

# Alignment With the EU Sanctions Policy: Implications for Iceland<sup>1</sup>

S. Davranova

---

---

**Sabina Davranova** – Analyst, Faculty of World Economy and International Affairs, Mediterranean Studies Centre, HSE University; 20 Myasnitskaya Ulitsa, Moscow, 101000, Russia; sbdavranova@hse.ru; ORCID: 0009-0007-4174- 8348

## Abstract

*The increased sanctions efforts of European diplomacy in recent years have formed a new angle of view on the European Union's external policy towards neighboring countries, since one of the criteria of the EU's sanctions policy effectiveness is the so-called "regional leadership" – third countries' alignment with the EU sanctions regimes. The established academic discourse on the topic in Europe evaluates the effectiveness of the sanctions policy on this parameter extremely highly. However, what, in fact, is behind the facade of the postulated successes of regional leadership? In this paper, the author asks this question in relation to Iceland, a country that has increased vulnerability in the face of external challenges and which has incurred incomparably high costs from harmonizing its foreign policy with the EU anti-Russian sanctions regimes. Using the theoretical and methodological frameworks of the shelter theory, this study documents the negative political and economic consequences that Iceland has faced and shows that there are no such categories as consideration and leveling of possible costs for affiliated countries in the goal setting of the EU sanctions policy. In the Icelandic case, this, in turn, leads to a reformatting and polarization of the existing ecosystem of relations in the Euro-Atlantic, since the costs Iceland incurs from harmonization with EU policy are mostly compensated by the United States, although traditionally the U.S. has been responsible for Iceland's military rather than economic protection. The international political situation in the conditions of sanctions sets the stage for possible tensions in Iceland's relations with the EU and a stronger U.S. direction in its multilateral foreign policy. Nevertheless, despite these tensions, Iceland will continue to synchronize with the EU sanctions regimes, as other options are either fraught with even greater costs (synchronization with the U.S. sanctions policy, which is substantially tougher than that of the EU) or unrealizable in the international realities after the start of the Special Military Operation (developing its own sanctions regime).*

**Keywords:** sanctions policy, Iceland, EU regional leadership, shelter theory, Russian – European relation, Euro- Atlantic region

**For citation:** Davranova S. (2024) Alignment With the EU Sanctions Policy: Implications for Iceland. *International Organisations Research Journal*, vol. 19, no 4, pp. 61–74 (in English). doi: 10.17323/1996-7845-2024-04-04

---

<sup>1</sup> This article was submitted on 14.04.2024.

## Introduction

The increasing sanctions efforts of the European diplomacy in recent years have shaped a new perspective on the European Union's neighborhood policy. One of the indicators by which the effectiveness of sanction policy is assessed is the so-called "regional leadership" [Cardwell, Moret, 2023], which refers to the alignment of third countries, that are in associative relationships with the EU (e.g., candidate countries or parties to deep and comprehensive agreements). In this sense, the sanction neutrality of Georgia, Serbia, and Bosnia and Herzegovina are considered to be the EU's foreign policy shortcomings, while its achievements include the alignment with anti-Russian sanctions by non-EU countries such as Albania, North Macedonia, Montenegro, as well as northern European countries that are members of the European Economic Area (EEA) – Iceland and Norway.

Of course, sanction policies can have unintended consequences for the initiating country. This topic is often avoided by Western academic circles, especially when it comes to sanctions against Russia. However, the most challenging position is faced by countries that are forced to comply with EU rules without having a direct influence on their formulation. This raises the question of what lies behind the postulated achievements of the EU's "regional leadership" in the area of sanctions. In this study, the author addresses this question with regard to Iceland – a country highly vulnerable to external challenges (see Part 1 of this work), and therefore, believed to have borne disproportionately high costs from sanction policies, further highlighting the complexity of its relationship with the EU.

The research field on this topic is relatively limited in terms of papers and authors. Studies by Timofeev [2021], Szép and Van Elsuwege [2020], and Cardwell [2015; 2016] report cases where third countries followed EU-imposed sanctions. The most comprehensive comparative analysis to date of various countries affiliated with the EU and different sanction regimes was conducted by Cardwell and Moret [2023]. Based on this analysis, the conclusion is drawn that the EU not only successfully achieves "regional leadership" but also shows ambitions and aspirations for "global leadership" in sanctions. However, an excessive focus on quantitative measures of "regional leadership" overlooks the qualitative aspects of the issue. Are potential costs for affiliated countries considered when formulating sanction policies? Are mechanisms offered to mitigate these costs (equally for member states and non-members), or is this issue simply not part of the EU's sanction policy goals? Although the Icelandic case is not widely covered in the literature, the few studies by specialists in Northern Europe documenting the high costs of EU sanctions policy faced by Iceland [Hellquist, 2016; Zhuravel', 2017; Thorhallsson, Gunnarsson, 2017] are in favour of the latter hypothesis.

The scientific novelty of this research lies in two aspects. Firstly, based on statistical data that has not been introduced into the scientific circulation, the study clarifies and updates previous conclusions about the medium-term consequences of Iceland's alignment with the EU's anti-Russian sanctions. The findings reveal that due to the cumulative effect, the economic costs for Iceland may be much higher than initially expected, especially after the intensification of sanctions in the context of the ongoing Special Military Operation. Furthermore, using the theoretical and methodological framework of the shelter theory, the study illustrates the role that Russia played in Iceland's foreign policy orientation and how the country's room for manoeuvre in the Euro-Atlantic region has now narrowed. The Icelandic case calls into question the prevailing academic discourse on the success of the EU's "regional leadership" in sanctions. Secondly, the Icelandic case is unique in that significant, non-marginal political forces within the country advocated for the lifting of sanctions. This study explains why these forces failed to achieve their goals and documents where they stand now, updating existing knowledge on the topic in light of new international political realities following the onset of

the Special Military Operation.

## Iceland's Place in The Euro-Atlantic System of Coordinates

Iceland can be classified as a small state. The foreign policy behaviour of such countries is often explained through the shelter theory [Thorhallsson, 2018], which suggests that small states seek external protection (shelter) from larger countries, regional blocs, or international organisations to compensate for the disadvantages of their small size and ensure their survival and prosperity on the international stage. The theory distinguishes between political shelter (military, diplomatic, administrative support), economic shelter (loans, aid, trade preferences), and societal shelter (socio-cultural exchanges between the center and periphery). The provision of shelter does not always mean that the recipient country is in a favourable position, nor does the donor always act out of altruistic motives. Although shelter is seen as a set of beneficial factors for the recipient, it comes with a cost, often in the form of an autonomy loss over resources and a reduction in freedom of political maneuver and choice. Thus, the need for shelter is generally justified by the overall balance of benefits, costs, and risks, with the recipient state having to balance between autonomy and dependence when making political decisions. With these key principles of shelter theory in mind, let us consider the main parameters of Iceland's foreign policy.

Firstly, Iceland is a remote, sparsely populated island nation in the northern Atlantic, whose geographical location has high strategic importance. During the Cold War, radar installations for monitoring Soviet submarines in the Atlantic were operated from here. It is also close to the seasonal maritime route "Arctic Bridge," which links the ports of Murmansk and Churchill and plays a vital role in grain trade. The country provides continuous surveillance of the seabed where underwater communication cables between Europe and America lie. Finally, due to its cheap electricity from renewable sources, Iceland has become an attractive location for data storage companies, making it an important element of the cryptocurrency economy.

Secondly, Iceland lacks its own defence capability in military-political terms. The country's security is fully entrusted to the U.S. under the 1951 Defense Agreement [Department of State, 2017]. The primary base for foreign troops is Keflavik Air Base, located 40 km from the capital. However, the history of U.S.-Icelandic security relations includes several sensitive moments. After the collapse of the USSR, Iceland's military importance diminished, and the U.S. considered withdrawing its forces from the country. Icelandic diplomacy responded by threatening to terminate the 1951 Agreement, demanding at least minimal protection for the island and adherence to allied commitments [Ingimundarson, 2009]. As a compromise, some jet fighters remained in the country, continuing to be serviced by the U.S. (outside of NATO) since the 1990s. In the early 2000s, the U.S. again raised the issue of closing the Keflavik base [Ingimundarson, 2009]. At that time, Iceland hoped that by participating in U.S. operations in Afghanistan and Iraq, it would receive the "reward" of maintaining the base, but this only delayed the decision by four years. In 2006, the U.S. military presence on the island was withdrawn under the pretext of optimising defense spending, despite the Icelandic government's offer to share the costs [New York Times, 2006]. This led to a noticeable cooling in bilateral relations. As an alternative, in 2008, Iceland was offered the NATO "Icelandic Air Policing" programme to patrol its airspace. Ten years later in 2016, the US reopened the Keflavik base, signalling a clear response to Russia in the post-Crimean Euro-Atlantic security framework. Retired U.S. Navy Admiral D.G. Foggo III (former commander of the Sixth Fleet) commented that since Russian submarines now carry

Kalibr missiles with an extended range that threatens every European capital, “we need to be cognisant of where the launchers are for those weapons systems, we need to know where they are at all times. It gives me a good sense of security to know” [see Eckstein, 2018].

Thirdly, despite Iceland's classification as a developed economy (ranking third in Europe on the UN Human Development Index), like all small states, it remains highly dependent on external conditions, increasing its risks of volatility. The 2008 economic crisis led to a sovereign default in the country—a rare event for developed economies. The pre-crisis artificially inflated banking boom created extreme imbalances in the small Icelandic economy [Korolev, 2012]. As Bagus; Howden [2011] note, at that time, the population could have faced the threat of physical hunger and a shortage of medicines if not for the aid provided by the Scandinavian countries. Iceland even resorted to a diplomatic manoeuvre (that Greece later replicated in a similar situation) namely launching negotiations with Moscow for a loan to ease pressure from allies and the IMF [Migunov, 2018].

One of the economic reasons small states seek external protection rather than isolation lies in the limited capacity of their domestic markets. This tends to push them toward concentrating economic activity on the production of a limited range of export goods (to achieve economies of scale), which makes them more dependent on international trade compared to other states [Katzenstein, 1985]. Consequently, their prosperity is often closely linked to the economic success of neighboring countries and their willingness to grant preferential access to their markets.

For Iceland, the key export-oriented sectors have become aluminum smelting (since the 2000s) and fishing, which together accounted for an average of 74% of the country's total export value between 2010 and 2022<sup>2</sup>. The contributions of these two sectors are roughly equal. The aluminum sector is represented by several North American companies that established their energy-intensive production facilities in Iceland in the 1990s and 2000s due to cheap electricity and low corporate tax rates [Appelbaum, 2017]. Their presence in the country's socio-economic landscape was a direct result of government policies aimed at diversifying sources of economic growth. Regarding Iceland's traditional sector-fishing-while national statistics only reflect its direct contribution to GDP (estimated at 5-10% depending on the source), economists estimate that its real added value could be twice as high [Sigfusson, Arnason, Morrissey, 2012]. This is due to the wide range of supporting industries that have formed around it, such as the production of textiles and mechanical equipment, port services, and public administration, suggesting the presence of a fully-fledged industrial cluster. The strong influence of the fishing lobby is commonly cited as a key reason behind many of the country's foreign policy decisions, such as the reluctance to join the European Union<sup>3</sup>, whose common fisheries policy conflicts with Iceland's national interests [Ingebritsen, 1998; Kristinsson, Thorhallsson, 2004].

A further, it is important to note that Iceland is a relatively young state in historical terms. The history of modern Icelandic statehood (as a republic) began in 1944 when the country gained full independence, against the will of its former "metropole"- Denmark, which at the time was

---

<sup>2</sup> The trade figures presented here and subsequently in the article are the author's calculations based on statistical data from the ITC Trade Map unless another source is indicated.

<sup>3</sup> It is well known that among the five Northern European countries, Iceland was the last to apply for EU membership in 2009 - a move made by the newly elected left-wing government in the wake of socio-economic upheavals following the aforementioned sovereign default. However, as the shock from these upheavals subsided, the decision to join the EU faced a barrage of criticism from a broadly euroskeptical public.

under Nazi occupation. Paradoxically, despite being a developed European country, modern Icelandic political identity is largely a postcolonial construct. The political discourse is heavily influenced by three factors. Firstly, nationalist narratives about the need to "protect sovereignty" from external elements, which often implies the so-called "purity of the nation and language" [Loftsdóttir, 2010; Bergmann, 2014; Nagornaja, 2015].

Secondly, the romanticisation of the "Golden Age"—the glorification of the proud Viking past when the country was free from "foreign oppression". Thirdly, a pervasive myth-making that shapes national spirit and collective self-perception. This intangible context, which has been the subject of constructivist studies, helps to explain many aspects of the country's foreign policy, including its reluctance to join the EU—a potential "coloniser" seen as threatening Iceland's national identity.

Nevertheless, it would be a mistake to view Iceland outside the context of European integration processes. In 1994, the EFTA (comprising Norway, Iceland, and Liechtenstein) signed an agreement with the EU to establish the European Economic Area (EEA)—a single regulatory space in which a large part of the countries' policies is formally and informally harmonised, with the exception of agriculture and fisheries. The EU accounts for approximately 66% of Iceland's export market, and for Icelandic aluminum exports, the EU's market share is even higher—over 90%. The EEA is often regarded as a model of differentiated or flexible integration in Europe. However, affiliation with the EU through EEA membership creates a situation of democratic deficit: democratically elected politicians and parliamentarians often find themselves mechanically approving legislative acts passed in Brussels. In this way, the EU's administrative system essentially challenges Iceland's national legislative and administrative sovereignty.

The aforementioned parameters - geography, military-political capacity, the specifics of the local economy, unique political identity, and the institutional and legal frameworks of the EEA—are, of course, not exhaustive but represent the key factors shaping Iceland's foreign policy. Applying the framework of the shelter theory to Iceland's case leads to two conclusions. First, there is no single international actor that provides Iceland with all types of protection. The protection offered by the so-called "collective West" reveals a relatively clear division of labour. Military shelter is provided by the United States and NATO, but in periods when the perceived Russian threat is absent, this protection has been weakened, which has been a source of concern in Iceland. Economic shelter is provided through access to the markets of the EU and the UK, as well as through American investments in the aluminum industry since the 2000s, which are aimed at these markets. Diplomatic support, given Iceland's limited administrative resources, particularly in international organisations, is typically provided by neighbouring Nordic countries. In sociocultural terms, the country's unique political identity imposes limits on its "socialisation" within Europe (e.g., the reluctance to join the EU).

Second, in this system of coordinates, Iceland's foreign policy strategy appears logically oriented toward diversifying its sources of protection. Diversification here does not mean diluting responsibility among different actors but, rather, while maintaining the "core" of its protection (i.e., the U.S. military base, access to the EU market, and administrative support of Nordic countries), identifying potential weak spots and strengthening them with the help of other actors. Russia could have been such an actor, the role of which in Iceland's foreign policy framework is discussed in the following section.

## Consequences of Iceland joining the EU Anti-Russian Sanction Regimes

After the collapse of the USSR, bilateral Russian-Icelandic relations developed in a constructive and friendly tone, as established by the 1994 Declaration on the Foundations of Relations between the Countries and the 2011 Declaration on Partnership and Modernization. Furthermore, the regulatory framework evolved in the spheres of fisheries and geothermal energy. Until 2022, the countries cooperated within regional organisations (such as the Arctic Council and the Council of Baltic Sea States) and a range of international fishery organizations. Sister city ties also developed between Moscow and Reykjavik, as well as between Murmansk and Akureyri (which have since been terminated at the initiative of the Icelandic side). However, the most significant aspect of Russian-Icelandic relations was their trade and economic interaction.

In certain years, Russia was the primary supplier of raw aluminum to Iceland's industry: in 2014 (50% of imports), 2018 (55%), 2019 (82%), 2021 (75%), and 2022 (28%). The share of other countries in the import of this product was minimal. Currently, supplies continue, as the EU's sanctions regime does not extend to primary metal used as raw material, although several major European industry associations are lobbying for such an embargo [Dessai, 2024]. Additionally, since the mid-2000s, the importance of Russia as a market for Icelandic fish products has gradually increased. In 2003, Russia's market share constituted 0.26% of the total export value, while by 2014, Russia had become the second most significant export destination (11.42%) following the United Kingdom (14.88%).

The Ukrainian crisis marked the beginning of the degradation of bilateral relations with Russia. On March 18, 2014, Iceland joined the EU sanctions against Russia [Ministry of Foreign Affairs, 2014]. Formally, the EEA agreement does not cover the sphere of foreign policy; however, within the framework of political dialogue, Iceland generally aligns its position with the EU. Iceland's swift alignment with the sanctions indicates that the leadership was acting based on familiar political patterns. However, following the introduction of Russian counter-sanctions against Iceland in August 2015 [Government of the Russian Federation, 2015], which restricted access to the Russian market for fish products, divisions began to emerge within Icelandic society. The fishing lobby, primarily represented by the industry association Fisheries Iceland (SFS), began to urge the government to lift the sanctions. This agitation was accompanied by a high-profile media campaign, leading to disagreements within the ruling coalition—between the Independence Party and the Progressive Party, which advocates for the interests of the agricultural sector. As noted by Thorhallsson and Gunnarsson [2017], under pressure from interest groups, the government began to consider the possibility of exiting the EU sanctions regime, but ultimately decided to continue implementing the sanctions without formally joining the Union's foreign policy declarations, although this was not publicly announced.

Trade data for fish products in physical terms show that despite Iceland's attempts to diversify its markets after the imposition of Russian counter-sanctions (for instance, its presence in the Chinese market doubled, and there was also a slight uptick in supplies to Belarus), it was unable to compensate for the loss of the Russian market. The average volume of export supplies for customs group 0303 (frozen fish, excluding fillets) exceeded 240,000 tons per year before the counter-sanctions, but dropped to 150,000 tons per year thereafter. 85% of these supplies were directed to Russia before the counter-sanctions. Overall statistics for commodity group 03 (all types of fish and seafood) do not reflect this decline in value, as it is explained by the increase in

fish product prices overall and a slight increase in exports from other subgroups within customs code 03. Notably, various stakeholders differ in their assessments of the consequences of the Russian counter-sanctions: the Icelandic government claims that the costs amount to 1% of GDP [Zhuravel', 2017], while the fishing lobby asserts it is 5% [Prohorov, 2015]. Nevertheless, the implications of losing the Russian market should not be underestimated. This situation not only involves missed opportunities but also highlights that investments in fishing and processing capacities—i.e., in the foundational sector of the economy—were seen as a crucial element for Iceland's post-crisis recovery following the sovereign default.

As seen in Table 1, until the pandemic, Iceland's trade balance with Russia remained positive, contributing significantly to the overall trade balance of the country prior to the sanctions. For example, in 2012, the surplus from trade with Russia accounted for 54% of Iceland's total surplus. Starting in 2013, Iceland's trade balance began to demonstrate deficit years, but even then, the surplus from trade with Russia significantly mitigated the overall deficit. Since 2016, the negative figures transitioned from six-digit values to seven-digit figures. This situation is quite dangerous for the small Icelandic economy: before the default in 2009, high trade deficit values led to an accumulation of an unprecedentedly high level of external debt, exacerbating the crisis. Table 2 presents that since 2018, there has been a slow but steady increase in Iceland's external debt.

*Table 1.* Iceland's trade balance, US\$

<b>Year</b>	<b>Overall</b>	<b>In trade with Russia</b>
2010	688740	72714
2011	503031	125391
2012	291526	157489
2013	-21533	133029
2014	-320619	227507
2015	-561727	79870
2016	-1248528	10432
2017	-2095750	49353
2018	-2099537	17773
2019	-1329195	26307
2020	-1115307	858
2021	-1865249	-13473
2022	-2340326	-28047

*Source:* ITC Trade Map

Table 2. Iceland's external debt, ISL kroner

Year	Iceland's external debt, ISL kroner
2009	15.7 million
2010	13.9 million
2011	13.7 million
2012	13.2 million
2013	12.4 million
2014	12.4 million
2015	11.7 million (K3), 3.94 million (K4)
2016	2.93 million
2017	2.34 million
2018	2.34 million
2019	2.36 million
2020	2.49 million
2021	2.81 million
2022	2.99 million
2023	3.97 million

Source: Central Bank of Iceland.

Table 2 also reveals an interesting statistical anomaly. It shows that in the early post-crisis years, the values of external debt remained high and sharply dropped by nearly 8 million kroner between the 3rd and 4th quarters of 2015, which chronologically coincides with the period when Russian counter-sanctions were introduced. To explain this anomaly in the data, it is essential to understand the context of post-crisis recovery in Iceland. The high external debt values resulted from the IMF allowing Iceland to defer budget consolidation under the financial guarantees of the Scandinavian countries, rather than requiring it to be conducted all at once after the crisis, which would have cost taxpayers 75% of GDP [IMF, 2018]. In the framework of anti-crisis policy, an atypical recapitalisation of the three largest banks in Iceland was carried out: their internal assets and liabilities, by government decision, were transferred to the ownership of newly created successor banks (estates)<sup>4</sup>, while strict capital movement controls were imposed, which remained a subject of disagreement in the government for several years. Starting from the second half of 2015, the government began raising the issue of lifting controls, but in order to protect the financial system from the potential risk of a sharp capital outflow, a series of measures were implemented between 2015 and 2017, allowing Iceland to first settle its external debts and then liberalize capital movement. One of these measures was the voluntary transfer of assets worth \$2.8 billion from American hedge funds to Iceland without any compensation requirements at the beginning of 2016 [Baldursson, Portes, Thorlaksson, 2019]. Thus, the painful yet localised issue of losing the Russian market was overshadowed by a much more serious issue for the country's economy. Iceland's departure from the sanctions policy at this moment could have spoiled relations with allies and complicated the final recovery of the financial system in the country.

Following the onset of the Special Military Operation, Russian-Icelandic relations reached a

<sup>4</sup> One type of asset of the old banks was the perpetual quotas for fish catches left as collateral, belonging to the largest shipping companies. It was crucial for the government to prevent these assets from falling into the hands of foreign creditors at all costs, which explains the nature of Iceland's anti-crisis regulation. See the works of Korolev [2012, p. 83–84], the preface by T. Backsendale to the monograph by F. Bagus and D. Howden [2011, V–VIII].

historical low. Iceland's sanctions regime is fully harmonised with the EU's sanctions regime. The flow of goods from Iceland to Russia fell from \$36,000 to \$2,000, while from Russia to Iceland it decreased from \$50,000 to \$30,000. Interaction on international platforms has either been minimised or halted. Additionally, in 2022, Iceland closed access to its waters for Russian fishermen, while the license for Icelandic fishermen to catch fish in Russian waters expired. Over the past 12 years, they have caught an average of 6,700 tons of fish per year (8.3% of all catches beyond Icelandic territorial waters and about 1% of the total catch volume), with an average annual catch value of around 2 billion Icelandic kroner [Statistics Iceland, n.d.]. From now on, the main source of dissatisfaction from the fishing lobby is the government's unwillingness to negotiate with Russia to resolve this issue and the inability to obtain additional quotas from Norway to compensate for the lost catch from the Russian exclusive economic zone [Seljan, 2023]. Against the backdrop of increasing criticism of government policy from the aforementioned industry association SFS, in August 2023, the Icelandic government decided to close its embassy in Moscow, citing high costs for the country's limited diplomatic service resources [Tairov, 2023].

Thus, we can summarise three aspects in which the Russian policy vector contributed to the strengthening of Icelandic sovereignty before the Russian counter-sanctions. First, it is the direct diversification of markets in one of the two export-oriented and critically important sectors for the country's economy. The added value that Iceland gained from trade with Russia not only strengthened the country's economy but also provided its leadership with a certain degree of autonomy in relations with higher-level protectors. Here, a historical example can be cited: one reason Iceland emerged victorious from the Cod Wars of the 20th century was access to the Soviet market for Icelandic fish products, which allowed the Icelandic economy to stay afloat amid the British embargo. Since August 2015, Iceland has lost Russia as a source of economic growth. The discontent of the interested businesses was then drowned out by a more acute and vital issue for the country, which was the recovery of the financial system. With the loss of access to Russian waters since 2022, this discontent is rising again.

Second, Russia was (and remains to this day) a significant element of the raw material supply chain for the second critically important sector for Iceland – the aluminum industry. Today, this aspect of interaction is also under threat of diminishing amid growing pressure on the EU from certain interest groups demanding tighter sanctions. In this case, the costs incurred by Iceland may increase even more due to the necessity of finding new suppliers. Finally, the Russian factor was utilised by Icelandic diplomacy as a bargaining chip in relations with other Western countries (for example, negotiations with Moscow amid the default). Now, this tool is essentially absent from Iceland's foreign policy arsenal. Meanwhile, dissatisfaction in relations with the EU is only further intensified against the backdrop of growing problems.

## Conclusion

In 2014, Iceland, acting according to its usual political pattern, harmonised its Russian policy vector with the EU's sanctions policy. The consequence of this was falling under Russian counter-sanctions in 2015, which created significant economic and political costs for Iceland, documented in this work. The expansion of the EU's sanctions regime after the onset of the Special Military Operation further exacerbated Iceland's problem as a "weak link" in the Euro-Atlantic ecosystem. Russia was one of the sources for Iceland to strengthen its economy and diversify its foreign policy amid a constricted space for political maneuvering. Since 2015, this tool has been absent

from Iceland's foreign policy arsenal.

In the context of the harmonisation of third countries with the European Union's foreign policy, the Icelandic case allows us to conclude that the objectives of the EU's sanctions policy do not include categories such as accounting for and mitigating potential costs for affiliated countries. This, first, calls into question the existing academic discourse on the topic, which creates an exclusively positive picture of the EU's "regional leadership" in sanctions policy. Second, it clearly shows that the voices of affiliated countries are not always heard at the EU level, despite Brussels' official rhetoric regarding the framework principles of its foreign policy toward neighboring European countries. This is particularly important for Icelandic-European relations, as the European Union remains one of the most important sources of economic refuge for Iceland. The reliability of a refuge is generally assessed by how well the protector can compensate for rising costs. In the case of Iceland, these costs were either compensated by the United States (for example, U.S. assistance in the recovery of the country's financial-economic system in 2016), although the U.S. traditionally bore more responsibility for the military aspects of Icelandic refuge rather than economic ones, or these costs were not compensated at all (neither by the EU nor by Norway in the case of fishing). Thus, within the ecosystem of relationships in the Euro-Atlantic space, there are prerequisites for reformatting Iceland's refuge system: the role of American protection for Iceland is strengthened while the significance of EU protection is diminished. Nevertheless, despite the growing tension in relations with the EU, Iceland will continue to synchronise with its sanctions regimes, as other options – synchronisation with the U.S. sanctions policy, which is significantly stricter than that of the EU – either entail even greater costs or the development of its own sanctions regime is unfeasible in the international realities following the onset of the Special Military Operation.

## References

- Appelbaum B. (2017) American Companies Still Make Aluminum. In Iceland. *New York Times*. Available at: <https://www.nytimes.com/2017/07/01/us/politics/american-companies-still-make-aluminum-in-iceland.html> (accessed 5 April 2024).
- Bagus P., Howden D. (2011) Deep freeze: Iceland's economic collapse. Auburn: Ludwig von Mises Institute. Available at: [https://cdn.mises.org/Deep%20Freeze%20Iceland's%20Economic%20Collapse\\_2.pdf](https://cdn.mises.org/Deep%20Freeze%20Iceland's%20Economic%20Collapse_2.pdf) (accessed 8 April 2024).
- Baldursson F.M., Portes R., Thorlaksson E.E. (2019) *The Political Economy of Capital Controls: The Case of Iceland*. Reykjavik: Reykjavik University. Available at: [https://www.researchgate.net/publication/332154121\\_The\\_Political\\_Economy\\_of\\_Capital\\_Controls\\_The\\_Case\\_of\\_Iceland](https://www.researchgate.net/publication/332154121_The_Political_Economy_of_Capital_Controls_The_Case_of_Iceland) (accessed 8 April 2024).
- Bergmann E. (2014) Iceland: A postimperial sovereignty project. *Cooperation and Conflict*, vol. 49, issue 1, pp. 33–54. Available at: <https://doi.org/10.1177/0010836713514152> (accessed 8 April 2024).
- Cardwell P.J., Moret E. (2023) The EU, sanctions and regional leadership. *European Security*, vol. 32, issue 1, pp. 1–21. Available at: <https://doi.org/10.1080/09662839.2022.2085997> (accessed 8 April 2024).
- Cardwell P.J. (2015) The Legalisation of European Union Foreign Policy and the Use of Sanctions. *Cambridge yearbook of European legal studies*, vol. 17, issue 1, pp. 287–310. Available at: <https://doi.org/10.1017/cel.2015.11> (accessed 8 April 2024).
- Cardwell P.J. (2016) Values in the European Union's Foreign Policy: An Analysis and Assessment of CFSP Declarations. *European Foreign Affairs Review*, vol 21, issue 4, pp. 601–621. Available at: <https://doi.org/10.54648/>
- Department of State (2017) Agreement Between the UNITED STATES OF AMERICA and ICELAND. Available at: <https://www.state.gov/wp-content/uploads/2019/02/17-1017-Iceland-Defense-Coop-Notes.pdf> (accessed 8 April 2024).

- Dessai P. (2024) Put sanctions on Russian-origin aluminium not on Rusal, industry group says. *Reuters*. Available at: <https://www.reuters.com/markets/commodities/put-sanctions-russian-origin-aluminium-not-rusal-industry-group-says-2024-03-18/> (accessed 5 April 2024).
- Eckstein M. (2018). Iceland Embracing Its Strategic Location by Supporting NATO Air Defense, *U.S. Naval Institute*. Available at: <https://news.usni.org/2018/10/24/iceland-embracing-its-strategic-location-though-supporting-nato-air-defense-hosting-us-planes> (accessed 5 April 2024).
- Hellquist E. (2016) Either with us or against us? Third-country alignment with EU sanctions against Russia/ Ukraine'. *Cambridge Review of International Affairs*, vol. 29, issue 3, pp. 997–1021. Available at: <https://doi.org/10.1080/09557571.2016.1230591> (accessed 5 April 2024).
- IMF (2018) Ragnarök: Iceland's Crisis, its Successful Stabilization Program, and the Role of the IMF. Available at: <https://www.imf.org/en/News/Articles/2018/09/15/sp091518-ragnarok-iceland-s-crisis-its-successful-stabilization-program-and-the-role-of-the-imf> (accessed 5 April 2024).
- Ingebritsen C. (1998) *The Nordic States and European Unity*. Ithaka, NY and London: Cornell University Press. Available at: <https://www.jstor.org/stable/10.7591/j.ctv3mtbvk> (accessed 27.03.2024).
- Ingimundarson V. (2009). Iceland's Post-American Security Policy, Russian Geopolitics and the Arctic Question. *The RUSI Journal*, vol. 154, issue 4, pp. 74–80. Available at: <https://doi.org/10.1080/03071840903216510> (accessed 5 April 2024).
- Katzenstein P.J. (1985) *Small states in world markets: Industrial policy in Europe*. Ithaka, NY and London: Cornell University Press. Available at: <https://www.jstor.org/stable/10.7591/j.ctvrf8crm> (accessed 23.03.2024).
- Korolev Ju. (2012) Islandija: uroki krizisa [Iceland: lessons of crisis]. *Mirovaja jekonomika i mezhdunarodne otnoshenija*, issue 2, p. 81–90. Available at: <https://doi.org/10.20542/0131-2227-2012-2-81-90> (accessed 23.03.2024). (In Russian)
- Kristinsson G.H., Thorhallsson B. (2004) The Euro-sceptical political elite (B.Thorhallsson (ed.)). *Iceland and European Integration: On the Edge*. London: Routledge, pp. 145–161.
- Loftsdóttir K. (2010) The loss of innocence: the Icelandic financial crisis and colonial past. *Anthropology Today*, issue 26, pp. 9–13. Available at: <https://doi.org/10.1111/j.1467-8322.2010.00769.x> (accessed 5 April 2024).
- Migunov D. (2018) Spasti rjadovogo Rejkjavika: zachem Rossija pomogla strane-chlenu NATO [Saving ordinary Reykjavik: why Russia helped a NATO member country]. *Izvestiya* [online]. Available at: <https://iz.ru/796283/dmitrii-migunov/spasti-riadovogo-reikiavika-zachem-rossiia-pomogla-strane-chlenu-nato> (accessed 5 April 2024). (In Russian)
- Nagornaja A.V. (2015) Sovremennaja Islandija: jazykovoj purizm v jepohu globalizacii (nauchno-analiticheskij obzor) [Modern Iceland: Linguistic Purism in the Era of Globalization (scientific and analytical review)]. *The linguistic situation in Europe at the beginning of the XXI century* [online]. Available at: <https://cyberleninka.ru/article/n/sovremennaya-islandiya-yazykovoy-purizm-v-epohu-globalizatsii-nauchno-analiticheskij-obzor/viewer> (accessed 5 April 2024). (In Russian)
- New York Times (2006) Briefly: U.S. military leaving Iceland after decades. Available at: <https://www.nytimes.com/2006/03/16/world/europe/briefly-us-military-leaving-iceland-after-decades.html> (accessed 5 April 2024).
- Government of the Russian Federation (2015) Postanovlenie ot 13 avgusta 2015 g. No. 842 [Resolution from 13 August 2015 No. 842]. Available at: <http://static.government.ru/media/files/OIOYYCB4dOYF4qvhVmk-M4UJoNRzqutac.pdf> (accessed 5 April 2024). (In Russian)
- Prohorov P. (2015) Islandija terjaet 250 mln evro na seledke dlja Rossii [Iceland loses 250 million euros on herring for Russia]. *RBC*. Available at: [https://www.rbc.ru/spb\\_sz/14/08/2015/55cdbc239a7947e3dfe85a63](https://www.rbc.ru/spb_sz/14/08/2015/55cdbc239a7947e3dfe85a63) (accessed 5 April 2024). (In Russian)
- Ministry of Foreign Affairs (2014) Reglugerð um þvingunaraðgerðir varðandi Úkraínu nr 281/2014 [Regulation on coercive measures regarding Ukraine No. 281/2014]. Available at: <https://www.reglugerdir.is/reglugerdir/allar/nr/281-2014> (accessed 15 April 2024). (In Icelandic)
- Seljan H. (2023) Stórútgerðir vilja semja við Rússa en ráðherrar neita [Big industries want to negotiate with Russia, but ministers refuse]. *Heimildin*. Available at: <https://heimildin.is/grein/18347/?plan=web> (accessed 5 April 2024). (In Icelandic)
- Sigfusson T., Arnason R., Morrissey K. (2012) The economic importance of the Icelandic fisheries cluster – Understanding the role of fisheries in a small economy. *Marine Policy*, vol. 39, issue 1, pp. 154–161. Available at:

<https://doi.org/10.1016/j.marpol.2012.10.015> (accessed 5 April 2024).

Statistics Iceland (n.d.) Catch and value of catch by species and fishing area January 2010 – December 2023. Available at: [https://px.hagstofa.is/pxen/pxweb/en/Atvinnuvegir/Atvinnuvegir\\_\\_\\_\\_sjavarutvegur\\_\\_\\_\\_aflatolur\\_afli\\_verdmaeti/SJA02201.px/table/tableViewLayout2/](https://px.hagstofa.is/pxen/pxweb/en/Atvinnuvegir/Atvinnuvegir____sjavarutvegur____aflatolur_afli_verdmaeti/SJA02201.px/table/tableViewLayout2/) (accessed 5 April 2024).

Szép V., Van Elsuwege P. (2020) EU sanctions policy and the alignment of third countries: relevant experiences for the UK? *J.S. Vara, R.A. Wessel (eds). The Routledge handbook on the international dimension of Brexit*. Abingdon: Routledge, pp. 226–240.

Tairov R. (2023) Islandija zakroet posol'stvo v Moskve i ponizit uroven' dippredstavitel'stva Rossii [Iceland will close the embassy in Moscow and lower the level of the Russian diplomatic mission]. *Forbes*. Available at: <https://www.forbes.ru/society/490697-islandia-zakroet-posol-stvo-v-moskve-i-ponizit-uroven-dippredstavitelstva-rossii> (accessed 5 April 2024). (In Russian)

Thorhallsson B., Gunnarsson P. (2017) Iceland's alignment with the EU–US sanctions on Russia: autonomy versus dependence. *Global Affairs*, vol. 3, issue 3, pp. 307–318. Available at: <https://doi.org/10.1080/23340460.2017.1377626> (accessed 5 April 2024).

Thorhallsson B. (ed.) (2018) *Small states and shelter theory: Iceland's external affairs*. Abingdon: Routledge.

Timofeev I.N. (2021) Politika sankcij Evropejskogo sojuza. Opyt sobytijnogo analiza [The European Union's Sanctions Policy. The experience of event analysis]. *Sovremennaja Evropa*, no 2, pp. 17–27. (In Russian)

Zhuravel' V.P. (2017) Transformacija arkticheskoj strategii i politiki stran Severnoj Evropy: pozicija Rossii [Transformation of the Arctic strategies and policies of Northern European countries: Russian position]. Available at: <https://www.instituteofeurope.ru/images/news/032017/zh77.pdf> (accessed 5 April 2024). (In Russian)