The political economy of joining the European Union: Iceland's position at the beginning of the 21st century

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2. Historical Overview

2 – 1 The European Union (EU)

The EU has its roots in the political and economic turmoil following the Second World War in Europe. The idea was that only through mutual integration would it be possible to avoid future intra-European conflicts. As such, the political agenda was already laid out in the early years and today it is very hard to imagine an armed conflict between EU member states. The EU has developed through the years with ever increasing cooperation amongst its members. It started with the creation of the European Coal and Steel Community (ECSC), which was founded in 1951 (Treaty of Paris), by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany, to pool the steel and coal resources of its member-states. The main idea at the time was to prevent Franco-German tensions to flourish again, thus preventing another European war.

The Treaty of Rome was signed in 1957, creating the European Economic Community (EEC), unofficially known as “the Common Market" and the European Atomic Energy Community (EURATOM). In 1967 the ECSC, EEC and EURATOM were merged into the European Community with its corresponding bodies: the European Commission, the European Council of Ministers, and the European Parliament. The name European Union was adopted in 1992 by the signing of the Treaty of Maastricht.

Through the years, most European countries have shown interest in joining the European Union. The EU has had several enlargements from the original 6 states of Belgium, France, Italy, Luxembourg, the Netherlands and West Germany, adding Denmark, Ireland and the United Kingdom in 1973, Greece in 1981, Portugal and Spain in 1986, Austria, Finland and Sweden in 1995, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia in 2004, and Bulgaria and Romania in 2007. Croatia, Macedonia and Turkey are candidate countries, although Turkey still has some obstacles to overcome. We cannot project the future, but we anticipate that Albania, Bosnia, Montenegro and Serbia may become members at some future date. The government of the Ukraine has also expressed interest in increased relations with the EU. Figure 1 on next page shows the geographical extension of the EU as of 2007.

Figure 1. Map of the European Union showing member states and candidate countries[4] in 2007

Source: Foreign and Commonwealth Office, United Kingdom, 2008.

The cooperation between EU member states has deepened from being just economic cooperation to increased political harmonisation, including new forms of co-operation between member states' governments in justice and home affairs. The development of a common foreign and security policy has started and many member states have adopted the same currency, the Euro.

[4] A candidate country is a country where accession negotiations have already started.

The customs union, economic and monetary union, and harmonisation of markets and regulations, has dismantled many internal European trade barriers. Although the EU has now 27 independent member states, it has more or less achieved a free flow of capital and goods. In principle there is also a free movement of persons and services, but the EU has still some obstacles to overcome in order to fully implement that goal. It is also worth noting that some EU regulations are supranational, where member states are obliged to adopt them into their national legislation. The supranational authority of the EU governing bodies is unique amongst multinational organisations.

2 – 2 The European Free Trade Association (EFTA)

The European Free Trade Association (EFTA) is less well known than the EU. Nevertheless it became one of the two pillars of the European Economic Area (EEA), the EU being the other pillar. EFTA is an international organisation established with the Stockholm Convention on the 4th of January 1960. The agreement entered into force on the 3rd of May 1960. The original EFTA members were Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Iceland became an EFTA member on 1st March 1970[5]. Finland acceded to EFTA on 1st January 1986[6] and Liechtenstein acceded on 1st September 1991[7]. But as the European Economic Community (EEC)[8] grew bigger, EFTA lost out. Denmark and the United Kingdom withdrew from EFTA on 1st January 1973, Portugal withdrew on 1st January 1986, and Austria, Finland and Sweden withdrew with effect from 1st January 1995. Those states who withdrew from the Stockholm Convention all became EEC / EU members[9]. Since 1995 EFTA comprises only four states, Iceland, Liechtenstein, Norway and Switzerland. With the exception of Switzerland and Liechtenstein, EFTA as it is today does not have contiguous states.

As the name implies, EFTA is a free trade association. The members have eliminated barriers among themselves for industrial products, but unlike a customs union, they do not have a common external tariff. In 2001, the agreement now referred to just as the EFTA convention, was amended to better reflect upon the co-operation already in force since 1994 under the Agreement on the European Economic Area, and the bilateral agreements between Switzerland and the European Union, following Swiss failures to ratify both the EEA agreement and EU membership. This amendment included, amongst other, provisions for free movement of persons, investments, services and transport. Currently those EFTA states that are also EEA members, participate in principle in the EU system of free movement of persons, capital, goods and services, although they are not a part of EU's Customs Union with a common

[5] EFTA Council Decision No. 17 of 1969.
[6] EFTA Council Decision No. 7 of 1985
[7] EFTA Council Decision No. 2 of 1991
[8] The forerunner to the current EU.
[9] When the United Kingdom left EFTA in 1973, being its largest member by far, it can be said that the bottom basically fell out, even though the other member states were still there.

external tariff. Another difference between EU membership and the EFTA-EEA membership is that the EFTA states do not participate in the EU's Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP).

The activities of EFTA can be divided into three main areas. Firstly, the monitoring and management of relationships between the EFTA states on the basis of the EFTA Convention, (previously the Stockholm Convention), which is the legal basis of the association. Secondly, in line with the broad objectives of the Convention, EFTA has developed relations with a large number of non-EU countries, usually referred to as third country relations. Thirdly, three of the four member states, Iceland, Liechtenstein and Norway, have structured their relations with the EU in the form of the Agreement on the European Economic Area (EEA), through which they participate in the EU Single Market.

The EFTA Council is the governing body of the Association, with responsibility for all non-EEA matters concerning relations between the EFTA states, matters concerning relations with third countries and common administrative matters. The Standing Committee of the EFTA states is the forum on decision-making, administration and management of the EEA agreement's EFTA side. Sub-committees, working groups and advisory committees assist the Standing Committee in communication with social partners and EFTA states' parliaments.

The total population of the EFTA states is only 12.5 million, where of 7.5 million live in Switzerland and 4.5 million in Norway. Comparing this to almost 500 million in the European Union, EFTA is a dwarf. Nevertheless, a dwarf can be strong compared to its size. In 2005 EFTA GDP was 548 billion[10] Euros, or approximately 45 000 Euros per capita[11]. EFTA has the highest export per capita ratio of all major regional groupings in the world, e.g. over 15 000 Euros per capita in 2005. The average unemployment was 4% or about half the EU average unemployment (Figure 2 on next page) and the average inflation was less than 2% (2005 figures)[12]. In 2002 (when the Euro notes and coins were introduced) EFTA states gross government debt was 40% of GDP on the average, and in 1999 (the year of the Euro for accounting purposes) the

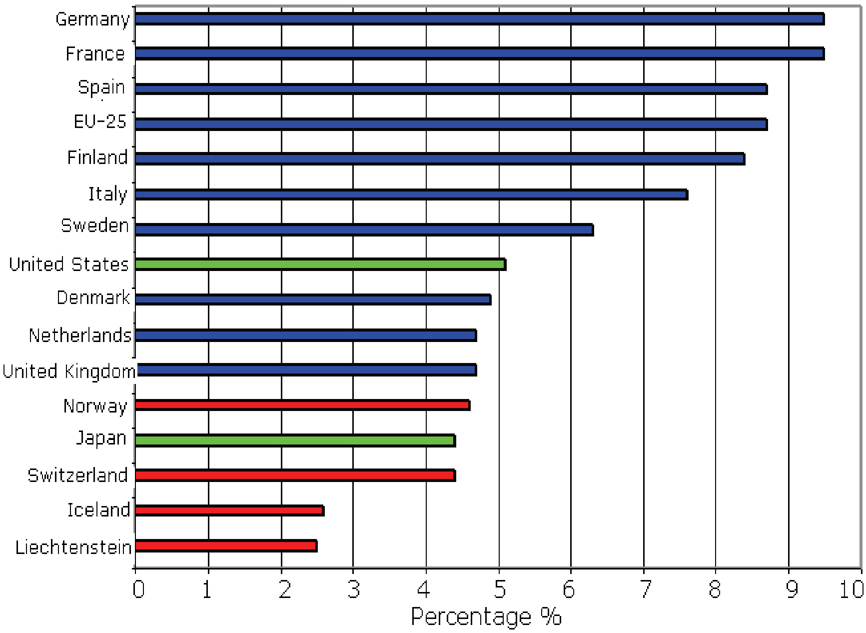
[10] Billion meaning thousand millions (1 000 000 000).

[11] In nominal terms. If using Purchasing Power Parity (PPP) the average figure is close to 33000 Euros and EU's average close to 23000 Euros.

[12] For the purpose of this study, we would like to draw attention to that in 2007 and 2008 the Icelandic inflation has been constantly over the EFTA average.

governments' financial balances ranged from minus 1.3% to plus 4.9% of GDP[13].

Figure 2. Unemployment rates in selected countries in 2005. EFTA states shown in red.[14]



Source: Eurostat. Data provided through EFTA.

EFTA has a large network of free trade agreements (FTAs), shown in Figure 3 on next page, which includes FTAs with Chile, Croatia, Egypt, Israel, Jordan, Lebanon, Macedonia, Mexico, Morocco, Palestinian Authority, Republic of Korea (South-Korea), Singapore, South African Customs Union, Tunisia, and Turkey. EFTA states have also bilateral FTA with the Faeroe Islands and the EU[15]. EFTA has also signed a

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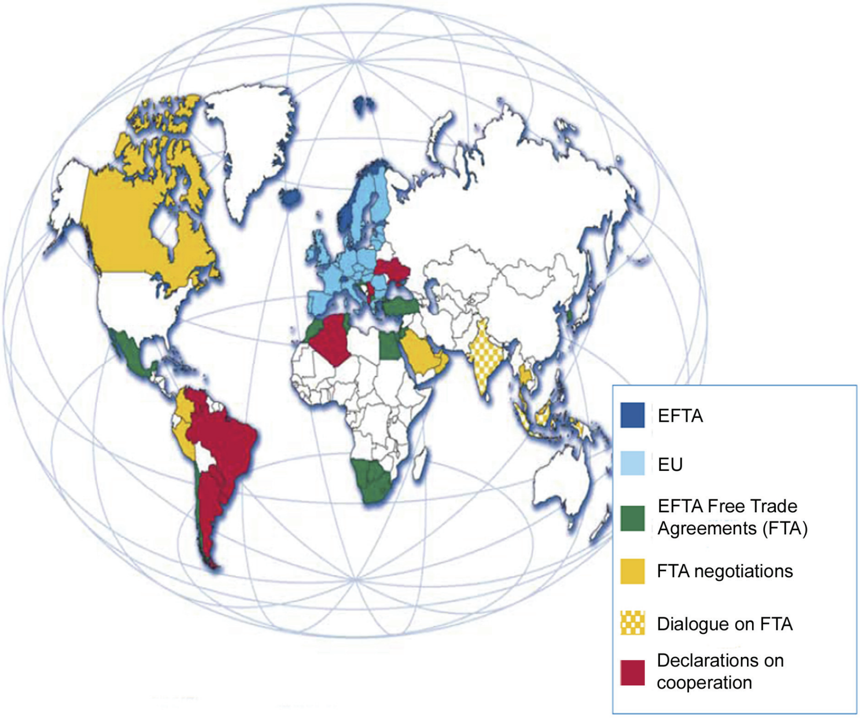
[13] The reader may find it interesting to compare this to the convergence criteria required to join the EMU, discussed in chapter five.

[14] After the implosion in 2008 of the 2000-2007 economic bubble in Iceland, where a part of the workforce was imported labor, the Icelandic unemployment is on the rise.

[15] Iceland and Norway have bilateral FTAs with the EU in addition to membership in the EEA. Switzerland's economic relations with the EU are regulated by a bilateral agreement that entered into force on 1 January 1973. Due to its customs union with Switzerland, Liechtenstein is covered by the Swiss–EU agreement in addition to its membership in the EEA.

declaration on co-operation with Albania, Algeria, Colombia, Gulf Cooperation Council[16], Peru, MERCOSUR[17], Serbia, and Ukraine.

Figure 3. EFTA Free Trade Agreements in 2007



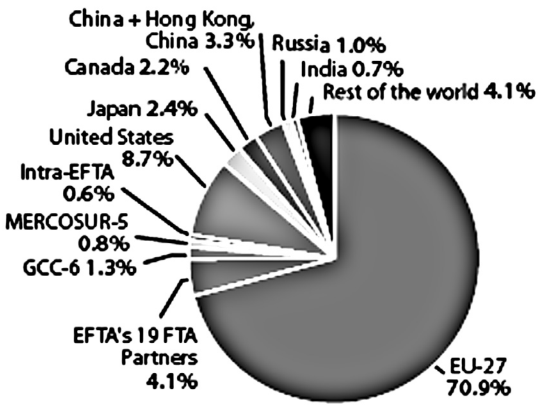
Source: EFTA (2007).

The EFTA states are amongst world leaders in chemicals, watches, machinery (Switzerland), financial services (Switzerland and Liechtenstein) fisheries, maritime transport (Norway and Iceland) and oil and gas export (Norway). In 2006, 70.9% of the EFTA states exports went to the EU and 8.7% went to the United States (Figure 4 on next page).[18] Furthermore, 75.2% of EFTA's imports came from the EU (Figure 5 on page 35).[19] In comparison, the EU's main exports in 2006

[16] Arab states of the Gulf.
[17] MERCOSUR, El Mercado Común del Sur (The Common Market of the South [South America]).
[18] Global Trade Atlas, data supplied through EFTA (2007/2008).
[19] Ibid.

went to the USA 23.3%, Russia 5.2%, China 4.8%, and EU's main imports in 2006 were from the USA 13.8%, China 13.4%, Russia 8.2%, and Japan 6.2%.[20] The EU's trade with EFTA (2006) was close to 12% of the Unions imports and exports. Considering the small size of the EFTA countries, the EU trade with EFTA is very high in per capita terms. Nevertheless, talking about EFTA's trade with the EU (Figure 4 below, and Figure 5 on next page) is somewhat academic as all the EFTA states except Switzerland participate in EU's Common Market, the only exceptions being fish and agricultural products which are dealt with under special provisions. As such, this is not an issue about opposing trade blocks, but more a question of different levels of economic integration into the European Common Market.

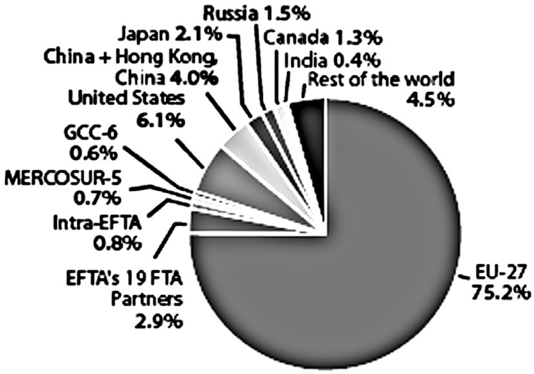
Figure 4. EFTA's main export destinations in 2006



Source: Global Trade Atlas, data supplied through EFTA.

[20] CIA World Factbook (September 2008).

Figure 5. EFTA's main import sources in 2006



Source: Global Trade Atlas, data supplied through EFTA.

As shown in Table 1 below, the Gross National Product (GNP) per capita in the EFTA states is high when compared to other regional groupings:

Table 1. Comparison of GDP per capita in regional organisations at the end of the 20th Century

EFTA[21]:	USD 33 503[22]
EU[23]:	USD 23 133 (Before the 2004/2007enlargement)
NAFTA[24]:	USD 18 107
APEC[25]:	USD 11 819
ASEAN[26]:	USD 7 729
MERCOSUR[27]:	USD 4 875
CEFTA[28]:	USD 4 293 (As CEFTA was in 1999. Since then the original CEFTA members have joined the EU, but new EU outsiders have joined CEFTA)
Andean Pact[29]:	USD 2 126

Source: World Bank 1999, data supplied through EFTA.

[21] EFTA, European Free Trade Association.
[22] EFTA's own estimate for 1999 is USD 35 436 and for 2002 USD 39 010.
[23] EU, European Union.
[24] NAFTA, North American Free Trade Agreement.
[25] APEC, Asia-Pacific Economic Cooperation.
[26] ASEAN, Association of South East Asian Nations.
[27] MERCOSUR, El Mercado Común del Sur (The Common Market of the South [South America]).
[28] CEFTA, Central European Free Trade Agreement.
[29] "Andean" refers to the Andes Mountains in South America.

Table 1 (on the previous page) should be seen as a historical guideline only. We have not seen it updated in an EFTA publication (as of this writing) in the format shown here. Recent GDP statistics are more commonly presented per country as many of the regional organisations listed have very limited economic integration (e.g. EFTA itself). Generalising about regional organisations can be misleading, e.g. as is the case of NAFTA where there is a big difference in the GDP per capita in the United States and in Mexico. We would also like to caution against uncritical comparison of GDP between Dollar and Euro-zones because of fluctuation in exchange rates. Furthermore, Table 1 is based on dollar comparison when Purchasing Power Parity (PPP) comparison is becoming more common. By using PPP, poorer countries often show a higher GDP per capita than in a pure dollar comparison, as prices on non-tradables and local services tend to be lower. Nevertheless, the fact remains that the EFTA members have a GDP per capita among the highest in the world regardless of how it is looked at or computed.

2 – 3 The European Economic Area (EEA)

The European Economic Area (EEA) consists of the 27 EU states, and three out of four EFTA states, namely Norway, Iceland and Liechtenstein.[30] The agreement on the EEA extends the single market of the EU to all of the EEA. It was signed on the 2nd of May 1992 and entered into force on the 1st of January 1994. Within the EEA there is free movement of goods, services, capital and persons (the Four Freedoms), however with the exception that the EEA agreement does not fully cover EU's Common Agricultural Policy (CAP) or the Common Fisheries Policy (CFP), but contains special provisions on various aspects of trade in agricultural and fish products. The EEA agreement also has provisions for cooperation in competition rules[31], regulations on state aid, social policy[32], consumer protection, environment, statistics, company law, as well as intention to strengthen and broaden cooperation in research and technological development, information services, education, training and youth, small and medium-sized enterprises, tourism, the audiovisual sector, and in civil protection.

The EEA constituted a market of approximately 385 million consumers before the EU 2004 and 2007 enlargements and accounted for almost 1/5 of the world's imports and exports, excluding intra-EEA trade. After the EU 2004 and 2007 enlargements, the EEA has 500 million inhabitants[33]. Citizens of all 30 EEA countries have the right to move freely throughout the EEA, and to live, work, set up business, invest and buy real estate, with a few minor limitations in certain sectors.

Since the establishment of EFTA in 1960, the European Community has been EFTA's most important trading partner. In 1972 individual EFTA countries signed free trade agreements with the then European Economic Community (EEC) with the aim of abolishing import

[30] Switzerland remains an EFTA member, but voted against membership in both the EEA and the EU. Switzerland has bilateral agreements with the EU.
[31] Within the European Union, national competition authorities continue to exist and form a cooperative network. The European Commission (Directorate General for Competition) assists national courts by transmission of information and opinions intended for an effective enforcement of European competition rules throughout the community. This includes enforcement of competition rules on antitrust, mergers, state infringements, and control of state aid. EEA competition authorities participate in the network on a regular basis.
[32] I.e. working conditions, standard of living for workers, equal pay for equal work, and no sex discrimination.
[33] Almost 500 million in the EU and only 5 million in the EFTA-EEA states.

duties on industrial products. This aim was more or less achieved by 1977. The idea of a European Economic Area dates back to a joint EFTA-EEC ministerial meeting in Luxembourg in 1984 where a declaration mentioning the establishment of a European Economic Space (later "Area") was adopted. Between 1984 and 1989 the removal of obstacles to trade was undertaken on a case-by-case basis. This approach proved inadequate in the run-up to the EU's single market, due to be completed by 1993. The need for a more structured arrangement and for common institutions became increasingly evident, and in 1989, Jacques Delors, then President of the European Commission, proposed a new form of partnership, which was to become the EEA agreement. The EFTA states at that time, Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland, welcomed the ideas with enthusiasm and formal negotiations began in 1990 with signing in 1992 and entry into force in 1994. Since 1st January 1995, Austria, Finland and Sweden have left EFTA and joined the EU, and consequently participate in the EEA as EU member states. Liechtenstein became a full participant in the EEA on 1st May 1995.

Throughout the EEA the same rules are applied to maintain a homogeneous market. The EEA agreement is based on the primary legislation of the European Union, as developed over the past decades and on the succeeding secondary legislation (Acquis Communautaire). Hence, a large part of the EEA agreement is identical to the relevant parts governing the freedoms on movement of goods, capital, persons and services, as laid down in the Treaty on the EU. As the EEA agreement is not a customs union, trade policy towards third countries remains outside its scope. One of the central features of the EEA agreement, and one which distinguishes it from most other international agreements, is that its common rules are continuously updated. As such it is an active and "living" agreement, which ensures that the constant flow of new EU legislation on the internal market is extended to the EFTA-EEA states. The EFTA states provide input into the preparation of the EU legislation, but without voting rights.

The application of the EEA agreement is carried out through a set of institutional arrangements. The agreement established a Joint Committee composed of the EU and of the EFTA-EEA states. Its main function is to take decisions extending EU regulations and directives to the EFTA-EEA states. It is responsible for the ongoing management of the EEA agreement and decides amendments to EEA legislation unanimously. The EFTA-EEA state's Standing Committee prepares the EFTA-EEA state's common position, and they are expected to speak with one voice when meeting their EU counterparts in the Joint Committee. Both committees have several sub-committees and working groups. The EEA Council, which is composed of the foreign ministers of the EU and EFTA-EEA countries, provides political impetus for the development of the agreement and guidelines for the Joint Committee. Ministers meet at least twice a year to evaluate the functioning of the EEA agreement and to discuss issues of mutual interest.

Many EU directives are applicable in the EFTA-EEA states, although these states are not members of the EU. Allowing EU institutions to take decisions applicable to the EFTA countries led to constitutional problems in the EFTA states and required the establishment of two other bodies in the EFTA pillar, the EFTA Surveillance Authority and the EFTA Court. The EFTA Surveillance Authority ensures that the EFTA-EEA states fulfil their obligations under the EEA agreement. As well as general surveillance of compliance, the EFTA Surveillance Authority has powers in relation to competition, state aid and public procurement, reflecting the extended competencies of the European Commission in these fields within the EU. The EFTA Court corresponds to the EU Court of Justice and handles matters relating to the EFTA-EEA states. The EFTA Court deals with infringement actions brought by the EFTA Surveillance Authority against an EFTA state with regard to the implementation, application or interpretation of an EEA rule. It also deals with the settlement of disputes between two or more EFTA States. Furthermore, decisions taken by the EFTA Surveillance Authority can be appealed to the EFTA Court and it gives advisory opinions to courts in the EFTA States on the interpretation of EEA rules.

2 – 4 Iceland

A millennium ago, Vikings who could not accept the authority of the Norwegian king settled in Iceland.[34] Nevertheless, four centuries after the first settlers arrived, Iceland came under the Norwegian throne, and later under the Danish throne. Through the centuries, the feeling of independence and unacceptability of foreign power domination has always been strong. Iceland got home rule from Denmark in 1904 and became politically independent in 1918, with the Danish king as head of state. In 1944[35] it became an independent republic with an elected Icelandic president. Iceland is a parliamentary democracy with the government pending on a majority support in the parliament.

During the Second World War, Iceland was under British and American occupation and escaped both Nazi war destruction and Communist post-war economic destruction. The war years pushed Icelandic economic progress forward, and following the war, Iceland received American Marshall Aid and was firmly embedded in the Western camp. The economy became a liberal capitalist economy, but there were foreign currency exchange restrictions. Government enterprises and monopolies in public utility sectors were a fact of life. It is only when Iceland joined the European Economic Area (EEA) in the 1990s that all currency exchange restrictions were lifted and the Icelandic Krona was allowed to float. However, in 2008 in the wake of the sudden economic problems and the Icelandic banking collapse, currency exchange restrictions were reintroduced. The trend towards privatising state enterprises and removing monopolies has taken off in Iceland, as is the case in many other European countries as well.

The economic standard of living in Iceland is among the highest in the world, and is comparable to other countries in Northwest Europe and the United States, with an average GDP per capita over the last years being around 30 000 USD - 40 000 USD per year, (depending on the exchange rate of the US Dollar at the time, - the growth measured in Icelandic Kronas at constant prices has been relatively steady).[36] The

[34] There are indications of some earlier settlements, possibly by some monks, but archeological and historical documentations are limited.

[35] De facto in 1940 because of the effects of the Second World War in Europe and the Nazi occupation of Denmark in 1940.

[36] GDP per capita are not absolute numbers to measure welfare and should be seen as a guideline only. GDP per capita per year does not say anything about numbers of working hours or distribution of wealth.

unemployment rate has been between 1.5-3% and over the last years immigrants have boosted the work force. Nevertheless, after the implosion of the 2000-2007 economic bubble, unemployment in Iceland is increasing and 2009 showed some net emigration. The distribution of wealth within the country used to be remarkably even, although market liberalisation over the past 15 years has upset that balance by creating new “millionaires”. Nevertheless, there is practically nobody under the poverty line due to the government social security system. Iceland is 103000 square kilometres, similar to an average European country, but the population is only just over 300 000 and is currently increasing by around 1% per annum through births beyond deaths. This small population would make Iceland the least populated EU member, as the current least populated EU members are Malta, which has 400 000 inhabitants, Luxembourg with 450 000 and Cyprus with 800 000. Half of the Icelandic population lives in the area around the capital, Reykjavik, and the rest is mainly scattered around the coastline, living of fishing, fishing industry, farming and related service industry. With such a small population, the total economic output, although over the EU average per capita, is only a meagre 0.1% of the EU. The main natural resources are fishing in the high seas, and hydroelectric and geothermal energy. Human “capital” is also of high standard with close to 100% literacy and easy access to higher education. Of Icelandic external trade, approximately 70% is with other members of the EEA and 10% with the United States (2006 figures, there are some fluctuations between years). Table 2 on next page shows Iceland in figures.

Table 2. Iceland in figures

GDP (current USD) (billions)[37]	15.5 [38]
GNI per capita, Atlas method (2004) [39] (USD)	37920
Life expectancy at birth, total (years)	81 [40]
Population, total (millions)	0.3
Population growth (annual %)	approx. 2.0 % [41]
School enrollment, primary (%)	>99 % [42]
Surface area (sq. km) (thousands)	103

Source: Statistics Iceland (2008), World Bank (2004), WHO (2008).

Upon the creation of the EEA in 1992 (implemented in 1994), Iceland became an EEA member along with the other EFTA states (less Switzerland). The EEA membership, however, caused some serious political discussions in Iceland, which often sounded more like high politics rather than economics. (Discussed in more detail in chapter 3).

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[37] Billion meaning thousand millions (1 000 000 000).

[38] Statistics Iceland GDP of 2007 with the exchange rate of August 2008. This figure is a guideline only as the Icelandic economy has had a very rapid growth between 2000 and 2007, followed by large exchange rate correction (fall) against major currencies in 2008. For comparison, the World Bank 2004 figure was 12.2 billion USD and the CIA World Factbook (2008) has 20 billion USD. The World Bank figure is realistic but the CIA World Factbook reflects the exchange rate of January 2008 before the correction (fall). (See also following footnote).

[39] When calculating Gross National Income (GNI) per capita in a common currency for operational purposes, the World Bank uses a synthetic exchange rate called the Atlas Conversion Factor. The Atlas Conversion Factor is computed as a three year average of the exchange rate of local currency to USD, adjusted for relative inflation. The purpose of using a synthetic exchange rate is to reduce or smooth the impact of exchange rate fluctuations in the cross-country comparison of national income. GNI based on Purchasing Power Parity (PPP) can vary from the Atlas method figure. According to Statistics Iceland, the 2007 figure for GDP per capita was 64 871 USD (2007 nominal exchange rate) and PPP 38 396 USD. As mentioned in the previous footnote, after being relatively stable for several years, in 2008 the Icelandic Krona lost approximately half of its value vs. USD. When comparing the nominal GDP per capita in 2007 to the PPP, it appears clear that the fall in the value of the Icelandic Krona was a correction of an abnormally strong Krona vs. major currencies.

[40] WHO data. Males 79 and females 83.

[41] Births beyond deaths are approximately 1% and immigration an additional 1%. The net immigration varies between years.

[42] Primary school in Iceland is from the age of 6 up to 15 years old, and includes both sexes.

Despite that the other EEA countries looked forward to EU membership and perhaps in a way saw the EEA as a transition to EU membership, Iceland did not apply for EU membership until 2009[43]. In Icelandic political discussion concern has been voiced over the limited influence a small country like Iceland would have in a supranational alliance like the EU and the question about expenses and benefits has been raised. A major obstacle cited against EU membership by many Icelandic politicians is that if Iceland became a EU member, it would have to accept the EU Common Fisheries Policy (CFP), which means that national control over allocated total fish catch quotas would be lost to the EU Council of Fisheries Ministers. As discussed in chapter 7, unfortunately for the environment and the economics of sustainable fisheries, the EU has for many years caught more wild fish than the fish stocks can support in the long term. A decade ago fisheries and fish processing contributed approximately 10-12% of Iceland's GDP. This figure is now closer to 6%. The decline is not so much because of a reduction in fisheries as such, but more because of a drastically increased GDP in other sectors. Approximately half of all goods exported are fish products, and close to 1/3 of the foreign currency earnings are from fisheries (with some variations between years). No other European country is so dependant on sustainable fisheries[44]. Table 3 (on next page) shows the approximate distribution of the Icelandic GDP.

[43] As previously noted, Austria, Finland and Sweden have since the creation of the EEA left EFTA and become EU members and Norway just narrowly rejected EU membership in a national referendum, which would have left Iceland and Liechtenstein as the only EFTA-EEA members.

[44] No EU member's fishing reaches 1% of GDP. Greece is closest with 0.6%. (By adding fish processing as a land-based industry, this figure can be approximately doubled). Ref.: Eurostat 2006. Fishing is discussed in detail in Chapter 7.

Table 3. Approximate distribution of Icelandic GDP (in percentage)

%	**1996**	**2001**[45]	**2006**[46]
Agriculture	2.2	1.6	1.4
Fishing	9.4	7.7	5.0
INDUSTRY:			
Manufacturing (including fish processing)	16.5	15.5	11.2
Fish processing	4.4	4.7	2.0
Mining and quarrying	0.1	0.1	0.1
Electricity and water supply	3.8	3.7	4.0
Construction	6.7	7.8	10.1
SERVICES:			
Wholesale, retail trade and repair services	12.3	10.0	10.1
Hotels and restaurants	2.0	1.8	1.5
Transport	8.8	8.2	5.9
Financial services, pension funds and insurance [47]	5.6	5.8	8.8
Real-estate and renting	12.0	13.7	17.9
Other service activities	20.6	23.8	23.6

Source: Statistics Iceland 2008.[48]

[45] This column has a total marginal error of 0.3%, most likely caused by numbers rounded up to nearest per-mille (per-mille is 0.1%).
[46] Preliminary data (subject to minor revisions/corrections).
[47] It is interesting to note how little banking contributed to the Icelandic GDP seen in relation to the economic damage done when the main banks collapsed in 2008, leaving the taxpayers with an estimated debt of between 50% and 100% of the annual GDP.
[48] The figures published by Statistics Iceland in 2007 for the year 2001 can differ by a few per-mille points from those published for 2001 in 2008. However, the 1996 figures correspond exactly. The 2006 figures are still under revision and can differ more between the data published in 2007 and 2008.

For comparison to Table 3 on the previous page, Table 4, below, shows the average distribution of the EU GDP and employment.

Table 4. Gross value added and employment by sectors in the European Union in year 2000

	Gross Value Added	Employment
Agriculture[49]	2.1 %	4.3 %
Industry (including construction)	28.2 %	29.0 %
Services	69.6 %	66.8 %

Source: Ministry of Finance, Denmark (2006), based on Eurostat.

Indeed there are similarities between Iceland and the EU, where services represent approximately 2/3 of the GDP and industry less than 1/3. In both Iceland and the EU, agriculture represents a very small portion of the economic activity. It is worth noting that fisheries are more substantial in Iceland than in the EU, although they are a small part of the total economic activity.

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[49] EU fisheries contribute only about 0.25 % of the Union's GDP.