



Referendum on the Icesave Agreement Law

9th April 2011

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RESULTS

The people of Iceland again reject a new law on the Icesave agreement

«*The worst option has been chosen. The vote has split the country in two*», declared Prime Minister, Johanna Sigurdardottir (Social-Democrat alliance party) on the public TV channel when the results of the 9th April referendum were announced. The people of Iceland have again rejected the new law on the Icesave agreement by 58.9% «No» to 39.7% «Yes». Of the country's 6 circumscriptions it was the South where votes against the text were highest (72.9% «No»). Turnout was high, at 70%, that is 7 points higher than the turnout seen when the previous referendum was held on the Icesave agreement on 6th March 2010.

The President of the Republic, Olafur Ragnar Grimsson, who had been the initiative behind this referendum, congratulated himself for having «*given the people the voice*». He stated that the referendum had «*strengthened democracy in Iceland*» and had «*returned to the country the confidence lost when the Icelandic economy collapsed in 2008*». He also played down the economic consequences of the result. In his opinion, the new Landsbanki, a bank set up on the ruins of the former financial establishment which founded the on-line bank Icesave and which was nationalised in the autumn of 2008, will very soon be in a position to pay back most of the amounts due to the United Kingdom and the Netherlands. The «No» camp in the referendum had highlighted the fact that the new law on the Icesave agreement was «an enormous burden» for Icelanders, and insisted on the fact that «there was no legal obligation for Icelandic citizens to cover the losses of a private bank». According to Eirikur Bergmann, political scientist at Bifrost university, «the no camp defended the Icelandic identity, which does not give in to foreign pressure (...) The merits of the agreement were not important, people made this a matter of principle». Icelanders were profoundly shocked in 2008 when the UK used its anti-terrorist legislation to freeze the assets of the Landsbanki bank.

The new law on the Icesave agreement, voted by Parliament on 16th February this year (by 44 of the 63 members), was the second attempt made by Iceland, the UK and the Netherlands to settle their financial dispute out of court. Reykjavik must reimburse €3.9 billion (1.3 billion to The Hague and 2.6 billion to London) to honour the debt taken out by the Icelandic on-line bank, Icesave, amongst over 320,000 British and Dutch citizens. The new law provided that the reimbursement period should begin in 2016 in order to leave Iceland the time to deal with the current crisis, without being penalised by the reimbursements. It included a State guarantee clause which made the reimbursements subject to Reykjavik's economic performance: reimbursement could not exceed 6% of Icelandic GDP growth.

The UK and the Netherlands have expressed their disappointment with regard to the referendum results. «*We have tried to obtain a negotiated settlement with Iceland, and this agreement has been rejected. It's disappointing. Of course we respect the will of the Icelandic people and we are now going to have to discuss the matter with our international partners, starting with the Netherlands. But it would now appear that this process will end up before the courts*», said British Treasury Chief Secretary, Danny Alexander. His Dutch

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counterpart, Kees Jan De Jager, declared himself to be «*very disappointed*» by the rejection of the agreement, «*a result that isn't good either for Iceland or for the Netherlands*» he said. London and The Hague now believe that the dispute should be taken before the Courts. Ministers of Finance have already looked at the possibilities of recourse to settle the matter before the European Free Trade Association (EFTA). A procedure had already been started before this authority by the Netherlands, before being halted in order to allow the 3 States to negotiate the terms of an agreement. «*The negotiations stage is now over,*» said the spokesman for the Dutch Finance Minister, Niels Redeker, when the referendum was over. «*There is a legal procedure on going with the framework of the European Economic Space and we are going to see how we can join with it. The Authority has already decided in our favour. Now that the agreement has been rejected by the people of Iceland we are going back to the courts. We must get this money back and we will continue our efforts until we do so,*» stated Danny Alexander.

Many experts believe that the EFTA decision will be less favourable to Icelanders than the previous Icesave agreement negotiated out of court. According to Gudmundur Olafsson, professor of economics at the University of Iceland, «*the Icelanders have a great deal to lose.*» «*If the «no» wins, the case will be referred to the EFTA and it will be 1 or 2 years before we find out how the matter will end*», said Lee Buchheit, the lawyer who led the negotiations for Iceland with the United Kingdom and the Netherlands.

By their negative vote the Icelandic people have rejected both their government and their parliament. The victory of the «no» vote is therefore a setback for the government coalition led by Johanna Sigurdardottir since the 2008 economic crisis. Opposition party leaders were indeed quick to demand an early general election. «*A yes to the agreement is of capital importance. The longer the Icesave affair remains without a solution the more serious the consequences will be for the Icelandic nation*» declared the Prime Minister. According to economists and government, settlement of the Icesave case is essential for Iceland's return to the markets, this being a condition for lifting the controls on capital flows imposed by the authorities to prevent another fall in the Icelandic krona. Current restrictions

mean that 465 billion krona (€ 2.86 billion), i.e. a quarter of the country's GDP, are held by foreign investors. Iceland will, however, have to finance its economy after expiry at the end of this year of the rescue plan granted to it by the IMF. «*We must do everything to avoid political and economic chaos following this result,*» declared Johanna Sigurdardottir. Finally, the victory of the «No» camp is bad news for the question of Iceland joining the European Union. The Icesave dispute absolutely must be settled to enable Reykjavik to hope to join. Iceland has been an official accession candidate since 17th June 2010.

On 10th April the government published a press release indicating that «*the referendum result will not affect the start of payments by Landsbanki to preferential creditors, including the British and Dutch authorities.*» According to the release, partial payment should be made at the latest within the year, which will «cover almost one third of preferential creditor funds». The government reaffirms that the latest figures regarding the Landsbanki assets indicate that the bank will be in a position to compensate around 90% of the funds deposited.

Results of the referendum held on 9th April 2011 in Iceland

Turnout: 70%

Question asked in the referendum	Percentage of "yes"	Percentage of "no"
Do you approve of the new law on the Icesave agreement?	39.7	59.8

Source: <http://www.landskjar.is/landkjarstjorn/frettir-tilkynningar/nr/101>

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