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Iceland's Integration into the EU Energy policy: Bachelor Thesis for Bachelor of Science in European Studies

Sif Björnsdóttir
S0194662

Supervisor: Prof. dr. N.S. Groenendijk
Co-Reader: Prof. dr. G.J. Hospers

University of Twente

Abstract

The following bachelor thesis aims at describing Iceland's integration into the EU Energy Policy, the consequences of accession to the European Union on the Icelandic Energy Policy, notably in terms of ownership over natural resources. This is done by analysing the European Energy Policy and the Icelandic Energy Policy and comparing the two. Iceland already implements part of the European legal framework through the EEA agreement and will Iceland's membership to the European Economic Area be analysed as well. Most importantly opinions about the consequences of accession by and the different Icelandic stakeholders are assessed. The bachelor thesis will be assessed with descriptive case study, using qualitative measures. The research methods that will be used are content analysis, were legal and policy documents as well as secondary literature is studied and analysed

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1. Introduction

In October 2008 Iceland was severely hit by the global financial crisis, which lead to a collapse of the three biggest Icelandic banks, Landsbanki, Glitnir and Kaupthing, almost leading to a national bankruptcy. Iceland, which has always been rather Eurosceptic, handed in an accession application less then a year after the national bank crisis. After the financial drawbacks for the country the government collapsed and resigned, which lead to a political crisis that resulted in a new pro-European leading party, the Social Democratic Alliance (SDA). It can therefore be assumed that the accession application was an aftermath of the economic crisis (Thorhallsson & Rebhan, 2011). It was then on July 23rd 2009 that the Minister for Foreign Affairs, Össur Skarphéðinsson, handed in a formal application for EU membership to the European Council. The Government of Iceland appointed special committee of professionals to carry out the accession negotiations with the EU (Ministry for Foreign Affairs;, 2009). The Proposal for a Parliamentary Resolution on Application for Accession to the European Union included the vital interest that are most important to Iceland in the negotiations and the first issue mentioned was "ensuring the sovereign control of water and energy resources and their utilization" (Ministry for Foreign Affairs;, 2009). Eurobarometer´s Analytical report on Iceland and the European Union that was conducted in December 2010 showed a relatively low support for the European Union. About 54 percent disagreed that Iceland's future should be as a part of the EU and Icelanders "were especially concerned that their country would loose control over its natural resources" (The Gallup Organizaiton, 2011), 52 percent of the respondents did not believe that their country would be able to remain control over its natural resources (The Gallup Organizaiton, 2011).

Iceland is one of the world's greatest potential sources of renewable energy. The country has a unique geological position that enables Iceland to produce renewable energy to large extent. The powerful island is located on the Mid-Atlantic Ridge and is one of the most tectonically active places in the world as well as the world's most volcanically active place, with an eruption every five years on average (The National Energy Authority ; Ministry of Industry, Energy and

Tourism;, 2009). In addition, about one-tenth of Iceland's landmass is covered by glaciers and many powerful rivers flow from its icecaps that provides Iceland with a valuable possession of hydropower. Hence Iceland's geographical position provides the country with abundant supply of geothermal resources (The National Energy Authority ; Ministry of Industry, Energy and Tourism;, 2009).

Today Renewable energy and sustainable development are acknowledged as pivotal factors to economic growth and prosperity by the European Union. The European Union introduced for the first time in 2007 an Energy policy for Europe to face the severe energy challenges in Europe, securing energy and regarding sustainability and greenhouse gas emissions. A European Energy Policy "will firmly commit the European Union (EU) to a low consumption economy based on more secure, more competitive and more sustainable energy" (Europa, 2007). An important objective of the European energy policy is the increased usage of renewable energy sources to contribute to the climate change. The EU has developed an Energy Efficiency strategy called the EU 20-20-20 and this proposal includes reduction of EU's greenhouse gas emissions by 20 per cent and "increasing its proportion of final energy consumption from renewable sources to 20 per cent" (House of Lords; House of Lords) The overall goal is 20 per cent but to meet the renewable needs, each Member States has its own individual national target and national action plan. The European Energy Policy also states the liberalization of the energy market where the EU wants to establish an internal and interconnected energy market. Renewable energy needs a better integration into the single European market with a further cooperation between the Member States (The Commission, 2008).

Iceland put forward in 2011 an integral energy policy proposal with the main guideline to conduct the Icelandic energy industry in a sustainable way as beneficial to the society as possible (National Energy Authority, 2011). In most countries, and notably in the European Union, energy policies are mainly about three core subjects; security of energy supply, creating a competitive energy market and promoting sustainability to reduce greenhouse gas emissions. The energy policy of Iceland adds another subject that is important for the country due to its unique geographical position, the societal gain. The societal gain puts

emphasis on how the general public will profit from the energy source, the importance of public ownership over natural resources and the economic efficiency of the energy economy (National Energy Authority, 2011). Iceland is a part of the European Economic Area and therefore has already implemented all directives and regulations of the Internal Market. Since Energy is included in the internal market, Iceland has already implemented energy directives and regulation into national law (Ministry of Foreign Affairs, 2000).

Background

Iceland's Natural Resources

As mentioned above Iceland has a unique position in renewable energy. The country has one of the world's greatest potential of renewable energy with its volcanic activity, valuable possession of hydropower and abundant supply of geothermal resources. Approximately 81 per cent of the total primary energy supply in Iceland comes from renewable energies and 100 per cent of the electricity usage comes from renewable sources, making it the only country in the world to achieve that (Keilir , 2011). Today Iceland has achieved to transform its energy system from fossil fuels to clean energy (The National Energy Authority ; Ministry of Industry, Energy and Tourism;, 2009). With this development Iceland will become 100 per cent renewable within the next 20 and 30 years. The main renewable energy sources in Iceland are geothermal energy, 62 per cent of total primary energy, and hydropower, which is 20 per cent of primary energy (The National Energy Authority ; Ministry of Industry, Energy and Tourism;, 2009). Iceland is an important energy provider with all its natural resources, specially its geothermal power and its hydropower potentials. The geothermal energy results as "a highly cost-effective, reliable, clean and socially important" (The National Energy Authority ; Ministry of Industry, Energy and Tourism;, 2009) for the country and has strikingly increased the quality of life for the inhabitants of the island. The energy use and the ratio of sustainable energy sources are higher per capita than in any other country in the world (Keilir , 2011). Therefore, with its unique energy position the high percentage of renewable energy production, 82 percent from indigenous renewable sources, the country would be important for the European Union in is combat of climate change with is energy efficiency.

Iceland's Interests

The energy resources in Iceland have played a drastic role in countries development towards a welfare state during the past decades. During the 20th century Iceland went from one of Europe's poorest countries that was mainly dependent upon peat and imported coal for energy use to a country with high standards of living (The National Energy Authority ; Ministry of Industry, Energy and Tourism;, 2009). Iceland's energy use per capita is among the highest in the world, where the share of renewable sources exceeds the use in most other countries. The largest industry in Iceland is the fishing industry, followed by aluminium smelting, ferrosilicon production, geothermal power and hydropower (Central Intelligence Agency, 2012). Four-fifth of all electricity use in Iceland is from the large energy users such as the aluminium industry and ferrosilicon production and with the declining fishing stock renewable energy is becoming more and more important as a revenue resource (National Energy Authority, 2011). "Abundant geothermal and hydropower sources have attracted substantial foreign investment in the aluminium sector" (Central Intelligence Agency, 2012) that boosted economic growth and attracted high-tech firms as well that saw opportunity to establish data centres using cheap green energy (Central Intelligence Agency, 2012).

In 2009 a Canadian enterprise, Magma Energy, bought a large share in an Icelandic energy company through a subsidiary company in Sweden. This foreign investment resulted in a 43 percent share in the largest private energy company in Iceland, HS Orka. HS Orka has been highly criticised in the country. A year later in August 2010 Magma owned 98,526 percent share in the company (Nefnd um orku- og auðlindamál, 2010). The operation of the sold share included energy production and utilization of energy resources. The government was highly criticised by the general public, they claimed that the purchase were illegal and that the government should revoke the contact. On July 27 2010 the Government of Iceland gave a statement that the Prime Minister appointed a special committee of independent specialists to evaluate the legitimacy of the purchase of Magma Energy Sweden AB according to both Icelandic laws and regulations of the EEA agreement (Nefnd um orku- og auðlindamál, 2010). The conclusion of the committee was that the buying the share in HS Orka was legitimate towards

foreign investment because it was a contract between two private companies that the government does not have direct involvement in. The committee suggested possible response by the government. That it can reduce the influence of foreign investment on Icelandic energy interests by promoting that the legal framework on foreign investment in energy companies will be strengthened and their ambiguous interpretation abolished. (Nefnd um orku- og auðlindamál, 2010).

This example of the Magma case illustrates the fear that Icelandic resources might end up in foreign hands. Hence, for a small nation like Iceland that is so dependent upon their resources it does not come as surprise that Iceland is protective of its resources. In this statement from the Icelandic government on the 27th of July 2010 all the governing parties should together protect the joint ownership of the nation over their natural resources and a provision for a common ownership of the nation over its natural resources will be implemented into the constitution (Forsætisráðuneytið, 2010). It was then on the 13th of January 2011 that a proposal for an Energy Policy for Iceland was laid out for public opinion and formal draft was handed to the Minster of Industry, Energy and Tourism on November 3rd 2011 and has been proposed to the parliament as a ministry report (Alþingi, 2009).

With all this debate and discussion about how membership might affect sovereignty over resources and how the Icelandic nation could actually benefit from accession by its strength and knowledge on renewable energy, this thesis aims at answering the central research question ***"What are, according to the European Commission and the Icelandic stakeholders, the consequences of accession of Iceland to the European Union, in terms of ownership of natural energy resources?"***

Methodology

Case selection

The case selection emphasises the theoretical and institutional relevance in the accession process of the European Union. It illustrates the challenges the European Union and the candidate countries are faced with in the various policy fields of the Union. The case selected also presents the different interests involved and the different expectations and concerns by the various actors. The

various actors are the European Commission, the Icelandic government, and different interests parties, notably the opposition political parties and are chosen because of the following reasons. The European Commission is the largest actor in the European Union, initiates all legislative policies as well as being the main institution in the negotiating and accession procedure. The Icelandic government has the same significant position as the Commission, that is initiates all policies, is the largest actor in the negotiation procedure and protects Iceland's interest from all perspectives. When discussing the different positions of the Icelandic stakeholders two other political groups are mentioned as the opposing parties, one is the Independence Party and the other the Association of the Protectors of Sovereignty. Both these political parties are against membership to the European Union and gave reports and opinions on how they interpret the EU legal framework and how membership will affect the Icelandic energy market and ownership over resources. Iceland is the smallest nation to apply for a membership to the Union and has therefore few but pivotal interests at stake. The energy sector, notably the renewable energy resources, is really important to the island and the country does everything to protect their unique position in the field of energy.

Research Design

The main research design in this thesis is descriptive case study design, analysing one social phenomenon, *the consequences of accession on the Icelandic Energy Policy in terms of ownership of natural energy resources*. The research question is of descriptive nature, describing the social phenomena of Iceland's integration into the EU Energy Policy, is best studied in-depth with the help of a case study design not experimental design. "Social researchers often speak of case studies which focus attention on one or a few instances of some social phenomenon" (Babbie, 2007). A case study is clearly distinguished from an experimental design, because there are no independent or dependent variables to be tested or controlled.

The units of analysis is Iceland, Iceland's integration into the EU Energy Policy, where the main variable is the perceived consequences of accession in terms of ownership of natural energy resources. Consequently the units of observation

are the various actors, The European Commission and the Icelandic stakeholders. The research method chosen will gather adequate and sufficient data that will be assessed, analysed and compared. With analysis of the European and Icelandic energy policies and assessment of how Iceland is already integrated in such a policy area will help illustrating the expected consequences of accession on the European Energy Policy in terms of natural energy resources as well as painting a clearer picture what could be the opportunities for Iceland.

Data collection is an important step in the research project, because there is a vast amount of data, which has to be reduced to manageable amount. A manageable amount can then be summarised and presented and is therefore of more use for the study. The data collected in this research are policy documents and legislations from the European Union and the Icelandic government, like treaties, directives and proposal and reports and other literature. The data collection method used is content analysis, "a content analysis is the study of recorded human communications (Babbbie, 2007, bls. 320). Content analysis is suitable for this type of document analysis where laws and policies are analysed as well as secondary literature. The legal and policy documents I will get from the European Union website and from the website of the Icelandic Government. The secondary data of other literature I will use scientific online databases.

When dealing with policy documents it is important to find the subject that is most relevant to my research cause they can be really long and large part unnecessary for my research. Writing memos while analysing the documents will be a helpful, as well as writing memos on repeating results, those findings will be matched and compared to get the best analysis from the documents.

Outline of the thesis

To begin with an analysis is made of the European Energy Policy and the Icelandic Energy Policy where the most relevant issues are addressed as well as the sub-questions, *"How is the ownership over natural energy resources addressed in the EU Energy Policy?" and "How is the ownership over natural energy resources addressed in the Icelandic Energy Policy?"* In the fourth chapter I lay out the current position of Iceland in the European framework as a member of the EEA agreement, *"To what extend is Iceland already integrated into the EU Energy*

Policy? In the fifth chapter the changes of accession on the Icelandic Energy Policy will be discussed answering "*Regarding Iceland's Energy Policy in general, and the ownership of natural resources in particular, which additional changes, if any, will have to be brought about in case of accession"?* In sixth chapter the assessment of these changes by the various actors will be discussed "*How are these changes assessed by the various Icelandic stakeholders"?* In the last part a conclusion is made where the chapters are compared and answers provided to the research questions.

2. An Energy Policy for Europe

In this chapter the European Energy Policy proposed by the Commission in 2007 will be laid about and summarized. The most relevant objects of the policy will be analysed as well as a special emphasis on *how the ownership of natural energy resources is addressed in the EU Energy Policy*.

Introduction

"A European Energy policy will firmly commit the European Union to a low consumption economy based on more secure, more competitive and more sustainable energy" (Europa , 2007). This common energy policy is a response to the severe energy challenges that Europe is facing, these challenges regard sustainability and greenhouse gas (GHG) emissions, security of energy supply, import dependence and competitiveness and effective implementation of the energy market (Europa , 2007). The Union can no longer rely on fossil fuels since it's non-renewable and finite resource and a serious cause of global warming (Europa , 2007). To tackle these challenges the energy policy puts forward six objectives; the establishment of an internal energy market, to provide security of energy supply, reduce green house gas emissions, elaborate energy technologies, think for the future of nuclear energy and to implement a common international energy policy. Therefore the main focus of the European Union is "to create integrated energy and environmental policy based on clear target and timetables for moving to a low-carbon economy and saving energy" (Europa , 2007).

A Strategic Objective

As mentioned the European Union has a strategic objective to guide its energy policy that derives from three main elements; the combat of climate change, limiting the Union's external vulnerability towards imported hydrocarbons, as well as the promotion of growth and jobs (The Commission, 2007). In its Strategic Energy Review the Commission proposes that the energy policy should be supported at the basis of the objectives in international negotiations; "an EU objective in international negotiations of 30% reduction in greenhouse gas emissions by developed countries by 2020" (The Commission, 2007, bls. 21). In addition to that the goal for 2050 is to reduce global GHG emissions by 50% where reduction of the emissions in industrialised countries will be 60-80% (The Commission, 2007). Therefore the EU commits to achieve at least 20% reduction of greenhouse gases by 2020 and that remains the central focus.

The reduction of the greenhouse gas emission is so important due to the fact that 80% of the GHG emissions in Europe come from CO_2 emissions from energy. Hence reduction of these greenhouse emissions means reduction in energy usage as well as using cleaner locally produced energy, limiting the EU's vulnerability to the growing volatility and prices for oil and gas and potentially bringing more competitive energy market by raising innovation technology and growth in jobs (The Commission, 2007).

These strategic objectives results in the Union's Action plan where concrete measures are taken to represent the core of this new European Energy Policy with the main aim to bring sustainability, security of supply and competitiveness.

The Action Plan

No one element of the energy policy provides all the answers to a high energy efficient and low CO_2 energy economy, all the elements must be taken together as a whole. Important results have been achieved on number of elements but the measures already taken lack the coherence that is needed to bring sustainability, security of supply and competitiveness. Hence the policy needs to be dealt with by various policy areas. The Action plan entails measurements that will put the EU on the way towards a low carbon knowledge-based energy economy and improve its security of supply and make considerate contribution towards

competitiveness. The European Commission mentions ten measurements but in this paper only the ones of the most relevance will be discussed (The Commission, 2007).

The internal Market

An internal energy market is necessary and important to meet Europe's energy challenges: competitiveness, sustainability and security of supply. In particular the internal market is supposed to make sure that consumers have the opportunity to select their own supplier at a competitive and fair price. A competitive energy market will reduce prices as well as encouraging energy efficiency and investment. To meet sustainability a competitive energy market allows for the effective operation of economic instruments notably the proper functioning of the emission trading mechanism (where the pollution of the GHG emissions is controlled by economic incentives). In addition transmission system operators "must have interest in promoting connection by renewable innovation and encouraging smaller companies and individuals to consider non-conventional supply" (The Commission, 2007, bls. 6). The challenge regarding security of supply is resulted in effective separation of energy networks and the development of real incentives for firms to invest in new infrastructures, inter-connection capacity and new generation capacity (The Commission, 2007). With this the European Union wants to avoid energy black outs and unnecessary price increase.

Existing national rules and measures have not been successful to achieve these objectives stated above but this lack of progress has led Member States to impose limitations such as generalized caps on electricity and gas prices. This can prevent the Internal Energy Market from functioning and preventing price signals that new capacity is in need, that results in that it becomes harder for new entrants to enter the market, especially the ones offering clean energy (The Commission, 2007). This can be prevented with number of measurements such as *competitive market, effective regulation*, *integrated and interconnected market*, and *energy as a public service*.

To prevent all discrimination and abuse of energy companies over energy networks a clear separation has to be between the management of gas and

electricity networks and the productions and sales. Energy companies might tend to protect national markets and prevent competition. Vertically integrated energy companies do not invest properly in their own networks that prevents full network capacity where competition would increase and market price become lower. As a result to promote competition and encourage investment two options are mentioned, the creation of a full Independent System Operator or ownership unbundling. The former includes that a nationally integrated energy company is the main owner of the networks but is not in control of their operation, maintenance or development and the latter "where the companies are wholly separate from the supply and generation companies" (The Commission, 2007, bls. 7). Ownership unbundling is the more effective option it gives energy users diversity in choice of energy and encourages investment. This is where *effective regulation* comes in, the power and independence energy regulators need to be in line with each other and therefore harmonize, in addition promoting effective development on the national as well as on the community level (The Commission, 2007). The biggest concern regarding regulation is that technical standards for cross-border trade differ to great extent among the Member States making the cross border trade extremely difficult. In response to that the European Union wants to develop within the internal energy market A European Network of Independent Regulators or a new single body at the Community level.

Besides promoting a competitive energy market *an integrated and interconnected market* is essential and it is dependent on cross-border trade in energy. Priority Interconnection Plan (PIP) is an efficient energy infrastructure as an essential tool for the internal energy market to work and function properly. The PIP is "a key element in setting up trans-European gas and electricity networks". Interconnected networks of this kind would contribute greatly to a healthy competition and preventing a short supply by the diversification of energy sources, especially electricity based on renewable energy (Europa, 2006). Five priorities are identified in this context, where the most important factors are to identify the most important infrastructures that are missing, make certain that political support for such infrastructure is found across Europe as well as

increasing the funding for and establishing a new pan-European mechanism for the structuring of a transmission system (The Commission, 2007).

The EU also puts forward the perspective to look at *energy as a public service*. That general public and public service are protected with Public Service Obligations, where the EU tackles energy poverty with an Energy Customer Charter. This charter has four goals; protecting the most vulnerable consumers from high energy prices; to increase access of information about energy suppliers; reduce administrative work and to protect customers from unfair suppliers.

Solidarity between the Member States and security of supply

With an Internal Energy Market the Member States are interdependent in energy supplies of both electricity and gas. Although this interdependence is also targeted with energy efficiency and renewable energy, oil and gas are over half of the energy needs with high import dependence and the generation of electricity will still be highly be dependent on gas. Hence, the security of supply remains the supreme priority of the EU economy. The promotion of diversity considering source, supplier, transport routes and transport method is important for the Union. Mechanism to put these factors effectively in place is needed to ensure the solidarity between the Member States in an energy crisis occurs (The Commission, 2007).

Renewable Energy

Renewable energy highly contributes to the climate change challenge as well as promoting energy security and supply and increasing employment and growth. The Renewable Energy Strategy aims at "reducing global primary energy use by 20% by 2020" (EUR-lex, 2008). Increased energy efficiency potentially effects sustainability, competitiveness and security of supply directly. The objective of the strategy requires progress to be made in the three main renewable energy sectors, electricity, bio-fuels and heating and cooling systems (EUR-lex, 2008). .

A long-term vision in the field of renewables is needed to create the most effective policy. The Union has focused on improving existing instruments such as the Electricity Directive and to improve present targets, and promote investment, innovation and jobs. The way to create the most effective policy is

"to find the balance between installing large scale renewable energy capacity today, and waiting until research lowers their cost tomorrow" (The Commission, 2007, bls. 12). To reflect the following factors:

- *"Using renewable energy today is generally more expensive than using hydrocarbons, but the gap is narrowing –particularly when the cost of climate change are factored in"*
- *"Economies of scale can reduce the cost for renewables, but this needs major investment today"*
- *"Renewable energy helps to improve the EU's security of energy supply by increasing the share of domestically produced energy, diversifying the fuel mix and the sources of energy imports and increasing the proportion of energy from politically stable regions as well as creating new jobs in Europe"*
- *"Renewable energies emit few or no greenhouse gases, and most of them bring significant air quality benefits"*

(The Commission, 2007, bls. 13)

The Commission proposed the Renewable Energy Roadmap with the 20 % target as an overall guideline for the European Union. For the Member States to meet and reach these targets a massive growth in renewable energy sector is required. Renewable energy has the capacity to supply around third of EU electricity by 2020, therefore the Member States have to develop their own national objectives or electricity, bio-fuels, heating and cooling.

An International Energy Policy that actively pursues Europe's interests/ External Energy Policy

Another relevant factor is the 'one voice' that the EU has in external energy matters. Fighting against the security challenges and the climate change cannot be combated by the EU and MS alone therefore these energy goals need to be sought with a common voice shaping effective global partnerships (The Commission, 2007). Hence "the EU must develop effective energy relations with all its international partners, based on mutual trust, cooperation and interdependence" (The Commission, 2007, bls. 18). Energy must become a central part of EU's external relations and the European Council and the Commission

reached a consensus about establishing network of energy security correspondent providing "an early warning system and enhance the EU's capability to react in times of external energy security pressure" (The Commission, 2007, bls. 18). In this sense the Commission proposed a paper 'An External Policy to serve Europe's Energy Interests' were the need for reliable, affordable and sustainable flow of energy lies at heart. To create the external energy security, internal and external policies need to be combined effectively in order to secure future energy supply. It's the legitimate right of every Member State to follow and practice its own external policies. Increased dependence on energy imports and the effect on the internal energy market by actors not following same market rules triggers the development of a coherent and common external EU energy policy (Commission/SG/HR , 2006) and by coherent the policy needs to be backed up by all EU's policies, the Member States and the industry.

EU 2020 Energy Efficiency Strategy

This strategy comes in line with the Renewable Energy Strategy and the Energy Efficiency Action plan. The central focus of the Energy Efficiency Strategy is the role and the performance of the Member States with their own national targets and action plans. The before mentioned objectives of the EU's energy policy, security of supply, competitiveness and sustainability, has developed around the common aim to "ensure the uninterrupted physical availability of energy products and services on the market" (European Commission, 2010, bls. 2), at an affordable price for consumers. This clearly contributes to the climate goals and to one of the greatest challenge Europe is faced with, the energy challenge (European Commission, 2010)

The energy strategy proposes five priorities;

"Achieving an energy efficient Europe"

"Building a truly pan-European integrated energy market"

"Empowering consumers and achieving the highest level of safety and security"

"Extending Europe's leadership in energy technology and innovation"

"Strengthening the external dimension of the EU energy market"

(European Commission, 2010)

The strategy introduces the 20 percent energy savings by 2020, where energy efficiency is the main drive and most cost-effective way to contribute to the objectives of the energy policy. The EU points out that for the strategy to be effective efforts need to be made in the whole energy circle (production, distribution and contribution) and energy efficiency needs to be *mainstreamed into all relevant policy areas* (European Commission, 2010). Europe is far from reaching its energy savings goals. These strategic goals emphasize on strengthening all political commitment with increased monitoring, where the role of the Member States becomes more important. The European Commission introduced the National Energy Efficiency Action Plans (Europa, 2008), where each Member State presents its own national strategy how to reach the energy goals. These action plans are realistic and practical and show the commitment of the Member States to energy efficiency. They make up their own strategies and measures in ambitious way that requires a careful monitoring of how these strategies are implemented. There is great ambition in the policy aims but serious gaps in delivering and implementing, cooperation among all parties both in the public and private sector is therefore essential (Europa, 2008). The five priorities of the Energy Efficiency Strategy mentioned above are to be succeeded with a concrete action plan, each priority with its sets of actions.

The European Energy policy places rich emphasis on security of supply, sustainability, competitiveness and security of supply. On the other hand there is no specific provision under the European Energy Policy on the ownership of natural resources. The policy highly promotes the importance of utilization of energy resources and energy efficiency but no specific chapter lays out ownership over natural resources.

3. An Energy Policy for Iceland

In this chapter the Icelandic Energy Policy proposed by the Icelandic government in 2011 will be laid about and summarized. The most relevant objects of the policy will be analysed as well as a special emphasis on *how the ownership of natural energy resources is addressed in the Icelandic Energy Policy.*

Introduction

In 2011 an integral energy policy was put forward for the first time in Iceland. The purpose of this policy was to set forth comprehensive overview with clear guidelines and objectives that creates solidarity in energy issues. With this kind of policy at hand, arbitrary and incoherent decisions can be prevented.

The central guideline of the policy is that Iceland's energy industry will be conducted in a sustainable way as a benefit to the public and the society as a whole.

The main objectives of the energy policy are the following

- Safeguarding the main energy needs of the general public and the economy in the short and long term.
- With utilisation of energy resources the environment and other peculiarities shall be carefully respected
- The Icelandic nation shall receive profit of common energy resources
- The National profit margin of the energy industry shall be maximized.
- The supply of energy shall be suitable for the diverse economy
- Promote the reduction of fossil fuels

(National Energy Authority, 2011)

In other countries the energy policy is mainly about three general issues: security of energy supply, the influence the energy process circle has on the environment and the effective implementation and organization of the energy market. But because of Iceland's unique position as an "energy generation area", it is important to discuss the forth issue, the exploitation of energy resources as a societal gain in a broad context. Hence, how the profit of the common energy resources would be returned to the Icelandic people (National Energy Authority, 2011).

Iceland is rich of renewable energy resources. The renewable energy resources currently supply the public as well as all businesses in the country with five times the energy needed, keeping every building in Iceland at room temperature. With renewable energy resources of such high importance in the country it is essential factor of the energy policy to maximize communal gain of the energy

resources. To maximize the societal gain of the resources, ways must be found to create as much added value or dividends, directly or indirectly, on the basis of each energy unit produced - with the deduction of societal cost, including environmental and opportunity cost from other industries that are not based on energy utilization (National Energy Authority, 2011).

Energy resources are valuable and will become even more valuable in the future, with ascending oil price and continuous actions against green house gas emissions. But the resources are finite so they need to be exploited efficiently and sustainably and especially exploit them in a way that benefits the society as a whole and that is the main idea behind the energy policy of Iceland

The Action Plan

The Minister of Industry, Energy and Tourism appointed a steering group that should formulate this comprehensive energy policy for Iceland. The steering group proposed an Action plan for the ways of implementation of the policy.

1. **Laws**: to formulate new laws or modify current legislations, e.g implementation of economic rent for resources on state owned land.
2. **Directives:** To modify directives or regulations in accordance to the objectives of the energy policy.
3. **Policy correlation:** To correlate the energy policy with the strategies of other policies in for example natural resources, regional development policy and national development policy.
4. **Ownership policy for state owned energy companies:** The state is the owner of the energy companies and therefore determines the ownership policy. The energy companies operate in a competitive way, which places certain on how to formulation of such a policy. Hence under public ownership certain factors need to be clearly defined, such as equality, transparency and acceptable risk in the operation.
5. **A lease term about utilization of resources**: when energy resources are under public ownership and are rented out for a period of time the lease term can entail certain responsibilities and duties of the hirer.

This leases can used as instruments to reach to the goal of the energy policy.

6. **Economic Incentives:** The government can influence the behaviour on the energy market both with positive and negative economic incentives. Economic incentives promote the coordination of sustainable goals and societal benefits.
7. **Government tasks:** The executive power can put into force certain policy directions with the general taxation but needs to make sure that social gain is more than the social cost.
8. **Cooperation:** Cooperation between the government/municipalities and associations, companies and individuals should be promoted so the general public is more active in forming the ideas and proposal, e.g. crowd sourcing.
9. **Information, public review and supervision:** To activate the democratic supervision of the public the administration needs to be transparent and an open access to all governmental information. Open access, criticism and participation of the general public are necessary aspects in the sustainable development of energy and environmental matters.
10. **Discussion, education and attitudes:** The change of attitudes and behaviour in the community is needed in many cases and increased education is needs to be implemented into the education system.

(National Energy Authority, 2011)

Division and Organization of the energy market

The energy market in Iceland contains by the largest part of geothermal heat, the share of geothermal energy is bigger than all the other energy types put together. Right after geothermal heat comes hydropower and the third energy source of primary energy is fossil fuels, that is oil and coal in very small extent (National Energy Authority, 2011). The main usage of geothermal heat is for space heating (45%) and for electricity production (39%). The hydropower energy comes from hydropower projects where waterpower is harnessed. The share of electricity use divides up in the following proportions: Four out of five are used for large

users such as the aluminium industry and ferrosilicon production and one out of five of the usage is for general users and only 5 percent residential consumption (National Energy Authority, 2011).

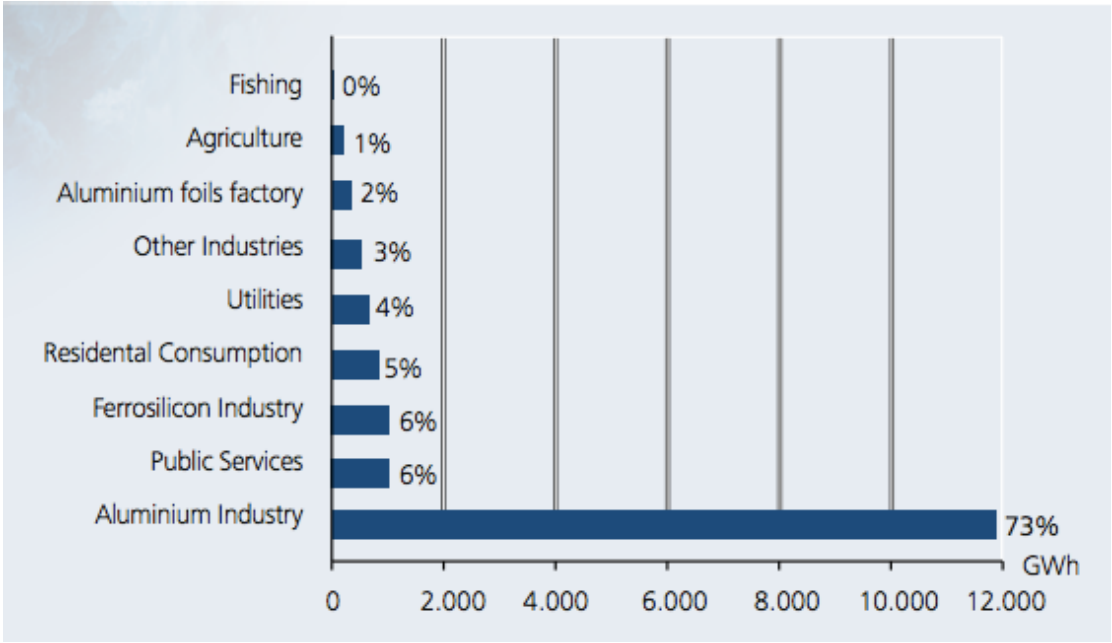

Figure 1: Electricity consumption 2010 (Energy Stats 11)

In the year 2008 imported fossil fuels where 18 percent of primary energy consumption mainly used for fishing and transportation. There of was 90 percent oil and 10 percent coal that are mainly used for ferrosilicon factories.

Organization

The Administration of energy related issues fall in most cases under the Ministry of Industry, Energy and Tourism, but also in some scenarios under the Ministry for the Environment. The organization of the electricity market is built on the electricity law 2003/65. The laws are according to the electricity directive 2003/54/EC, which has been implemented in the European Economic Area. According to the electricity law there is one distribution company named Landsnet, that operates a distribution system and handles system administration. The largest share of the distribution system should always be in ownership of the state and municipalities. Distribution utilities supply electric power to energy users to specific areas. They operate with permission from the Minister of Industry, Energy and Tourism and should be independent from the

processing companies and have the prerogative and the obligation to distribute to the relevant areas (National Energy Authority, 2011).

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Sustainability

The main guideline of Icelandic Energy Policy is sustainability, that the energy economy of Iceland will be arranged in a sustainable way as a benefit to the society as a whole. The term "sustainable development" is a key concept in the energy policy and the basis of that concept is the Brundtland definition, "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (International Institute for Sustainable Development)

There are three dimensions mentioned for sustainable development that the energy economy should be in line with:

- Protection of the nature and the environment
- Social benefit, reconciliation and justice
- Economic security, stability and equilibrium of economic growth

The main goals, stated in the part above, of the energy policy all fall directly under the scope of these dimensions as environmental factors, societal factors and economic factors:

⇒ Under the *environmental factors* the policy claims that all possibilities for power stations should be categorised in a systematic and professional way. With the utilization of natural resources the environment, the nature and the country's peculiarities should be respected and always have the future generations in mind. The reduction of fossil fuels is important and higher emphasis is put on the use of renewable energy sources. Hence pollution should be at minimum so should greenhouse gas emissions.

⇒ Under *the societal factors* the policy aims at strengthen the security and welfare of the community and in that way return profit of the common resources to the society. Balance between ideas and viewpoints should always be guarded when deciding about weather areas should be

exploited under energy production or rather for agriculture, tourism or nature conservation. Icelanders are not only responsible for protecting their own resources but towards the international community as well. As a participant in the international society the responsibility is protection of ecosystems, landscape and unspoiled nature and participation in international cooperation, e.g. in climate issues.

⇒ With *the economic factors* the policy aims at maximizing the profit of the common natural resources in the long run and return it directly or indirectly back to the Icelandic society. It is important to maximize the economic contribution of the energy management in the way that it meets the demand at the lowest cost possible, including environmental cost. The energy policy also supports the diversity of employment on the basis of the energy resources and the gain that tourism and other industries can receive because of the Iceland's nature and its peculiarities.

(National Energy Authority, 2011, bls. 19)

The Security of Energy Supply

One of the fundamental goals of the energy policy is to make sure that energy needs of the society are met in an efficient way. Meaning that there is enough energy in various forms to meet the needs of homes, services and the general economy under normal conditions or unusual conditions due to economic or natural consequences. Security of supply is encountered emergency cooperation of the electricity system, special delivery security of energy and imports of gas (National Energy Authority, 2011).

Respect for the Environment, nature and peculiarities

Under the Icelandic legal framework are the laws 36/2011 about the administration of water sources that are built on the European Union Water Framework Directive (2000/60/EC). The objectives of the law are the protection of water and its ecosystems and to prevent further decrease of water resources and improve the condition of aquatic ecosystems. The legislation about the control of water resources and the Water Framework Directive of the EU put forward the general objectives of protecting the ecosystems and chemical quality

of water has important meaning for the energy industry in Iceland. On the central highlands, Mid-Iceland, are the largest untouched nature in Western Europe. The conservation and value of such areas is growing to large extent since there are decreasing globally. Hence, water resources are rare and limited and the protection of them pivotal (National Energy Authority, 2011).

Where you find water sources in Iceland you have a spectacular and popular landscape, waterfalls and rapids as well as geysers, lava, craters and volcanoes. This attracts tourists and is important for the tourist industry and economic activity. Protection of the valuable environment and nature are important as well as beneficial for the society (National Energy Authority, 2011).

Public ownership and dividends from resources

It's important to define how the dividends of natural resources returns to the nation, weather it is a direct or indirect dividend, which costs are included and which risks are involved.

The resources of geothermal energy and hydropower are limited goods and the largest share is in the ownership of the state and public companies but the minor share is on lands owned by private parities. According paragraph 3 of the Act on Survey and Utilization of Ground Resources 1998/57, ownership over land comes with ownership over ground resources but on public lands the ground resources are the ownership of the Icelandic state. In this case its important do define if the ownership is confined at a certain depth. The value of a land where you find energy resources, or will be found in the future, will increase in proportion with the predictable resource rent and in accordance to the market energy price. Natural energy resources should continue to be owned by the Icelandic state and municipalities and resource rent always return to the general public (National Energy Authority, 2011).

The energy policy introduces number of effective ways for the resource rent to return to the general public, residents of the municipalities and to the whole the Icelandic nation, such as; general economic demand, favourable energy price, dividends paid by the public production companies, rent paid for the utilization of resources and taxes. Up until 2003, when Iceland implemented the EU

legislation about the competitive internal market through the EEA agreement, all energy process was fully under public companies. At that time the nation received resource rent through a low energy price. After the implementation, the resource committee put forward proposals regarding the comprehensive energy policy that the Icelandic nation shall always receive a proper share of resource rent (National Energy Authority, 2011).

Maximizing social benefit, building up diverse energy economy and reduction of fossil fuels also play a significant part of the energy policy. In the process of reducing the use of fossil fuels Iceland will implement the Energy Efficiency Strategy with the increased use of renewable resources. With all its renewable energy and renewable potential Iceland is way ahead other Member States in reaching the 20 percent target, in 2008 the share of renewable energy use was 68 percent. Iceland has therefore made its own ambitious national target and that is at least 10 percent of energy used for transport and fisheries will come from renewable sources. Hence 75 percent of newly registered vehicles under 5 tons will use ecological fuel (National Energy Authority, 2011).

The Icelandic Energy Policy highly addresses the importance of public ownership (that is ownership of the Icelandic general public) over its natural energy resources as well as the public dividends from the resources as well. To maximize social benefit and return resource rent to the Icelandic nations the most important goal of the Icelandic energy policy and reflects in its negotiations to the European Union.

4. Iceland as a part of the European Economic Area (EEA)

This part analyses Iceland's participation in the Union's legal framework as a member of the European Economic Area. The following part aims at answering *to what extent is Iceland already integrated into the EU Energy Policy?*

Iceland is part of the European Free Trade Association (EFTA), which is association of countries that are part of the internal market but lie outside the complete EU membership. The EFTA was established as an alternative for the countries that did not want a full membership to the European Union but wanted

to be a part of the European Economic Area. Before the Lisbon Treaty the policy area regarding energy was mainly driven by goals and interest of few Member States rather than a common policy. As the internal market developed there has been increased emphasis on promotion of energy and the inclusion of energy in the internal market. Iceland is a part of the European Economic Area (EEA) and therefore all EEA directives and regulations are legally binding and need to be implemented into national law (Ministry of Foreign Affairs, 2000).

The European Union has amended some regulations regarding energy into the EEA agreement. These regulations were especially regarding the internal market, such as consumer perspectives, environmental aspects, increased efficiency in the operation of energy companies and open market access to energy transmission networks. Under the EEA agreement energy is mainly characterised as part of free movement of goods and that changes the position of Iceland because of geographical location. Therefore Iceland is not connected to any European energy networks (Ministry of Foreign Affairs, 2000).

The EEA agreement has had quite positive influence on the energy market in Iceland although the effects are a bit less than in other European countries. Directive 96/92/EB under article 24, EEA agreement, from the Council and the European Parliament, regards common regulations about the internal market for electricity, which promotes the separation between production, transport, distribution and the selling of electricity as well as competition in production and sales for electricity. The main aspects of the directive are mainly the abolishment of the private operation of energy companies, the ownership unbundling where a clear separation is made between management of the energy networks and the production and sales and the limited access of a third party to the networks. The Icelandic energy market has implemented this structure according to the proposed energy policy for Iceland (Ministry of Foreign Affairs, 2000).

If a closer look is taken at the difference between the membership of the European Economic Area and the European Union there is not great difference content wise. The difference lies mostly in the proposing of legislation and

management and decision making within the Commission, Council of Ministers and the European Parliament. (Ministry of Foreign Affairs, 2000).

The EEA agreement places rich demands on its members states regarding implementation of the regulations but the member states themselves do not take part in the decision making process. The member states are therefore sometimes referred to as some kind of colonies of the European Union, where they have to implement the regulations without the opportunity to make actual decisions. The EEA states do not have a commissioner or employees in the European Commission. They do on the other hand have access to a certain committees within the Commission where the EFTA states have to push their interests forward in order to have any influence on initiating a policy issue. These committees are expert groups within the Commission that assist the drafting of new policy proposals, where a position of an EEA Member State should be equal to the one of an EU one. Another way of trying to influence the decisions made at the EU level is through interest groups or lobby groups in Brussels. Iceland has no formal legitimate right as an EFTA member to participate in these umbrella organizations but they are all independent associations that have allowed EFTA to participate. EFTA countries have no formal access to the Council of Ministers, where there are weekly meetings regarding various energy issues, and no influence within the European Parliament. Over the recent years these two European institutions have gained more power in the decision-making procedure and have a stronger position in amending proposals and approving legislations. With a full membership to the European Union the EFTA countries would participate in the internal committees of these institutions and therefore have the ability to have direct influence and a vote in the decision-making (Jónsdóttir, 2009).

As can be seen, when it comes to the internal market regulations about energy Iceland is fully integrated into the EU framework. These regulations mostly regard competition and organizational structure of the market to protect both consumers and energy producers. A full integration to the energy aquis would increase the influence Iceland could have on the EU's Energy Policy where the

country could better protect their interest at stake, in particular regarding their natural energy resources.

5. The Accession Negotiations

This chapter presents the accession negotiations, where the European Commission and the Icelandic governmental negotiating committee put forward their positions in terms of energy. A screening report from the Commission on the accession chapter about energy provides a perspective on the fourth sub-question, "*regarding Iceland's energy policy in general, and the ownership of natural resources in particular, which additional changes, if any, will have to be brought about in the case of accession, according to the European Commission?*"

The European Union is open to all European countries according to Article 49 of the Treaty on the European Union (TEU), which constitutes the legal basis for any accession" (Europa, 2007). The candidate country needs to represent the principles of Article 6(1) TEU respectfully that the EU is based on, those principles are: freedom, democracy, respect for human rights and fundamental freedoms and the rule of law (Europa, 2007). Adaption of the treaties and institutions are necessary with accession and full implementation of all EU legislations. The negotiation process is the cornerstone of the accession process and adheres the implementation and application of the acquis under specific 'Negotiating Framework' (Europa, 2007). The negotiations are divided into chapters of the acquis and is chapter 15 about energy:

"EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy acquis consists of rules and policies, notably regarding competition and state aids (including the coal sector), the internal energy market (opening up the electricity and gas markets, promotion of renewable energy source), energy efficiency, nuclear energy and nuclear safety and radiation protection." (European Commission, 2012)

The European Union gave a screening report on chapter 15 in the accession procedure, the energy *acquis.* The EU evaluated Iceland's alignment and implementation capacity and indicated, on the basis of information provided by Iceland and on discussions on the screening meeting, that Iceland can accept the

energy acquis. Iceland has already negotiated, on the basis of the EEA Agreement, on energy issues regarding "registration for crude oil imports and delivery in the Community, on energy performance of buildings, on the internal market in electricity and the internal market for natural gas" (Europa, 2011, bls. 3).

The unique energy situation places certain elements that need to be taken under consideration if the *aquis* is to be implemented in Iceland. These elements feature the Icelandic negotiation position that was put forward by the negotiation committee of Iceland (Europa, 2011).

- Iceland requests that Directive 2006/32/EC on energy end-use and energy services should not comply for Iceland, or implemented in the way to ensure "that the benefits in terms of energy efficiency gains are proportional to the cost of implementing such measures" (Europa, 2011, bls. 3).
- Iceland requests special attention in the negotiations regarding the obligations to maintain the minimum stocks of crude oil/or petroleum products. The current oil stock level is equal to 43 days of average daily net import but needs to increase the level of stocks up to 90 days. Hence Iceland requests time for adaption till 2030.
- Iceland requests to be considered as a "small isolated system" under the Directive 2009/72/EC of the internal market (needs to be carefully considered since its questionable if Iceland fully meets the criteria cause the system is isolated but not small system, has considerably high energy consumption).
- Iceland requests that the country is derogated from the directive on energy efficiency performance in buildings.
- Iceland interprets that the membership to the EU will not affect the ownership over energy resources neither its utilisation. Hence "Iceland has indicated that application of the aquis will not affect ban on permanent devolution by pubic entities of water and geothermal rights continues to apply in accordance with is Act No. 58/2008" (Europa, 2011, bls. 3).

(Europa, 2011)

In the screening report the European Union also puts forward the assessment of the degree of alignment and implementing capacity. An overall assessment was that, as an EEA member, Iceland maintains a high level of alignment and already implements considerable part of the energy legislation. The full implementation of the energy acquis should obtain few obstacles by the time of accession. The additional alignments can mostly be amended through the current acts. Special attention should be given to the areas mentioned above. The derogations that have already been secured through the EEA because of Iceland's unique energy position will need renegotiations regarding the accession negotiations and the "justification for exempting Iceland from applying these elements of the acquis carefully considered" (Europa, 2011, bls. 11)

The implementation of the European Energy Policy will not become problematic for Iceland since its already implementing most of the regulations and some of the regulations don't apply due to Iceland special conditions. As the current treaties and policies lay out, Iceland's accession to the European Union will not affect the ownership over natural resources. Despite of this conclusion, Iceland still emphasises the importance that if it comes to accession, Iceland will always remain full sovereignty over its energy resources.

6. Positions by the Icelandic Stakeholders

There are many interests at stake when it comes to transferring sovereignty in various policy fields up to a supranational level. This chapter introduces the most important stakeholders involved and *how the changes with accession are assessed by the various Icelandic stakeholders?*

The Foreign Affairs Committee, a standing committee of Iceland's parliament (Alþingi), gave a report on the accession to the European Union in 2009. The committee observed thoroughly interests regarding water and energy resources and the fundamental factors in the utilization of the natural resources. Majority of the committee reached the conclusion after detailed inspection that there is no reason to believe that the EU will have influence on Icelandic interests in the

field of energy and that ownership over natural resources does not fall under the scope of the European Union, hence it is not a part of the internal market legislation either (Alþingi, 2009). Therefore sovereignty over natural resources is not supranational but in the hands of the Member States. Sovereignty and utilization of resources does not go beyond what has already been laid down in environmental law. That is, the Member States carry out the main policies regarding sustainable development and protect capital stocks for future generations and promote sustainable use of recourses (Alþingi, 2009).

It is clear that Iceland has special and unique position in terms of energy. The country is rich of hydropower and geothermal energy but with a small and isolated market and not connected to other energy systems. Another unique factor is the high share of renewable energy compared to other Member States. Therefore it is important to Iceland that the country can use their renewable hydropower and geothermal resources for energy production and diverse industry. Under EU's framework there is nothing that should prevent this, it only emphasizes the increased share of clean energy. The fundamental elements are therefore always that the EU doesn't tamper with Member States' sovereignty, which falls under the provisions of the Lisbon Treaty and all other treaties of the European Union (Alþingi, 2009).

On the other hand the committee points out that the Lisbon Treaty creates a legal foundation for establishing a common policy in energy issues. In the accession negotiation the committee puts forward the importance that the treaties of the EU never go against environmental regulations that protect sovereignty over resources and their utilization. All speculations about the joint use of resources would not be acceptable for Iceland but what Iceland can provide to the European Union is extensive knowledge and experience in the field of energy, especially regarding utilization of geothermal energy (Alþingi, 2009).

Opinions of other Icelandic parties on the consequences of accession on the Icelandic energy market have had a loud voice in the debate about the European Union. The Independence Party, a centre-right political party that is liberal

conservative and Eurosceptic has a special European committee and youth organizations on the issue of accession to the European Union. The European Committee established a special interest group on resources where energy issues where carefully examined. The group gathered information from EU directives and other EU published literature on issues regarding electricity, water, geothermal energy, oil and gas. The committee held strong and informative open meetings where issues regarding resources were discussed. The committee consulted and discussed with many interest groups, specialists as well as politicians with relative knowledge. The committee concluded that accession to the European Union would not have significant changes on energy issues. The committee mentioned that regarding climate issues the Icelandic parliament, Alþingi, has already adopted the European Trading System. It will not be difficult for Iceland to reach the GHG emissions targets and the unique renewable situation of Iceland is barely relevant in this case. But on the other hand the Icelandic energy production will contribute greatly to the EU, especially by reaching its 20 percent goals (Evrópunefnd Sjálfstæðisflokksins, 2009).

As can be seen, these two committees both agree that integration into the EU Energy Policy will not have significant effects on the energy market, especially not concerning sovereignty over resources.

On the opposite pole is a political association, protectors of sovereignty, a politically active group that claims they want to run for the next party elections. Their interpretation of the EU Energy Policy is that it will have negative effect on the energy policy. The committee claims that with the ownership unbundling of the internal market the energy prices on the Icelandic energy market has increased and due to its small size the interest of the energy market are best protected if production and distribution is run by the same company. The EU Emission Trading System will create weaker competition position towards the third countries, especially towards North America, where no emissions strategies have been implemented. Their strongest point regards foreign investment. Because the EEA agreement promotes the liberalization of the energy market with high competition, the committee claims that everyone can have access to the energy market such as subsidiary companies, which is exactly

what happened in the earlier mentioned Magma Case. The building of Trans-European Energy Networks would connect Iceland to the mainland of Europe that would lead to higher energy prices, mainly because the energy prices in Europe are much higher. With these energy networks energy companies can sell energy at a higher price and foreign companies can produce the energy at a lower price and then sell it a more profitable price back to Europe. The cost of establishing such a network over to Europe would be heavy burden for the Icelandic taxpayers (Samtök Fullveldissinna , 2012).

The current Icelandic government, were the majority is left-winged and pro-EU, and the largest political party in Iceland, the euro-sceptical Independence party, both conclude that membership to the European Union will not affect the country's ownership over energy resources. Both these parties conclude that implementing the energy acquis will not bring out severe changes and that in general Iceland's positions in this field is good.

7. Conclusions

When discussing accession to the European Union it most often comes down to the issue of sovereignty because the nation sate has been for centuries the most important political entity and protection of its national interest has been one of most important roles. Iceland is no exception there, Iceland is small nation that has history of fighting for independence and sovereignty from larger states and therefore is not so willing to give up their national sovereignty to supranational powers such as the European Union. Iceland has already given some of their decision-making powers to the European Union by joining the European Economic Area where they have to implement European regulations regarding the internal market.

The objectives and goals of the European and Icelandic energy policies are similar but when the policies are carefully compared the most obvious difference lies in the importance about the ownership of natural resources and national dividends of the energy resources. The main focus of the Icelandic Energy Policy is how to return the dividends of the Icelandic energy resources to the general public and what is the best way of ensuring the public ownership over the

resources. The EU energy policy is on the other hand more focus on the securing the future energy supply, creating a competitive market and increasing the share of renewable energy. Iceland is so rich of resources that their concern is more the dividends they could receive rather than the threat of energy shortage.

The central interest at stake in the negotiation procedure and the central interest by all the different Icelandic parties is the protection of resources and although its not specifically laid out in the European Energy Policy, the European legal framework makes it clear under the Lisbon Treaty that ownership of natural resources does not fall under the scope of the EU. In spite of that fact Iceland still emphasise on the importance of national ownership in future relations with the Union as well as if it comes to accession.

There are various objectives and issues stated in EU Energy Policy but the ones that capture the attention of the Icelandic stakeholders is mostly the ownership and protection of resources. The Foreign Affairs committee is more positive towards the consequences of accession. The committee mentions the positive effect of the EEA agreement on the Icelandic energy market and see's membership as a beneficial part especially regarding sustainable energy resources. The other two parties on the other hand do not support membership but the Independence Party also sees the opportunities of accession, not only constraints like the Association of Protectors of Sovereignty.

The consequences of accession would only bring increased opportunities for Iceland rather than bring constraints on the energy industry. Iceland like has been made clear throughout this thesis is a pioneer in renewable energy and could flourish its renewable capabilities with integration into the European Energy Policy. This could be done both by increasing its energy production and spreading its knowledge in the field of renewable energy and becoming a good example for the Union as a whole and lead the renewable energy debate in the Union. Iceland is only producing small part of its capabilities and with transnational energy networks Iceland could produce energy to larger extent and sell to Europe at a higher and more competitive price. Iceland is only

producing what is demanded and if the demand would increase then it would really boost up the energy industry.

Energy is the lifeblood of our society, where the future economic growth and prosperity depends highly on energy. Energy is becoming more important and a further growing industry especially with the declining fishing stock. Iceland should look at integration to the European Energy Policy only as an opportunity to produce more energy, sell it at better price and becoming a pioneer and leader in renewable energy on a European level and as well as global. As a part of the EEA agreement Iceland does not have a direct vote or a voice in the decision-making in the European Union. Iceland has to amend most of the energy regulations through the EEA agreement and therefore a membership to the European Union would be an opportunity to be able to influence the decision-making procedure in more decisive way, especially in a field where the country has high interest at stake.

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