

Opening statement
Economic opportunities and risks in the Arctic
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Ladies and gentlemen

It is a privilege to welcome you to this seminar, that partly is organized by the Foreign Ministry. Let me use this opportunity to thank our co-organizers, the Association of Icelandic Employers and our very own Promote Iceland.

It is important that such players, from the public as well as the private sides work together, and plan together, for an Arctic future that I feel has vast new possibilities, for a surprising number of our Icelandic business sectors. I think it is fair to say, that internationally, the Arctic is rapidly moving onto the centre-stage, and rightly so. This is also happening in Iceland.

As a Foreign Minister I do not refrain from adding that the increased focus on the Arctic and its future importance will also, if we play our cards right, be of great strategic geopolitical advantage to Iceland. I shall, however, not allow myself the luxury of expanding on that in my short opening comments.

It suffices to say, that I am of the belief that the Arctic, and anticipated human activities within it, will avail Iceland of her greatest opportunities this century in terms of business and economy.

If these opportunities are to be realized, we have to prepare in advance and we have to prepare together. We must define where our advantages lie, where we can build on existing strengths, where we have to add capacity and perhaps infrastructure in future, but we also have to define and prepare against possible threats.

Let's never forget, that for a nation like ours, that sustains herself on basis of a clean and un-spoilt environment, increased human endeavors in the Arctic also pose some new considerable threats that have to be taken into account, and managed for.

In view of this, the seminar we are having today is a very timely initiative, and quite a natural one, as both public and private sectors play a crucial role in understanding and grasping the opportunities, as well as meeting the challenges, that current and future developments in the High North may entail.

The changes in the High North are driven by several interlinked factors such as global warming, increased global demand for energy and raw materials as well as the potential for trans-arctic shipping.

The key driving force, however, is the global warming. The melting is happening at a much faster rate than we ever anticipated. The current change that we are experiencing is of a new magnitude and speed, and this already is being reflected in economic developments in the Arctic as well, either started or planned. Most of the models and predictions about climate change and economic developments that we have used, seem to have underestimated how fast the change occurs, and there is no doubt in my mind that we need to speed up to plan ahead.

Some of you have heard me tell the story of the Chinese Minister of Transport that came to visit and when he sat in my office asked, when I thought the new transport routes over the Arctic would open up. When I answered that it would not happen for a long time, the Chinese Minister asked: “How long time?” – I said 50-70 years. He then answered quite surprised: “But that is a very short time in China.”

That was four years ago. Since then, the melting has exceeded all predictions, I have re-thought my position based on new data, and I now think the route straight over the Arctic will open up much sooner for year-round transport of fortified cargo-vessels.

In the waters north of Iceland we will in the coming years’ experience a surge in economic activities related to cruise tourism, cargo-shipping, and certainly offshore-development. In that respect, at least the Icelanders in the audience are already familiar with my prediction that before 2025 we shall see three oil fields operating north of Iceland.

We, both the government and the private sector, must ensure that Iceland is able to avoid the accompanying risks, while making use of the various economic opportunities that these changes will bring forth.

The Arctic, and Iceland's role in both managing and protecting it, is today one of the top priorities of the foreign policy I have formulated on Iceland's behalf during the last four years. In anticipation of the changes in the Arctic, that already were on the horizon when I took on the portfolio of Foreign Affairs, one of my first tasks in office was to define the Arctic as a priority. To underscore this I put forward a proposal for Althingi on a comprehensive Arctic Policy. It was unanimously adopted, in March 2011, by all political parties – a very rare thing in our parliament these last years.

This is the first Icelandic policy document of its kind, aimed at securing Icelandic interests with respect to all aspects of the Arctic. It covers our interests in relation to the effects of climate change, the environment, natural resources, navigation and social development.

A key aspect of our Arctic Policy has been to strengthen practical and concrete cooperation with our neighboring countries, both bilaterally and within the Arctic Council, particularly on environmental and civilian security. We have taken the initiative on several fronts, and at home we have, in spite of economic difficulties, strengthened our ability to respond - with the new Coast Guard Vessel and Maritime Patrol Aircraft.

In the future we shall be faced with a lot of new challenges that we have to prepare for in relation to the Arctic. We know, that major disasters, such as an oil spill of similar magnitude to the recent disaster in the Gulf of Mexico, or an accident involving a large Cruise Ship, with several thousands of passengers on board, cannot be dealt with by national authorities alone.

Therefore, robust international cooperation on prevention and response, is the prerequisite for increased economic activities. That is especially important, given the current lack of infrastructure and the demanding environmental conditions in the North.

This is of the utmost importance for Iceland, due to our heavy reliance on living marine resources, the health of our oceans and generally our branding of Iceland as the clean and un-spoilt country it in reality is. Furthermore, investors and international companies, interested in economic activities in the region, are more likely to shy away from involvement if these issues are not properly addressed.

How have we been preparing for these challenges and risks?

Firstly, in the field of prevention, under the auspices of the Arctic Council, the Arctic states are developing best practices for oil and gas activities and are actively involved in developing more substantial guidelines, the so-called Polar Code, within the International Maritime Organization for ships sailing in ice-infested waters.

There is also a drive towards including regional and international companies in a dialogue on how they can become a positive force for change in the North. Icelandic companies need to take an active part in these discussions.

Secondly, on response, the Arctic states signed a legally binding agreement on Search and Rescue last spring. This was an important milestone, that Iceland had relentlessly worked for, and ensured that we achieved one of the most important goals of our Arctic Policy.

Thirdly, we have argued for closer cooperation in developing response infrastructure and monitoring systems in the Arctic and it seems obvious that Iceland with its airports, harbors and strong infrastructure will play an important role in that regard, a point driven home during the recent Arctic Council Search and Rescue exercise in North-East Greenland. We have therefore relentlessly pushed for the establishment of an international search and rescue team in Iceland, and to judge by the response we have had from international cooperators, I am hopeful of a success on that point in the coming years.

Fourthly, the Arctic states concluded, only a few weeks ago, an even more extensive agreement on oil spill response. This also was one of the important projects we have been using our diplomatic capacity to speed up, and in fact, it was completed remarkably quickly after the Ministerial meeting in Nuuk in 2011.

To my great pleasure both of the agreements, on the search and rescue, and the oil spills, were concluded here in Reykjavík. My vision for the future is that we will continue to develop our cooperation drawing on those agreements and others that may follow.

It perhaps is a reflection of our initiatives and contribution to the Arctic dialogue that when the Arctic Council last week selected the first Director General for the

New Bureau of the Council it turned to Iceland, and choose our very own Magnús Jóhannesson, the State Secretary of the Ministry of the Environment, who later today will participate in our panel discussion.

Ladies and Gentlemen,

As a nation, Iceland has some very solid economic fundamentals, in fishing, renewable energy and tourism. In my time as Foreign Minister I have, however, come to the conclusion, that the greatest opportunities for Iceland in this century will derive from the Arctic, both from our own endeavors as well as from the activities of other nations within the Arctic.

It is my prediction today, that the Arctic will add a new field of economic opportunities that will have profound effects on our society and could with time transform our economy.

A new wealth may be drawn from several sources.

Firstly, for quite some time increasing evidence have pointed to considerable reserves of oil, and possibly gas, in the Dreki area, that lies within our economic zone and in the Arctic. After last year's expedition, when a Norwegian research vessel used a small submarine to verify the existence of oil it is no longer a question whether oil exists in the Dreki area, rather, is it in quantities enough to merit a whole oil field?

In that respect it is interesting to note, that Norwegian experts have researched the Dreki area for a long time. They know it better than anyone. Their opinion, based on scientific data, is that the quantities there more than merit a commercial operation. In this respect, it is of great importance, that the latest official oil report of the Norwegian government defines the area across the midline in the Norwegian Jan Mayen zone as one of the most promising future oil-fields in Norwegian territory. They plan to start exploratory drillings pretty soon, that not only underscores our view on the riches in our own Dreki, but will also be a huge attraction for international companies interested in investing in the area.

If oil will be struck it will transform the situation in the North East of Iceland in terms of employment and industrial activity, not to mention the wealth that will be funneled into our economy as a whole.

Secondly, I have defined the area from the northeast of Greenland to Jan Mayen and to the north of Iceland, including the Dreki, as the Northern Energy Triangle. I believe, that before 2025 we shall see three oilfields start operating at various stages between exploratory drilling to full production at the corners of this triangle.

All these fields need enormous servicing, entailing a conglomerate of small companies, that need a lot of space, strong infrastructure in terms of ports, access to health systems and hospitals, and they need to be close to international airports. Infrastructure and service for these areas will most likely be interconnected and I am firmly of the opinion, that Iceland, because of her geographical position, excellent transportation links and solid infrastructure, should play a central role as service center for these areas. I have stated that one of the goals of our Arctic policy is to get an agreement with Greenland and Norway to the effect that Iceland will provide all the services necessary to operate these three future fields.

This would have enormous economic benefits for Iceland. I have already raised this on a political level with my Norwegian and Greenlandic colleagues with positive noises so far, and will continue to work for an agreement with them and other stakeholders.

Thirdly, maritime traffic is bound to increase in wake of the melting of the ice-cover on the sea, both due to cruise tourism and later with transport of goods between the Pacific and the North-Atlantic along the new sailing routes across the North Pole, not to mention the huge maritime activities in relation to the offshore fields. This creates opportunities for different kinds of maritime services, for example transshipment hubs and connections to transportation routes operated by Icelandic shipping companies.

In this respect, as Minister for Foreign Affairs, I have actively promoted Iceland as a strategic location for foreign investment for sectors interested in resource development and shipping in the High North. I am pleased to note that my words have not fallen on deaf ears as both European and Asian investors with strong international portfolios have expressed their interest in investing in maritime infrastructure in Iceland.

I especially mention that this year's visit of the Chinese Icebreaker, the Snowdragon, has spurred the interest of Chinese shipping companies to take part in

developing the Trans-Arctic routes in partnership with Icelandic stakeholders, and we might see some interesting development already next year on that front.

Fourthly, Aviation is an important element in strengthening our competitive advances in the North, with good connections not only to major capitals in the South but also quite an extensive network of routes to the East and the West, including Anchorage and several destinations in Greenland. Keflavík has a strong position both as a traffic hub and because of the facilities that might be used for various logistic support. The Icelandic air-service industry has a good reputation in the North and there is no doubt in my mind that its expertise will be in even greater demand in the future, once mining and oil companies start to operate in the North-Atlantic energy triangle.

Last but not least, I would particularly like to mention the construction industry with its long experience and *know how* in working under demanding Arctic conditions, both here in Iceland and more recently in Greenland. This knowledge and competitive advantage will be needed in building up infrastructure to facilitate economic development in the North, not least in Greenland.

I could continue along these lines listing the opportunities that may lie ahead but it is more important to focus on how we can turn words into actions.

We need to engage with our neighbors and build stronger trade and business relations, particularly within sectors that are likely to play a crucial role in the Arctic, i.e. the offshore and the shipping industry, and not least with those that are already operating in the North. The Icelandic Chamber of Commerce is already taking important steps in energizing their bilateral chambers, that now include all the eight Arctic countries with Greenland and the Faeroe Islands. I have placed particular emphasize on building stronger political and economic ties with Greenland as the Greenlanders are gaining more political autonomy. The Ministry is currently exploring the feasibility of opening a General Consulate in Nuuk, as we have done in the Faeroe Islands, in order to facilitate direct access to the Greenlandic authorities and the international and local business sector in Greenland.

I would like to take this opportunity to encourage the Icelandic Chamber of Commerce to build on their relation in all the Arctic countries and develop a

circumpolar chamber of commerce where representatives from various key sectors from all the Arctic countries could come together to develop business partnerships and share experiences. Such a forum could not only strengthen the region's competitive advance towards other regions but also contribute to developing guidelines and standards for economic activities in the North. Having both the portfolio of foreign affairs and foreign trade, I would lend my strong support to such initiative within the Arctic Council and with my Arctic colleagues.