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SUBJECT: ICELAND: ANNUAL REVIEW: FLYWEIGHT ASPIRES TO GO UP A CLASS

Part 2 of 2

SP3

[REDACTED] The
GOI have been steadfast in their support of the UK and US over
Iraq, going entirely against public opinion and increasingly vocal
opposition in the Althing. They have pledged POUND STERLING 2.5m
to Iraq reconstruction and are in discussions with us on how some
of this might be used to fit artificial limbs.

12. They have run Pristina and Kabul Airports and have provided a
small EOD team (partly trained in the UK) for work in Iraq, and
are prepared to do so in Afghanistan as part of ISAF. They are
developing a niche role in dispute/conflict resolution and have
contributed to operations in Kosovo and Sri Lanka.

SP4

13. As members of Schengen and the JHA Council they are engaged
in the development of EU border controls. They prefer UK ideas on
ESDP and are prepared to contribute to civilian capabilities.

14. The underlying majority public opinion is in favour of EU
membership. There is a mismatch between this and the political
reality. The gap will continue to narrow in 2005 and be brought
into greater focus by the elections in Norway. The Embassy and
Ministerial, and other, visits in 2004 succeeded in encouraging
wider discussion of the issue. Our message was, and will remain,

they would be welcome partners but it will be for them to decide.

15. An 18 month stint as EU Presidency, acting for the Dutch and Luxembourg and to end with ours, is providing opportunities put right some misconceptions about the EU and to work with the Commission's representative based in Oslo, to put out positive messages about the EU. Iceland prefers the UK's more questioning approach to Europe to what they see as the blind acceptance and federally inspired French and German way.

SP5

16. (see para 7 above). The Embassy will encourage activity that has proved successful in attracting Icelanders' interest and investment. We will have an OATS attache focusing on inward investment to help in the effort. And as they consider models for dealing with their (small) unemployment problem, we will follow up the interest they have shown in JobCentre Plus and, more generally, UK legislation in this area.

SP6

17. Iceland would like to have closer dealings with us on sustainable development. They are increasingly active in Africa, where they also work with the other Nordics in helping African states to be more effective in addressing WTO related issues. Iceland's overseas development aid has tripled in recent years and will rise to meet UN proposed levels.

18. They manage their marine resources as well as any country and better than most. They were delighted when Ben Bradshaw, the UK fisheries Minister, came to see how they managed fish stocks. They are sensitive to potential pollution of the waters around them and were particularly pleased when we announced our success in reducing Tc-99 discharges in Sellafield waste.

19. They took heed of the concerns expressed, mainly led by this Embassy, against scientific whaling. Their programme, announced last year, to take 200 minke over two years will likely be carried out over four years, and mostly to keep pro-whalers at bay. But with continued pressure from the anti-whaling community, the end of whaling might, just, be in sight. However, any significant increase in whale numbers (especially minke) in Icelandic waters could have the opposite effect. Because, instead of taking whale for profit, the issue will then be one of culling to protect precious fish stocks.

SP7

20. Climate change concerns the Icelanders and they have been active in voicing their concerns in the Arctic Council chair over the past two years. They have handed the chairmanship of the Council to the Russians but will welcome greater cooperation with the UK in dealing climate change issues. We will discuss with the Ministry of the Environment ways of working together and consider what opportunities our G8 and EU Presidencies will offer.

21. Iceland uses only a fraction of its potential renewable energy resources (hydro and geothermal). Almost all (99,95%) domestic power is from these resources and only 30% of overall power is from fossil fuel (oil). They have been developing alternative energy sources such as hydrogen since 2000. Reykjavik buses are being converted to hydrogen use and the world's first

hydrogen filling station was opened here in April 2003, with the first buses on the road in October last year.

22. Iceland's plentiful (and green) geothermal and hydro power potential may offer opportunities that we have not, until now, needed to consider. With diminishing oil reserves and high oil and gas prices, that situation could change. We will examine the possibilities in the coming year. The Icelanders' focus has been on developing their energy reserves for use where intensive power is needed, for example in the production of aluminium. Any significant fall in the world price of aluminium could lead to a reduced need for the extra power to be generated. We need to examine how that might impact on our needs.

And finally....

22. Some issues to keep an eye on next year:

- the US-Iceland relationship in light of what decisions are taken over the base;

- will Oddsson get back to full strength or get out of the ring?

This will have a bearing on public attitudes in the Independence Party on Europe;

- the Norwegian elections, the outcome will impact on the perceived need to consider EU membership;

- inflation and interest rates will continue upwards;

- the UK elections, there will be an insatiable appetite for information;

23. We will have ample work and plenty of issues on which to report. We should look at further ways of sharing costs with our German neighbours and perhaps explore ways of sharing the workload too.

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