

Angry Iceland Defies the World

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Iceland's president has blocked a Bill to pay Britain and Holland up to £3.4bn for Icesave depositors, acknowledging that popular feeling in the island nation is too strong to proceed without a referendum.

The move reopens a bitter dispute and greatly complicates [Iceland's loan agreement with the International Monetary Fund](#). It has already led to a fresh downgrade to BB+ by Fitch Ratings, which called the decision "a significant setback to Iceland's efforts to restore normal financial relations with the rest of the world."

The Icesave law was passed by Iceland's parliament in a knife-edge vote late last year, but a [petition by the InDefense movement](#) has changed the political landscape. The lobby collected 56,000 signatures – a quarter of voters.

President Olafur Ragnar Grimsson said the "overwhelming majority" wanted a direct say over the matter, and that no settlement would hold without their assent.

"It is the cornerstone of the constitutional structure of the Republic of Iceland that the people are the supreme judge of the validity of the law," he said. "At this crucial juncture it is also important to emphasise that the recovery of the Icelandic economy is a matter of vital urgency".

If voters say "No" when the referendum takes place in a couple of months, the accord thrashed out with London and the Hague during months of wrangling will no longer have any credibility, whatever the legal niceties.

The reality is that Icelanders have erupted in collective rage at what they believe to be gross injustice and "gunboat diplomacy" by Downing Street. What rankles is Britain's use of anti-terrorism law to freeze Iceland's assets. The Icelandic central bank was listed besides al-Qaeda as a terrorist body – unprecedented treatment for a NATO ally. Holland was careful not to go so far.

"Importers couldn't get trade finance for food. We feel deeply wronged," said Johannes Skulason from InDefence. Shelves were bare for weeks in Icelandic shops as the banking system disintegrated.

Einars Már Gudmundsson, a novelist, said most citizens were unaware that Iceland's three leading banks – Landsbanki, Glitnir and Kaupthing – were operating as global hedge funds with exposure of 11 times Iceland's GDP.

"I had never heard of Icesave till this happened," said Mr Gudmundsson. "We were told that

what these banks did abroad was nothing to do with us but when it all went wrong the responsibility fell back on us. Profits were privatised, but losses were nationalised.”

He added: “We’re told if we reject the terms, we will be the Cuba of the North. But if we accept, we’ll be the Haiti of the North.”

Both Britain and Holland expect Iceland to stick to its agreement, but the legal claims are far from watertight. Iceland accepted “political responsibility” for the 320,000 British and Dutch deposits in exchange for lenient terms (arguably denied) in November 2008, but never accepted the legal claim.

The UK has refunded private savers up to £50,000, but councils such as Kent are relying on the deal to recoup their money. They have retrieved £100m of the £900m put in Icelandic accounts.

Iceland’s Left-wing coalition – which unseated free marketeers in February’s “Saucepan Revolution” – has backed the Icesave terms, deeming it is the only way for Iceland to move beyond the disastrous episode. The petitioners said they accept that Iceland’s people should foot part of the bill, but object to the “Versailles” terms: a loan at 5.55pc interest, to be repaid within 15 years. The central banks said this will increase Iceland’s public debt by 20pc of GDP.

A report by Sweden’s Riksbank said Britain and Europe share blame for the fiasco. It said “absurd” EU rules – which cover Iceland indirectly – told states to set up a “guarantee scheme” for banks, but never said taxpayers were liable for losses.

The reports added that the UK “hardly bothered” to inform savers that the schemes were ill-funded. “The conclusion is clear: the EU host countries (UK and Holland) are also to blame for Iceland’s disaster. It would be reasonable that they carry some of the burden. It takes two to tango,” it said.

The UK Financial Services Authority said it was unable to stop Icelandic banks raising deposits in the UK under the EU’s “passport” system, even when they began milking UK customers to cover losses at home.

Whatever the rights and wrongs, Iceland was by then already being crushed by a financial tsunami. Britain’s use of anti-terror laws at that moment will not sit pretty in diplomatic history.

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