

# I&I

Issues and Images  
ICELAND



October 2006



PHOTO: PÁLL STEFÁNSSON

## Issues and Images

Vol.2 3-2006

**Editor:** Benedikt Jóhannesson  
**Design:** Erlingur Páll Ingvarsson  
**Photographers:** Geir Ólafsson, Páll Stefánsson  
**Proofreading:** Alda Sigmundsdóttir  
**TCl Editorial Consultant:** Lilja Vidarsdóttir  
**Contributor:** Krista Mahr

**On the cover:** *From Reykjavík.* Photo by Páll Stefánsson.  
Published for the Trade Council of Iceland by Heimur Publishing Ltd. [www.icelandreview.com](http://www.icelandreview.com)  
Copyright Heimur Publishing. No articles in the magazine may be reproduced elsewhere in whole or in part without the prior permission of the publisher.

# I&I

## Contents

### 4 ON AND OFF

Icelanders go to the swimming pool to hear the latest rumors; new Icelandic film wows critics; Jón Sigurdsson is elected chairman of the Progressive Party; Reykjavik residents turn off the lights to gaze at the sky.

### 6 AN EMPTY NAVAL BASE

The United States decided unilaterally to close down the military base in Keflavik. Now that the forces have left, the area must be put to new use.

### 8 WHY ICELAND?

A few years ago Reydarfjörður was a quiet place, but is now full of life. Alcoa decided to build its first new smelter in almost 20 years there. Why did they choose Iceland?

### 10 ADVENTURE WITHIN REYKJAVÍK

Almost all foreign visitors to Iceland come to Reykjavik. What can you do in the city other than visiting the neighborhood bars? It turns out that it has much to offer those who like the outdoors.

### 12 DRAWING PICTURES WITH WORDS

Einar Káráson is one of Iceland's most popular writers. He has a gift for describing unusual people.

### 13 A SWEET FRIEND OF THE ICELANDIC PEOPLE

If you have a sweet tooth you will like Nói-Sírius, Iceland's biggest candy maker. No Christmas in Iceland is complete without a box of their chocolates and now the company has started to export to both sides of the Atlantic.

### 14 THE WORLD IS OUR PLAYING FIELD

What do China, Latvia, Britain, the Ukraine and Chile have in common? The answer may not be obvious, but Icelanders have investments in all those countries. And not only in one type of business.

### 16 HOW TO MEASURE FEELINGS

Húbert Nói is one of the most spectacular painters in Iceland today. He employs classical techniques for his very modern paintings.

### 17 THE FIRST FEMALE MINISTER FOR FOREIGN AFFAIRS

Valgerdur Sverrisdóttir is used to being in the spotlight. She has been a member of Althingi since 1987 and a cabinet minister since 1999. Now she is the first woman to become Minister for Foreign Affairs.

### 18 ROMANTIC AND FIRST CLASS

If you come to visit Iceland, we have hotels for every need. Many exciting hotels have been added in recent years.

### 20 A DIARY OF BUSINESS AND POLITICS

The top stories in business and politics in Iceland from June to October 2006.

### 22 EXCITING DEVELOPMENT AT STRAUMUR-BURDARÁS

Fridrik Jóhannsson has just returned to the helm of the company after being away for a year. He will have a lot to do since the investment bank is growing fast.



TRADE COUNCIL OF ICELAND  
Borgartún 35, IS-105 Reykjavik. Tel +354 511 4000 Fax +354 511 4040  
[icetrade@icetrade.is](mailto:icetrade@icetrade.is) [www.icetrade.is](http://www.icetrade.is)



INVEST IN ICELAND AGENCY  
Borgartún 35, IS-105 Reykjavik. Tel +354 561 5200 Fax +354 511 4040  
[info@invest.is](mailto:info@invest.is) [www.invest.is](http://www.invest.is)



MINISTRY FOR FOREIGN AFFAIRS  
Rauðarárstígur 25, IS-150 Reykjavik. Tel +354 545 9900 Fax +354 562 4878  
[vur@utn.stjr.is](mailto:vur@utn.stjr.is) [www.mfa.is](http://www.mfa.is)



PHOTO: GER OLAFSSON

### Hot tubs

## Where History is Made

We all know that it is important to keep up with the news. Many people read all the newspapers in the morning (in Iceland we have three daily papers) and then listen to the news on the hour, every hour. In between they check every Internet site that might carry something new.

But there are some stories that we simply can't hear on the news and which even the Internet does not carry. Rumors. We all love them, but claim that we don't. The best thing would be to hear them without seeming interested. Then we can come at night and say in an offhand way, "Do you know what I heard today?"

In Iceland we are lucky. Many people like to swim every day and after 200 meters in the pool it is very relaxing to soak in hot tubs filled with geothermal water. This is the one place where you can depend on every social problem being solved, every gripe being vented and every rumor passed on. Whenever anything happens that we should not hear, we will hear about it there. And we will hear about it even if it never happened. In the hot tub you see young and old, rich and poor, men and women, sitting side-by-side talking, discussing, debating, arguing and agreeing on everything imaginable. Those who contribute the most are popular, but even if you just listen, nobody will mind.

The regulars there could survive being without the radio news for a few days. But the hot tub? No, never.

### Children

## New Icelandic Film Wows Critics

A new Icelandic film, *Börn*, or *Children*, premiered in September. In Iceland it is always exciting when a new Icelandic film is released. With only a handful of domestic films released each year, people follow each one with considerable interest. This time critics were very enthusiastic. Four or five stars out of five were common appraisals.

*Children* is a realistic movie set in modern-day Iceland. It follows the hardships of impoverished people who are struggling from day to day. A boy lives with his mother and three sisters. His father is a violent criminal who wants to reach out to his son. The movie plays masterfully on the dichotomy between the innocent child and the immoral father.

Director and scriptwriter Ragnar Bragason has succeeded in making a realistic movie about unfortunate people. The actors have all received critical acclaim, particularly Gisli Örn Gardarsson (pictured) as the misguided father and Nina Dögg Filipusdóttir as the struggling mother.



PHOTO: GER OLAFSSON

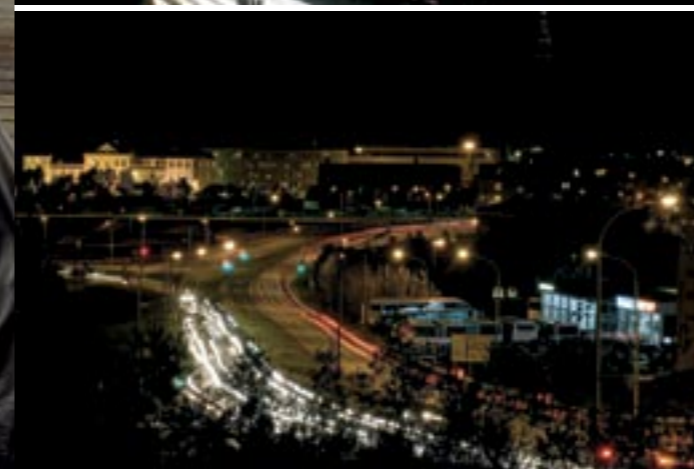
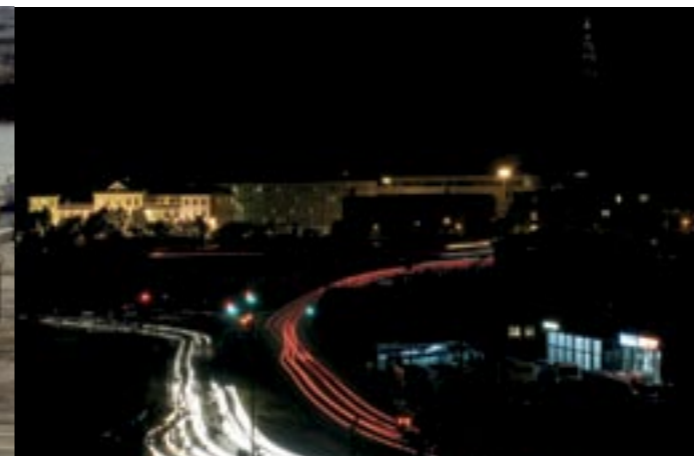


PHOTO: GER OLAFSSON

### Progressive Party:

## Jón Sigurdsson Elected Chairman

When Prime Minister Halldór Ásgrímsson announced that he had decided to exit from the political stage, it came as a complete surprise. He had only been Prime Minister for a year and a half and most people expected him to finish the term until the next elections in spring 2007. However, after the party had lost ground in the May 2006 municipal elections, Halldór Ásgrímsson announced that he thought it was time for a change at the helm of the party. He resigned as Prime Minister on June 15 and said he would also step down as party chairman at a special party convention to be held in August. It was clearly not a carefully planned move since there was no obvious heir in sight. At first ideas surfaced that former Minister of Industry Finnur Ingólfsson would be a good choice, but he had left politics a few years earlier and said after careful consideration that he would not return. Minister of Agriculture Gudni Ágústsson also said that he did not want the job. Suddenly a newcomer on the political scene, Jón Sigurdsson, former director of the Central Bank, said that he was prepared to shoulder the responsibility. He had become Minister of Industry and Commerce after a cabinet shakeup following Halldór Ásgrímsson's resignation. After a short fight for the post against Minister of Health Siv Frídléifsdóttir, Jón Sigurdsson came out as a winner at the convention. Jón Sigurdsson was previously rector of the school of the cooperative movement and manager of the cooperative employer's organization. He turned 60 this summer.



PHOTO: GER OLAFSSON

### Reykjavík

## Turn off the Lights

When writer Andri Snær Magnason first came up with the idea of turning off all lights in Reykjavik for half an hour, many people shook their heads. It was such a far-fetched idea that it just could not be done. But, like many unusual suggestions, it just needed time. The idea was that if all lights were turned off it would be easier to see the sky. Many young people in Reykjavik had never really seen the stars above the city, except the very brightest. The city council finally agreed that the streetlights could be turned off for half an hour on a late September night, in conjunction with an international film festival. In the words of Andri Snær: "In the movie theatre you turn off the lights at the beginning of the screening. And what greater screen than the magnificent sky?"

People were encouraged to turn off the lights in their homes and most people did. Of course not every light was turned off. Shops and hospitals could simply not be in the dark. So even if the streetlights were all turned off promptly the city was not completely dark. But it was enough for excited enthusiasts who gazed at the sky. Unfortunately, it was mostly cloudy so the stars were hidden. But Andri Snær was not disappointed because he had shown that it could be done and he thinks it will be done again in the future.

# An Empty Naval Base

This spring, the only Wendy's Burgers in Iceland closed, and with the flip and sizzle of that last square patty, Cold War politics finally packed up for good.

Wendy's was one of a handful of businesses located inside the gates of the sprawling United States Naval Air Station at Keflavik. But now everything – the burgers, the Budweiser on sale at the military store, the base's yellow school bus – all is gone. The United States Naval Air Station that set up camp in this lava field in 1951 closed its metal and electrical wire gates this fall.

With these slices of Americana went the American naval and air force service members stationed there, 600 jobs provided to Icelanders, helicopters that have assisted Iceland with search and rescue, and four F-15 fighter jets that have symbolized the United States' 1951 promise to provide Iceland with defense.

No one can fairly say the decision was surprising, but it was shock-

ing nonetheless. The United States officially broached the subject of removing its F-15 fighter jets in 2003. Bilateral talks on the matter have bounced back and forth between Reykjavik and Washington since, until February, when the United States made a unilateral announcement to remove its jets. The base has now been turned over to Iceland.

To politicians, the one-sided move was a slap in the face, but waves of protest did not ripple through society. Icelanders do not seem gripped by fear that their nation, without a military of its own, will be left vulnerable with American protection moving off-island.

Arni Sigfússon, mayor of Reykjanesbær, says that of course it is a

blow to the community that the US troops are leaving. However, the community has been on the rise economically and that has softened the effects.

In October the Development Company for Keflavik Airport was founded and one of its tasks is to explore the possibilities that the defense area has to offer. The company will maintain some buildings and other structures in the former base. It will also sell or lease some buildings, oversee cleaning of the area and possibly tear down some buildings that are in bad shape or no function can be found for.

Arni Sigfússon said that he was basically pleased with how negotiations with the US had ended. "We get to hold all the equipment for running the airport at a reasonable price."

Many ideas have been discussed for the use of the base. The Ministry of Justice has put forward the idea of moving the Police Academy to Reykjanesbær. Others have voiced interest in using the military area, including firemen. Some mention that hangars could be turned into movie studios and possibly some university training could be offered at the spot.

The mayor adds: "We know it is a difficult task but we are optimistic because it also offers many opportunities." □

KLM and BJ

Icelandic police officials and US Navy personnel lower both flags at the Keflavik Naval Base.



# Why Iceland?

A cluster of small coastal villages dotting Iceland's East Fjords are sprouting back to life, a resurgence fueled by one of the world's largest aluminum smelters.



A few years ago the town of Reydarfjörður in East Iceland was a very quiet place. Not much seemed to be happening there. But now everything has changed. When you drive down the road from Egilsstaðir, in the northeast, you see life again. New buildings are rising everywhere. If you think the atmosphere is Klondike-like, you are not far off. But you haven't seen much until you drive through the town and the huge buildings of the Alcoa aluminum smelter come into view. The aluminum plant has changed life in Reydarfjörður profoundly. Almost everyone seems to be happy about this.

In 2002, Alcoa arrived. A deal to build a smelter was struck, and by 2004 the world's largest aluminum company broke ground on one of the world's largest aluminum smelters, just outside Reydarfjörður. Ever since the backhoes and heavy-earth movers appeared, accompanied by as many as 1,600 foreign workers from as far away as Australia and New Zealand, Fjardabyggð has enjoyed an economic sonic boom.

One question seems to loom on the horizon. What brought them here? Reydarfjörður is not exactly the midpoint of the universe for most people, so why does a multinational corporation like Alcoa decide to build its first plant in almost 20 years there?

Alain Belda, CEO of Alcoa, addresses that question. "Fifty percent of the cost of an Aluminum plant is the investment cost and the

cost of energy. If we take China, for example, the cost of energy is much higher there, but the building cost is only one third of what it is in Iceland. We can find the cheapest energy in the Middle East or Russia, but building costs are higher. We always have to look at the whole picture, transportation, cost of capital, human capital and the interaction of these components."

So one of the reasons is the price of energy, but there are other factors as well. On the whole, Icelanders are well educated, the labor market is stable and government has encouraged foreign investment by simplifying labor laws. In general the standards are European, which means that investors can trust that levels of security and quality are high.

Alcoa only entered the picture after Norsk Hydro had been waiting years to decide on whether or not to build an aluminum smelter. The decision did not take Alcoa long. Within a few months of first coming to Iceland the company decided to negotiate a contract with the National Power Company, Landsvirkjun.

Representatives of Alcoa have not wished to discuss the price except to say that it is sufficiently low.

One of Alcoa's executives, Brent Reitan, says that Alcoa had been looking for opportunities to increase their production of aluminum by building an environmentally friendly plant. "I know Iceland well because I have come here often over the years, and I recommended that

Alcoa explore the possibilities in the country." Reitan previously worked for Elkem, owner of the ferrosilicon plant in Hvalfjörður, southwest Iceland. "The company welcomed the opportunity to buy environmentally clean energy."

"Many people may think that it is simple to build a plant this big, but it is a giant undertaking to hire and train about 400 people in a short period of time. We make very high demands on safety, environment and quality control. Everything has to run smoothly from day one," says Jean Pierre Gilardeau, chairman of the board of Alcoa.

"The Icelanders themselves have to decide whether or not to build more power plants. You should look at pollution from aluminum plants in a global context. Aluminum is light so energy is conserved when it is used for cars rather than using heavier metals. It lasts long and can easily be recycled. I feel the net effect on pollution is positive."

Gilardeau continues: "The smelter in Reydarfjörður will be the most modern of Alcoa's plants. In many ways it will be an improved version of our smelter in Deschambault, close to Quebec City in Canada. We like to work in small towns. We understand the problems and we know how important it is to have a stable employer. On the other hand we want to have a stable workforce. But I have a good feeling about this project. I feel like I'm coming home when I come to Reydarfjörður." □



From Reydarfjörður.

# Adventure Within Reykjavík



A visitor comes to Iceland and decides to stay a few days in Reykjavík. It is most natural for him to ask: What should I do these next few days?

Many residents would be at a loss as to how to reply. Some might stammer that a bar might be a good idea, but then again, people can do that anywhere. What makes Reykjavík special? What would the local people do?

### A STROLL IN THE PARK

The most popular pastime is probably going for a walk. Some people like to just walk in their specific neighborhood, but that is probably more for exercise than fun. However, Reykjavík has plenty of interesting walks. Many people walk by the sea, especially on the northern side. In spring and fall you can see spectacular sunsets if you are out late enough, and the beautiful sculpture Sun Carriage, down by the shore, can be enjoyed year-round. Some like to walk in the Reykjavík Botanical Gardens in Laugardalur, close to the Laugardalshöll arena and the soccer stadium. You know you have found it when you see the sign that states proudly in Latin: *Hortus Botanicus Reykjavicensis*. For someone interested in botany it is a find, but even if you just like looking at beautiful

flowers (and reading their names in Latin and Icelandic) you will be surprised at how many different species may be found in the garden. While there you can enjoy a cup of coffee in the garden's restaurant (open only in summer) or sit on a park bench and take pleasure in the silence among the trees.

The area around The Pearl (the restaurant on top of the hot water tanks) is also a very good way to see Reykjavík. Because The Pearl is on a hill, it is the one place from which you can see most of the city and the surrounding mountains. The cemetery to the south of The Pearl is also good for a tranquil walk.

Not many tourists make it to the Ellidaárdalur valley, but for those who do, it is well worth the effort. The river Ellidaá runs through the valley and forms a number of small waterfalls on its way. Many inhabitants of Reykjavík are surprised the first time they go there to find such an oasis in the middle of the city.

For the more adventurous there are a number of mountains within a twenty-minute drive from the city center. An easy one is Úlfarsfell, a mountain that is now practically

in between the new subdivisions rising on the outskirts of the city. The walk to the top takes 30 to 45 minutes but once you are there you will have all of Reykjavík at your feet. This is just a walk and requires no climbing. Úlfarsfell is also popular with people who dare to go hang gliding. However, we would not recommend that for those who have never tried it before.

A good visit to Reykjavík becomes great if you can make it to the top of Mount Esja, the favorite mountain of most of the city's residents. You can see it from the northern coast of Reykjavík, on the opposite side of the bay. This walk takes longer, but most people can hike to the top in two hours or less. If you are afraid of heights, you might want to skip the very last trek to the top. On some sunny days you will find hundreds of local people on the path up and down the mountain.

### THE ISLANDS

In the fjord to the north of Reykjavík (Kollafjörður) there are a number of islands that are not frequently visited. The easiest to

access is probably Videy, with its old church and historical buildings. Yoko Ono recently introduced a proposal to construct an illuminated peace column on the island. It would not be the first modern work of art on Videy, as in 1989 the famous sculptor Richard Serra created a public sculpture, *Áfangar*, on the island. The project consists of nine pairs of basalt stelae erected throughout the western part of the island.

### ART AND HISTORY

In every town one can visit a number of museums and Reykjavík is no exception. Here we will name only a few. The National Museum of Iceland recently underwent complete renovation and now has a stunning permanent exhibition that makes clever use of multimedia techniques. This is used even more effectively at the Settlement Exhibition in the center of Reykjavík, entitled *871 +/- 2*. According to history the first settlers came to Iceland from Norway around the year 870. Recent archeological findings seem to confirm that indeed the settlers (Ingólfur

Arnarson and his wife Hallveig Fródadóttir) might have built their farm in Reykjavík around that time. The exhibition is highly interesting and innovative and should not be missed.

The Reykjavík Art Museum and the National Gallery of Iceland are both situated in downtown Reykjavík, the former by the harbor and the latter by the city pond. Both offer interesting exhibitions, both Icelandic and international. There are also many smaller museums worth visiting, some of them devoted to the works of only one artist. Examples are the museums devoted to the works of traditionalist sculptor Einar Jónsson (1874-1954) and modern sculptor Ásmundur Sveinsson (1893-1982).

### SWIMMING AND EXERCISE

Swimming is the most popular sport in Iceland. There are 16 swimming pools in the Reykjavík area, most of them outdoors. The pool in Laugardalur is the biggest and best known, yet many of the other pools are also worth a visit. Many Icelanders swim as part

of their daily routine. Some start their day at the pool, while others go later in the day. Many pools are also open evenings. Imagine a starlit night with northern lights. On such occasions it is difficult to top the experience of gliding through the water on your back, looking up into the sky.

You can also swim in the sea in Reykjavík. The man-made Nauthólsvík beach has a small seawater area where you can swim, but unless you go on a very warm day (and how many of those do we get in Iceland?) you should probably stay out of the sea.

Many people find it very difficult to break their daily routine of going to the gym while traveling. In Reykjavík there is no need to. You can find a number of fine gyms, including the very big and extremely modern Laugar, by the Laugardalslaug swimming pool. From very early in the morning until late at night it is packed with people, yet it is so big that there is always room for one more. □

PHOTOS: PALL STEFANSSON



## Drawing Pictures with Words

Observer and storyteller Einar Kárason.

Einar Kárason is one of Iceland's most popular writers. He has a gift for describing unusual people, the underprivileged and the extraordinary. In his twenties he began writing his *Devil's Island* trilogy and the books were very popular from the outset. The setting is Reykjavik in the 1950s and 60s and the narration follows a family that lives in barracks left behind by the Americans after the WWII occupation. A dominating, fortune-telling matriarch and her diminutive husband have a large number of children and grandchildren living in the very small confines of the barracks, and throughout the book we observe their difficult battle with life. The book almost begged to be adapted for the stage, which duly followed. In 1996, filmmaker Fridrik Thór Fridriksson made a movie based on the story, starring actor and director Baltasar Kormákur as the alcoholic loser that slowly takes control of the barracks. The story has enjoyed a wide following in all of its incarnations.

Following his initial success, Einar Kárason

wrote about the Icelandic mafia. In later years he has published two novels that are set in the past. Both can be described as adventure stories with lots of fighting, heroes and villains. Yet in his most recent novel, *Stormur* ("Storm" – 2004), he returns to the 20th century. The main character, Stormur, is determined to go through life without doing anything to make a living. He lives on welfare in Denmark "because there is money to be made" from the Danish welfare system. He lets the state take care of him and his family while he devotes himself to more important matters such as beer and rock 'n roll. The book has been hailed as one of Einar's best books to date and was nominated for the Nordic Council's Literary Award in 2005.

Sometimes his stories are based on short anecdotes that he may have heard and from those bits he spins stories and novels. The strength of Einar Kárason's work is his ability to draw pictures with words. An example is his description in *Devil's Island* when Baddi, the

alcoholic grandson-turned-hero, goes off for a visit to the United States and returns with an Elvis hairdo, a black leather biker's jacket, shades, and a red Plymouth with fins, which catapult him instantly into what passes for the local avant-garde. The fast-paced action in *Nordurljós* ("Northern Lights" – 1998) and *Óvinafagnadur* ("Enemies Battling" – 2001) holds the reader glued to the book until the very last page.

Einar Kárason's novels have been widely translated. He is popular in Germany and Denmark and *Devil's Island* has been translated into several languages, including English.

Einar Kárason is not a one-book author, and he is not a one-style author either. He has published poetry, short stories, biographies, children's stories and more. This year he traveled with author Ólafur Gunnarsson down Route 66 in the US and a book based on their experiences is due out before Christmas 2006. □

PHOTO: GEIR OLAFSSON



Finnur Geirsson, President of Nói-Sírius



## A Sweet Friend of the Icelandic People

Nói-Sírius expands beyond domestic shores.

No camping trip in Iceland is complete unless you remember to bring stockfish and semi-sweet Sírius chocolate with you. The somewhat bitter taste of Sírius chocolate has been an essential part of the supplies of almost every Icelandic outdoor traveler since 1933. The old fashioned packaging has remained pretty much the same from the very beginning. The factory once tried to sell the traditional two plates of chocolate packaged in more modern wrapping, but quickly had to return to the original. It was just not the same to eat this traditional treat without first ripping off the good old-fashioned wrapper.

Nói-Sírius is by far Iceland's biggest candy producer. It was established in 1920 and has remained in the same family almost from the very beginning. The current president of the company, Finnur Geirsson, is the grandson of Hallgrímur Benediktsson who took over as main owner in the 1920s.

Nói-Sírius produces not only chocolate but a wide variety of candies, as well. This includes the pastilles Tópas and Ópal, sugar twists, assorted chocolates, Easter eggs and

more. Around Christmas people flock to the stores to buy boxes of Nói's assorted chocolates and shortly thereafter the Nói-Sírius factory starts producing chocolate Easter eggs, filled with many types of candy and a slip of paper containing a wise Icelandic saying, such as, "Early to rise, you will become wise".

In recent years, overseas residents have had the opportunity to sample some of the sweets that Icelanders think are the best in the world. Russia and the United States form the biggest markets for the bitter-tasting Ópal and Tópas pastilles, advertised as "ideal for lovers and bartenders". Denmark and Holland are also growing markets for the pastilles under the brand names Oxydent and Fakta.

Finnur Geirsson explains that so far the only exports of Sírius chocolate are to the US. Americans were quick to learn to appreciate the great taste of this Icelandic delicacy and even got the old fashioned packaging. In the Washington area, four types of Sírius chocolate are sold in the popular Whole Foods Market.

Yet exports are not the only overseas expansion. Nói-Sírius established a small presence in Latvia in the late 1990s, later buying a share in Latvia's biggest candy manufacturer, Laima. After a few years Nói-Sírius sold its stocks in Laima and started to consider other investments abroad. In March 2006 the company bought established English chocolate company Elizabeth Shaw. The company's headquarters are in Bristol but it has outsourced production to three companies, one in Germany and two in England.

An interesting way to be introduced to the great taste of the bitter pastilles Ópal and Tópas is by consuming the Icelandic liqueurs bearing their names. They have been popular in Iceland since their introduction onto the market last year and briefly gained world renown when director Quentin Tarantino declared that they were the worst drink on earth after consuming them for an entire evening. Most people would not agree and think the famous director may have been describing how he felt the following day. □

PHOTO: GEIR OLAFSSON

# The World is Our Playing Field

Icelanders continue to seek opportunities abroad.

What do China, Latvia, Britain, the Ukraine and Chile have in common? The answer may not be obvious, but Icelanders have investments in all those countries. And not only in one type of business. Seafood, pharmaceuticals, forests and fashion have all been on the radar of Icelandic companies, along with many other businesses.

It has only been 13 years since Icelanders were granted permission to invest abroad without getting special authorization each time. Before that, individuals could only invest ISK 1 million (about USD 14,000) per year. Companies were allowed ten times that amount. But times have changed. Now one can read stories almost every day about Icelandic companies buying companies abroad. Here are a few.

## DENMARK

The most famous acquisition in Denmark may be the landmark Magasin du Nord, a department store in the heart of Copenhagen. Other stores have followed, including Illums, another department store, and Merlin, an electronics retailer. FL Group bought low budget airline Sterling, and Kaupthing owns FIH investment bank. Many other examples could be mentioned.

Denmark holds a special place in the hearts of many Icelanders. They like to stroll in Copenhagen, go to Tivoli and visit LEGOLAND. Most Icelanders study Danish in school and can get by in the language. Now it seems that Icelanders also like to invest in this country that previously held Iceland as a colony. Those investments have been diverse.

Some of the companies acquired were losing money and need to be reorganized. Others were making money and are still run by the same management as before.

Not all Danes have welcomed the Icelandic investors. Some Danish newspapers, most recently tabloid Extrabladet, have been very negative and suggested that Icelanders are using Russian money for their investments. Yet they seem to have very little to back up their claims. It is well known that Icelandic investors owned a brewery in St. Petersburg and sold it to Heineken for a high price. This was a much-publicized deal that made the owners a great deal of profit. That money came from Heineken, a Dutch company.

## ENGLAND

In England the focus seems to have been on retail stores, both in food and fashion. Baugur Group has bought a number of stores, including Iceland frozen foods chain (called that even before Icelanders bought it!), House of Fraser, Hamleys toy retailer, Goldsmiths jewellery chain, The Shoe Studio, Karen Millen, Coast and Whistles.

But there have been other investments as well. Samherji owns fishing companies in Grimsby and Hull, the Icelandic banks all own banks in England, and last but not least Baugur Group owns the world's largest toy store, Hamleys.

England is the easiest country to fly to from Iceland. The trip only takes two and a half hours and there are many flights every day. English culture has in many ways been influential in Iceland and it is not uncom-

mon to see British pop stars or politicians in Reykjavik. Many Icelanders would consider both Denmark and England "home turf".

## OTHER COUNTRIES

Some Icelanders have been even more adventurous. Norway, Sweden and Finland are fellow Nordic countries and many Icelanders have studied at universities there and hence know them well. Icelanders also followed with interest as the Baltic States Estonia, Latvia and Lithuania gained their freedom, and Iceland was the first nation to formally acknowledge their declarations of independence. Many investments have followed, primarily in Latvia. Norvik investments has bought timber factories and even a bank.

MP Investment Bank recently bought a bank in the Ukraine. HB Grandi fishing owns a seafood company in Chile. Actavis pharmaceuticals owns factories in many countries, including Bulgaria and Turkey. The list goes on.

## WILL THE SUCCESS CONTINUE?

Some people have been very skeptical about the sudden rise of Icelandic investments. Stories like the one in Extrabladet have surfaced before. Bjarni Ármannsson, CEO of Glitnir bank, says that Icelanders have to prove themselves in the international arena. "We have to prove that this fast growth is based on a strong business foundation in Iceland. ... Those people who are investing abroad have been doing very well in Iceland, merging companies and running them in a rational way." □



Above: **Magasin Du Nord** in Copenhagen. Below: **Hamleys** in London, the world's largest toy store.



PHOTO: MIBLJONAS ERENDSON



## How to Measure Feelings

Húbert Nói is a Modern Classical Artist.

Húbert Nói is one of the most spectacular painters in Iceland today. He claims that working in the Icelandic interior, in the complete silence that surrounds you, changed him in a measurable way. "You can say it was the whole spectrum, from a feeling of fear, to awe at the great beauty."

His technique is unusual for a modern painter. He paints landscapes with oil paint, and carefully applies one coat after another. You'd better be careful with his paintings because they are not easy to restore if they get damaged. The names are inscribed on the frame and they are most unusual. For example: 64°05'77" N 21°44'45 W 360° True North. The names are the GPS coordinates of the point where he is when he paints. These names are

not filled with romantic sentiments in the same way as "Blue Mountain" or "Visions of the Highlands" might be, but Húbert Nói is a natural scientist by training and to him they represent the memory of the time when he started his work. "My paintings are still, but in my mind I go back and try to remember where I keep this memory inside myself." He wants to show us the world's duality. On one hand our feelings, on the other the numbers that surround us all the time.

He claims that two men influenced him the most: De Chirico, a very emotional artist, and Marcel Duchamp, an intellectual. From the very beginning Húbert Nói has been working with these two elements, emotions and intellect.

His paintings are a masterful play on light and shadows. In some ways they are reminiscent of the old masters but they are clearly modern, clearly Icelandic. Yet Húbert Nói has not always painted landscapes. Previously he experimented with the theme "Picture within a picture" but his technique was the same. It is hard to capture the unusual beauty of his paintings with photographs. One really has to see his works live to experience them fully.

"Art is the best instrument to investigate the feelings and experiences of people. We are strong scientifically, but emotionally we are weaker and the best instruments are music, art and the written word." □

PHOTO: PALL STEFANSSON

PHOTO: PALL STEFANSSON



## The First Female Minister for Foreign Affairs

Valgerdur Sverrisdóttir is a pioneer.

Valgerdur Sverrisdóttir is used to being in the spotlight. She has been a member of Althingi (Iceland's Parliament) for almost 20 years. She became Minister of Industry and Commerce in 1999 and since then has been at the forefront of the fight over the Kárahnjúkar Power Plant. The Kárahnjúkar plant will supply energy for an aluminum smelter in Reydarfjörður and is the biggest-ever project of its kind in Iceland. When it went through Althingi, more than three out of four MPs supported it. Since then environmental groups have stirred up the debate concerning the effect of such a large project on the Icelandic highlands. Valgerdur Sverrisdóttir has championed the cause for those who want to harness the energy of the glacial rivers. In 2003 she won a solid victory in her constituency, the Northeast district. Her Progressive Party had four members elected to Althingi from the district, but previously had only two.

Valgerdur is a farmer and has run a farm with her husband since 1974.

After the cabinet shakeup in the summer of 2006 the Progressive Party was awarded the Ministry for Foreign Affairs and Valgerdur became the first woman in the country's history to head the ministry. Traditionally, the ministry had been assigned to party leaders. This is the first time since 1987 that someone who is not party chairman becomes Minister for Foreign Affairs. Valgerdur's first assignment as minister was to negotiate along with Prime Minister Geir H. Haarde the terms for the withdrawal of the US military at Keflavik airport.

The new world order brings new challenges for the Ministry for Foreign Affairs. Iceland has sent peacekeeping forces to various places, including Sri Lanka and Afghanistan. Iceland is also fighting for a seat on the United Nations' Security Council in 2009 and the Minister for Foreign Affairs has to be active in that battle.

When Valgerdur Sverrisdóttir took over as minister she said that she wanted to be active on behalf of business. She said that she saw this function as one of the main responsibilities of her ministry.

Many expected Valgerdur to run for chairman of the Progressive Party after Halldór Ásgrímsson decided to step down. However, she decided against that and supported Minister of Industry and Commerce Jón Sigurdsson, who was elected.

Valgerdur now has one of the longest political careers that any woman has had in Iceland. She is also a pioneer and recognizes that she has helped women take an important step forward. "Of course it is important in the fight for equal rights between men and women that I take over at the Ministry for Foreign Affairs. It has to be important for young women to see that they have the opportunity to take on any job." □

# Romantic and First Class

New and Renovated Hotels in Reykjavík.

The number of visitors to Iceland has more than doubled in the past ten years and the number of hotel rooms has grown even faster. The problem is that the tourist season is short, so the number of hotel rooms has to be quite high to accommodate all who come during the summer. Sure, people are discovering that Iceland is exciting in other seasons as well, yet the peak season has encouraged hoteliers to build new types of hotels in all parts of the country.

Most of the tourists who come to Iceland stop in Reykjavík, and many exciting new hotels have been added to the market in recent years.

The Hotel Nordica was completely renovated a few years ago. The hotel is very modern with a deluxe spa, eleven meeting rooms, a 650-seat conference hall and two private boardrooms. All this space is supported by the very latest technology – delivering the very best services to every meeting, big or small, throughout the hotel. Vox restaurant is big and bright and gives guests an idea of the fast-paced place that Reykjavík has become.

For a different atmosphere, you might look at the downtown hotels. The old headquarters of the Social Democrats have now been completely renovated and turned into one of the capitals' most suave hotels. 101 Hotel is a luxury boutique hotel and a member of Design Hotels. It is the creation of owner and designer Ingibjörg S. Pálmadóttir, a graduate from Parsons School of Design in New York. The hotel features 38 spacious rooms, including five suites/jr. suites with in-room amenities providing all the modern comforts you need. All rooms have double beds – there are no

twin beds. A luxurious gym and spa featuring a steam bath and Jacuzzi allow you to completely unwind and relax. This hotel has been popular from the day it was opened in 2003.

Another very unusual new hotel in Reykjavík is Hotel Reykjavík Centrum, built right on the very first settlement site in Iceland. The basement houses a very interesting historical exhibition. The front of the hotel is actually a replica of three houses that used to be located in Adalstræti, the oldest street in town. This mixture of new and old makes the hotel a very romantic addition to the Reykjavík hotel scene.

But tourists do not stay only in Reykjavík. About an hour's drive from Reykjavík in the south of Iceland you'll find Hotel Rangá, a luxury country hotel built in log-cabin style. Located on the banks of the famous Eystrirangá salmon river, the hotel offers an optimal atmosphere. It has 27 luxuriously decorated rooms, an acclaimed restaurant, and two much-enjoyed outdoor hot tubs, from which there is an excellent opportunity to view the fantastic northern lights in winter. On entering Hotel Rangá, you will be greeted by a towering 10-foot polar bear named Hrammur that resides in the lobby. He is a favorite model for photographers and as such definitely one of the most photographed objects in Iceland. This unusual hotel in unusual surroundings mixes old-fashioned romance with four-star luxury.

These hotels are but a handful of exciting places to stay in Iceland. In the near future still more hotels and convention centers will open to serve the varied demands of a steadily growing number of tourists. □



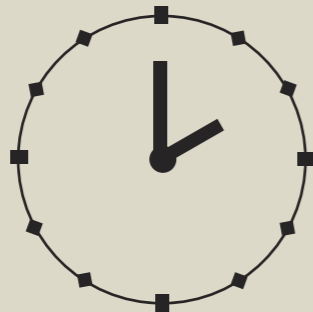
PHOTO: GEIR ÓLAFSSON

Above: **Hótel Reykjavík** in the Reykjavík city center.  
Below right: **Hótel Rangá** in the south of Iceland.



PHOTO: JAVI POTT

# A Diary of Business and Politics



June 28 Magnús Kristinnsson, Vice Chairman of Straumur-Burdarás, and fellow board member Kristinn Björnsson, decided to sell their shares in the company following the board's decision to fire CEO Thórdur Már Jóhannesson a few days earlier. The two sold their 24% share to FL Group (then-owner of Icelandair and a general investor) for ISK 47 billion (USD 684 million). Payment was in the form of shares in FL Group and KB Bank.

June 29 Pharmaceutical giant Actavis decided to bid USD 2.3 billion for the Croatian generic drugs company Pliva. The move was a new step in the bidding war between Actavis and US-based Barr Pharmaceuticals. In August Actavis lost the bidding war when Barr's offer of USD 2.5 billion was accepted.

June 30 The largest pension fund in Iceland, Lífeyrissjóður Verslunarmanna, announced that the fund's 5% share in Straumur-Burdarás was for sale. The fund got no bids, but FL Group and Baugur began discussions on whether the two companies should form their own pension fund.

June 30 The Reykjavík District Court decided to dismiss the first and largest part of the charges by the state prosecutor in the Baugur case. The ruling was confirmed by the Supreme Court on July 21.

July 27 Edda publishing house announced that Árni Einarsson would be replacing Páll Bragi Kristjánsson as CEO. Edda is the largest book publisher in Iceland. The company has been losing money for a number of years.

July 31 *Frjáls verslun* magazine published its annual issue detailing the salaries of 2,400 Icelanders. The issue was very popular and following its publication a debate about salaries and wealth distribution dominated the media for a number of weeks.

August 2 Heimsferdir travel bureau announced that it had bought the largest travel office in Finland, Matka Vekka Group. The purchase makes Heimsferdir (World Travel) the fourth-largest travel bureau in the Nordic countries. Heimsferdir is led by owner Andri Már Ingólfsson.

August 7 Marel acquired Danish food equipment manufacturer Scanvaegt International. The company said that with the move, Marel and Scanvaegt will create a strong player able to meet the demands of the perpetually-consolidating global food industry. The acquisition price was ISK 10 billion, or USD 145 million.

August 10 Alfesca food company announced that it had hired Xavier Govare to replace Jakob Sigurdsson as CEO.

August 15 Glitnir bank bought a 45% share in Norwegian finance company Norsk Privatøkonomi. The company offers specialized financial services and has 90 employees in 12 locations.

August 20 Minister of Commerce and Industry Jón Sigurdsson was elected chairman of the Progressive Party at a party congress the previous weekend. He replaced former Prime Minister Halldór Ásgrímsson who decided to step down earlier this year. Jón Sigurdsson was elected over Minister of Health Siv Fridleifsdóttir. Agriculture Minister Gudni Ágústsson was reelected vice-chairman over Minister of the Environment Jónína Bjartmarz.

August 29 Following a major loss in the first six months incurred by media, telecommunications and software company Dagsbrún, it was announced that Gunnar Smári Egilsson had resigned as CEO. He went on to lead operations in Denmark where the company has launched the free newspaper *Nyhedsvisen*.

September 1 Hreinn Jakobsson, former CEO of Skýrr, took over as CEO of ANZA, the outsourcing company owned primarily by Síminn, the leading telecommunications company in Iceland.

September 13 Exista Investment Company was greatly oversold in its IPO. Only 65 million shares were offered for a total of ISK 1.4 billion (USD 20 million).

September 13 Dagsbrún was split into three components as the company had lost much money in the first six months of the year. The media company 365 will be led by Ari Edwald and telecommunications company Teymi will be directed by Árni Pétur Jónsson. These two companies will be listed on the Iceland Stock Exchange. A number of companies outside the core will be under the hat K2, which makes up the third component. Gunnlaugur Sigmundsson, former CEO of Kögun Group, will act as Chairman and CEO of the company.

September 15 Norvik acquired the largest sawmill in Latvia, VIKA Wood. With this investment, Norvik has approximately 800 employees in Latvia and a yearly turnover close to ISK 8 billion (USD 116).

September 18 Media company 365 announced that it had decided to close its 24-hour TV news station NFS ("New News Station") after some ten months of operations.

September 28 Fons Investment Company sold its 20% share in Swedish low-fare airline FlyMe. Pálmi Kristinnsson, CEO of Fons, said that the shares were sold because the shareholders in FlyMe had not agreed on a direction for the company.

September 28 The filling of the Háslón reservoir, which will feed the Kárahnjúkavirkjun dam in East Iceland, began at 9 am. The hydroelectric station will supply electricity to Fjardarál aluminum plant in Reydarfjörður. The project has caused great controversy in Iceland.

September 29 Jafet Ólafsson, CEO of VBS Investment Bank, decided to sell his approximately 25% share in the bank. Following the sale he announced he would quit as CEO at the end of the year.

October 16 FL Group announced that it would sell 50.5% of the company to three investors: Samvinnutryggingar Holding (32%), BNT (Esso Iceland, 11%) and Blue-Sky Transport Holding (7.4%). In addition, a 16% share would be allocated to employees of Icelandair.

October 17 ANZA, a subsidiary of Icelandic telecommunications company Síminn, bought part of IT company TietoEnator. At the same time, ANZA founded a new Nordic IT company, Sirius IT, which will take over TietoEnator's operations in the information technology field. Sirius IT will employ 420 people and the company's turnover is estimated at ISK 5.4 billion (USD 79 million).

October 18 Minister of Fisheries Einar K. Gudfinnsson announced in parliament that commercial whaling in Iceland would resume after a 17-year ban. Gudfinnsson made the decision in accordance with the government's policy on sustainable whaling for the 2006-2007 hunting season. The Minister of Fisheries decided to limit whaling to nine fin whales, which are not considered endangered.

## statistics

### VITAL STATISTICS

|  |                                     |
|--|-------------------------------------|
| Number of inhabitants Oct. 1, 2006               | 305,309                             |
| GNP increase 2005 (estimate)                     | 7.50%                               |
| GNP  | 1012 Billion ISK 14.9 Billion USD   |
| GNP per capita                                   | 49,608 USD                          |
| Total exports Oct. 2005 - Sept. 2006             | 205.4 Billion ISK 3.0 Billion USD   |
| Total imports Oct. 2005 - Sept. 2006             | 326.9 Billion ISK 4.8 Billion USD   |
| Balance of trade Oct. 2005 - Sept. 2006          | -121.5 Billion ISK -1.8 Billion USD |
| Rise of stock index 12 months (to Oct. 31, 2006) | 33.3%                               |
| Stock market turnover 2005                       | 1,202 Billion ISK 17.7 Billion USD  |
| Bond market turnover 2005                        | 1,322 Billion ISK 19.4 Billion USD  |
| Wage increase 12 months (Sept. 05 - Sept. 06)    | 10.8%                               |
| Inflation, 12 months (Oct. 06)                   | 7.2%                                |
| Unemployment (Q3 06)                             | 2.6%                                |

### CHANGES IN STOCK PRICE, JUNE 26, 2006 - OCT 31, 2006 (TOP AND BOTTOM)

| Company                      | % change |
|------------------------------|----------|
| Bakkavör                     | 37.6 %   |
| Álfesca                      | 36.4 %   |
| Glitnir Bank                 | 31.6 %   |
| FL Group                     | 28.2 %   |
| Landsbanki Íslands           | 28.1 %   |
| Atorka, investment           | 1.5 %    |
| Icelandic Group              | -6.5 %   |
| Straumur-Burdarás investment | -11.7 %  |
| Dagsbrún                     | -14.7 %  |
| Flaga                        | -26.8 %  |

### ICELANDIC STOCK INDEX 12 MONTHS



### CONTRIBUTION OF VARIOUS SECTORS TO DOMESTIC PRODUCTION 2004

|                               |     |
|-------------------------------|-----|
| Industry                      | 19% |
| Transportation                | 12% |
| Real Estate and Other         | 12% |
| Construction                  | 10% |
| Commerce                      | 9%  |
| Hospitals and Social Services | 9%  |
| Financial Services            | 6%  |
| Education                     | 5%  |
| Social Security               | 5%  |
| Fishing                       | 4%  |
| Other                         | 10% |



## Exciting Development at Straumur-Burdarás

Fridrik Jóhannsson returns to the helm.

Fridrik Jóhannsson, CEO of Straumur-Burdarás Investment Bank, has just returned to lead the company after about a year away. Fridrik had been CEO of Burdarás since the late 1990s when the company was the investment arm of Eimskip shipping. At that time Burdarás was a hands-on investment company and Fridrik Jóhannsson was, among other things, chairman of Útgerðarfélag Akureyrar, Iceland's leading fisheries company at the time. After Burdarás merged with Straumur Investment Bank in 2005, Fridrik Jóhannsson left the company to focus his efforts on software house TM-Software, in which he holds a majority share. The major shareholders of the two companies – Burdarás and Straumur – did not get along within the merged company and after some heated board meetings CEO Thórdur Már Jóhannsson resigned. A few weeks later some major shareholders sold their shares.

The backgrounds of the two companies that form Straumur-Burdarás are very different. While Burdarás was the investment arm of one of the most prestigious companies in Iceland, Straumur's roots trace back to the Equity Fund Ltd. (Hlutabréfasjóðurinn), which was the first Icelandic equity fund, established in 1986. In 1995 the Equity Fund merged with VÍB Equity to form the largest equity fund in Iceland. In 2001, changes in the Icelandic taxation laws and securities markets prompted changes in the equity fund. In the resulting restructuring the fund was converted into Straumur Investment Company.

Both Straumur and Burdarás have taken part in many of the reformations on the Icelandic market in recent years. Like many Icelandic companies it has looked abroad for investments and opportunities. In 2006 it expanded

its operations to Denmark and now offers integrated corporate finance advisory and funding services to medium-sized companies. A launch of a London-based branch is planned in the near future.

In late July 2006, Straumur-Burdarás acquired 50% of the shares in Stamford Partners, a special investment banking firm with operations in London and Amsterdam.

Straumur-Burdarás has been very profitable. In the first half of 2006 the company enjoyed profits of ISK 19.4 billion (USD 284 million).

The board of directors includes some of Iceland's most prominent investors. The Chairman is Björgólfur Thor Björgólfsson (chairman of Actavis and other companies), Hannes Smárason (CEO of FL Group) is Vice-Chairman and Jón Ásgeir Jóhannesson (CEO of Baugur Group) is a board member. □

PHOTO: GER OLAFSSON



From Reykjavik. Photo by Páll Stefánsson.



· TRADE COUNCIL OF ICELAND ·  
[www.icetrade.is](http://www.icetrade.is)

· INVEST IN ICELAND AGENCY ·  
[www.invest.is](http://www.invest.is)

· MINISTRY FOR FOREIGN AFFAIRS AND EXTERNAL TRADE ·