

Address of Össur Skarphéðinsson, Foreign
Minister of Iceland, when presenting his
Annual Report to Parliament Althingi.

14 February 2013



UTANRÍKISRÁÐUNEYTIÐ

Distinguished President,

Among the most important tasks carried out by the diplomatic service of a small nation is to open as many doors as possible to make new friends and create new opportunities. At the same time, we straighten the paths to old friends. Thus, we safeguard our interests and develop global business gateways.

An integral part of our foreign policy is to create political structures conducive to profitable trade with the outer world. The foreign policy must safeguard our interests in the foreseeable future and at the same time sow seeds beyond our own fields, that may yield a plentiful harvest in the more distant future.

This we have strived to achieve by various means. We have fostered our relationship with our neighbours in the north-west, Greenland and the Faroe Islands. In the west by enhancing our cooperation with the United States and Canada both in the traditional areas of cooperation, and in new ones. Eastwards, we have strengthened the cooperation with our sister nations, the Nordic countries, and we have achieved a closer cooperation than ever before with Russia, and the cooperation with the European countries has been increased greatly.

At the same time we have also opened new doors leading to rising business empires in Asia. There, the Icelandic economy may reap a plentiful new harvest, if the seeds are correctly sown and fertilized.

In fact, we have focused on three sorts of gateways into the future.

Firstly, we have broadened the gateway leading to our principal business partners in Europe. That has been done by means of agreements opening up a way for the Icelandic nation to join the European Union, if it so chooses, and adopt a new and stable currency, the Euro.

Secondly, we have opened a new gateway by putting a new issue on the agenda, the Arctic region. Robust effort in matters relating to the Arctic region is the key to great opportunities awaiting in the region, including oil and gas processing, and in the more distant future fishing in fishing grounds that will be created by the melting of the Arctic ice cap, and navigation in the Arctic. Even so, the opportunity that comes first, chronologically, consists of providing services to the "energy triangle" which I have defined as the space from North-East Greenland to the Jan Mayen Island and from there south to Iceland. The goal is to establish in the North of Iceland a base for services for research, exploratory drilling and processing within the energy triangle. This will profoundly change the economic situation for the population in the North and will impact the economy of the entire country.

Thirdly we have developed the Asian gateway emphasising commerce and free trade, and also, not less significantly, navigation in the Arctic. It contains unique political and economic opportunities for the future. Countries such as Singapore and not least China share with us the same views on the best course for navigation in the Arctic which will later in the century lay straight across the pole. That route might profoundly increase the political importance of Iceland and enhance our cooperation with Europe, America and Asia, in addition to having a significant economic significance in Iceland.

These three gateways contain important future interests.

Distinguished President,

There are also perils alongside the opportunities. We need strength to ensure that the activities of men in the Arctic, not least the processing of oil and gases, will be in harmony with the most thorough rules applicable to the protection of the environment and nature. The key is to establish ourselves as a responsible Arctic State. We have worked diligently to that end.

Two important international agreements have now been concluded, on search and rescue, and on marine oil pollution preparedness and response. Both were concluded in Reykjavik. The opening of an international rescue coordination centre in Iceland is being prepared. At the same time that the permanent secretariat of the Arctic Council has been established in Tromsø, the activities pertaining to two of the fields of operation of the Arctic Council, the conservation of the Arctic flora and fauna, and the protection of the environment, have been permanently established in Akureyri.

The preparation for the cooperation of Iceland, Norway, and Greenland in providing services to the energy triangle is well on its way. The Greenland-Icelandic Chamber of Commerce has been founded, and two successful trade fairs have been held. The Faroese-Icelandic Chamber of Commerce was founded in this past autumn as well. An important agreement was also concluded with Russia on cooperation on navigation and scientific research in the Arctic.

A framework agreement with China regarding the Arctic, and navigation in the Arctic, is being implemented. A formal cooperation between Icelandic and French universities on navigation in the Arctic has commenced on the basis of an agreement concluded with France. The North has become a new axis in the cooperation with the United States of America, not least Alaska. A special memorandum of understanding between Iceland and Norway has entered into

force, providing for a contribution from Norway in the amount of ISK 200 million, in addition to a contribution from us, and on the basis of the memorandum of understanding, a new professorship at the University of Akureyri has been established, named after the Norwegian explorer, Fridtjof Nansen.

We have worked towards the multiplication of contributions to the issues of the Arctic region, and in the past week I signed an agreement on the financing of the Icelandic Arctic Cooperation Network in Akureyri. On that same occasion I said that in the late summer a consulate general would be opened in Nuuk, in accordance with the will of the Althingi.

It can be said that Iceland's powerful initiative in this short period has received a special recognition by the appointment of an Icelander, Magnús Jóhannesson, as the first Director of the Arctic Council's new Secretariat in Tromsø.

Honourable President,

Icelandic ingenuity is now ever more in evidence everywhere. The development of processing of raw materials in traditional industries is accelerating. Creative industries are soaring. In the future we need more new opportunities, and more export markets.

Economic forecasting indicates that up until 2030 80% of the increase in global trade will take place in Asia. The middle class is the motor that drives modern world trade. By 2030 the portion of the consumption of the Indian and Chinese middle classes in the total consumption of that social class worldwide will have increased almost sixfold.

Therefore we have put a special emphasis on the Asian gateway. In a meeting of the Premier Minister of China and the Prime Minister of Iceland in Reykjavík in April, a decision was made to conclude a free trade agreement between the states, preferably within a year. The negotiations are now in the final phase even though an important aspect remains unresolved. Through EFTA, Iceland is well on its way to conclude a free trade agreement with India, and has made headway in negotiations with emerging states in South-East Asia, such as Malaysia and Vietnam. Through the Asian gateway fantastic future opportunities are being created for the Icelandic economy.

Distinguished President,

The three gateways to the future that I have described, to Europe, to the Arctic, and to Asia, are of such a nature that if one is closed, the others remain open.

And they are not mutually exclusive but support each other. They all support Iceland's prosperity. This foreign policy is based on putting the eggs in several different baskets.

The European gateway is the one capable of improving the living standard of Icelanders most in the near future. It revolves around whether Iceland chooses to be a part of a larger and stronger economic unit, where economic stability strengthens both families and businesses, with lower interest rates, lower inflation, lower prices - and rids us of the price-indexation.

The European gateway also revolves around the safety that comes with being a part of a large family that comes to the rescue in difficult times.

It is about increasing foreign investment, and thereby increasing exports, economic growth and creating new and more diverse employment options for the future. That is the experience of other small-sized countries that have joined the EU.

Last but not least the European gateway is about whether Icelanders will have the opportunity to choose themselves whether they adopt a strong and powerful currency instead of the Krona.

In the Central Bank's report on currency and exchange rate policy options it was concluded that the Krona was both the cause and amplifier of fluctuations. Due to the instability of the Krona, businesses can only make short term plans. The instability undermines collective agreements.

Everyone knows that capital controls will always be associated with the Krona in some way or the other. The controls repel investors from the country. And they also drive Icelandic jobs and Icelandic businesses away from the country, as is repeated by every leading figure of all the sectors of the economy these days.

It is for reasons such as these that more than half of the nation's population want to adopt a new currency.

Europe is a gateway to adopt the Euro. I consider it to be the best path to take, as a vast majority of our trade is with the Euro countries. Many more, that eschew the EU, also want to adopt a new currency, - but not the Euro.

The Central Bank's report was very clear with respect to this matter. It stated that the unilateral adoption of the Euro wasn't possible. A unilateral adoption of

other currencies would entail Iceland's absolute transfer of powers over currency matters. Bilateral adoption of another currency would actually be harmful.

The report's conclusions are clear. Iceland has two options, and only two options.

To continue to use the Krona and live with its faults or to adopt the improved Euro. There are no other options.

Both options are realistic. Iceland would not perish even though the Krona would be here for eternity. But the Icelandic economy would never be on an equal footing with the economies of our competitors. The country's competitiveness would decrease little by little, making it increasingly difficult to maintain the level of prosperity enjoyed by other nations, which is already difficult, as is clearly demonstrated in a new report published this week by the Icelandic Federation of Labour on the standard of living in Iceland in comparison to the Nordic countries. There is a threat that the best of the future generations would vote for membership with their feet and move from Iceland - to the European Union.

Now the fact remains that even if the final phase of the negotiations would progress at a flying pace we would not be able to adopt the Euro in the next coming years. But let's not forget that membership would help us immediately to shield the Krona. Iceland would immediately have the opportunity to participate in the European Exchange Rate Mechanism, where the European Central Bank would be committed to keeping the exchange rate of the Krona within an agreed upon range. It is evident that such a cooperation would reduce instability and inflation right away. By accession to the EU the Krona could be shielded as soon as by the next legislative period.

Until then, the Krona must be strengthened as much as possible. That would both prove beneficial when the time to adopt the Euro would come, and it must also be borne in mind that the Krona is one of our two future options. It is not us, but the nation, that will choose.

It is the responsible standpoint to keep both options open, the Krona and the Euro. And precisely therefore it goes against the interests of Iceland to stop the accession process. It would be a reckless mistake as it would take away one of the options once and for all. It therefore serves Icelandic interests to continue the negotiations and ensure that both options will be kept open for the nation - that it will get to choose for itself.

Distinguished President, only the final phase of the negotiations remains unfinished - to open the chapters on agriculture and on the matters of the sea. I am of the opinion that there are already means to compensate farmers for the abolishment of customs protection, and that our unique position will make the negotiations on agricultural matters easier than expected.

The weightiest interests are however to be found in the sea. People say that our interests related to the sea do not go well with the EU. We will lose our fishing grounds. We will not be able to withstand the invasion of foreign capital. Our businesses will disappear into foreign ownership, and the jobs will be pushed out of the country.

All of this is nonsense. The fact of the matter is that by firmly standing our ground in the negotiations we can hold on to what we have, but at the same time open up doors for new and great opportunities for the Icelandic fishing industry.

Firstly, we hold on to our quota share when entering the EU. The principle of relative stability ensures a fixed quota share for each Member State based on historical catch levels. This applies both to local stocks as well as to those migratory stocks on which agreements are made. Today we have fixed contracts on all the migratory stocks except the mackerel stock. That dispute will evidently be resolved before accession takes place.

Secondly we must take measures to guard against a new threat, the possible change in the migration patterns of the migratory stocks to the north due to the warming of the sea. The principle of historical catch levels ensures our share. If the stocks leave our exclusive economic zone we would enjoy the backing of the EU to protect our interests. This applies also to local stocks such as cod, in the event that it would migrate to the north due to warming in the century. Membership would therefore put an Icelandic fence around our fish populations, and is the best way to ensure that our percentage in the catch would stay the same even if the stocks would leave our exclusive economic zone due to changes in the temperature of the ocean.

Thirdly: Why should we not be able to ensure a permanent fisheries management area for Iceland on the same grounds as were sufficient for Norway to obtain such an area north of the 62nd parallel temporarily? They managed to persuade the Union that fisheries were so important north of the 62nd parallel that they would have to manage the fisheries themselves - which was granted. All of Iceland is situated north of the 62nd parallel. Fishing is even more important here than it was in Northern Norway. We do not share our economic zone with the European Union as Norway. Our arguments are therefore stronger than theirs

were. If the Norwegians were able to obtain such a special solution temporarily, Icelanders should be able to get such a solution permanently.

Fourthly, Iceland must ensure that membership will not result in jobs going out of the country. In the Danish fishing industry this is ensured by certain requirements about residence. If that system works in Denmark, it will work in Iceland.

Fifthly, membership will create conditions for one of the world's most efficiently run fish industries to establish itself even more firmly abroad, creating more wealth and opportunities for Iceland outside the country. This can be achieved both through EU agreements on fisheries with third countries, but also through joint investments in countries having underused stocks, and underdeveloped fish processing industry. These are not the least attractive opportunities for the Icelandic fishing industry to grow and thus create wealth that would strengthen Iceland.

Sixthly, the membership would open up a very large market area for numerous small and specialised processing enterprises. They would have the opportunity to be build themselves up on a 500 million people home market without any obstacles and could easily grow into large international enterprises. Tariffs, for example on cooked fish dishes, create a difficult obstacle today for small businesses that produce quality products. It so happens, that such enterprises are emerging in all the principal fishing towns of Iceland. They all offer the world's best and freshest ingredients. Membership of the EU could therefore create a new chapter in the history of Iceland's exportation of fish. Sooner or later the accession to the European Union could give rise to new superpowers in the country's economy, and create numerous new lucrative jobs in fishing towns across the country.

Mister President,

In this address I have emphasised the three principal gateways that I consider to be most suitable for Iceland with respect to trade in the coming years.

But I also want to emphasis that all our activities and relations with other nations reflect that which we consider to be our best quality and most valuable contribution to the world, our respect and fight for human rights. That is the ever-present spirit of the Icelandic foreign policy.

We are among the leading nations in the fight against any sort of persecution or discrimination based on sexual orientation or sexual identity. Our aim is to defend those rights everywhere.

Our support to Palestine is based on the respect for human rights and a resolute stance with the view that no nation may oppress another nation.

In my opinion, the Althingi's finest moment was the recognition of the sovereignty of Palestine without a single opposing vote in 2011. Accordingly, Iceland was the only western-European country to stand with the nations that submitted a draft resolution to the United Nations General Assembly to grant Palestine a non-Member Observer State status during the latest General Assembly meeting. That proposal was an important contribution to achieve more balance between Palestine and Israel, as was demonstrated by the overwhelming support that the draft resolution received.

The empowerment of women, gender equality, the fight against human trafficking and against violence committed against women and girls are also key parts of our foreign policy. Wherever Iceland has a voice, it is raised in support of human rights for women. Iceland is among the countries most dedicated to enforcing the Security Council's landmark resolution on Women, Peace and Security no. 1325.

Our analysis of our contribution to international development cooperation shows that the proportion of projects regarding girls, women and mothers is increasing. At the moment 8 out of 10 fall under that category.

Development cooperation also concerns itself with human rights. I will not speak more about development cooperation today. Our policy will be discussed here in detail soon, when I submit to the parliament Iceland's reviewed development cooperation plan.

On the other hand I would like to say forthright that the Althingi was commendable when it agreed that 0,7% of the gross national income would go to development cooperation in 2019. And it was even more commendable when my contribution proposal regarding the years 2013 and 14 was surpassed by significant additions. Under the current circumstances such generosity is not to be taken for granted.

By this gesture the Althingi demonstrated a firm social solidarity with other nations. The Althingi's standpoint is as follows: A rich nation, like ours, has an ethical duty to help those who need help to help themselves. Icelanders can be proud of such help.