of Icelandic fisheries products to Russia (IMFA 2016). In 2015, the total export volume of marine products to Russia had fallen drastically to approximately 3.8 per cent (Statistics Iceland 2016). In 2015, the total value of exports to Russia was ISK 10.3 billion, compared to ISK 24 billion in 2014 (IMFA 2016, p 23). Furthermore, the Central Bank of Iceland estimated the decrease in the value of fisheries exports to be about ISK 8 to 10 billion in 2015 (Central Bank of Iceland 2015, p. 10). According to data collected by fish exporting companies, approximately

ISK 10 billion were lost due to the Russian counter-sanctions, the first year after they were imposed from August 2015 to August 2016, (Jonsson 2016); this was less than previously expected.

In summary, Iceland has special relationships with the main political actors in its immediate surroundings, the US and the EU. It has more or less followed their foreign policies. Icelandic policy-makers pride themselves on having a high level of alignment with the EU's foreign policy and they more or less followed the foreign-policy lead of the US under President Bush and his successor President Obama. Accordingly, it should not come as a surprise that Iceland adopts their restrictive measures against Russia. On the other hand, the intensive discussion in Iceland on whether or not to participate in them, the serious consideration given within the government to withdraw from this Western alliance and the fact that Iceland no longer takes part in the EU's declarations about the sanctions are noteworthy.

Iceland and the Sanctions

The decision to align with the EU and the US

On 17 March 2014, the same day that the High Representative, on behalf of the European Union, imposed a travel ban and asset freeze against persons responsible for actions which undermined or threatened the territorial integrity, sovereignty and independence of Ukraine, Iceland, together with Montenegro, Albania, Norway and Ukraine, aligned itself with the declaration (European Council 2014; Stjórnartíðindi 2014), meaning that Iceland would adopt and execute the sanctions that the EU had designed against Russia.

The formal proceedings are as follows: the EU can invite Iceland and other EFTA/EEA member states to align themselves with its restrictive measures based on statements on political dialogue associated with the EEA Agreement. Before Iceland aligns itself with such measures, its Parliamentary Committee on Foreign Affairs must be consulted. The foreign minister subsequently takes major decisions regarding restrictive measures supported by his ministry (IMFA 2016; Sveinsson, Former Foreign Minister, July 2016, interview; Ármannsson, Former Chairman of the Foreign Affairs Committee June 2016, interview).

At first glance, this might strike a follower of EU politics as being like any other declaration published by the Union to show symbolic unity and strength in numbers. But, at a closer glance, it can be seen that the decision had a tremendous economic and political effect in Iceland. The country's Foreign Minister at the time, Gunnar Bragi Sveinsson, concluded that it was the hardest political decision he had had to make (Sveinsson, Former Foreign Minister, July 2016, interview); nota bene, the same minister had scrapped the Iceland's application process to the EU.

The Foreign Minister described the domestic decision-making process on taking part in the restrictive measures, as a two-week process marked by considerable deliberation with various actors. "Our allies, the United States and the European Union, requested that we take part and align ourselves with the sanctions" he said. The Foreign Ministry prepared the matter and consequently the case was put forth in a meeting of the government. Subsequently, we took the decision to align ourselves after consultation with the Foreign Affairs Committee

(Sveinsson, Former Foreign Minister, July 2016, interview), indicating that the original impetus for Iceland came from the US, but also from the EU. “The main thrust came from the United States“ he elaborated (Sveinsson, Former Foreign Minister, July 2016, interview). According to the chairman of the Independence Party and the Minister of Finance, Bjarni Benediktsson: “The Foreign Minister explained to the cabinet and the Committee of Foreign Affairs that Iceland would align itself with the EU sanctions“ (Bylgjan 2015). Interestingly, especially given Iceland’s high reliance on the superpower when it comes to defence and security, the main thrust came from the US.

The sanctions which are currently in place regarding the Ukraine conflict are threefold. Firstly, those which were introduced on 31 July 2014; these target specific sectors of the Russian economy: the financial, energy and defence sectors, among other things. They have since been extended until 31 July 2017. These sanctions were linked to the complete implementation of the Minsk Agreement in 2015 (European Council 2016a). Secondly, the sanctions include individual restrictive measures, namely a visa ban and an asset freeze, which is currently targeted against 152 individuals and 37 entities until 15 March 2017. Thirdly, the sanctions include restrictive measures in response to the illegal annexation of Crimea and Sevastopol, which are in place until 23 June 2017 and are limited to the territory of the aforementioned places (European Council 2016b).

Russia’s retaliatory sanctions

In August 2014, the Russian President, Vladimir Putin, signed a decree banning the import of a variety of products, including agricultural products, raw materials, fish and other foodstuffs from most of the countries which had signed the sanctions against Russian actors (Russian Government 2014; ERPS 2015, 3). These reciprocal sanctions are still in place and affect all EU countries, but their effects vary considerably. They mainly affect producers in the agricultural sector within the EU member states (ERPS 2015, 4-6). On the other hand, for a twelve-month period, Iceland and some other non-EU member states were excluded from the states sanctioned, even though they had taken part in the EU sanctions against Russia. However, a year later, on 13 August 2015, Iceland, along with Albania, Montenegro and Liechtenstein, were added to the list of the states affected by the counter-measures (ERPS 2015, p. 3; IMFA 2016, p. 7; Russian Government 2015).

In an excerpt from Prime Minister Medvedev’s remarks regarding the retaliatory economic measures, he is quoted in saying that: “These

countries joined the European Union's decision to extend the anti-Russian sanctions. They explain their decision by the fact that they are obliged to impose them due to various kinds of agreements with the European Union, but this position is only partly true" (Russian Government 2015). Furthermore, he stated: "Therefore, joining the sanctions is a conscious choice, which shows their readiness for Russia's response. These measures have now been taken" (Russian Government 2015). A Russian official commented that Russia did not calibrate who got hit the hardest and that it was made as a sweeping universal set of sanctions (High-Ranking Russian Official, November 2016, interview).

For over a year after the original decision was reached by the Icelandic government in March 2014 and until August 2015, Icelandic companies continued to export fish and other products to Russia. But when Russia imposed an import ban on a variety of Icelandic products - expanding the list of countries subject to Russia's retaliatory economic measures - confusion followed.

Fisheries lobby groups' representatives have described it as an "extremely stressful summer of 2015" (Representatives of Fisheries Iceland, July 2016, interview) and the Foreign Minister described the Russian counter-sanctions as "a serious blow" (Veal 2015). He had expected Russia to add Iceland to the list, but the "ferocity and disproportionality" surprised him (Sveinsson, Former Foreign Minister, July 2016, interview). The lobby groups representing the fishing sector tried to make the case that this counter-measure imposed by Russia was too serious a blow - and subsequently tried to evaluate the interests at stake for the fishing industry (Representatives of Fisheries Iceland, July 2016, interview). The Foreign Ministry pointed out that the ban would hit the fishing industry hard but maintained that fishing exporting firms had been warned about the consequences of the ban (IMFA 2016, p. 3).

The pressure to opt out

One of the most interesting features of our case study is the way the fisheries lobby groups interacted with officials and engaged in a massive media campaign against the sanctions in order to put pressure on the government to revise its decision. One could even describe the interaction between the Foreign Ministry and Fisheries Iceland, the main fishing industry lobby group, as a "turf-war".

Representatives of the fishing lobby argued that it was against Iceland's interests to participate in the restrictive measures and heavily criticised the Foreign Ministry for a lack of preparation and a lack of strategic thinking (Representatives of Fisheries Iceland, July 2016,

interview). “There were billions of kronur on the line along with our long-term business relationship with Russia, a large and ever-growing business partner. Russia was our second-largest market for exporting fish. The matter was not prepared properly, that is what we criticised harshly“ a representative of the fishing lobby said in an interview (Representatives of Fisheries Iceland, July 2016, interview). Also, the fishing lobby criticised the Foreign Ministry for not keeping it informed about the matter.

The ministry answered the criticism on its website (a very unusual step for it to take, indicating the sensitivity of the debate at the time), directly challenging the representative of the fishing industry and further explaining the timeline of the decision-making process, which had come under scrutiny. The ministry stated that the lobby groups had been well informed in the early stages of the process about the possible future effects, Iceland’s position on the matter, and the decisions taken. The Foreign Ministry had several meetings with lobby groups about the possibility of a major disruption of trade between Iceland and Russia (IMFA 2016b). Regarding the timeline of decision-making process, the ministry referred firstly to the restrictive measures imposed by the US on 6, 17 and 20 March 2014 and secondly to the consultations between the ministry and members of the main fisheries lobby group, Icelandic Fisheries, on 12 March 2014. Consequently, the ministry formally announced that Iceland would align itself with the restrictive measures imposed on Russia on 17 of March. The next day the Foreign Ministry consulted the Parliamentary Committee for Foreign Affairs regarding the motion, which was subsequently approved (IMFA 2016b). Also, important actors in Iceland such as officials in the Ministry of Fisheries, the Icelandic President and representatives of the fishing lobby groups, were in contact with the Russian Embassy in Reykjavík to maintain a dialogue with Russia (High-Ranking Russian Official, November 2016, interview).

However, the fishing lobby groups remained very unhappy about the venture. They criticised the government’s decision-making process and pointed out how badly the Icelandic economy would be affected. In early 2016 a consultancy firm in Reykjavík published a report highlighting the damage further participation in the sanctions would have on Icelandic exporters of fish to Russia – at the behest of the Prime Minister’s Office in coalition with the fishing lobby groups and other ministries (Reykjavik Economics 2016; Iceland’s Prime Minister’s Office 2016). The report states that: “Given the importance of seafood exports for the Icelandic economy and its relative importance for Icelandic exporters, it is evident that Iceland is proportionately among

the hardest hit by Russian counter-sanctions“ (Reykjavik Economics 2016, p. 5).

Iceland's Office of Regional Development also wrote a report at the behest of the Minister for Fisheries and Agriculture highlighting the negative effects of the countermeasures on various regions of Iceland. In this report it was stated that various regions in Iceland would be negatively hit, among them local seamen and local people employed by fisheries companies. According to the report, the estimated loss of wages by employees in the fishing sectors could be of the order of ISK 990 m – 2,900 m per year, affecting about 1,180 workers in various municipalities in Iceland. Several municipalities in Iceland would be impacted substantially, according to the report (Icelandic Regional Development Office 2015, pp. 2-3).

A week after the Russian counter-measures were imposed, the Icelandic Prime Minister spoke with the Russian Prime Minister and explained to him that the counter-sanctions would impact Iceland proportionately harder than other countries which had signed up. The two prime ministers discussed the “grave situation“ which had arisen due to the restrictive sanctions, and attempted to resolve the matter (Iceland's Prime Minister's Office 2015). A high-ranking Russian official said that the phone call revolved around finding an acceptable solution to the rift in relations between the two countries due to the sanctions and counter-sanctions. According to the official, they attempted to find “loopholes“ but were unable to do so. It was too “cumbersome and costly“ for both actors (High-Ranking Russian Official, November 2016, interview).

This illustrates well how the Icelandic government attempted to maintain its autonomy throughout the period covered by the case study. Early in 2016 the Icelandic PM had already stated that Iceland could not simply follow the EU and EEA countries blindly in applying sanctions against other countries. He felt that Iceland's participation in the restrictive measures had no real effect on Russia and even went so far as to question Iceland's participation in the EEA Agreement. “This will probably be a decisive matter but I think we should evaluate our options on our own“ he said (Eyjan 2016).

Furthermore, Iceland's President at the time, Ólafur Ragnar Grímsson, met Anton Vasiliev, Russia's Ambassador to Iceland, in August 2015. It was reported that they discussed possible solutions to the crisis, and a way to preserve the Icelandic-Russian trade relationship (Thordarson 2015).

It is clear that the two government parties were divided on the issue. The view of the Finance Minister and chairman of the Independence Party, echoed that of the Prime Minister and the leader of the Progressive Party, the other coalition member. In a newspaper interview during the summer debate the Finance Minister admitted that he had questioned Iceland's participation in the sanctions from the beginning of the whole affair (Asgrimsson 2015). Furthermore, he stated that it was questionable what realistic meaning it had for Iceland to align itself with the US/EU and wanted to re-evaluate the situation (Thordarson 2015). A parliamentarian, Ásmundur Friðriksson, of the Independence Party, stated that Iceland should opt out of the sanctions: "I am thinking about the interests of Iceland. I am considering the interests of the fisheries sector, I am considering the interests of the people working in that sector, I am considering the interests of the nation" (Stod 2 2015). A prominent member of the Independence Party wrote that it had always been Iceland's policy to sell fish, before trying to save the world, for it was not in the hands of Iceland to do the latter. To assume otherwise, in his opinion, would be childish and ignorant (Morgunblaðið 2015).

The chairman of the Left Green Movement and a member of the Foreign Affairs Committee (2014-2015) was sceptical of the sanctions and Iceland's participation in the them from the beginning (Ingolfsson 2015a). On the other hand, the chairman of the Social Democratic Alliance was in favour of them (Ingolfsson 2015b) and posed the question, when the Icelandic government wanted to re-evaluate the situation, whether Icelandic foreign policy was for sale to the highest bidder. "One must pose the question whether Icelandic foreign policy cannot simply be put on sale on eBay and wait for the highest bidder" (Asgeirsdottir 2015).

The debate continued into 2016, and early that year the Minister of Fisheries and Agriculture, Sigurður Ingi Jóhannsson, expressed doubts about the venture, describing Iceland's participation in the sanctions as "symbolic" (Morgunblaðið 2016). Also, in early 2016, Robert C. Barber, the US Ambassador to Iceland, attempted to publish an article about Iceland's participation in the restrictive measures in one of the most prominent Icelandic newspapers, Morgunblaðið, which has always had close ties to the Independence Party and has historically been the staunchest proponent of NATO membership and US foreign policy. However, his article was rejected, which made headlines in other media outlets. Therefore, he posted it on the Embassy's Facebook account. Among the things the ambassador emphasized was that "the U.S. would stand firm in its belief that the restrictive measures must be maintained" and that "the United States, like other countries, has felt

the sting of the sanctions“ (US Embassy Facebook 2016). Furthermore, he stated that the Americans understood that the measures had an effect on the fishing sector, but believed that it was important that allies in NATO to stand guard on common principles (US Embassy Facebook 2016). Involvement by the US Ambassador in Reykjavik in the domestic public debate is a rare occurrence; it indicates the urgency of the matter and the fact that the Reykjavik Embassy may not have found the traditional communication lines with the government open.

Decision to maintain Iceland's support for the sanctions

The case for maintaining Iceland's alignment for the sanctions is perhaps best outlined in a report released by the Icelandic Ministry for Foreign Affairs early in 2016 (IMFA 2016a), in which it evaluates Iceland's interests regarding the sanctions, highlighting the importance of the respect for international law and furthermore stating: “To breach the solidarity of western countries would constitute a major deviation from foreign policy and be a matter for serious consideration, which would, at best, call for critical questions from friendly nations as to what direction Iceland was taking in its international collaboration and the the country's reputation as a solid ally would be compromised. The defence of interests in collaboration with our most important friends and allies would become much more difficult“ (IMFA 2016a, p. 4).

The Foreign Minister provided a persuasive argument stating that this matter must not centre around money as it involved the interests of the entire Icelandic nation (Sveinsson, Former Foreign Minister, July 2016, interview). Keeping in mind potential material losses, the minister and the ministry set out the persuasive argument that respect for international law and territorial sovereignty was essential for Iceland, due to its interest in long-term stability in international trade and politics. A high-ranking official in the Icelandic Ministry for Foreign Affairs (January 2017) claimed that Iceland took part in the sanctions with its allies for three reasons. Firstly, the aim of the sanctions was to send a clear signal to Russia that its behavior in Ukraine was not acceptable and broke fundamental international rules. The aim was to show Russia that this kind of behavior had consequences. Secondly, the sanctions were put in place in the hope that the Russia would cease its activities in Ukraine and respect the sovereignty of the Ukrainian government over its international recognized territory. Thirdly, the aim was to prevent Russia from extending its activities in Ukraine to other countries around Russia. The second aim has not succeeded but the third aim has been accomplished.

In the Foreign Ministry's report on Iceland's interests regarding the matter it was stated that Washington officials believed that it was essential to participate in the sanctions and not to deviate from the path set. If Iceland were to do so it would be perceived as an attempt to divide and conquer Western countries, by the Russians, an attempt which had not been successful up to that point. Icelandic officials had, however, briefed US officials that the country had been disproportionately hit by the countersanctions imposed by Russia (IMFA 2016a, 14).

The US Embassy in Reykjavik engaged in wide-reaching dialogue with Icelandic officials, MPs and ministers at that time in order to convince them and make it clear that it was important for all nations that believed in the rule of law to stand in solidarity and that the sanctions were put in place to address national sovereignty issues and to support an international system that depended on respect for international norms and the rule of law. US officials are keen to point out that the United States and Iceland have shared a strong working relationship as friends and Allies since the US was the first country to recognize Iceland as a republic in 1944 (High-Ranking US Official, January 2017, interview). Furthermore, not taking part in the sanctions would have been badly received in the EU due to the EEA Agreement (High-Ranking Official in the Icelandic Ministry for Foreign Affairs, January 2017, interview).

When a Russian official was asked his opinion on the matter he stated: "Iceland was not sovereign and not independent in its decision-making". He saw Iceland as a country that was pressured by the US, which had also pressured the EU to join the sanctions. "Iceland had to play the game of the United States," he added. When asked if he believed that the US pressured Iceland to make the decision he replied: "Absolutely, we do not live in a vacuum" (High-Ranking Russian Official, Reykjavik, November 2016, interview).

Interestingly, as already stated above, in June 2016 the Icelandic Ministry for Foreign Affairs and the United States Department of Defense signed a joint declaration reaffirming close cooperation on defense and security matters, both bilaterally and as part of NATO (IMFA and DoD 2016).

A political twist: Iceland disappears from the EU's declarations on the sanctions

After Russia imposed counter-sanctions against Iceland and the most heated domestic debates revolving around whether Iceland should continue to participate in the sanctions took place, Iceland stopped

taking part in the EU's declarations on the extension and amendment of the restrictive measures. In June 2015, Iceland was on the list of third countries aligned with the EU's decisions to renew the existing sanctions. However, in the next press release on the sanctions, published in October, Iceland was nowhere to be found on the list of aligned countries. Iceland had taken part in all of the EU's sanction declarations until that point (European Council, 2014-16). Accordingly, in 2015, Iceland did not take part in 2 EU declarations concerning the sanctions, as shown in Table 1.

Table 1. Alignment of Iceland, Norway and Liechtenstein with the declarations by the High Representative on the behalf of the European Union from 2014 to 2016.*

	Aligned with EU's declarations			Not aligned with EU's declarations		
	2014	2015	2016	2014	2015	2016
Iceland	35	22	24	1	11(2 on Ukraine)	9 (6 on Ukraine)
Norway	34	29	31	2	4	2
Liechtenstein	30	31	31	6	2	2

* Excluding few declarations which are considered special (exclusive EU) declarations whereas third countries were presumably not invited to align. (Source: European Council 2014-2016).

In 2016, Iceland did not align itself with 9 out of 33 EU foreign policy declarations – 6 of these 9 declarations were on the sanctions. In 2014, Iceland took part in 35 EU's foreign policy declaration out of 36 in total. In 2015, Iceland's alignment was considerable lower (22 out of 33), see Table 1. This was the outcome of a closer consideration of whether or not to take part in the EU's declarations. In early 2015, the Icelandic government had announced that it did not regard the country as a candidate country to join the EU any longer. On the other hand, the main reason for non-alignment is due to time constraints: the EU does not give Iceland enough time to respond to invitations to align itself with its decisions (High-Ranking Official in the Icelandic Ministry for Foreign Affairs, January 2017, interview). The EU simply invites Iceland to take part in its foreign policy declarations without prior political dialogue (High-Ranking Official in the Icelandic Ministry for Foreign Affairs, December 2016, interview).

Interestingly, excluding the EU's declarations concerning the Russian sanctions, Iceland's alignment with the EU's foreign policy declarations is at the same level as Norway's and Liechtenstein's alignment in 2016, as Table 1 indicates. Iceland is back to its normal alignment level after a brief wavering in 2015. In 2012, Iceland aligned itself with 64 out of 70 EU foreign policy declarations. The figures were similar for 2013. Non-alignment was mainly due to technical issues (European Commission, 2012; European Commission, 2013).

When asked about the fact the Iceland had stopped taking part in the EU declarations, a high-ranking EU official said that it had come as "a surprise" and been "noticed" in Brussels. On the other hand, the EU appreciated the fact that Iceland follows the sanctions. This was all that mattered (High-Ranking EU Official, January 2017, interview).

The EU and the US are mainly concerned with maintaining the Western front against Russia over Ukraine and managed to get Iceland on board and keep it on board. Also, Switzerland has adopted restrictive measures against Russia based on the EU sanctions, though it has not formally joined the EU sanctions and does not take part its declarations about them. Hence, Switzerland, a neutral state, is part of the Western front and has extended its restrictive measures to prevent the circumvention of international sanctions (Franklin & Schaps, 2015). Iceland has the same maneuverability, but was placed under pressure from its allies to maintain the sanctions. Formally, Iceland could lift the sanctions without consulting its allies. This is not the case with the member states of the EU. Unanimity is required within the Council to lift the sanctions. On the other hand, one wonders whether Iceland has in reality the maneuverability to break away from the Western front and conduct an independent foreign policy towards Russia which would contradict its allies' stand. However, Iceland has adopted a symbolic measure (not aligned itself with the EU's declarations about the sanctions) for domestic political purposes and in order to limit the political damage participation in the sanctions has on its relations with Russia. Its aim is to keep a low profile in its participation in the sanctions.

Interestingly, the fact that Iceland does not take part in the EU's declarations on the sanctions is only known within the closed policy-making circle in Iceland and the circle of foreign actors. The government has not made a public announcement about this fact and it has not been mentioned at all in the Icelandic media, though the media report extensively on the country's participation in the sanctions. On the other hand, the international media no longer report that Iceland has aligned itself with the EU's sanctions even though the country still adopts them.

Accordingly, Iceland keeps a lower international profile about its participation in the sanctions. However, if the objective of not taking part in the EU's declarations was to have Russia to lift its counter-sanctions, it did not succeed. The gesture was too minor for that.

Iceland and other small states/entities

This situation is illustrative of the dilemma frequently faced by small states regarding political alignment, building alliances and choosing sides. It is also important to keep in mind that Iceland was not obligated by any legal treaty to participate in the sanctions, though it has taken part in most of the EU's foreign policy declarations since the signing of the EEA Agreement and largely follows the US foreign policy lead. The retaliatory sanctions imposed by Russia had a major impact on one of Iceland's main industries, and the foreign minister found himself under pressure by members of the fisheries lobby groups and even the leaders of his own government. Some have argued that the options of policy-makers in Iceland were limited due to the country's heavy reliance on two gravitational centres in world politics, namely the EU and the US. This sentiment is perhaps best described by a high-ranking Russian official who stated that: "Iceland was not sovereign and not independent in its decision-making" (High-Ranking Russian Official, Reykjavík, November 2016, interview).

This case well illustrates the dilemma between maintaining an autonomous foreign policy, as a small state with the means to self-government, on the one hand, and dependence on other actors, seeking political, economic and societal shelter, on the other (Thorhallsson 2011). Iceland's heavy reliance on security and defence cooperation with the US and NATO, and the importance of political, economic and societal cooperation with the EU, must surely have crossed the minds of decision-makers in Iceland at the time. Iceland has sought shelter provided by the US and the EU and benefits enormously, for example, from having unrestricted access to the Common Market, free movement of people and access to higher education within the EU's member states and US/NATO defence, though it spends only a tiny amount on defence. However, shelter provided by larger neighbors and international organizations can be highly costly for small states (Thorhallsson 2011).

On the other hand, Iceland's closest neighbor, the Faroe Islands (a home-rule entity within the Danish Kingdom) does not take part in the sanctions against Russia and continues to export fish to it. The Faroe Islands fall outside the Russian counter-sanctions. As a semi-independent country, they have partial control over their own policy and have taken this controversial decision. The result has been a sharp

increase in trade between Russia and the Faroes and they have even been touted as the winners of the “tit-for-tat” sanctions (Trojanovski 2015). The Faroe Islands have now even opened up a specific representative office in Moscow (Reykjavik Economics 2016, p. 28).

The Icelandic Ministry for Foreign Affairs summarized the state’s position well when it stressed that non-alignment in this matter would most likely be seen as a major policy deviation by a friendly nation and furthermore could damage the Iceland’s reputation as an allied state (IMFA 2016a, p. 4). This assumption is not made out of the blue considering the US position and pressure on Iceland to continue its participation in the sanctions. Even though Iceland was never forced to participate in the restrictive measures, one can surely pose the question how autonomous Iceland’s foreign policy in this case really is. Was Iceland’s Prime Minister perhaps right in assuming that Iceland followed the EU and the US semi-blindly in adopting the sanctions?

The US has been described as a hegemon on the world stage (Agnew 2005), not merely through military power but rather by enrolling other states into exercises of their power by “convincing, cajoling, and coercing [others] that they should do what you want” (Agnew 2005, 1) and even though the US never formally pressured Iceland into making this specific decision, it was quite clear that non-alignment could have grave consequences and would incur displeasure from the US government, which would see Iceland as an unreliable ally (IMFA 2016a, p. 4, 14).

Furthermore, Iceland’s relationship with the EU is a complex one: Iceland adopts a large share of EU law under the EEA Agreement. Eriksen and Fossum (2015) have described this relationship between the EU and the non-members Iceland, Norway and Switzerland, as hegemonic. They see the main problem with this power relationship as being one of power asymmetry and arbitrary power. The EU does not play the role of a hegemon intentionally, but rather due to the complex interconnectedness between the two actors (Eriksen and Fossum p. 3-5). Therefore, these EFTA/EEA states are somewhat expected to take part in major foreign policy decisions of the EU, even though they are not necessarily forced to do so legally. Interestingly, Switzerland implements sanctions against Russia, as already stated, though it departs from the EU’s foreign policy declarations. Norway and Liechtenstein (the two other EFTA/EEA states alongside Iceland) did not hesitate and have implemented the sanctions and taken part in the EU’s declarations (Hellquist 2016, p. 14). On the other hand, the Faroe Islands, which are not members of EFTA and the EEA, but a home-rule

entity and a part of the Danish Kingdom, have got away with not taking part in the sanctions, as already mentioned.

If Iceland had refused to apply the sanctions, the solidarity of Western states might have been questioned: therefore, it was highly desirable, from the EU's and US point of view, for Iceland to apply them. Iceland was therefore forced into making a decision on whether it wanted to exercise autonomous power to protect one of its main industries and maintain economic relations with Russia. It seems to have had limited leeway when it came to opting out of the restrictive measures against Russia.

Conclusions

Iceland did not hesitate to take part in the US/EU restrictive measures against Russia when they were first introduced in 2014. However, a year later, when Russia decided to include Iceland on its list of countries facing counter-sanctions, Iceland re-evaluated its policy following intensive pressure from the hard-hit fishing industry. The powerful fisheries sector is closely connected to the government through the sectoral corporatism setup of decision-making in Iceland and material interests were at the forefront of the discussion about a possible policy change. On the other hand, the fisheries lobby was not able to convince the government to make a change within the decision-making setup and, hence, engaged in a massive public campaign for a policy change. The Prime Minister and the Minister of Finance were sympathetic to their cause and seemed to be on the verge of giving in under pressure. However, the governing coalition was divided on the issue. The Foreign Minister, who had originally initiated the sanctions, and the Foreign Affairs Committee in the national parliament stood firm. The EU and, in particular, the US, put pressure on the government to stand by the sanctions and not to break the Western stance against Russian aggression in Ukraine. In the end, the unyielding approach of the Foreign Minister, supported by the Foreign Affairs Committee, prevailed. Iceland's alignment with the US and the EU was the decisive factor and came out ahead of material interests. The small state's dependency on US and NATO defences and trade with the EU prevailed over more limited trade with Russia. Nor did the government want to be responsible for breaking the Western stance against Russian aggression. In an attempt to compensate those who had demanded a policy change and keep a low profile in the Western alliance in the hope of better relations with Russia, Iceland decided not to take part any further in the EU's foreign policy declarations on the sanctions. This was a small price to pay – if any – for the supporters of the sanctions within the government, most of which were firm opponents of Iceland's membership of the EU.

Where does this leave the relationship between Iceland, on the one hand, and the US and the EU on the other? The US has often been described as a hegemon on the world stage, based on complex relationship between economic, political and military power. Also, the EFTA/EEA states' relationship with the EU has been described as hegemonic due to their complex interdependence. A hegemonic relationship can be a result of formal institutional arrangements and

informal institutions, such as shared values (Agnew 2005). Our study indicates that Iceland is subject to this kind of hegemonic power stemming from the US and the EU, through its adoption of their sanctions against Russia against the will of the most powerful economic sector in Iceland. The Icelandic government followed the original implementation of the sanctions without any independent decisive analysis of the consequences for the economy. Furthermore, Iceland adopts most of the EU's foreign policy declarations and largely follows the US's foreign policy objectives without questioning them. The problem with this kind of power relationship is that of power asymmetry and arbitrary power, according to Eriksen and Fossum. This they call dominance, which occurs "when citizens are subjected to others' will" (Eriksen and Fossum 2015, p. 3). Further case studies are needed to give us a clearer picture of the formation of the relationships and whether - and then to what extent - Icelandic policy-makers hesitantly follow the US and EU's foreign policy preferences and sacrifice direct domestic economic interests

Icelandic policy-makers have sought to preserve the country's autonomy and, thus, have not joined the EU. However, Iceland has not managed to maintain an autonomous foreign policy and simply follows the EU's foreign policy objectives within the EEA framework. Our case study shows that this is even the case when they are damaging to direct domestic economic interests. On the other hand, policy-makers in Iceland, the EU and the US more or less share the same broad foreign policy objectives, based on their shared values and commitment to a free world. These do not play down the hegemonic relationships between Iceland, on the one hand, and these two powerful world actors on the other. On the contrary, they further indicate the hegemonic relationships in this case. Icelanders policy-makers are firmly committed to the Western battle for freedom and democracy but at the same time they do not want to put in jeopardy the defence link to the US and the trade link with the EU. Iceland needs political and economic shelter provided by its powerful neighbours. Protection does not come without cost.

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About the authors:

Baldur Thorhallsson is Head, Professor and Jean Monnet Chair at the Faculty of Political Science at the University of Iceland. His research focus is primarily on small state studies, European integration and Iceland's foreign policy.

Pétur Gunnarsson is a Research Assistant at the Faculty of Political Science at the University of Iceland. He holds a M.Sc. degree from LSE in EU Politics and works as a journalist for the Icelandic Financial News.

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Norwegian Institute of International Affairs
C.J. Hambros plass 2D
PO Box 8159 Dep. NO-0033 Oslo, Norway
www.nupi.no | info@nupi.no