

I&I

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ICELAND



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Icelandic Opera

Tosca

One of the raging debates in Iceland this winter has been about the Icelandic opera. Is it daring enough, is it modern enough? The opera is situated in an old movie theatre, called appropriately enough, The Old Movie Theatre. Everyone agrees that this is far from the ideal hall for an opera. The debate has been on whether the more modern operas should be staged and which singers should be given a chance to perform. The opera usually offers two operas each year and this spring it stages *Tosca*, by Puccini. The public has been thrilled by this classic and every performance has been sold out. Elin Ósk Óskarsdóttir fills the title role, while the role of Cavaradossi is sung by Jóhann Friðgæir Valdimarsson and Ólafur Kjartan Sigurdarson sings Scarpia.

Former President Vigdís Finnbogadóttir honored

Dialogue of Culture

Vigdís Finnbogadóttir made history when she became the first woman in the world to be elected Head of State in a national election. She was president of Iceland from 1980 to 1996 and currently serves as UNESCO Goodwill Ambassador for Languages. Finnbogadóttir will celebrate her 75th birthday on April 15, 2005. To mark the occasion, the Vigdís Finnbogadóttir Institute of Foreign Languages at the University of Iceland is organizing an international conference on the theme Dialogue of Cultures on April 13-15, 2005.

Mary Robinson, former president of Ireland and United Nations High Commissioner for Human Rights, will be one of the keynote speakers on this unique occasion. Eminent figures and distinguished scholars on the international scene will present their views on issues relating to globalization and uni- versus multi-polarity.

Other keynote speakers include David Crystal, one of the world's foremost authorities on reference publishing and an expert on endangered languages, and Blandine Kriegel, adviser to President Chirac on human rights and the issues of integration.

The conference is co-sponsored by the Rector of the University of Iceland, the Ministry for Foreign Affairs, the Ministry of Education and Culture and the City of Reykjavik.

For further information on the Dialogue of Cultures conference and the Vigdís Finnbogadóttir Institute log on to www.vigdis.hi.is



Nordic Literature Prize

Icelandic Author Honored

Icelandic author and poet Sjón has received the Nordic Literature Prize for his novel *Skugga-Baldur*. The award came as a surprise to many, but the author himself thought he might have a winner. "Just after the book was published I had no idea what I had written. But when I read it again I thought it might win," the author said on the day the award was announced. Sjón is the author of a number of books and straddles the border between poetry and fiction.

"I am very happy and honored to receive the award because I'm in now in the fellowship of those talented people who have received it before. Hopefully I will now reach more readers," he told reporters at a reception.

The novel, about a girl with Down's Syndrome, is set in the nineteenth century. Sjón has also written lyrics in the past and has worked with singer Björk.

Other Icelanders to have received the coveted award include Einar Már Gudmundsson for his novel *Angels of the Universe*.



PHOTO: PALL STEFANSSON



PHOTO: PALL STEFANSSON

The occult on display

Magic and Mystery

Jón Jónsson has conjured up a museum of magic in Strandir, northwest Iceland, an area renowned for sorcery. His consistent efforts for the travel industry of the area, as well as the protection of the region's cultural heritage, earned him the title 'Travel Industry Person of the Year 2003' by Heimur, publisher of *Issues and Images*.

Strandir has always been unequivocally linked to folklore and the occult. The isolation of the area has added to its mystery. What sets Icelandic sorcery apart from sorcery in Europe is the use of magical staves: strange rune-like markings which in themselves were said to contain great powers. The most famous of these is undoubtedly *Ægishjálmur* or the 'Helm of Awe', which is actually in the county seal for the Strandir region.

Icelandic Sorcery and Witchcraft, an exhibition at Strandir, is open daily from 1 June to 31 August from 10 am to 6 pm. Off season, the museum can be opened according to prior agreement, by calling (+354) 451 3525.

The Year 2005: What to Expect?

The past ten years have been rather good in Iceland. But what will the year 2005 bring? We looked at what some of the Icelandic sages have been saying and select what we think may come true.

- WE EXPECT stability in politics. The coalition government has already lasted almost ten years and seems to be doing all right.
- MOST LABOR UNIONS have negotiated agreements for the next four years. Wages will rise approximately 4%. This should be above inflation, which should go down to 3%. Price wars between the retail store chains should keep inflation in check. Housing prices will continue to rise, but towards the end of the year they might level off and even drop again.
- INTEREST RATES may rise until the Central Bank is convinced that inflation is under control.
- THE GROWTH OF GNP will continue to be high, perhaps between 5 and 6 percent. This is due to huge construction projects at the Kárahnjúkar power plant and the aluminium smelter in Reydarfjörður. The aluminium plant at Grundartangi will also be expanding production capability. Aluminium prices have been high, which benefits the National Power Company since power prices are pegged to the price of aluminium. Reduced taxes for individuals will keep the national mood optimistic.
- STOCK PRICES have risen a lot in the past year and there is no logical way for them to continue growing at the same rate.
- ICELANDERS will continue to invest abroad. The three banks will continue their race for the highest profits and this will happen mainly through growth. The Savings and Loans institutions might consolidate. Hopefully, we shall see more foreign investors.
- BORROWING has become so easy that some households are bound to get into trouble when they discover that loans have to be repaid.
- WHICH WAY will the exchange rates go? Nobody knows. Some experts say that a devaluation of 20-30% is to be expected due to the trade deficit, while others expect the krona to remain strong until the end of the year. Most people seem to agree that one should not exchange one's kronas for dollars.
- TOURIST NUMBERS will rise. The number might exceed 400 thousand for the first time. The Icelandic population will also increase, but the number will not exceed 300 thousand until 2006.
- Will any of this become true? Probably, but what precisely ... ?

PHOTOS: PALL STEFANSSON



The New Look of Politics



Foreign Minister David Oddsson

thirteen years straight and then suddenly stops, it can be difficult to adjust. Even though it has now been about six months since Iceland's new Prime Minister took office, the members of Althingi, Iceland's parliament, often still refer to David Oddsson as "Mr. Prime Minister." Even he, himself, has more than once accidentally taken the Prime Minister's seat at Althingi, rather than the Foreign Minister's seat next to it.

In 1991, when Oddsson made the transfer from being Mayor of Reykjavik to leading the government, George Bush the elder was still in the White House, John Major led the Conservative government from 10 Downing Street and François Mitterrand was in the Elysee Palace. Unlike the others, Oddsson has not vanished from politics but rather exchanged posts with Halldór Ásgrímsson, leader of the Progressive Party and now Prime Minister.

On 15 September 2004 Halldór Ásgrímsson was handed the keys to the Prime Minister's Office after Oddsson had held them for 4,888 days straight, longer than anyone else in the country's history. Ásgrímsson is by no means a newcomer to Icelandic politics. He was first elected to Althingi in 1974, then only 26 years old. He has held his seat almost continuously since then. He became Minister of Fisheries in 1983 and has held a cabinet post ever since, with the exception of four years from 1991 to 1995. Ásgrímsson was elected chairman of the Progressive Party in 1994 and is generally considered to be more liberal than many of his predecessors. He has spoken of the necessity of approaching the question of the European Union with an open mind, and he was one of seven members of the Progressive Party in Althingi who were not opposed to Iceland joining the European Economic Area.

THE COALITION GOVERNMENT

The Independence Party, headed by David Oddsson, and the Progressive Party, headed by Halldór Ásgrímsson, have now held the reins of power jointly for ten years. After the election in 1995 the parties held a majority of 41 MPs to the opposition's 22. They have maintained that majority in the two elections since then, but it has shrunk to 34 MPs to 29 for the opposition. Both leaders are considered to be very strong within their parties. Halldór Ásgrímsson was re-elected chairman of the Progressive Party at a convention at the end of February 2005. David Oddsson has held a strong position within his party since he was elected chairman in 1991.

The nation was shocked last summer when it was announced that the then Prime Minister Oddsson had been diagnosed with multiple tumors. He was subsequently operated on and has since been undergoing therapy, which appears to have been successful. He has given no indication that he plans to step down at the next party convention, which will likely be held in the fall of 2005.

Generally, it can be said that the trend in Iceland has been towards less government intervention. A number of companies have been privatized, including three state banks. Furthermore, the government is now preparing for its biggest privatization project

in Iceland

ever, that of Iceland Telecom. The sale price of Iceland Telecom is projected to be between ISK 40 and 50 billion (USD 7-800 million), which would be a major boost to the finances of the state. The entire government budget for 2005 is approximately ISK 300 billion, so the sale could amount to about 15% of that total.

The coalition government has also been successful in attracting investors to the country. Alcoa is building an aluminum smelter in Reydarfjörður, in the east, and the National Power Company is constructing a huge power plant at Kárahnjúkar, in the interior. Both projects are enormous on an Icelandic scale and contribute to the strengthening of the krona, the local currency.

A strong factor contributing to the economic success of recent years may be the new tax structure. A few years ago, income tax on businesses was dropped to 18%. In spite of this reduction, government revenue from the taxes has increased. Since then the government has launched an initiative to reduce tax for individuals as well.

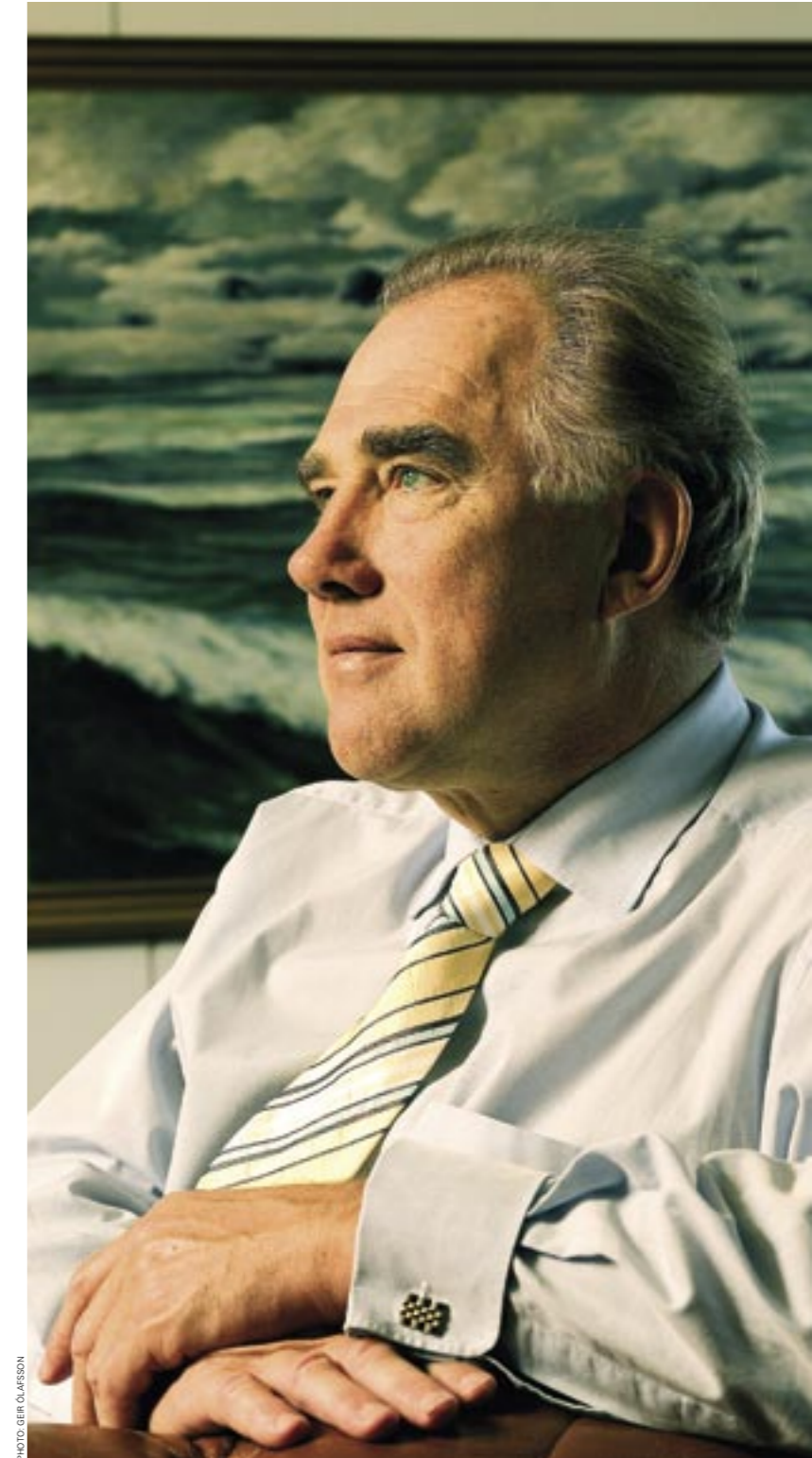
The switching of chairs between David Oddsson and Halldór Ásgrímsson is not the only change in the cabinet. The Ministry of Environment was transferred from the Progressive Party to the Independence Party on September 15 and Sigríður Anna Thórdardóttir, who has been a member of Althingi since 1991, became Minister of the Environment. With increased demand for energy by hydroelectric and geothermal plants, the Ministry has been in the spotlight in recent years as it must issue permits for each construction.

Meanwhile, Thorgerdur Katrín Gunnarsdóttir of the Independence Party took over as Minister of Education at the beginning of 1994. She has, among other things, proposed that students should graduate from high school at the age of 19 as opposed to a year later, as they do now.

Árni Magnússon is the Progressive Party's youngest minister. He has been Minister of Social Affairs since 2003 and seems likely to become one of the future leaders of his party.

FIGHT AMONGST THE SOCIAL DEMOCRATS

On the other side of the aisle we have the three opposition parties. Things seem to be relatively calm in the smaller Liberal Party (four MPs) and the Left-Greens (five MPs). However, within the Social Democratic Alliance (20 MPs), Chairman Össur Skarphéðinsson is facing opposition from Ingibjörg Sólrún Gísladóttir, who has been shown to be ahead in the opinion polls. Gísladóttir was Mayor of Reykjavik for almost nine years and led a coalition of the left wing parties to victory over the Independence Party in the municipal elections in Reykjavik in 1994. She was then forced to resign in 2002 when she decided to run for parliament in 2003. Her bid was not successful. The situation is complicated even further by family ties: Gísladóttir's husband and Skarphéðinsson's wife are brother and sister. The Social Democratic Alliance will hold its convention in May. □



Prime Minister Halldór Ásgrímsson

A Music and Conference Hall at Last

“We will start building next year,” says project manager Stefán Hermannsson.

One of the things in which Reykjavík has been sorely lacking is a specially designed music hall. The many world-famous artists who have visited the country have been forced to perform in sports arenas and cinemas. Now it has been decided that just such a hall will be constructed on the eastern bank of the old harbor in Reykjavík. Work will begin next year, with an expected completion date in 2009.

Already three groups of companies are in the process of negotiating with the building committee and will hand in their first bids on May 3. The estimated cost of the building is over ISK 7 billion (USD 120 million).

The project has been ongoing for more than a decade and nobody remembers when the need for such a structure was first discussed. The initial agreement was signed in 2002 and revised in December 2004. The Icelandic State and the City of Reykjavík have formed a limited liability company, Austurhöfn-TR, to construct the project, with the state owning 54% of the company.

“Our role is to carry this project forward and for that we have used a certain methodology which is a private contract for building and running the Music Hall and Conference Center,” says Stefán Hermannsson, General Manager of Austurhöfn-TR. The group that will build the project will also be licensed to run it.

“Our company, or the Icelandic State and the City of Reykjavík, will support this with a yearly fixed amount of ISK 595 million (USD 10 million). This will supply the contractors with the building costs and part of the operating costs, as well. The group selected to build the Hall will also be required to seek other sources of income. The idea is that they will build, of their own accord, a hotel connected



Project Manager **Stefán Hermannsson**

to the conference center. The conference building will then support the hotel and vice versa. We foresee a 20,000 square meter hotel with 250 rooms. The music and conference hall and hotel will be connected and the architecture similar.”

Those competing for the project must present a proposal for buildings on a few nearby lots. The plan is for those to house offices, shops and a bank. But why the location by the harbor? Hermannsson says: “As we are building a hotel and conference center for a large group of foreigners who may not have access to a car, the best location is the center of Reykjavík. The guests will bring business to the shops on Laugavegur and they will definitely go to restaurants, most of which are located in the city center.”

WHO PARTICIPATES?

Austurhöfn started the pre-qualification process for construction of the project in 2004. Four parties applied, but one has since withdrawn. All the applicants are considered to be qualified and all have been invited to participate. They are paid for their participation, between ISK 25 and 30 million each (USD 450,000-500,000). “Their cost of bidding is

probably somewhat higher. In the end we take the bid that we like best,” says Hermannsson. The three groups are: Fasteign, connected to contractors Ístak; Phil og Sön; Portus Group, which includes Iceland Prime Contractors; and lastly Vidhöfn, for whom Eykt contractors are the main contractor.

The next step is a preliminary bid on May 3. “We expect to finish our evaluation within a month. The company will ask for revisions as needed and these should be submitted in June. We expect the final bids in by September.”

THE MUSIC AND CONFERENCE HALL

The building will consist of several theatres. The largest will have 1,800 seats and will primarily serve as a concert hall, yet could also serve as a venue for opening and closing ceremonies at conventions. There will be 200 seats behind the stage, bringing the capacity down to 1,600 in certain cases. The orchestra pit can be closed by lifting the floor, so that the stage can expand. The middle of the stage will rotate as in a theatre, for use in productions with multiple sets.

The Iceland Symphony Orchestra will have its home base in the Hall and Hermannsson expects approximately 10-15% of all concerts in the capital area to be held in the new building. In addition, there will be two other large theatres, one seating 500 to 1,000, depending on how the chairs are arranged, and finally one seating 450, designed primarily for chamber music and smaller events.

People are already lining up to make use of the facilities. Hermannsson has received formal requests for conferences of 1,500 people in the years 2010 to 2012. □

Svava Jónsdóttir



The model on the left shows where the new concert hall will be. On the right we see how the area currently looks from above.

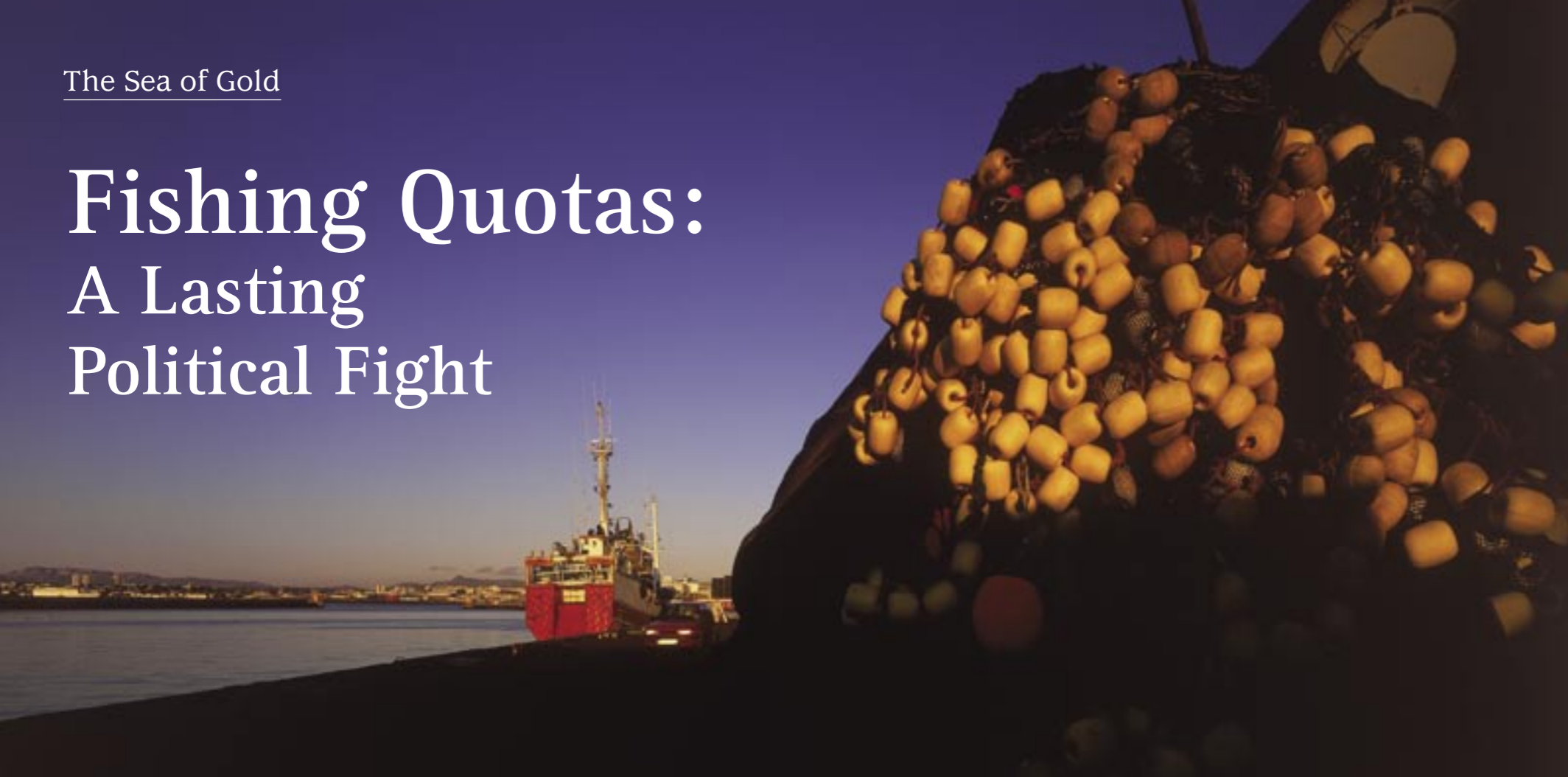


PHOTOS: GRÁMFI BARNÁSSON

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The hall will be home to the Iceland Symphony Orchestra.

Fishing Quotas: A Lasting Political Fight



PHOTOS: PÁLL STEFANSSON

In Iceland, political issues come and go. But one matter has come up again and again in the last twenty years: Who has the right to catch the fish around Iceland?

When Iceland extended its Exclusive Economic Zone to 200 miles into the Atlantic in the seventies, it not only gained exclusive rights to the vast ocean resources but also assumed the responsibility of managing the fish stock's sustainability. For the first few years Icelanders fished like there was no tomorrow, in a typically unregulated fishery.

In the late seventies and early eighties the fishing of cod went up vastly. Almost every small town invested in and had its own trawler and a fish processing plant. After all, the vast ocean was there like a chest full of cod. The politicians had a ball.

But the experts at the Icelandic Marine Research Institute (MRI) were not amused. Year after year they recommended that the total fish harvest should be reduced. They reminded the nation of the case of the herring of the sixties. The "silver of the sea" had suddenly vanished without warning in 1967 after years of Klondike-like atmosphere in the north and east. However, the politicians would not listen. "Estimating stock sizes or the allowable catch is neither a very old nor an exact sci-

ence," was a common phrase in the Althingi, Iceland's parliament. The politicians' answer was to permit larger catches than the experts had recommended. In reality the catches were usually larger still than what the politicians had allowed.

In 1983, a new temporary system of fishing quotas, setting a total allowable catch (TAC), was introduced by then fisheries minister, Halldór Ásgrímsson, who has since become prime minister. The system was supposed to last only three years. Some members of the Althingi were strongly against quota regulation but accepted it as a temporary measure. The quotas issued were based on the catch of each vessel in the previous three years. Yet there were exceptions. The system was extended temporarily in the years after 1986, until it was made permanent in 1990.

The fishing quota can be transferred from one vessel to another and from one fishing company to another. This means that some could start accumulating quotas while others were pushed out of fishing altogether. Many people are crying foul play. "The fishing quo-

tas are owned by fewer and fewer people," and "How can somebody sell something they never paid for?" are common statements in the contemporary debate.

Even though the system has been in place for more than twenty years it was not until 1995 that then fisheries minister Thorsteinn Pálsson decided to follow the advice of the MRI by introducing a well-founded catch rule, a long-term sustainable harvest strategy. The cod quota was set to approximately one third to half of what the catch had been during the "golden years." The effect has been drastic. The number of trawlers has fallen greatly, since there is no point in having the capacity to fish more than you are allowed to catch. The number of fish processing plants has been going down as well, although not as much. Politicians have been split over the process. On one hand, everyone can agree that fishing in Iceland should be done more efficiently within larger units; on the other, politicians never like it when voters are fleeing from the towns and small villages in their constituency. This means that there have been a number of

special measures aimed at aiding the individual fishermen who operate their own small vessels. They now have their own quota system, separate from the large trawlers. A limited part of the quota is also awarded to municipalities at the discretion of the fisheries minister.

Many thought that the issue was finally settled before the national elections in 2003. Then the small Liberal Party decided to take the issue up and ran an anti-quota platform. The campaign was successful and they doubled their share of votes from four to eight percent. The party keeps up a small, but vocal, opposition to the current system.

KRISTINN PÉTURSSON, a former member of the Althingi, now a manager of a fish processing plant in Bakkafjörður, east Iceland, has been critical of the MRI and its advice. "I agree with the quota system and I think the MRI is working professionally in collecting its data. However, I do not agree with its recommendations for an annual quota. I believe that if we increase the catch by approximately 50% there will be more to eat for the fish that are left and

therefore stocks will grow faster. In 1999 the MRI estimated the size of the cod stock as 1,030 thousand tons. Three years later the estimate was down to 680 thousand tons. This in spite of the 25% catch rule that was followed during those years, i.e. 25% of the estimated stock was the allowed catch each year. I think we should have caught more; 350 thousand tons would have been closer to the mark. But nobody wants to discuss this."

JÓHANN SIGURJÓNSSON, director-general of the MRI, says he believes that the quota system cannot be blamed for the fact that we are now fishing less cod than 25 years ago. "It is only in recent years that we have ironed out most of the exemptions from the quota system. Even though the system has been there in name for twenty years, I would say that it has only been effective as a total allowable quota system in recent years. In the years since 1991, the authorities have been closing the 'loopholes', one by one. One cannot overlook the fact that since the quota system was implemented in 1984, cod fishing has been some 900 thousand

tons more our specialists recommended. But the reasons for less catches today compared to the latter half of last century are more complicated than simply overfishing, since major changes in oceanic climate that took place in the late sixties as well as other factors, are doubtless involved. Of course, the quota system is far from perfect, as any other known regulation system and this must constantly be kept in mind. One can argue that under certain conditions, the likelihood of small fish being thrown away increases. Hence, this calls for an efficient control and enforcement system."

One fact cannot be disputed: the quota system has made the fishing industry much more efficient than before. In recent months the Icelandic krona has become stronger, almost by the day. A few years ago, this would have called for government involvement in some way and cries for the devaluation of the krona. Now Icelandic businesses are weathering the storm on their own. □

The Peaceful Village in the South

Though the village is quiet, it was for many centuries one of Iceland's primary harbors and one of its main links to the outside world.

Eyrarbakki is a small and romantic village of 580 people, located on the south coast of Iceland, approximately 60 km from Reykjavik.

As opposed to most places in Iceland, where old houses have been torn down, in Eyrarbakki you can still see a fairly well preserved old streetscape. Most of the houses are small and were built for commoners in the years 1890 to 1915, when timber was first used in earnest as a building material. Until then, most Icelanders lived in houses built of turf, rocks and timber.

Though the village is quiet, it was for many centuries one of Iceland's main harbors and one of its primary links to the outside world. That must be considered remarkable because the harbor was long open to the vast Atlantic Ocean. Reefs, formed by lava from an eruption 8,000 years ago and 130 km away, enclosed the harbor and made it very dangerous.

DISCOVERING AMERICA

Eyrarbakki also played a part in the discovery of America. The *Saga of the Greenlanders* tells of the Viking sailor Bjarni Herjólfsson, who sailed from Eyrarbakki to Greenland in the years preceding 1000. He and his men got lost on the way and drifted off course, south of Greenland. As a result, Bjarni became the first European to find America. He did not go ashore but sailed to Greenland where he encountered Leif "the lucky" Eiriksson, and told him about the large country in the west. Leif went on to explore it a few years later in a ship he had bought from Bjarni Herjólfsson.

Almost 900 years later, when Europeans emigrated in great numbers to America, four young

men from Eyrarbakki settled on Washington Island in Lake Michigan, Wisconsin, thereby becoming the first Icelanders in North America. Their descendents still live on Washington Island.

Eyrarbakki soon became the main point of trade in the South. When foreign merchants were granted permission to settle in Iceland in 1765, a Danish merchant built a house in the village. This house still stands and is one of the oldest preserved houses in Iceland. The locals call it *The House*, as it was the only real house in the village at the time. This historic structure is now home to the municipal museum, which exhibits many relics of past times.

THE GOLDEN AGE

Eyrarbakki's golden age lasted from the mid-19th century and into the first few decades of the 20th. A cluster of buildings was raised around the trading houses built by the Danes and the number of inhabitants grew steadily. In 1919 the number peaked at 1,000, dwindling down to 460 in the sixties.

At the same time, the village evolved culturally and socially. It may be said that the Danish merchant and his family imported European culture to Eyrarbakki, which then spread to the rest of southern Iceland. In 1852 a school for children was founded there, the oldest of its kind in Iceland.

The church at Eyrarbakki was built in 1890 and consecrated in December the same year. The most remarkable historical artifact is the altarpiece, which was painted by Queen Louise, wife of Danish king Christian IX, and presented as a gift to the church. The queen's signature is on the altarpiece, which is dated

1891. Queen Louise was the great-great grandmother of many of the present-day royals in Europe, and was called the mother-in-law of Europe. She was considered a good artist and her works can be found in various Danish museums and churches.

Eyrarbakki also has one of the better restaurants in Iceland, *Rauda húsid* (The Red House). It is located in an old schoolhouse, now too small to be used for its original purpose. In the summer of 2005 the restaurant will move to an old trade and industry building, which has now been renovated by housing conservationists.

In addition to the municipal museum, Eyrarbakki is home to a maritime museum which houses the fishing boat *Farsaell* with its full sails. The museum also features many things from bygone days, that are connected to fishing from Eyrarbakki and other nearby harbors.

Most Eyrarbakki residents are engaged in the service industry. Approximately half work outside the village, some in Reykjavik.

Eyrarbakki is renowned for its natural beauty. There are interesting trails along the seashore and a fascinating bird sanctuary nearby. In addition to the varied fauna and bird life, the area contains plants rarely found in Iceland. The sanctuary has the largest nesting area of dunlins in Iceland and also a large population of northern phalarope.

When you come to Eyrarbakki from Reykjavik you pass the largest river in Iceland, Ölfusá. There you can stop on your way back for some fishing, if you so desire. □

Inga Lára Baldvinsdóttir and Magnús Karel Hannesson



PHOTOS: PALL STEFANSSON

From Eyrarbakki

The Blues and the Blonde Eidur Smári at Chelsea



This year, the English soccer club Chelsea had the opportunity to become the first ever quadruple-winning team: that's the Premiership, the Champions' League and both domestic cups – and yes, one of their star players is Icelandic. They did not win all four cups, but still had one of the best years ever of any British soccer club.

Eidur Smári Gudjohnsen was named Icelandic Sports Personality of the Year 2004. Although a gifted player who scores enough goals to keep any soccer club happy, the 26-year-old's career has been no bed of roses. With a move from Icelandic team Valur to PSV Eindhoven in the Netherlands as early as 1995, the then-16-year-old Iclander was already playing alongside Brazilian striker Ronaldo. But that magical partnership survived only a few games, as Gudjohnsen broke his ankle badly whilst playing for his national U-21 team against Ireland.

He moved back to Iceland to recover, know-

ing that he might never play soccer again. However, by 1997 he was back on the pitch – this time for KR Reykjavík. A free transfer in 1998 took him to Bolton Wanderers and to the beginning of his success in the English soccer league.

With a goal average of one in every three games played for the club over the two seasons between 1998 and 2000, he was ripe for his first paid transfer. However, the move to Chelsea for a massive 4 million GBP must have come as a pleasant surprise, even for the ultra-cool Gudjohnsen.

After a tricky 03-04 season, during which he scored only six times, his career-long one-in-three goal average has been revived. Now in his fourth season with Chelsea, Gudjohnsen has grown used to fighting for his place in the starting eleven. At other clubs this would be a sign of an under-performing player, a weak link – but not at Chelsea.

This is the team owned by Roman Abramovich,

the Russian oil billionaire who brought the club back from the brink. Acquired with spiraling debts and limited credibility on the transfer market in summer 2003, Abramovich has very quickly turned Chelsea into a powerhouse of talent – a Mecca for fans of world-class soccer. With operating losses of over 80 million GBP last year, the new talent has come at a price, but the club has committed to spending less this year on new players, and hopefully allowing the investment to pay off in years to come.

In the meantime, Gudjohnsen is the club's highest scorer so far this season, and has scored four goals in the last five games as captain of the Icelandic national team. There's not a soccer team in the world that wouldn't want him, and that makes him a very unusual phenomenon in the world of soccer – Icelandic or not! □

– Alër Elliott

PHOTOS: PALL STEFANSSON

3-PLÚS Lets You Play With Your DVD

Changing an ordinary DVD player into a game machine.



Helgi Sigurdsson, Managing Director (left) and Jóhannes Thórdarson, Director of Marketing and Development (right).

Everyone knows that DVDs are entertaining. You put a disk into the player, get a bowl of popcorn and watch. But now you can be actively involved thanks to new technology by Icelandic company 3-PLÚS, sold in the US under a license to Fischer Price called InteracTV and marketed as DVD-kids in Europe. Accomplishments by 3-PLÚS were awarded a special DVD technical award at the MIPCOM show in Cannes last November, the largest TV sales convention in the world. Jóhannes Thórdarson, Director of Marketing and Development, was happy about the award, stating, "This proves that we have been moving in the right direction over the last five years. It will be easier to sell games in the future."

What exactly does the award-winning DVD-kids do? "It changes an ordinary DVD player into a game machine. This is defined as an educational toy, and it is used with specially

designed DVD disks and control cards. By using sound, pictures, signs and other means, kids can participate in what is happening on the TV screen in an interactive way."

The system works only if the child touches the right space on the control card. The games are based on well-known cartoon characters such as Franklin, Noddy, Babar and others. For this year there will be new games, including Winnie the Pooh and Lion King, under a special agreement with Disney. The games are aimed at three to seven year old kids.

Helgi Sigurdsson, Managing Director, is happy about last Christmas season. "We sold well in all marketing areas. In the US, Fischer Price sold 700,000 units and 700,000 games, as well. We could have sold more if we'd had more. In Europe, we concentrated on France, Holland and the Nordic countries. We are happy with the results in all markets."

This is by no means the end. Agreements are either underway or finished with distributors in Spain, Italy or Germany. And 3-PLÚS is working on new products as well. "Now we are working on an activity board for one to three year olds. This will be a simple game, also connected to a DVD, that responds the movement the child makes."

The company 3-PLÚS was established in 1999 and is based in Reykjavík. The company now has 14 employees in Iceland, France and Denmark. Helgi Sigurdsson says that the size may be misleading. All production is based in Asia. "We have 2-300 people working in production in China and we also outsource a lot of work to graphic designers in Iceland, Denmark and France. So it is clear that a company neither has to be very big nor does it have to do everything itself to be able to play on the world market." □

Össur Steps Forward

Enabling people to lead a life without limitations

Last year, *Time Magazine* listed the high-tech artificial knee Rheo as one of the most remarkable inventions of the year. The attention was well-deserved. Össur is one of the first high-tech Icelandic industrial companies to start exporting in earnest.

Össur Kristinsson established the company in 1971. Kristinsson, who himself has a deformed foot, studied prosthetics in Sweden. The company started slowly but in the 1990s began to

gain international recognition. It was listed on the Icelandic stock exchange in 1999 and has earned the attention of foreign investors, who now own more than 40%. The yearly turnover was 125 million dollars and profit after taxes was 15 million USD.

Jón Sigurdsson, President and CEO of Össur, is naturally pleased. "Rheo is the biggest and most complex project that Össur has undertaken. This is not only a new product but also a new technique. This is the first time we are using artificial intelligence successfully. The device learns how the owner behaves and adjusts to his or her moves. Of course the product is expensive, costing approximately 17 thousand dollars in the US. But Icelandic users are very happy about this revolutionary product."

Össur has now added a computer device into the knee and the next thing on the agenda is to insert a muscle. "We are making good progress and think it is realistic that we will be able to introduce that product in 2005. We

are also working on a mechanical ankle, which will sense the behavior of the individual in the same way as the knee. Maybe we can say more about that later this year. This is exciting, because there is a larger market for ankles than knees," says Kristinsson.

Össur's mission is to be the principal source of innovative, quality prosthetic and orthopedic products and services - enabling people to lead a life without limitations. And the company is taking this mission very seriously. It is now the second largest manufacturer in the world of prosthetic products, with a market share of approximately 20%. Össur now has operations in the US, Canada, Central Europe and in the Nordic countries. The number of employees is 620, including 200 in Iceland.

Sigurdsson says that due to the encouraging tax rate in Iceland the company is moving more and more of its production there, especially the high profit products. "Generally speaking our customers don't know that the company is Icelandic. It is just Össur, an international company, well known in an industry where we are leading technically." □



Jón Sigurdsson, President and CEO of Össur.

PHOTO: GERI OLAFSSON



The Rheo knee, an electronically controlled artificial knee is a revolutionary invention by Össur in cooperation with MIT University in Boston.

Kaupthing Bank Ninth Largest in the Nordic Countries

Kaupthing operates in ten countries and has its headquarters in Reykjavík.



Hreidar Már Sigurdsson, CEO of Kaupthing Bank

PHOTO: GERI OLAFSSON

Icelandic investors have certainly been gaining attention in their neighbouring countries. Fishery companies, retail chains and industrial companies have all been on the menu of the daring Vikings, according to the international press. All this has been driven primarily by the phenomenal growth of the Icelandic investment banks. Of those, Kaupthing Bank is by far the largest. The bank was formed two years ago with the merger of Kaupthing and then-newly privatized Búnadarbanki (The Agricultural Bank of Iceland).

Kaupthing operates in ten countries and has its headquarters in Reykjavík. The bank has major subsidiaries in all the Nordic countries, as well as in Luxemburg, the UK, Switzerland and New York. At the end of 2004, the number of employees exceeded 1,600.

No other company in Iceland had profits

matching those of Kaupthing Bank in 2004. Revenues after tax amounted to almost ISK 16 billion (USD 260 million). CEO Hreidar Már Sigurdsson attributes this to the fact that "the bank's operations are based on a solid foundation." One indication is that Moody's upgraded the bank's credit rating in November. The Bank's long-term deposit and senior debt rating is now A1, the subordinated debt rating is now A2. Moody's affirms C+ in financial strength rating and a short-term rating of P-1.

CONTINUED GROWTH

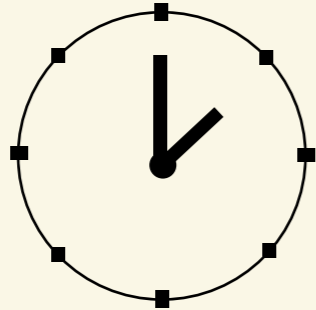
Kaupthing was already the biggest bank in Iceland but doubled its size through its acquisition of the Danish bank FIH. More than half of the bank's earnings are now generated

by activities outside Iceland. The bank has been known to be daring and innovative in its endeavours. It has been one of the main financiers for Bakkavör and Baugur, both of which have been investing a great deal in the UK and elsewhere.

In February 2005 the bank was awarded the Knowledge Award and its Executive Chairman, Sigurdur Einarsson, was awarded the title Economist of the Year by the Society of Economists and Business graduates.

After Kaupthing acquired FIH in Denmark, the bank became the ninth largest bank in the Nordic countries, just a bit smaller than Skandia but almost twice the size of Jyske Bank that comes next in line. The bank plans to increase activities in Finland, Luxemburg and the UK and to maintain at least 15% income on equity. □

A Diary of Business and Politics



IN SEPTEMBER 2004, all the Icelandic banks, following the lead of Kaupthing Bank, reduced the lending rate for housing to 4.15%. This was a direct move to weaken the state-owned Housing Fund (Íbúðalánasjóður), which has traditionally lent at rates far below the banks. One result has been that demand for apartments has risen, driving up prices. As of March 2005, the price level has already risen by 20% and some forecast that it might rise even more in the near future.

INFLATION may be rearing its ugly head again, albeit in an unconventional way. While prices for consumer goods have remained steady, housing prices have skyrocketed. Consequently the price index has risen more than four percent. By historical standards this would not be considered high in Iceland, but in the last decade inflation well below that level has been the norm.

IN DECEMBER, the CEO of Icelandair, Sigurdur Helgason, was elected Businessman of the Year by *Frjáls Verslun* (Free Enterprise), the leading business magazine in Iceland. The airline had been delivering profits while many of its competitors were folding.

IN DECEMBER, a group of Icelandic businessmen led by Baugur Group acquired the famous Magasin du Nord in Copenhagen, a large department store. The Danish media expressed its displeasure about this "invasion" and loss of their landmark store. The price was close to ISK 5 billion (USD 80 million).

INGIBJÖRG SÓLRÚN GÍSLADÓTTIR, Vice Chairman of the Social Democratic Alliance Party, declared in March that at the party convention in May she wants to take over as Chairman from Össur Skarphéðinsson.

ALL ICELANDIC BANKS announced record profits for the year 2004. Kaupthing Bank recorded ISK 15.8 billion in revenues, (USD 260 million), The National Bank of Iceland (Landsbanki) ISK 12.7 billion (USD 210 million), Íslandsbanki ISK 11.5 billion (USD 190 million) and Straumur Investment Bank ISK 6.4 billion (USD 105 million).

ICELANDAIR continued to be in the news for most of January and February. In mid-January, Chairman Hannes Smárason (see page 22) announced that he would be assuming the post of Executive Chairman. On the same day, CEO Sigurdur Helgason announced that he would step down on May 31. A month later it became clear that Ragnhildur Geirsdóttir would be made President of Flugleidir, the holding company, while Jón Karl Ólafsson would become CEO of Icelandair. Both were previously executives at Icelandair Group.

BÓNUS, an Icelandic discount supermarket chain owned by Baugur Group, was elected the most popular business in Iceland in an opinion poll by *Frjáls Verslun*. This is the third year in a row that Bónus has received this honor. Other popular companies include Icelandair (second place) and the three large banks (third to fifth place). Evidently the public is not averse to big profits.

BAUGUR GROUP acquired Big Food Group, a British supermarket chain, in mid-February. At around the same time, Baugur made a bid for Somerfield, another UK supermarket chain. At press time the board of Somerfield had rejected the bid, while Baugur announced it would continue its fight to acquire the company.

ICELANDAIR has signed agreements with Boeing for the purchase of ten new Boeing 737-800 and two Boeing 787 Dreamliner Jumbo jets, with options for more. Icelandair Chairman Hannes Smárason says this means that Icelandair intends to own planes that can fly to almost any destination.

PRIME MINISTER Halldór Ásgrímsson was re-elected chairman of the Progressive Party on February 27 with over 80% of the votes. At the party convention, a proposal was passed to study the advantages of EU membership for Iceland so that the country might apply for membership after 2007.

SAMSKIP acquired the Dutch shipping company Geest North Sea Line, thereby doubling its yearly turnover to ISK 45 billion (USD 750 million). Geest has been a leader in shipping from Western and Southern Europe to the UK. After the acquisition, around 60% of Samskip's turnover will be outside of Iceland.

THE SEAFOOD COMPANIES Icelandic Group Plc. and Blue Ice Group reached an agreement in early March to merge under the name Icelandic Group. The objective of the merger is to combine the strengths of the two companies in the US and Asian markets. The current shareholders of Blue Ice Group will hold 33% of the shares in Icelandic Group following the merger.

ON MARCH 8, Bakkavör Group submitted a binding offer for British food producer Geest Plc. to the tune of GBP 500 million (USD 950 million). Bakkavör aims to increase its market share on the British food market. Geest is a service agent for two of the largest food retail chains in the UK, Tesco and Asda. After the acquisition, Bakkavör will be valued at ISK 45 billion (USD 750 million).

statistics

VITAL STATISTICS

| | | |
|------------------------------------|-------------------|------------------|
| Number of inhabitants Dec. 1, 2004 | 293,291 | |
| GNP increase 2004 | 4.30% | |
| GNP | 811 Billion ISK | 13 Billion USD |
| GNP per capita | 36,519 USD | |
| Total exports 2004 | 202 Billion ISK | 3.3 Billion USD |
| Total imports 2004 | 240 Billion ISK | 3.9 Billion USD |
| Balance of trade 2004 | -38 Billion ISK | -0.6 Billion USD |
| Rise of stock index 2004 | 58.90% | |
| Stockmarket turnover 2004 | 721 Billion ISK | 11.8 Billion USD |
| Bondmarket turnover 2004 | 1,496 Billion ISK | 24.5 Billion USD |
| Inflation 2004 (CPI) | 4.50% | |
| Unemployment Feb. 2005 | 2.50% | |

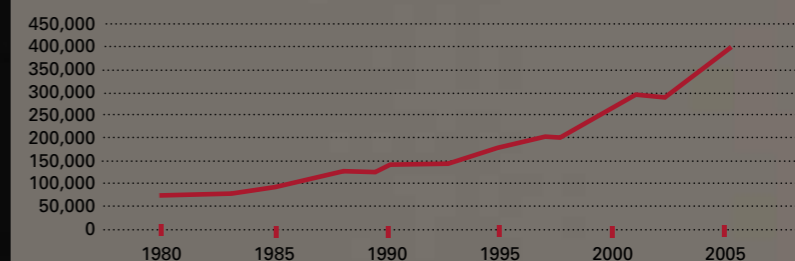
CHANGES IN STOCK PRICE 1 NOV. 2004 - 10 MARCH 2005 (TOP AND BOTTOM)

| Company | % change |
|-------------------------------------|----------|
| FL Group (Icelandair) | 51% |
| Nýherji (computers, software, etc.) | 41% |
| Icelandic Group | 40% |
| Kögun (software) | 37% |
| Bakkavör Group | 36% |
| Flaga Group (Medcare Flaga) | -4% |
| Össur | -7% |
| Samherji | -8% |
| Actavis Group | -9% |
| SÍF | -10% |

ICELANDIC STOCK INDEX 12 MONTHS



NUMBER OF FOREIGN TOURISTS 1980-2005



Flying High

“You can be sure there will never be any standstill around Hannes.”



Chairman of Icelandair **Hannes Smárason**

Hannes Smárason is among the young and well-educated individuals who have been making their mark on the Icelandic business community in recent years. Although relatively unknown in Iceland, Hannes Smárason now holds a leading position in Icelandair, one of the country's major companies. In early 2004 he acquired a major share in Flugleidir (now FL Group), Icelandair's parent company, and was elected its Chairman. Since then he has gradually been increasing his share, and

in January announced that he would be taking over as Executive Chairman. Icelandair is one of Iceland's oldest, most established and most renowned companies in Iceland, and has been in the news almost weekly for the past few months (see p. 20).

Born in 1967, Smárason spent some of his first years in Denmark, where his parents were studying. At the age of nine, he returned to Iceland with his family. Smárason was among the top of his graduating class from



the Reykjavik Junior College in 1987, after which he went on to MIT in Boston to study business and engineering. Upon finishing his MBA in 1992, he took a job with McKinsey & Co. in Boston and then went on to Iceland to work for a newly established company, deCode Genetics. Since then, biopharmaceutical company deCode has become renowned in Iceland and abroad, claiming to be a global leader in genetic research by combining the genealogical information of all Icelanders with medical data from more than 100,000 volunteers. Smárason joined deCode as CFO and went on to become second in command. He left deCode soon after being elected Chairman of Icelandair.

In his leisure time, Smárason likes playing soccer and is an avid runner. He is said to be an intense competitor. His friends describe him as a highly intelligent strategic thinker. His critics suggest that he takes on too many tasks and some say he should be better organized. Yet his enthusiasm is infectious and he is popular among his colleagues.

Being an experienced traveler, Smárason knows airlines and has said that Icelandair's service beats many of the American airlines. He likes to read, which is helpful for someone who travels a lot, and is said to be knowledgeable in many fields. Hannes Smárason has three children.

As one of Smárason's friends has said, “You can be sure there will never be any standstill around Hannes.” His first year at Icelandair seems to confirm those words. □



Klifbrekkufossar waterfalls in Mjóifjörður fjord, east Iceland. Photo by Páll Stefánsson





TRADE COUNCIL OF ICELAND

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