

Referendum on the Icesave Agreement Law

9th April 2011

from **Corinne Deloy**

Translated by Helen Levy

ANALYSIS1 month before
the poll**A contested Presidential decision**

On 20th February last the President of the Republic of Iceland, Olafur Ragnar Grimsson announced that a referendum would take place on the new Icesave Law Agreement approved by the Althing, the only chamber in parliament, four days previously by 44 votes (out of 63). The decision of the head of State surprised the Icelanders and shocked certain members of the political class. Voices of protest were heard against this which some believe to be against Parliament, a body that is legally the people's representative. Prime Minister Johanna Sigurdardottir (Social Democratic Alliance Party) said she was "disappointed" in Olafur Ragnar Grimsson's decision. "We thought that the President of the Republic would sign the law on the Icesave agreement, it has been approved by the majority of Parliament and it is not usual for a Head of State to go against an agreement that has been adopted by a majority as great as this." She added that there was little hope for the UK and The Netherlands to re-negotiate the text that had now been signed. "President Grimsson's decision to submit the law on the Icesave agreement to referendum will lead to a stalemate in the economy, a decline in the State's ability to guarantee financial loans and in increase in unemployment," indicated economist Gudmundur Olafsson at the University of Reykjavik.

Only the leaders of the Independence Party, the main opposition movement led by Bjarni Benediktsson and the Progress Party led by Sigmundur David Gunnlaugsson, approved the head of State's decision.

This referendum is the second to be organised on the subject. On 6th March 2010 an overwhelming majority of Icelanders (93%) rejected the first law on the Icesave agreement approved at the end of December 2009. At the time the president justified the organisation of the referendum and his use of article 26 of the Constitution in part saying that it was necessary to get a better offer on the part of the British and Dutch authorities.

The head of State believes it vital to achieve the approval of his fellow countrymen. "The President thinks that if the majority of the parliament was opposed to the majority of the population he would then listen to the population," declared political expert Stefania Oskarsdottir.

According to a poll by MNR8 for the association Andriki more than 6 Icelanders in 10 (62.1%) were in favour

of a further referendum on the Icesave law. Moreover 42,000 people signed a petition put on-line on 21st February by the organisation Samstada (which means unity) calling for the rejection of the new agreement. The new referendum on the Icesave Agreement law will take place on 9th April.

The New Law on the Icesave Agreement

Problems started for the Icelandic banks at the beginning of 2008. Struggling to find liquidities the Landsbanki created an on-line bank Icesave which, using Icelandic interest rates (high), promised high payment to its clients and attracted a great number of British and Dutch. However the system collapsed in the autumn of 2008 and Iceland found itself in a situation of economic bankruptcy. The country's banks which had committed to nearly 10 times the Iceland

Referendum on the Icesave Agreement Law 9th april 2011

dic GNP (at the end of 2007, the three banks' assets that were later nationalised represented 923% of the country's GNP according to the IMF), could no longer fund their operations or reimburse their creditors or depositors. On 29th September 2008, the bankrupt Glitnir Bank was nationalised; on 5th and 6th October its counterparts Kaupthing and Landsbanki were also nationalised. These three establishments – the biggest on the island – represented around 85% of the banking system.

However the story does not end there. Iceland, ruined, found that it had a heavy debt towards the UK and the Netherlands. The country had to reimburse 3.8 billion € (i.e. 40% of the GDP and around 12,000 € per inhabitant) to over 320,000 British and Dutch citizens who in 2008 saw all of the savings they had put in the hands of the on-line bank Icesave disappear. It was possible to recover some of this sum (85%) via the bankrupt bank's assets but after a certain length of time. Including interest the total sum the Icelanders had to pay back totalled around 2 billion €.

On 14th November 2008 under the pressure of the European Union the Icelandic government committed to paying back the 320,000 Icesave clients to a total of 20,887€ per person. The UK and the Netherlands partially paid back their fellow countrymen and then turned to the Icelandic authorities to be reimbursed themselves. On 5th June 2009 an agreement was signed between Iceland, the UK and the Netherlands whereby the Icelandic State promised to guarantee a loan representing 3.8 billion € to be paid back within 15 years at a rate of 5.5% (the first reimbursements were not planned to start for another 7 years). The text also included guarantees so that the reimbursements would not impede the Icelandic economy from recovering and stipulated that the State's guarantee would not extend beyond 2024 (it would have to be re-negotiated if payments were to continue after this date). The latter amendment caused extreme anger in the UK and the Netherlands and also on the part of the IMF which then stopped its payments to Iceland. A new text did away with the 2024 limit and was submitted to the Althing at the end of 2009; it was ratified in the night of 30th to 31st December by a narrow majority (33 votes to 30).

But President Olafur Ragnar Grimsson refused to promulgate the law and convened a referendum on 6th

March 2010. Most of the Icelanders (93%) voted against the agreement. Negotiations were taken up again between the three States and led to a new text that was approved on 16th February last by Parliament.

The new law on the Icesave Agreement includes several new clauses:

- the Landsbanki's assets have been reassessed. The sum that still has to be paid back now totals 47 billion Icelandic crowns (293 million € i.e. 900€ per inhabitant). The sum was three times higher than that just a year ago;
- the reimbursement period was extended to 2046 ;
- interest rates have been reduced down from 5.5% to 3.2% on average. Reykjavik will have to pay 3.9 billion € in all 1.3 billion of which will go to The Hague (interest rate of 3%) and 2.6 billion to London (interest rate of 3.3%).

The new agreement also includes measures to guarantee that reimbursements will never go beyond 5% of the Icelandic government's income.

The Icelanders are leaning towards the "yes"

Polls are forecasting victory for the "yes" in the referendum on 9th April next. A poll undertaken at the end of February last for the daily Frettabladid and the TV channel N°2 revealed that 61.3% of Icelanders were about to vote in support of the adoption of the new law on the Icesave Agreement. A large third (38.7%) say they will reject the text. Three in 10 of those interviewed (29.6%) say they have not decided.

The ratings agency Moody's said that a victory on the part of the "no" could lead to a downgrading in Iceland's credit rating. *"If the agreement is rejected we shall undoubtedly downgrade Iceland to Ba1 or below this given the negative effects that would follow with regard to the country's economic and financial stabilisation,"* read a press release issued by the agency. However Moody's announced that if the "yes" wins and that the new agreement is thereby approved it undoubtedly will raise the island's present rating (Baa3) which would rise from negative to stable.

Some politicians also say that another "no" would push the UK and the Netherlands to turn to the European Free Trade Association's Court (EFTA), a threat that others (including MEP Eva Joly (Greens) former advi-

sor to the special prosecutor responsible for the inquiry into the banking crisis that devastated Iceland) believe to be legally unfounded.

Finally the referendum is defining in part the issue of Iceland's accession to the EU – it has been an official candidate since 17th June 2010. A poll published in January last showed that 65.4% of Icelanders wanted discussions in view of their country's integration into the 27 (that started on 27th July 2010) to continue.

Independence Party supporters are the only ones who mainly want the on-going negotiation process to cease. 2/3 of those close the far left party the Left Movement/Greens (67.2%) support the continuation of negotiations even though their leader Steingrímur Sigfússon is against it.

A round up one week before the vote

On 20th February last Icelandic President Ólafur Ragnar Grímsson announced that there would be a referendum on the new Icesave Agreement law. This decision shocked some of the political class, the media and many Icelanders. *"The time for negotiations on Icesave are over,"* declared the headline in the daily *Frettablaðið* the day after this announcement. *"The President has become a political player, but not the symbol of unity which the people thought he was,"* wrote its chief editor Ólafur Stephenson.

The referendum on 9th April is the second one organised over the Icesave Agreement. The first which was held on 6th March 2010 resulted in a majority of the Icelanders (93%) rejecting the Icesave Agreement which had been approved by parliament at the end of December 2009.

Icesave, which was an on-line bank established by Landsbanki, promised major profits based on high interest rates and attracted many Britons and Dutch (around 320,000 people). In the autumn of 2008 the financial system in Iceland collapsed and the country found itself in a state of economic bankruptcy; the Landsbanki was nationalised. Reykjavík then had an enormous debt (3.8 billion € i.e. around 12,000€/per inhabitant, representing around 40% of the GDP) towards the UK and the Netherlands. An agreement between the three countries was signed in 2009 but rejected by the population on 6th March 2010 during a referendum convened by the President of the Republic.

The second law on the Icesave Agreement approved on 16th February includes new measures:

- the assets of the new Landsbanki, a bank built on the ruins of the former establishment, have been revalued (it is now admitted that it can cover 75% of the total debt with its own assets). The remaining sum totals 47 billion Icelandic crowns (293 million € i.e. 900€ per inhabitant). A year ago the total debt was three times this sum;
- the reimbursement period has been extended; payments will start as of 2016 and may go on for 30 years. This gives Iceland time to manage the present socio-

economic crisis without being penalised by the reimbursements;

- the interest rates have been reduced, down from 5.% to 3.2% on average. Reykjavík will have to pay a total of 3.9 billion €, 1.3 billion of which to The Hague (interest rate of 3%) and 2.6 billion € to London (interest rate of 3.5%).

The new agreement includes a State guarantee clause which conditions the reimbursements according to Iceland's economic performance: indeed they cannot be more than 6% of Iceland's GDP growth.

As 9th April approaches the lead taken by the "yes" vote (credited with 61.3% of the vote at the end of February) is declining. Hence a poll by Market and Media Research, (MMR), published on 17th March by Business News Weekly revealed that 52% of Icelanders were about to vote in support of the adoption of the new law on Icesave whilst 48% said they were against it. Less than one quarter of those interviewed (23.1%) were still undecided. There is greater support for the text amongst Icelanders living in and around Reykjavík and the more highly qualified.

Most of the Progress Party's supporters, a centrist, agrarian party led by Sigmundur David Gunnlaugsson intend to reject the law. In the daily Morgunbla

D-7
7 days
before the
referendum

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

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.landskjor.is/landkjoorstjorn/frettir-tilkynningar/nr/101>

THE FOUNDATION'S LATEST PUBLICATIONS

The euro has a future - European issue n°201 - 11/04/2011 - Mathilde Lemoine

Referendum of 5th May 2011 - United Kingdom - Analysis - May 2011

Schuman Report on Europe, State of the Union 2011 under the management of T Chopin and M Foucher, Springer Verlag/Lignes de Repères, Paris - March 2011

Exclusive Interview with Herman Van Rompuy

You can read all of our publications on our site:
www.robert-schuman.eu

Publishing Director: Pascale JOANNIN

THE FONDATION ROBERT SCHUMAN, created in 1991 and acknowledged by State decree in 1992, is the main French research centre on Europe. It develops research on the European Union and its policies and promotes the content of these in France, Europe and abroad. It encourages, enriches and stimulates European debate thanks to its research, publications and the organisation of conferences. The Foundation is presided over by Mr. Jean-Dominique Giuliani.