

Report Part Title: Iceland:

Report Title: Presence before power

Report Subtitle: China's Arctic strategy in Iceland and Greenland

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Clingendael Institute (2020)

Stable URL: <http://www.jstor.com/stable/resrep24677.6>

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3 Iceland: what is China doing there and why?

This chapter looks at China's growing engagement with Iceland. It also notes how increased economic ties might affect relations with the US and the EU.

A geopolitical timeline of Iceland

- 1941 | The United States takes over the defence of Iceland and stations tens of thousands of troops there.
- 1944 | The Republic of Iceland is proclaimed. Iceland becomes a member of North Atlantic Treaty Organization.
- 1994 | Iceland joins the European Economic Area
- 1970 | Iceland joins the European Free Trade Association.
- 2006 | US troops leave Iceland.
- 2008 | Financial crisis hits Iceland, banking sector collapses
- 2009 | Iceland applies for EU membership
- 2010 | Enx signs an agreement digging for geothermal energy in China
- 2010 | China's central bank offers 3.5 billion yuan/51 billion ISK/370 million euro currency swap with the Icelandic central bank
- 2011 | Chinese tycoon Huang Nubo tries to buy territory in Iceland
- 2012 | China and Iceland sign the Framework Agreement on Arctic Cooperation, which was the first intergovernmental agreement on Arctic issues between China and an Arctic State
- 2013 | European Union membership talks collapse
- 2013 | Iceland signs Free Trade Agreement with China, becoming the first European country to do so
- 2013 | China-Iceland currency swap renewed
- 2016 | China-Iceland currency swap renewed
- 2018 | Chinese oil company CNOOC (China National Offshore Oil Corporation) and Norway's Petoro withdraw from oil exploration in Icelandic waters
- 2018 | China invites Iceland to join the BRI
- 2019 | US Vice-President compliments Iceland on rejecting China's offer, without Iceland actually having done so.

3.1 The presence of voids (I): how China came to Iceland

The world woke up to Chinese interest in Iceland when eccentric property tycoon Huang Nuboo tried to buy a patch of land on the island in 2011. Reuters headlined:

*BEIJING (Reuters) – A Chinese tycoon whose plans to buy a large patch of land in Iceland have led to suspicions he is a stalking horse for Chinese expansionism said on Friday Beijing itself may force him to halt the deal because of the furore it has caused.*³⁹

Needless to say, the suspicions were unwarranted and Nuboo's dream did not materialise, as the Icelandic government rejected the purchase. The real story of China's presence in Iceland begins in 2008, when the **global financial crisis** hit the heavily finance-dependent Icelandic economy, creating a geostrategic and commercial void that China was able to fill.

In 2008, three of Iceland's biggest commercial banks defaulted, causing the largest banking collapse in history. Iceland's economy sank into a deep depression.⁴⁰ Already a member of the European Economic Area and Schengen, it was put on a **fast track to become an EU member** in 2009,⁴¹ not in the least because of the opportunity to apply for recovery financing from EU structural funds. It received a loan package from the International Monetary Fund, as well as from the United Kingdom, Germany, the Netherlands and Russia. The Russian loan was scaled down significantly due to geostrategic concerns over possible Russian influence on a NATO member.⁴²

Negotiations continued until 2013, but one key issue could not be resolved, namely that of **fishing quotas**. Fishing is not included in the EEA framework but quotas would become applicable to Iceland if it became an EU member. Iceland's new right-wing government feared the country's economy would be adversely affected by joining the EU, and therefore in 2015 Iceland formally withdrew its application.⁴³

In the same year that it turned away from a closer European partnership, Iceland wrote history by becoming the **first European country to sign a free trade agreement** with the People's Republic of China. It is aimed at boosting fishery exports (42.2% of all exports) from Iceland to China and bringing the Icelandic geothermal industry closer

39 Wee, S.L. and Yan, H. 2008. '[Chinese tycoon says controversy could kill Iceland deal](#)', *Reuters*, 2 September.

40 AP/The Economist. 2008. '[Cracks in the crust](#)', 11 December.

41 Traynor, I. and Gunnarsson, V. 2009. '[Iceland to be fast-tracked into the EU](#)', *The Guardian*, 30 January.

42 Valdimarsson, O. and Suoninen, S. 2008. '[Iceland gets \\$10 billion in aid](#)', *Reuters*, 20 November.

43 AFP/Euractiv. 2015. '[Iceland officially drops EU membership bid](#)', 13 March.

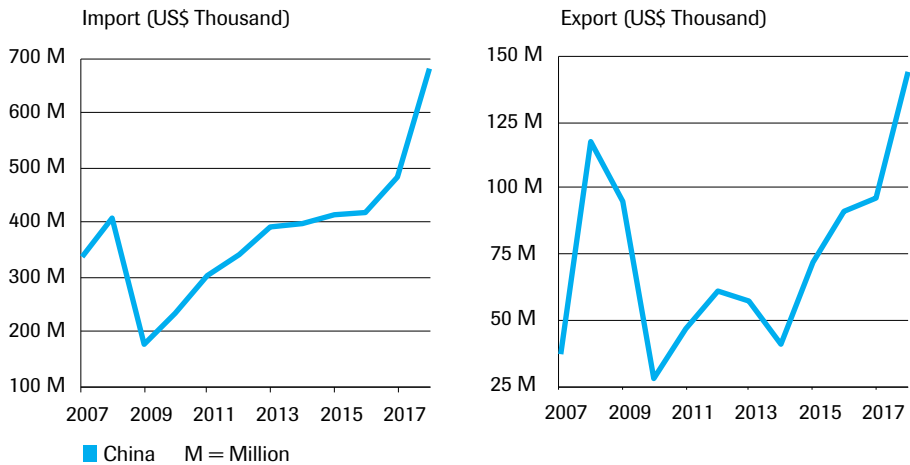
to China.⁴⁴ A spokesperson in Brussels for the European trade commissioner responded to the news of the FTA by saying that Iceland would have to terminate all of its bilateral trade deals were it eventually to join the EU.⁴⁵ Iceland’s membership in the EEA, as a signatory EFTA member, of course, still stands.

The **Netherlands** is Iceland’s most important trading partner: 20 percent of Iceland’s exports go to the Netherlands, mostly fish.

Top 5 export and import partners

Market	Trade (US\$ mil)	Partner share (%)	Exporter	Trade (US\$ mil)	Partner share (%)
Netherlands	1,681	30.22	Norway	879	11.43
United Kingdom	551	9.91	China	680	8.85
Spain	459	8.25	Germany	672	8.75
United States	384	6.90	United States	652	8.48
France	358	6.43	Netherlands	487	6.34

China has become the number two exporter to Iceland.⁴⁶



Iceland Imports in thousand US\$ from China between 2007 and 2018, World Integrated Trade Solution. Source: WITS – Country Profile

44 Škoba, L. 2013. *China-Iceland Free Trade Agreement*, Brussels, Library of the European Parliament.

45 Jolly, D. 2013. 'Iceland and China Enter a Free Trade Agreement', *The New York Times*, 15 April.

46 *Iceland Trade Summary 2018 Data*, World Integrated Trade Solution.

Although the volume of Icelandic exports to China is quickly rising, it is still much less than the Netherlands' export volume. Multiple currency swaps between Iceland and the PRC have fuelled trade between the two nations.⁴⁷ On the same day as it signed its trade deal with China, Iceland's President Ólafur Ragnar Grímsson founded the Arctic Circle, a forum that facilitates dialogue on Arctic governance issues. China was invited to take part from the start, as were all other Arctic Council observer countries.⁴⁸

Of particular interest to China is Iceland's know-how in the field of **geothermal energy**. Due to its geothermal energy industry, Iceland is largely able to fulfil its own energy needs in a climate-neutral way. The leading Icelandic company, Orka Energy, cooperated with Sinopec to develop the joint venture Shaanxi Green Energy Geothermal Development (SGE), 51 percent of which is owned by Sinopec. Sinopec subsidiary Star Petroleum Company has signed an agreement with another Icelandic company, Geysir Green Energy, and in 2018 Iceland's Arctic Green Energy Corporation and China's Sinopec (SNPMF) secured a \$250 million loan from the Asian Development Bank to help develop geothermal resources in China.⁴⁹

According to the PRC's Ministry of Land and Resources, geothermal energy could replace up to 25 percent of China's coal needs.⁵⁰ It is **solely dependent** on Iceland for developing its geothermal industry. China's geothermal market could be worth \$11.3 billion to Iceland, according to Xinhua. It should be noted that for the past two decades, the development of the geothermal energy sector in China has stagnated, despite promising beginnings and undiminished potential.⁵¹ Whether Icelandic cooperation will prove to be the start of a Chinese geothermal renaissance remains to be seen.

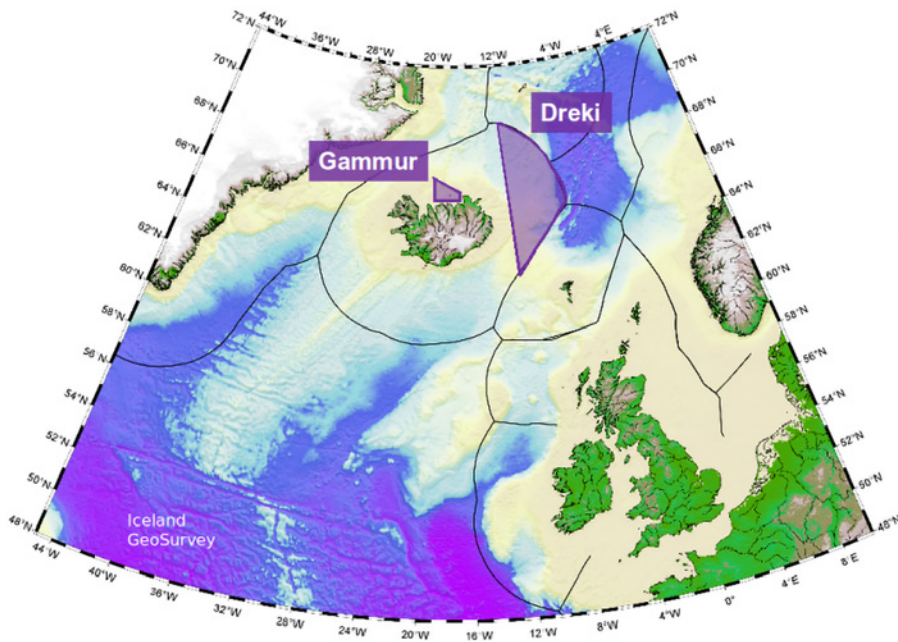
47 [The People's Bank of China and the Central Bank of Iceland have renewed their currency swap agreement](#), The Central Bank of Iceland, 2016.

48 ['About'](#), Arctic Circle website.

49 Kottasová, I. 2018. ['Iceland is bringing geothermal heating to China'](#), *CNN Business*, 27 September; Guschin, A. 2015. ['China, Iceland and the Arctic: Iceland is playing a growing role in China's Arctic strategy'](#), *The Diplomat*, 20 May.

50 Guschin, 'China, Iceland and the Arctic'.

51 Zhang, L. et al. 2019. 'Geothermal power generation in China: Status and prospects', *Energy Science & Engineering* 7.



Source: Iceland Magazine. 2017. ['Report: Oil exploration stopped in part of the Icelandic shelf, but prospectors haven't given up'](#), 6 January.

Moreover, Iceland has sought cooperation with Chinese partner CNOOC in developing **oil and gas** shelf sites, but so far to little avail.⁵² The exploration of Dreki – the most promising site near Iceland's coast – was cancelled when CNOOC, which owned a 60 percent stake in the project, deemed it too expensive and too risky.⁵³ The exploration of Gammur, a relatively young sediment basin of about nine million years, has been put on hold pending environmental assessments.⁵⁴ Whether CNOOC will be involved in exploring the site is not clear.

In 2018, the Polar Research Institute of China (PRIC), together with its Icelandic counterparts, opened the China-Iceland Arctic Science Observatory in northern Iceland. Although initially intended to serve as an aurora observatory, it is now also used to

52 Guschin, 'China, Iceland and the Arctic'.

53 Iceland Magazine. 2018. ['Oil exploration in Icelandic waters comes to an end: Too expensive and too risky'](#), 23 January.

54 [Exploration Areas](#), National Energy Authority.

research satellite remote sensing, raising the question of whether China's presence in Iceland might have long-term security implications.⁵⁵

In conclusion, in Iceland's time of crisis **China filled the strategic void the EU left behind**. The short- to medium-term ramifications ought not to be overstated: China's commercial presence in Iceland is highly specific, flows from transparent commercial interests, and is far from a unanimous success. Yet, given the current geopolitical climate, China's limited presence in Iceland may have long-term strategic effects that should not be ignored.

3.2 A Potemkin presence? A strategic perspective on China's presence in Iceland

So, how must the EU engage with China's growing presence in Iceland? The ambiguity in China's strategy is most powerfully illustrated by the large **new embassy building in Reykjavik** that China has built, which is able to house more than 500 staff.⁵⁶ Strangely, however, it does not. What could be one of China's largest diplomatic missions is mostly empty with only five Chinese diplomats being officially accredited to Iceland.

The building itself may expose the grand strategic ambition to claim an overwhelming presence on the chessboard of Arctic geopolitics. Then again, the seeming hollowness of this impressive presence is reminiscent of the old ruse most commonly known as the Potemkin Village. In order to impress Empress Catherine the Great, it was said that Prince Grigory Potemkin had fake villages built out of painted facades, showing the non-existent splendour of Russian rural life. Is China's presence in Iceland the epitome of **grand strategy**, or a cunning attempt at **Potemkinesk swagger**?

55 Schreiber, S. 2018. '[A new China-Iceland Arctic science observatory is already expanding its focus](#)', *Arctic Today*, 31 October.

56 Eudes, Y. 2013. '[Iceland: Money from China](#)', *Le Monde/Pulitzer Center*, 7 August.

Chinese embassy in Reykjavik



Source: [Wikipedia](#).

There are, beyond doubt, genuine geostrategic aspects to China's presence in Iceland. Most importantly, it should be noted that whether China's engagement is deemed full-bodied or hollow, it is already provoking the other superpower in the **Arctic Arena**, the United States.

In 2018, the then new PRC Ambassador to Iceland, Jin Zhijian, who speaks Icelandic fluently and has studied in Iceland, invited Iceland to join China's grand strategic scheme, the Belt and Road Initiative, saying:

By considering signing the MOU on cooperation within the framework of the 'Belt and Road Initiative' between our two governments and other means, China and Iceland can further enhance practical cooperation in the areas such as trade of agricultural and fishery products, infrastructure construction in aviation and

*communications, green energy, Arctic affairs, tourism, education and people-to-people exchanges.*⁵⁷

This invitation prompted renewed US interest in Iceland. In 2019, both US Secretary of State Mike Pompeo and Vice-President Mike Pence visited Reykjavik. Pompeo announced to local media that Iceland was an important friend of the US and was speaking to the Icelandic government about **security issues related to Russian and Chinese presence** on the island, emphasising the geostrategic importance of Iceland. Pence, on a following visit, stated that:

...the United States is grateful for the stand Iceland took rejecting China's Belt and Road financial investment in Iceland [...] for Iceland to take that stand was an important step and one that we greatly welcome.

Furthermore, Mike Pence said that at a time when the Arctic region was becoming more important, and 'we see more Russian activity in the region, and we see more Chinese ambitions across the Arctic region', that positive **US-Iceland relations** are more essential than ever.⁵⁸ Pence's statement was strange to say the least, as Iceland had, at that point, not explicitly rejected China's offer. Apparently, Pence had hoped that saying it would make it so, and Iceland has not proved him wrong yet, as the invitation is still being considered.

NATO Secretary General Jens Stoltenberg followed up by emphasising the importance of Iceland, a country without an army, to the Alliance. Iceland provides a crucial vantage point from which to conduct **maritime and air surveillance of the North Atlantic** (an aspect of Iceland's geostrategic value China seems to understand equally clearly, given the dual-use capacity of the polar research station).⁵⁹ Moreover, Iceland, as the incumbent chair of the Arctic Council, has an important role to play, according to Stoltenberg, in facilitating dialogue between **NATO and Russia**:

... taking into account the reality that we see a military build-up in this part of the world, we see more Russian presence, we see that they reopen all the Cold War bases, deploy more air defence systems, more submarines, more air presence, in the High North. ... with more weapons, with more planes with more submarines, with more exercises, with higher tensions, it is extremely important that we avoid

57 [Remarks by H.E. Ambassador JIN Zhijian at the reception upon assuming the post and celebrations of Chinese New Year](#); Embassy of the People's Republic of China in the Republic of Iceland, 2018.

58 Hauksdóttir, G. 2019. [Pressure in the Arctic: China-Iceland Relations in the Era of U.S.-China Rivalry](#), Stockholm, Institute for Security & Development Policy, 4 December.

59 Stoltenberg, J. 2019. ['70 Years of NATO and Iceland: a strong transatlantic bond in an uncertain world'](#), Speech at the Nordic House, Reykjavik, 11 June.

*incidents, accidents, miscalculations, that can trigger really dangerous situations and come out of control, and spiral out of control. So therefore, just to manage a difficult relationship is also a strong argument in favour of dialogue with Russia and especially for the High North.*⁶⁰

China's presence may not have been mentioned by Stoltenberg, but it is a crucial factor in virtually all of NATO priorities regarding Iceland. Yet, the **Arctic as such remains a void on NATO's geostrategic landscape.**⁶¹

60 Ibid.

61 For more background on this, see Zandee et al. 2020. [The Future of Arctic Security](#), The Hague, the Clingendael Institute.