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The Icesave dispute: case study into crisis of diplomacy during the Credit Crunch

Abstract

In the wake of the international financial crisis starting in 2008 Iceland fought a vicious dispute with the UK and Dutch governments over responsibilities of deposits in the fallen Icesave bank. Icesave was a branch of the Icelandic based Landsbanki, which collected deposits in Britain and Holland. The UK and Dutch governments, backed by the EU apparatus, claimed that according to EU regulations on Depositors Guaranties the Icelandic government was responsible for guarantying the deposits. The Icelandic government refused the claim, on the basis of ambiguity of EU laws, which did not explicitly state that governments are to shoulder debt of private banks when taken into administration. This resulted in a prolonged international dispute, with the UK government for example listing Iceland with terrorist regimes like the Taliban and Al-Qaeda on the UK treasuries website and blocking Iceland's application for entering IMF emergency programme. In January 2013 the EFTA Court finally ruled on the issue, vindicating Iceland of wrongdoing and refusing the UK, Holland and the EU's claim. The dispute illuminated an inherit flaw in the European banking passport system. Studying the Icesave dispute contributes to understandings of production of international legality trough practices and contested interpretations in the international realm. [1]

Introduction

The legal and political dispute Iceland fought with the UK and Dutch governments over responsibilities of deposits in the fallen cross border Icesave Bank in wake of the international financial crisis – which hit Iceland severely hard in autumn 2008 when its three over sized international banks fell – not only reviled inhered weakness of the European financial system but also led to profound crisis of diplomacy during the Credit Crunch. Bringing forward tension of legal division between public and private law and falling outside framework of traditional neatly compartmentalized law the ambiguity of responsibilities was testing

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[1] This paper is partly based on the autors book *Iceland and the International Fiancial Crisis: Boom, Bust and Recovery* (2014). Basingstoke and New York: Palgrave Macmillan

understandings and interpretations of international law in cross border finance. Not fitting squarely within EU- diplomatic- or financial law it can be argued that the case in its process illustrates contested and hybrid construction of *legality* as here is explored. This is furthermore evident in how larger and more powerful countries were politically able to pressure a much smaller state in time of crisis into abiding to their own interpretation of law and in doing so rallying behind them support of international organizations like the EU and the IMF.

The Icesave dispute was thus not only a matter of international law, but rather also a case of contestation between cross border actors over determination of authority during the crisis. By empirically studying the Icesave dispute this paper discusses a profound crisis of diplomacy and processes of international legality of the financial sector during the Credit Crunch. This can be coined as case of perfect legal storm in international relations; a crisis of public international law, diplomatic law, EU law and finance law. This case study traces the dynamics of how international legality is produced and remade during the course of this particular inter-state crisis and in doing so thus contributes to analysis of processual construction of international legality.

The study deals with interpretive contest in international relations on what is considered legal, in this particular instance dispute of responsibility over guarantying deposits of fallen cross border bank. In this case intersecting practices and expertise were to revolve in a struggle over cross border insolvency law. By pressuring the Icelandic government into accepting responsibility of the fallen bank in UK and Holland this was an international push towards sovereignization of private debt through twists of circumstances and practise.

In its core, perhaps, this is a study of struggle over who decides authoritative interpretations of what in this particular instance is understood as international legality, which is constructed, construed and contested through multi-actor and multi-level interaction of multi-national relations.

The Crisis

Iceland was the first victim of the of the global Credit Crunch when its three international banks came tumbling down in October 2008, amounting to one of the world's greatest national financial crises. This was a financial tsunami without precedent. Glitnir Bank was the first to run into trouble when planned nationalization was announced on 29. September 2008. On the basis of emergency laws rushed through Parliament Landsbanki was taken into administration On October 7th. The following day then British Prime Minister Gordon Brown invoked the UK Anti-Terrorism Act (passed after '9/11' in 2001) to freeze all Icelandic assets in the UK. This was, he argued, to protect UK depositors in the bank. That act however killed of Iceland's last and largest bank still standing, Kaupthing. The vastly oversized Icelandic financial system was wiped out. Iceland is one of the smallest countries in the world and borders on being a microstate with just over 300,000 inhabitants. However, this experience ranks third in the history of the world's greatest bankruptcies (Halldórsson & Zoega, 2010). Iceland also responded significantly differently to the troubles than most other states, allowing its financial system to default rather than throwing good money after bad.

Iceland had few good options. The IMF would not consider its loan application until the dispute with the UK and Dutch governments over the Icesave deposits accounts was settled. The fallen Landsbanki had set up these deposit accounts in those countries, leaving many of their citizens without access to their money. Even though the Icelandic government steadfastly argued that it wasn't legally at fault and that the state would fulfill all its legal obligations regarding Icesave, the IMF wouldn't budge. Iceland was being pressured by the UK and Dutch governments, which were backed by the whole EU apparatus.

This was a staring contest Iceland could not afford to drag out. Early agreements in October and November 2008, first so-called Memorandum of Understanding with the Dutch government and then a more broad based Brussels Guidelines, which included EU involvement, were signed by Icelandic ministers in order for the IMF to be allowed to be brought in to stabilize the economy, not least through the introduction of capital controls and the co-funding of a loan package with the Nordic and Polish governments. By mid 2009, after change in government, these early agreements were abandoned for bilateral agreement with the finance ministries of Holland and the UK, where Iceland accepted responsibilities for deposits of the fallen bank. In an extraordinary move the President, however, refused to sign the bills, referring them to referendums, in which they were rejected by large majority, spurring one of the greatest international disputes Iceland had ever fought.

On 28 January 2013, the EFTA Court finally ruled on the case, concluding that no state guaranties were in place on the deposits and, thus, dismissing the claim of the British and Dutch authorities (Judgment of the Court, 2013). The ruling vindicated the Icelandic state of wrongdoing. In early 2014 the Dutch and the Brits filed claim against only the privately held Icelandic Depositors Guaranty Fund before local court in Reykjavik.

Outside in Europe

Iceland joined the EU Single Market when entering into the European Economic Area agreement (EEA) in 1994, but without participation in the EU's institutions. Fully participating within the four freedoms altered the composition of the Icelandic economy, for example by opening up the international financial market. It also, however, created a new vulnerability, which became evident in the 2008 financial crisis. After privatization and extensive deregulation, the Icelandic banks grew rapidly on European markets, to ten times the countries GDP and thus well beyond Iceland's capability to bail them out when the crisis hit. The Depositors' Guarantee Fund, set up on the basis of a European directive, never had enough funding to cover a systemic collapse and no help came from the European institutions, which Iceland was not part of.

The banks suffered a severe crisis in 2006, the so-called Geyser Crisis. Their business model relied on being able to raise funds in the short-term financial market. With restricted access to wholesale funding on international markets, the banks were in desperate need of finding alternative funding to pay their asset purchases. To levitate their exposure to wholesale funding, both Landsbanki and Kaupthing initiated novel, high-interest internet-based retail deposit schemes – which would later be the source of Iceland's greatest international legal dispute to date. As a participant in the EU Single Market, Iceland was inside the European passport system so the banks were able to operate almost like domestic entities throughout the continent.

Bypassing its subsidiary in London, the Heritable Bank, Landsbanki opened instead a UK branch named Icesave in October 2006. No one seemed to even contemplate the risk involved. Without any objections from either Icelandic or UK authorities, the bank quoted the EU/EEA directive on Depositors Guarantee Schemes, they insisted was in place in Iceland, which, they said, would protect all deposits up to €20,887. This was however always very ambiguous.

The difference between a branch and a subsidiary is here significant because branches were under surveillance in the home country of the parent bank, while subsidiaries were subject to such monitoring in the host country. An even more significant difference was that the branch system allows the bank to move deposits across borders. Kaupthing opened a similar high-yielding internet deposits scheme, named Kaupthing Edge. However, unlike Landsbanki with Icesave, Kaupthing used its subsidiary, Kaupthing Singer & Friedlander, to host the deposits. Edge deposits therefore had to be kept in the UK and were under British banking regime surveillance. At the time, few noticed the difference, which after The Crash left those involved in the two cases a world apart.

Playing on an Icelandic symbol, Icesave was marketed to tap into the trust associated with Nordic economies. Soon attracting the favourable attention of the financial media, the scheme became an instant success. The *Sunday Times*, for example, wrote enthusiastically about the scheme under the headline: 'Icesave looks like a hot deal' (Hussain, 2006). Before the end, Icesave had attracted almost as many savers as there were inhabitants in Iceland. In addition many charities, public institutions and municipalities were rushing their money through the wires as the internet-based bank was offering higher interest rates than its competitors. Among them were Cambridge and Oxford Universities, the Metropolitan Police and even the UK Audit Commission. Through the scheme, Landsbanki collected more money than Iceland's entire GDP.

In early 2006, Landsbanki had barely escaped collapsing. By the end of the year, however, it was being inundated with money. The staff monitoring the site could barely believe their eyes when watching the foreign currency accumulating on their computer screens. When foreign deposits seemingly had saved Landsbanki from default in 2006, its CEO, Mr Sigurjón Árnason, declared the high-interest deposit scheme 'pure genius' (Árnason, 2007). In spring 2008, just months before The Crash, Landsbanki opened a similar Icesave branch in the Netherlands and was planning many such sites in 11 other countries, mainly EU Member States. Later, the celebrated scheme turned into a long-drawn-out nightmare for all involved. The Icesave dispute was not only about to turn friendly nations into Iceland's enemies but was also to rip apart its close-knit society in fierce infighting for years to come.

When the crisis of 2008 was biting, the lesson learned from the 2006 mini-crisis was to keep calm and weather the storm. At first it seemed to work. This is perhaps why, despite ever-increasing margin calls for increased collateral, the bankers were reluctant to sell off assets at a discount price to alleviate the liquidity pressure. Viewed from the experience of the mini-crisis, the worst seemed to be over by spring 2008 and bankers and officials alike were uttering sighs of relief. We now know, however, that this was only the calm before the storm.

This time the situation was different. The banks were much more vulnerable than before. Landsbanki had for a while enjoyed better ratings than the other two because it was able to tap into the Icesave deposits to keep liquidity flowing. This was, however, a mixed blessing, as reliance on deposits leaves a bank much more vulnerable to bad news than if it is funded in the wholesale market. Even a minor issue can result in a run if it is portrayed in the wrong light. Still, all three banks were passing the Icelandic Financial Supervisory

Authorities (FME) stress tests with flying colors. In theory, the banks were all doing well. Amongst those buying this story was the *Financial Times*, which as late as August 2008 wrote that 'fears of a systemic financial crisis in Iceland have dissipated after the country's three main banks announced second-quarter results showing that they are suffering amid the downturn – but not too badly' (Ibson, 2008).

The Central Bank stretched itself to the limit to keep the banks liquid in domestic króna, for example accepting their own bonds as collateral – the so-called love letters. However, to back up the overinflated banking system in such dire straits it needed a sizable sum in foreign currency. The Central Bank thus went knocking on doors in the neighboring capitals asking to open similar swap lines as others were negotiating, that could be drawn on in time of need. This was meant to boost confidence in Iceland's capacity to back up the financial system. To the surprise of the government, however, apart from earlier limited swap-lines with the Nordics, Iceland met closed doors in most places. This was at a time when the neighboring states were still swapping much more extensive such lines.

Not only had the banks been pushed out of the international capital market, but the government had as well. For the international financial system tiny Iceland was as a state not thought to be too big to fail. Iceland first approached the Bank of England in March 2008. Initially, the request was positively received, but with a suggestion that the IMF would analyze the need. A month later, the climate had changed. It had become clear that the central banks of Europe, the US and the UK had collectively decided not to assist Iceland. Later it was known that the governor of the Bank of England, Mervin King, offered instead to co-ordinate a multinational effort to help scale down our financial system. His offer was instantly turned down by the leading governor of the Icelandic Central Bank, Mr Davíð Oddsson (See for example, Wade & Sigurgeirsdottir, 2010).

Floating of the waterfall

When a planned nationalization of one of the three banks, Glitnir, was announced in Reykjavik on Monday September 29th depositors were flocking to nearest branch and withdrawing their savings. When the news travelled abroad, many of the 300,000 depositors of Landsbankis branch in the UK, also rushed online to withdraw their money from the Icesave accounts. Worries over internet banks were worldwide, but the Icelandic internet banking schemes were now viewed as toxic, as many considered the Icelandic banks almost a single entity. Quite a few Kaupthing Edge depositors were thus also withdrawing their cash, even though Edge accounts fell under the UK's Depositors Guarantee Scheme. Though protected by the UK's Depositors Guarantee Scheme, Kaupthing was still having trouble convincing customers that their deposits were safe.

Throughout the continent, central banks and governments were harmonizing their response to the crisis in Iceland. The ECB and the Bank of England, for example, were providing massive liquidity to European banks, but despite a wide-ranging emergency plea, Iceland would not be allowed access to these funds. The same was also to become true in Washington. Iceland was flatly refused as neighboring governments collectively opposed a bailout, referring it instead to the IMF. Being the first Western country in four decades to surrender to the IMF was seen as a humiliation and a defeat for the Icelandic postcolonial project (For more, see Bergmann 2014b).

In the UK, worries over the poor state of the Icelandic banks had been growing for some time. Since May, unsuccessful negotiations had been under way to move the Icesave deposits to Landsbanki's Heritable Bank and thus under the cover of the UK banking scheme. On Friday afternoon, October 3d, British Finance Minister Alistair Darling called Iceland's PM, Mr Geir Haarde, voicing concerns that money was flowing out of Kaupthing's London subsidiary, Singer & Friedlander – which later was proved unfounded as was for example stated in report to the House of Commons Treasury committee (2009, April).

If the flow continued, he said, the bank would be instantly closed. In the evening, the British Financial Supervisory Authority (FSA) called demanding £400 million from Iceland to cover the Icesave accounts. The European Central Bank also placed a margin call on Landsbanki in Luxembourg, threatening to seize many of its assets. Thus, while Iceland was desperately trotting the globe shopping for money, the UK authorities and the ECB were not only refusing any funding but indeed pressing it for cash. The firm stand of the Bank of England, the ECB and the US Federal Reserve against Iceland also made the Scandinavian neighbours hesitant to help further. To stem the bleeding of the Edge and Icesave accounts, both Kaupthing and Landsbanki were frantically selling off assets at rock bottom prices.

With the rapidly increasing flow of negative reporting abroad, the run on Icesave in the UK grew stronger. On Saturday October 4th, depositors could no longer access their accounts online. On the website an explanatory note read that this was because of technical problems. Really, however, it was because the bank was already exhausted by the run; it could no longer honour the withdrawals. Out of the £4.7 billion the 300,000 or so depositors held, more than £300 million ran off the accounts on that day alone. Foreign reporters and government authorities responded by asking if Iceland would provide the same protection to foreign depositors as it had already announced for domestic ones. Pressure rose when the government struggled to find a diplomatic answer.

Over the weekend PM Geir Haarde spoke in secrecy with his British counterpart, Gordon Brown. They were old acquaintances, since both had served for years as finance ministers, meeting on several occasions. The message was, however, still the same as before: no bail-out money would be available internationally for Iceland except through an IMF programme. Brown repeated Alistair Darling's concerns from before, that Kaupthing would unlawfully bring over to Reykjavik one-and-a-half billion pounds from the UK, which would not be tolerated. The UK was in this regard already burned by Lehman Brothers, which prior to its default had sneaked back to the US eight billion dollars from the City of London, and would not allow the same thing to happen again. The call ended without a solution, with Brown all but begging Haarde to call in the IMF rescue team (Reported in Hreinsson, Gunnarsson, & Benediktsdóttir, 2010).

By now all attempts to shift the Icesave accounts into British banking space had already failed. Negotiations with the British FSA to allow Landsbanki to move the deposits to its London Heritable Bank and thus under the UK banking regime were stuck. The British were asking for more money alongside it than either Landsbanki or indeed the Icelandic state could possibly raise.

When the markets opened on Monday October 6th, the FME had stopped trading the banks' stocks and the banks themselves froze all fund transactions. To counter the almost inevitable avalanche of withdrawals, the government issued a blanket protection for all deposits *within* the country. The UK and Netherlands were issuing top-up guarantees for deposits above the €20,887 stipulated in the EU directive: up to €40,000 in Holland and, by Wednesday, up to £50,000 in the UK. Many European states were also issuing complete guarantees, including Ireland, Germany, Denmark and Austria. Iceland was, however, only guaranteeing *domestic* deposits but could not explicitly state what would happen in foreign branches, apart from a vague general pledge to the effect that the banks' Depositors and Investors Guarantee Fund would be 'supported'. This would, however, always be difficult, as deposits in foreign branches of Icelandic banks, most of which were on Icesave accounts, amounted to around £8.5 billion, about 80 per cent of the country's GDP, whereas the fund held only about 1 per cent of that total amount, which, though, was comparable to other countries. The ambiguity of the statements coming out of Reykjavik was thus worrying neighbors, especially government officials in Whitehall.

On Tuesday morning Alistair Darling called again to discuss these and other grave matters with Finance Minister Árni Mathiesen. When he could not get a clear state guarantee out of his Icelandic counterpart, an assurance that UK depositors would be protected, at least up to €20,887 according to the EU directive, he stated that this would be ‘extremely damaging to Iceland in the future’ and then ended the call saying, ‘the reputation of your country is going to be terrible’ (“Samtal Árna og Darlings,” 2008). Mathiesen could not but agree, but he understood from their conversation that he would still have some time to work things out.

It was clear that Landsbanki would be already defaulting the following day. This was a stark reversal of the bank’s situation of just a few months before, when it seemed to be well funded with a comfortable €800 million liquidity and strong inflow of foreign deposits. Furthermore, redemption of loans was low until late 2009. And even though it was exhausted of foreign cash by the run in the UK, the bank still had enough money in Icelandic króna to survive this storm; the problem was that the króna was no longer tradable for foreign currency. This was thus a double crisis – a banking crisis and a currency crisis – already starting in March.

In the afternoon on Monday 6 October, PM Geir Haarde was ready to address the nation on TV. This was an extraordinary event, as apart from the traditional New Year’s Eve address, it is something our PM never does. The entire nation was listening to his grave concerns: the banks were in serious trouble, he said. The state would not have the means to bail them out. By trying so it ran a risk of being sucked with them into an economic abyss. This was a shock to most, as just hours earlier he had told reporters that all was well, that no action needed to be taken. (Haarde, 2008)

From the TV studio the PM rushed to Parliament, where he introduced the government’s emergency legislation, which allowed the banks to be split and altered the order of payments out of the fallen banks by moving depositors to the front. This was a *force majeure* situation. The action was part of the defensive wall being raised around ordinary households. Foreign creditors would simply have to accept losing most of what they had loaned to the Icelandic banks. Before midnight, the emergency legislation had been rushed through all formalities and parliamentary procedures.

Before opening of business on Tuesday morning, a board for a *new* Landsbanki had been appointed. The members of the returning committee were mostly lawyers, who had almost randomly been called in the middle of the night. Miraculously, the bank remained operational. If it had not been for the media frenzy its customers might hardly have noticed that they were now banking with a new, state-owned financial institution. Meanwhile, in the UK, the FSA issued a moratorium on Landsbanki’s London subsidiary, the Heritable Bank.

With all funding opportunities closed, the situation was growing bleaker by the hour. European rescue money was still out of reach and the US refused Iceland's Finance Minister, Mr Árni Mathiesen, once again when he came begging. An informal delegation of the IMF had travelled to Reykjavik but the government was not yet ready to enter into a formal IMF programme.

The UK attacks

Seen from the UK and the Netherlands, the situation was simply that Icesave depositors were left without access to their accounts. The website was unaccessable and no trace of the bank was left in the UK or Holland. No one answered the phone and there was not even an address to go to. Depositors were in an intolerable position – the bank had disappeared without a trace from the face of the earth. This caused a seriously strained relationship Reykjavik had with London and The Hague. The British and the Dutch governments decided to compensate their depositors, even beyond the €20,887 mark guaranteed by the EU directive. For this they demanded payback with interest from the Icelandic government. The Icesave dispute became Iceland's greatest international dispute since the so-called Cod Wars over Iceland's fishing grounds in the 1950s and 1970s – once again with the British. During these repeated conflicts between the two islands a characteristic, postcolonial-like love–hate relationship developed.

In Whitehall, preparations had been under way for dealing with the Icelandic crisis. Icelanders would not get away with simply cutting off their foreign debt, shutting the doors and leaving British citizens out in the cold. It did not help that UK officials had learned of message from governor of Iceland's Central Bank on TV few days earlier, in which he stated that foreigners could only expect between 5 to 15 per cent of their claims. The plan was to be kicked into action. The British claimed that giving preference to depositors in domestic banks over those in foreign branches was a breach of European regulations, which Iceland subscribed to through the EEA.

In the early morning of 8 October 2008, Alistair Darling appeared on popular morning TV programme, claiming that the Icelandic government was reneging on its responsibility to UK depositors, and that this would not be tolerated. On the BBC he said, when referring to his conversation with Iceland's finance minister Mathiesen: 'The Icelandic government, believe it or not, told me yesterday they have no intention of honouring their obligations here' (Darling, 2008). In a joint press conference at 9:15 Darling and Gordon Brown announced a massive bailout of UK-based banks, to the tune of £500 billion. As a result of pumping the money into the banks, the British state acquired a majority stake in the Royal Bank of Scotland and steered the merger of HBOS and Lloyds TSB, in which the state had acquired third of the shares. There was, however, not a penny for Icelandic-owned banks in the UK. On the contrary, Brown claimed that Iceland's authorities must assume responsibility for the failed banks and announced that the UK government had taken 'legal action against the Icelandic authorities to recover the money lost to people who deposited in UK branches of its banks' (quoted in Balakrishnan, 2008)

Earlier in the morning, the UK FSA had called Kaupthing demanding £300 million instantly be moved from Reykjavik to Singer & Friedlander to meet the run on Edge accounts, which with the Icesave website down also was blazing, and then a further £2 billion over ten days. This was an impossible demand for Kaupthing to meet, and it instead called the Deutsche Bank, asking it to sell off Kaupthing's operations in the UK. Deutsche's brokers thought that could be done within 24 hours.

The legal actions Brown had mentioned in his press brief, however, went much further. At 10:10 in the morning, deposits in Landsbanki's Heritable Bank were moved to the Dutch internet bank ING Direct for free when the 'Landsbanki Freezing Order 2008' took effect (*The Landsbanki Freezing Order 2008*, 2008). The action was based on the Anti-Terrorism, Crime and Security Act, which had been put in place after the terrorist attacks in the US on 11 September 2001. Not minding that around a hundred thousand people worked for Icelandic-held companies in Britain, the UK government invoked the Anti-Terrorism Act to freeze the assets of Landsbanki in the UK and for a while also all assets of the Icelandic state. Subsequently, Landsbanki and for a while also Iceland's Central Bank and Ministry of Finance was listed on the Treasuries home page alongside other sanctioned terrorist regimes, including Al-Qaeda, the Taliban, Burma, Zimbabwe and North Korea. This was in stark contrast with the response elsewhere. Authorities in the Netherlands, for example, saw no reason to freeze assets and in Stockholm the Swedish Central Bank was still trading with Kaupthing's Swedish branch.

While Kaupthing's CEO, Sigurður Einarsson, was in his London office in the late morning discussing with Deutsche Bank over the phone the fastest way to liquidate its assets, he read a banner running on the TV screen saying that the FSA had already moved Kaupthing's Edge accounts to ING Direct in the Netherlands. Their phone conversation quickly ended, as there was no longer anything to talk about. In the afternoon, the UK authorities issued a moratorium on Singer & Friedlander, showed its Icelandic CEO, Ármann Þorvaldsson, the door and sealed the offices. This instantly prompted a flow of margin calls and a further run on the mother company. When the dark set in, Kaupthing Bank was itself taken into administration in Reykjavik. Thirty thousand shareholders lost all its worth. Interestingly, both the previously mentioned report in to the House of Commons

Treasury committee (2009, April) and also the British FSA later found out that no money had illegally been moved from Singer & Friedlander to Iceland (Júlíusson, 2009), which, however, had been one of the main justifications for the UK's attack on Iceland.

These actions were a co-ordinated attack. Indeed, it was a bomb, which was to blow up the defensive wall that the Icelandic government was trying to build around domestic households. Access to the estimated 7 billion pounds the Icelandic government and banks held in assets in the UK no longer being available, the wall came tumbling down. Invoking Anti-Terrorist legislation against a neighbouring state and fellow NATO and EEA member was virtually an act of war. This was an unprecedented move against a friendly state, which cost Iceland dearly, in both economic and political terms. Moody's instantly downgraded Iceland by three full points, to A1. Money transactions to Iceland were stopped not only in the UK but as a result also widely in Europe, where many banks refused to trade with Iceland after it had been listed in the UK with terrorist actors.

The payment and clearing system for foreign goods collapsed. In only two days, all trading in króna had ceased outside Iceland's borders. When PM Haarde called to complain about this brutal treatment, Brown did not even answer. Later in the day, Brown told Sky News that Iceland, as a state, was bankrupt. The country was being completely rebuffed. In fact, in the coming days Brown's rhetoric against Iceland was only to harden, and he said that further measures would be taken to recover money (quoted in "Brown condems," 2008).

With UK depositors holding a stake of £700 million in Icesave, including many charities' funding, Brown stated that the Icelandic authorities were now responsible for the deposits. Even in the UK, many were stunned by Brown's harsh response to the Icelandic crisis. Many claimed that by attacking Iceland, a foreign actor, Brown was attempting to divert attention from difficulties at home, perhaps much as Margaret Thatcher had done during the Falklands crisis (Murphy, 2008). Initially it did indeed work. On its front page the Daily Mail declared 'Cold War' (2008) on Iceland and the Daily Telegraph screamed across its front page: 'Give us our money back' (2008). And these were papers that did not even support Brown or his Labour Party.

Perhaps part of the reason for this harsh response can be found in the fact that Iceland's economic fragility turned the mirror on the UK and its own volatile financial situation. Economist Willem Buiter (2008) who had studied the state of the economy in both countries, saw the similarity and wrote that it was no great exaggeration to also describe the UK as a huge hedge fund.

By Thursday 9 October 2008, almost the entire Icelandic financial system had collapsed in a dramatic chain of events, which later became known simply as The Crash. Ironically, this was a full week before Glitnir's 15 October deadline – which had started the whole thing.

An systemic flaw

The collapse of the Icelandic banks clearly revealed a serious weakness in the European banking passport system, a macroeconomic imbalance within the Single European Market. It was a weakness that some of the more established banking nations had warned against when the system was being constructed (for more, see Benediktsdottir, Danielsson, & Zoega, 2011). The main flaw lay in the fragmented nature of supervision on an otherwise common market – European-wide regulation but only local supervision. This had caused a mismatch between access to market and adequate supervision.

There was also an inhered flaw in the setup of Iceland's link to the EU through the EEA agreement. Being in the Single European Market but outside the fence of EU institutions left Iceland without shelter when the crisis hit. This *neither-in-nor-out* arrangement – with one foot in on the Single European Market, with all the obligations that entailed, and the other foot outside the EU institutions, and therefore without access to back-up from, for example, the European Central Bank – proved to be flawed when the country was faced with a crisis of this magnitude: The oversized Icelandic banks were operating in a market that included 500 million people but with a currency and a Central Bank that was backed up by only roughly 330,000 inhabitants.

Not only was Iceland denied any access to united efforts within Europe to bailout banks but the UK and Holland were able use their position within the EU to pressure Iceland to accept their own interpretation of EU laws Iceland was to follow. Though ambiguity still remained as to who was legally liable for the loss, the UK government was using all means available to pressure Iceland to accept responsibility.

Forced agreement

The dispute with the UK and Dutch governments over the Icesave deposits fell into familiar trenches of nationalistic rhetoric in Iceland. Internally, Iceland was represented as a victim of vicious and conspiratorial foreigners. Even the Nordic states were viewed as 'traitors', especially the Swedish government, which soon became the main villain of the piece in the minds of many Icelandic parliamentarians. Surely there were some merits in this feeling as later evidence point to an joint international action, lead by the UK, of not assisting Iceland. During this horrible week in October 2008, Iceland not only was frozen out of international markets but also suffered a co-ordinated attack from abroad. As Ásgeir Jónsson (2009) claims, the actions of the UK government are perhaps best described as a sort of corporate ethnic cleansing. When Iceland was vindicated of wrongdoing in the Icesave affair by the EFTA court in 2013, many saw the feeling of victimization as justified.

After being pushed out of international financial markets in the lead-up to The Crash Iceland was in desperate need of foreign funding. After the Crash Iceland found doors still closed in most places. Though ambiguity remained over many legal aspects of this highly complex situation, the UK and Dutch governments were pressuring Iceland to accept full responsibility for the Icesave accounts. While also pressuring Iceland to turn to the IMF, these governments were, with the help of the EU apparatus, lobbying neighbouring capitals to refuse it any loans except through an IMF programme. Iceland's government, however, was still afraid of the stigma of being the first Western state in four decades to surrender to the IMF (See for example, Mathiensen & Jósepsson, 2010)

In few steps Iceland gradually caved into the collective pressure and sought help from the fund. To Iceland's surprise, the IMF board refused help unless, Iceland was made to understand, first clearing up the Icesave dispute with the British and the Dutch. Initially at the IMF yearly meeting in Washington on October 11, Finance minister Matthiesen signed a Memorandum of Understanding with the Dutch where he agreed to an arbitrary court ruling on the issue. This was however abandoned and in November for a much more broad based deal, what was called the Brussels Guidelines, which included EU involvement. The deal stipulated that Iceland would indeed accept responsibility, but that its European partners would help shouldering the cost. Holding out for not much more than a month, the government thus threw in the towel and under impossible pressure accepted to guarantee deposits up to the minimum €20,887 stipulated by EU law.

The EEA connection did not amount to much. IMF assistance was only made available after Iceland gave into the Dutch and the British. The government's apparent weakness in responding to the UK attack added to the public's frustration, especially when it had become clear that no money had illegally been moved out of the UK.

The initial forced Icesave agreements (The Memorandum of Understanding and the Brussels Guidelines) angered the public, which in wake of the Crash had taken to the streets in ever-greater numbers. Caving in to foreign pressure and accepting a forced agreement added to the frustration and was seen as violating the Icelandic Project, the eternal and sacred quest of protecting Iceland's sovereignty (Bergmann, 2014a). After a series of protests, which later became known as the Pots and Pans Revolution (*búsáhaldabyltinging*), the grand coalition of the Independence Party (IP) and the Social Democratic Alliance (SDA) was ousted from power in late January 2009, paving the way for a new left-wing government – the first purely left-wing coalition in the history of the republic.

The severity of the currency crisis, which followed the banking collapse, can for example be seen in the fact that Iceland was the only country that had to revert such extreme measures as implementing capital controls. The economy seemed paralysed. On Friday 10 October, the first of many popular protests started.

While the crisis was tightening its grip leading up to The Crash, the islands neighbours had refused help unless it was through an IMF programme. After the collapse of the banks, the IMF gradually emerged as the only solution as Iceland was still being isolated internationally. The British and Dutch governments had been successfully lobbying both the ECB and other European states not to aid Iceland independently, while at the same time pressuring Iceland to accept responsibility for the Icesave deposits. Iceland's government, on the contrary, insisted that according to the relevant EU directive it was only obligated to ensure that a Depositors Guarantee Fund was in place and not explicitly responsible for foreign branch deposits (Blöndal & Stefánsson, 2008). The problem was that, as in most EU countries, the fund held only around 1 per cent of the liabilities of the banking system. Referring to a report written for the French Central Bank in 2000, Iceland argued that the directive did not explicitly dictate that the state had to pick up the balance in the event of a systemic collapse (Banque de France, 2000).

This was, however, a difficult argument to get through in the crisis-ridden climate at the time. In order to prevent a further run on their own banks and to regain enough credibility to keep them afloat, the British, during these same days, led a coalition of G20 and EU states promoting collective international action emphasizing almost blanket depositors protection (see, for example, Pilkington, 2008). Allowing Iceland to leave depositors in foreign branches without such protection was seen as countering these efforts and indeed undermining the entire global financial system. In Whitehall, many feared that the Icelandic crisis was spreading to the UK, which also had approached the brink of widespread banking collapse. As a result, Iceland was being turned into an international villain. Iceland was trapped. Only the closest neighbour, the tiny Faroe Islands, was willing to swim against the current and sent over €45 million without any conditions. This was a lone friendly voice in a time when the international community was collectively condemning the country.

Though Iceland was still stubbornly hesitating, a joint economic programme was informally being negotiated that would include $2.1 billion from the IMF and a further $3 billion from the Central Banks of Denmark, Finland, Norway and Sweden in addition to a separate loan from Poland. Iceland's resilience was however diminishing by the day. The pressure to accept responsibility for the Icesave deposits grew. According to some reports, Iceland was even threatened with being expelled from the European Economic Area (EEA), our economic lifeline to the outside world (Hálfdanardóttir, 2008). With dwindling foreign reserves and at risk of a serious shortage of, for example, medicine, food and other necessities from abroad, Iceland finally threw in the towel and applied to enter the IMF emergency program on 25 October.

IMF blockade

Based on informal query the government expected that the IMF board would accept Iceland's application on 3 November (Sveinsson, 2013). In the meantime, however, the British and Dutch governments, which previously had been pressuring Iceland to go to the IMF, were now lobbying behind the scenes against Iceland being allowed into the program unless first accepting responsibility for the Icesave accounts (Duncan, 2008). The NRC Handelsblad in the Netherlands reported that the blockage was being orchestrated by Dutch Finance Minister Wouter Bos and his British colleague Alistair Darling (Banning & Gerritsen, 2008). Later, the chief IMF representative in Iceland admitted to a block of not only the British and Dutch governments but also the Nordic states (Rozwadowski, 2013).

When Iceland would not concede, the IMF board postponed its decision and made clear that the plea would be blocked until accepting of liability for Icesave. During this time, a senior advisor in the IMF's external relations department publicly acknowledged that the delay was directly due to unresolved disputes with Holland and the UK (Transcript of Press Briefing by David Hawley, 2008). As Iceland was not a member of the EU and thus not subject to the European Court of Justice, and as the EFTA Court had no jurisdiction in the UK and the Netherlands, there seemed at the time to be no available legal body to rule on the dispute – apart from the previously mentioned initial arbitrary court that Finance Minister Matthiesen had felt forced to agree to on October 11 but the Icelandic government later abandoned on the ground that it was skewed in favor of the UK and Holland through the EU's involvement.

Iceland was thus caught in a tight spot. It needed money to prevent further deterioration of the already devastated economy but that meant agreeing to liabilities it did not want to accept. Though Norway finally broke away from the unified bloc within the IMF and agreed to send over €500 million, as later did Poland, which unilaterally pledged $200 million, companies and households in Iceland were feeling the effects of the prolonged lack of access to currency. By mid-November Iceland had surrendered. According to the Brussels Guidelines brokered by the French EU Presidency the government of Iceland agreed to cover the deposits of depositors in the Icesave accounts in accordance with EEA law. Iceland was to repay the Icesave dept over ten years, starting three years after signing, with 6.7 per cent interest on the loan. The agreement also entailed that the EU would continue to participate in finding arrangements that would allow Iceland to restore its financial system and economy. This was a precondition Iceland set for paying out according to the agreement. A stabilization package of financial assistance from the IMF was an explicit part of the agreement, which was to be discussed at the IMF Executive Board meeting on Wednesday 19 November (Agreed Guidelines, 2008).

Heightening dispute

Only days after surrendering, Iceland was thus the first developed economy to enter an IMF emergency programme since the UK in 1976 – many other states were, however, soon to follow. Though these early agreements on the Icesave deposits were meant to end the quarrel, the dispute was only just starting. Ambiguity still remained. To keep up the pressure, and even to increase it, the Dutch Foreign Minister, Maxime Werhagen, threatened to veto Iceland's EU bid in July 2009 (The Hague Threatens Iceland, 2009). In the end, two additional agreements were proposed, both rejected by the public in extraordinary referendums initiated by the President when he refused to sign them into law. In January 2013, the EFTA Court finally vindicated Iceland of any wrongdoing, thus refusing the EU's and the UK and the Dutch governments claim of a state guarantee, such as Iceland had been forced to accept in the earlier Icesave agreements (Judgment of the Court, 2013). In early 2014 the UK and Holland filed suit locally in Reykjavik against only the Icelandic Depositors Guaranty Fund, which held only fraction of the claims.

The seemingly imposed first agreements had angered the public, and within Parliament there were MPs who insisted they would not consider themselves bound by what they viewed as an 'unlawful, coerced agreement' (Blöndal, 2008). The government justified the signings by claiming that it had had no choice. Either it bit the bullet and accepted responsibility or the country would remain frozen out, thus without access to vital imports such as medicine and food. The government explained that no one supported us; not even the Nordic neighbours were willing to listen to Iceland's legal arguments. Without agreement, Iceland would no longer have been considered a modern state, internationally recognized as equal to others, but would rather have been relegated to being an isolated outpost surviving on local agriculture and fisheries alone. The signing was, however, a serious blow to the countries political identity, as the postcolonial national identity insisted on not giving in to foreign pressure. It thus caused great strain domestically (Bergmann, 2014b).

Frustrated by the government's apparently weak response to the UK attack when Iceland was listed with terrorist regimes like the Taliban and Al-Qaida, a group of Icelanders with ties to the UK formed a citizens' movement called InDefence. Under a campaign titled 'Icelanders are NOT Terrorists' the group collected more than 83,000 signatures, by far the countries largest signature collection, which was handed to the UK Parliament in protest against the UK government's use of anti-terrorism legislation against Iceland. The group then organized a PR offensive in the UK, publishing articles and giving countless interviews in the British media. Later, the InDefence group led the domestic campaign against the Icesave agreements (InDefence, n.d.).

After Iceland's concession to the British and the Dutch over Icesave, the general public took to the streets in even greater numbers than before, now not only protesting against our government's mismanagement of the economy but also against apparent foreign oppression. Iceland was being flooded with bad news. According to estimations, the cost of fully protecting domestic deposits and establishing new banks out of the ruins of the failed ones would bring public debt from 29 per cent of GDP up to 109 per cent by end of 2009; before 2010 was out, a further $24 billion would be need from abroad (Jóhannesson, 2009: 258). Many compared the Icesave agreements to the Treaty of Versailles when, after the First World War, the Germans were forced to accept impossible liabilities – as Foreign Minister Gísladóttir had argued in the New York Times before the agreements were signed (quoted in Lyall, 2008).

Frustration grew as businesses closed and more and more people were laid off while inflation rose to 20 per cent. The protest was now spreading around the country. The foreign media was also becoming increasingly interested in the events as the crowds grew larger.

Anticipation grew and many expected that Parliament would face a greater number of protesters than ever when resuming on 20 January 2009. Two weeks earlier, the government had officially decided not to take the UK government to a British court for freezing Icelandic assets by the so-called Landsbanki Freezing Act, which was based on the UK Anti-Terrorism legislation. This angered many even further. The action of the UK government was seemingly in violation of several international laws, including the European Economic Area agreement. It could therefore be argued that the British Labour government had by default also taken over the bank's obligation in the UK – including payments from the Icesave accounts. Why the Icelandic government did not used this argument to transfer the responsibility onto Brown's own shoulders was a mystery to most people in Iceland.

Icesave II and III

The new left-wing government parachuted in on the canopy of the Pots-and-Pans revolution contested some of the premises of the Brussels Guidelines, which they claimed was unlawfully imposed by foreign forces. Under the leadership of Finance Minister Sigfússon, chairman of the Left Green Movement, the new government abandoned the multinational approach and instead sent their representatives to London and The Hague to renegotiate terms. The new agreement reached with the two countries' finance ministries stipulated that Iceland would get a seven-year grace period without payments in return for agreeing to foot the part of the bill that the fallen Landsbanki's assets would not cover. The payments were to be made between 2016 and 2023. Interest was brought down to 5.5 per cent. The British and the Dutch governments had already paid out to depositors. This result, which in effect was merely a loan agreement with the foreign ministers of the Netherlands and the UK, where Iceland accepted to cover up to €4.5 billion, instantly became one of the most unpopular agreements in the history of the country. Only after its signing, however, was Iceland's name removed from the list of terrorist regimes on the UK Chancellor's website.

Parliament reluctantly accepted the agreement, but only after adding to it new preconditions, referring to Iceland's ability to pay. These the UK and the Dutch refused. A new negotiation committee was thus formed, which was able to lower the interest rate a little further. After a fierce debate, the amended agreement was accepted in Parliament on the last day of December 2009. The new government was now also accused of caving in to foreign pressure and surrendering Icelandic interests to external forces. The government also saw a rebellion within its own ranks, with five of its MPs abstaining and the Health Minister resigning in protest.

The saga took a dramatic turn on 5 January 2010, when the President of Iceland, Ólafur Ragnar Grímsson, denied signing the law necessary to ratify the new agreement after receiving a petition of 60,000 Icelanders asking him to reject the deal. (He had signed the revoked earlier one). This was an exceptional move. The nationally elected President has traditionally been a symbolic figure rather than one with any real power. Usually, it is a mere formality for the President to sign parliamentary bills; only once before had the President rejected one. The constitution says that when the President refuses a bill, the matter shall be put to a national referendum. In the previous incident, however, the legislation was simply withdrawn by the government. The second Icesave bill thus became the first such parliamentary issue to be put to the public.

In early 2010, Icelanders once again found themselves in unknown waters. A quarter of the electorate had signed a petition to be put to the President asking him to veto the bill, which subsequently was refused by 90 per cent of voters. The country was in a mood of defiance. Many felt betrayed by the UK government when it had invoked the Anti-Terrorist Act – an action that ultimately drove our last bank into the ground. Icelanders therefore found the idea that they should foot the whole bill alone difficult to swallow. There was also a legal twist. The EU directive upon which the British and Dutch had based their claim was rather unclear. It stipulated only that states are obliged to set up special deposit guarantee schemes. It did not speak of a state guarantee. Many Icelanders were thus frustrated by the fact that the British and the Dutch had refused the request for an impartial court to rule on the issue.

The general perception in Iceland was thus that the government had again been bullied by an overwhelming foreign power into signing an unjust agreement. It is generally accepted that the government and Parliament only accepted the initial deals to achieve other ends, rather than because they felt under obligation to pay. It was simply a necessary evil to gain access to the IMF. And then there was the cost. €4.5 billon might have seemed a small figure by UK standards but this was almost half Iceland's GDP. Divided by Iceland's small population, the bill amounted to more than €12,000 per head, or just under €50,000 per household. If Landsbanki's assets deteriorated any further, this would place a devastating burden on an already debt-ridden population.

The rhetoric some UK leaders were using in the dispute was a further source of frustration. During Prime Minister's questions in the House of Commons on 6 May 2009, PM Gordon Brown said that the Icelandic authorities were responsible for the loss of the cancer charity Christie's in Manchester and claimed to be in discussion with the IMF on how Iceland would repay the losses it was responsible for. Brown went on to wash his hands of the matter and repeatedly said that the UK was not the regulatory authority. This was, however, not true. Christie's business was with Kaupthing's Singer & Friedlander, a UK-based bank that was regulated by the British FSA and therefore covered by the UK depositor protection scheme. This was clearly stated in the House of Commons Treasury Committee report (2009) published in April 2009. Not only was Brown's statement false but in fact the opposite could be argued. By killing off Kaupthing, the Labour government was itself partly to blame for the troubles Christie's was facing. Leading up to the referendum this sort of rhetoric in the UK only fuelled the No camp in Iceland.

In addition to the wide-ranging general feeling of frustration, the appearance of leniency towards the British and Dutch spurred a new wave of protest in mid-2010, which heightened when Parliament resumed in the early autumn, to find thousands of protesters surrounding the building, once again. Flags symbolizing Iceland's independence could now be seen flying high in front of the Parliament building. Amongst them were blue EU flags on which a red 'no entry' sign had been painted right across the yellow stars.

After twice going back on signed agreements (in addition to abandoning the two initial deals), the government found it difficult to go knocking on doors in London and The Hague asking to renegotiate the deal once again. Headed by a hired American negotiator, the new team was nevertheless in the end able to bring the interest rate down to 3 per cent. This time, a large majority emerged in Parliament when the IP joined ranks with the government in backing the new deal. The Progressive Party (PP) though still opposed any agreement. Yet, to the surprise of most, President Grímsson also refused the third agreement. In a second referendum, on 9 April 2011, the new agreement was refused by a two-thirds majority, illustrating a clear division between Parliament and the public. Now, there was no longer anything to negotiate. The case was sent to the EFTA Court, where the EU was backing the claim of the UK and the Netherlands and the EFTA Surveillance Authority against Iceland. Finally, on 28 January 2013, the court ruled in favour of Iceland, which was vindicated of wrongdoing in its handling of the Icesave deposits (Judgment of the Court, 2013). Later UK and Holland filed a much more limited claim before court in Reykjavik.

IMF and recovery

When the fierce dispute with the Dutch and the British over the Icesave deposit accounts was temporarily calmed in November 2008, the IMF arrived in Reykjavik with a handsome rescue package. The emergency programme provided financing amounting to $5.1 billion in total. $2.1 billion came from the IMF's coffers. The rest was from the Nordic states and Poland. In order to stabilize the currency further, the interest rate was hiked to 18 per cent. In a highly unorthodox move in relation to its previous positions elsewhere, the fund supported extensive capital controls and later also allowed the left-wing government to implement its policy of mixed measures to deal with the crisis rather than forcing through strict austerity, which for example was the case in the PIIGS – Portugal, Ireland, Italy, Greece and Spain.

The sharp concentration of the economy finally stopped in late 2010, with modest growth in 2012 and 2013. The fisheries still generated healthy foreign income. In June 2011, Iceland re-entered capital markets with the successfully auction of $1 billion worth of bonds at a premium below that offered by many crisis-ridden states. In May 2012, another $1 billion was raised on ten-year bonds. Part of the proceeds was used to repay more than half the IMF loan provided by the Nordics and Poland well before its maturity. Subsequently, rating agencies lifted Iceland again from junk bond status to investment level while many other countries were still on a downward trajectory.

Moody's for example concluded that with the help of the EFTA Court ruling in favour of Iceland over the Icesave dispute, which had freed it from potentially large costs, the Icelandic economy had also clearly emerged from crisis-induced recession and was now expanding at a reasonable pace (Moody's, 2013). Predictions that Iceland would for decades be locked out of international markets because of not bailing out its banks and for not agreeing to guarantee Icesave were thus proven wrong.

Conclusion

Internationally the Icesave dispute reveals interesting contestation and (re)production of constitution of international legality as here has been described. Not fitting into neatly compartmentalized law, development of international legality has in this paper been traced throughout the course of this particular crisis. Domestically the issue was dictating politics in the post-crisis period in Iceland. To the surprise of many Icelanders, after the Crash had left Iceland in financial ruin, the Dutch and the British still enjoyed the full backing in the Icesave debacle of our neighbors in the European community. The UK and Dutch authorities were able to use both the EU and the IMF to pressure Iceland into accepting responsibilities that Iceland's authorities never believed were there to shoulder. The Icesave case illustrates that in time of crisis international muscle power still prevails. In time of need small states have difficulties when defending off larger states sharp attacks. In a European context, being formally a non-EU member made it easier for the UK and Holland to deploy the EU apparatus to pressure Iceland than they would against a fellow member state. The illusion of a shelter amongst the family of Nordic states was furthermore also shattered during Iceland's Crash, which was therefore not only economic but also political and indeed psychological. Iceland had been frozen out in terms of diplomatic relations. Suffering the deepest crisis in its postwar history, the country was already sucked dry of foreign cash when the IMF finally opened its doors in

November 2008, after Iceland had, under coercion, finally agreed to guarantee the Icesave deposits.

The suffocating feeling of surrendering to foreign forces further added to public frustration. The government thus stood accused of not only failing to protect economic well-being but also of caving in to foreign oppression, which was in direct violation of Iceland's postcolonial national identity. Amid a series of protests, which became known as the Pots and Pans Revolution, the IP/SDA coalition government fell in January 2009 and was replaced by a fragile left-wing coalition. Though the new government faced astronomical difficulties in restructuring the collapsed economy, it was the handling of the Icesave issue that first undermined its credibility in the eyes of the voters.

An interesting shift in public opinion occurred after the President refused the government's proposed solution. The President had stood accused of having become a cheerleader for the Viking Capitalists in the boom years while most government ministers were thought to have been free of any such corruption. The table turned in the wake of the referendum. The President, who had lost credibility in the eyes of the public and had by end of 2009 all but been laughed out of office, suddenly became the country's principal hero. The leaders of the new left-wing government were then in their turn accused of sacrificing Icelandic interests while surrendering to the will of foreign forces. The public thus not only revolted against the IP/SDA government which collapsed during the Pots and Pans Revolution but also turned in a similar way against the new left-wing government when they believed it was not holding its ground against foreign pressure.

In order to stabilize the economy, the Social Democratic Alliance (SDA) made it a condition of entering into government with the Left Green Movement that application for EU membership be sent to Brussels and a draft accession agreement put to national referendum when completed. The SDA hoped that the adoption of the euro would underpin the crisis-ridden economy and provide a more solid base for recovery than continuing to rely on the constantly devaluating króna. Support for EU membership, however, rapidly declined as the Iceave dispute heightened. The EU was thought to be supporting its members, the UK and Netherlands, against Iceland. This commonly held belief was reinforced when the European Commission joined in with the EFTA Surveillance Authority in its case against Iceland before the EFTA Court. Soon, support for EU membership reversed, with polls showing fiercer opposition against membership than ever before (Samtök Iðnaðarins, 2013).

In the 2013 election, the SDA and LGM were heavily punished, mainly for accepting liability in the Icesave dispute when in government. In fact, the SDA suffered the greatest loss of any party in the history of the republic. After the Independence Party decided to support the left-wing government's second Icesave agreement (Icesave III) in late 2011, its support also started to fall, while the Progressive Party, which was the only party always vigorously campaigning against any agreement, surged in the polls when the EFTA Court in early 2013 cleared Iceland of wrongdoing. On the back of its firm stance in the Icesave dispute and by promising to squeeze money out of foreign creditors, the PP more than doubled its support.

As this papers has shown the Icesave debate dictated all politics in Iceland, both domestically and its international relations after the Crash. However, very much contrary to predictions when the crisis hit in 2008, Iceland had performed better than for example the Eurozone countries. The commonly held prediction that Iceland would suffer devastating damage to its reputation by not bailing out its banks and by not covering Icesave with interests was also proved utterly wrong. The contrary can actually be argued, as in the wake of the crisis Iceland was praised in the international media for going against the current and being the only country refusing to dump the private debts of the banking system onto taxpayers' shoulders.

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