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Part one of two
SUBJECT: ICELAND: VISIT BY DR MACSHANE; 20-22 JULY 2004: SCENE
SETTER

SUMMARY

1. A little country but size isn't everything. They are rich and getting richer, and we could have some of it. A cultured and fun place. They are less certain of their relations with the US and look to Britain for guidance and inspiration, some even see us as potential allies in the EU. Like the country, the embassy is small but perfectly formed. Dr MacShane is making a timely and welcome visit.

DETAIL

2. Foreign Minister Asgrimsson was delighted when I told him that Dr MacShane wanted to visit Iceland. I can well understand his disappointment at now being unable to host the Minister following the death of his mother, whose funeral is to take place on 21 July. Such is life.

3. As the first Foreign Office Minister to pay a bilateral visit to Iceland since Malcolm Rifkind stopped off for six hours in 1996 to open the new embassy (before that it was William Waldegrave accompanying The Queen on the State Visit in 1990), what sort of country will Dr MacShane find?

4. I returned to Iceland three months ago, after an absence of eleven years, so I too have been looking closely at this curious

island that boasts the oldest parliament and per capita is the sixth (some figures show them as fifth) richest country in the world. I have been asking myself the sort of questions that might cross the Minister's mind. What is going on here; what does Iceland have to offer; where is it heading; what's in it for us; how appropriate is our representation; is it money well spent?

The Political Landscape

5. The Althing was recalled on 5 July, ostensibly to pass legislation to allow a referendum on the stalled Media Bill (my telno 19). However, having brought back the Althing, instead of enacting the necessary referendum legislation, as the President had intended, the Government decided to withdraw their Bill and replace it with a revised version of what the President had refused to sign. Not everyone within the coalition parties agrees with these tactics.

6. This is now causing the sort of strains within the coalition that some are suggesting could (there are those within both parties who say should) lead to it breaking up. While not impossible (the government has an overall working majority of two) I think it unlikely. Both the Independence Party, the senior member of the coalition, and the Progressive Party are doing badly in the polls and their popularity is unlikely to increase much in the course of an election campaign. And while the changes to the original Bill are slight, with a bit of tinkering, they could be enough to see it through the Althing.

7. The main differences in the new Bill are: a delay until 2007 (therefore beyond the next general election) in implementing the new law, thus allowing the electorate an opportunity to pass judgement. And the second significant amendment is the raising of the maximum permissible amount (from 5% to 10%) that market dominant companies may own in mass media ones. The Althing should conclude its deliberations while the Minister is in Reykjavik. What remains even more uncertain is whether the President will deign to sign the revised legislation.

8. These complications, in what is usually a month for fishing, horse riding and travel, precede Asgrimsson succeeding Oddsson as Prime Minister on 15 September. Though less certain, that should still happen but the political shenanigans and the death of his mother is bound to have taken some of the gloss off of what should have been the pinnacle of his political career.

The Economy and Business

9. This is doing very nicely, thank you. Largely as a result of EEA membership (67.5% of foreign trade is with EEA/EU countries) and the liberalising policies of the governments Oddsson has headed since 1991. It is much more diverse than it was when Oddsson came into office and much less dependent on fish, now only 28.5 % of GDP. Fish and fish products constitute some 60% of exports. Iceland's unemployment is about 3% with the highest OECD labour market participation here at 82%; the economy will grow c4.5% over the next two years and just under 3% thereafter until 2010. Corporation tax is only 18% but personal taxes are higher, varying considerably but averaging at about 40% of income. Inflation is at present fairly stable at c3.5% p.a.

10. The banks are no longer state owned or state controlled and have used their new freedom to grow and spread overseas, mostly to the UK.

11. the energy sector is growing, with increasing use of geothermal energy, which has increased fivefold since 1995, while hydro power has almost doubled and constitutes some 85% of the electricity generated. Only c15% of the plentiful and clean energy reserves is being utilised, with the bulk of the electricity being produced going into the production of aluminium, cement and ferro-silicon, as well as domestic use.

12. Other nice little earners are tourism and transport. Over 300,000 tourists are now coming to Iceland, a figure that is expected to increase by 7-10% per year over the next five years. The largest single group of visitors are the British. Icelandair is doing well and one air transport company (Air Atlanta) has, in 10 years, grown from a single aircraft to 45. In April it was chartered by the MOD to fly British troops to the Gulf.

13. The vibrant economy has driven business activity. The Reykjavik stock exchange has doubled in value in the past year and is set to rise another 25% by the end of this year. In the last two or three years, British companies such as Oasis, Goldsmiths, Julian Graves, Karen Millen and Hamleys have been bought up by Icelanders. Two companies alone, Baugur and Bakkavor, employ some 10,000 people in the UK. Apart from KB Bank, Islandsbanki and Landsbanki have set up offices in London and are looking at expanding into Scandinavia. When I was in Iceland last, I came across rich Icelanders, now, many of them are rich by any standards.

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