



30 April 2009

Dear Ms Beckett

**Re: Treasury Select Committee Report:
Banking Crisis: The impact of the failure of the Icelandic banks**

I am writing to you as a constituency MP and on behalf of my Foreign Minister, Óssur Skarphéðinsson, to express the Icelandic viewpoint on some of the specific points raised in the Treasury Select Committee's Report published on 4 April on the impact of the failure of the Icelandic banks. The Icelandic Government has reflected on the Report's findings and has made its response known to John McFall, the Committee's Chairman.

We welcome a number of the recommendations of the Report. In particular, we share the Committee's view that, by its use of the Anti-Terrorism, Crime and Security Act 2001 to freeze assets of Landsbanki on 8 October, 2008, the UK Government became an active market participant rather than passive observer in the unfolding financial turbulence in Iceland with potentially unforeseen consequences. However, that said, the Icelandic Government is taking significant steps forward to bring the issues which are still outstanding with the UK Government to a mutually acceptable conclusion.

It is important to remember that Iceland and the UK have enjoyed a long-term alliance and the trading relationship between our two countries has delivered mutual benefit. Indeed the UK has long been Iceland's strongest trading, tourism and investment partner. There is no doubt that the current situation has stigmatised a healthy and profitable economic and diplomatic partnership.

Furthermore, the Icelandic people have been greatly offended and concerned by the use of the Anti-Terrorism, Crime and Security 2001 legislation, feeling branded as terrorists when they felt they were close allies of the British. We believe that the imposition of the Act's sanctions had ramifications well beyond what seems to have been the UK Government's original intention. It had an impact on Iceland's economy, its financial system as well as on its worldwide reputation.

A barrier to progress between us and the UK has been the continuing imposition of the freezing order over the Landsbanki assets. This is still in place more than six months after it was applied. It serves no purpose other than to hinder Iceland's path to recovery. The lifting of the order would provide assurance that the relationship between us was now back on a more balanced footing. We have made representations to HM Treasury to rescind the freezing order.

Our Prime Minister, Jóhanna Sigurðardóttir, has recently written to Prime Minister Brown, to emphasise Iceland's desire to re-establish strong bi-lateral relations and to encourage the UK Government to lift the freezing order. She also informed him that Iceland is re-doubling efforts to bring to a conclusion the negotiations on the settlement of the outstanding guaranteed deposits relating to Landsbanki, in accordance with the guidelines agreed in Brussels last November. These are positive steps forward, but the lifting of the freezing order would undoubtedly assist in successfully concluding the process.

We also view the Committee's commitment to a further investigation into the wider issues of EU banking directives, cross-border regulations and 'passporting' as a very positive step. As the Committee Report shows, several witnesses to the Banking Inquiry called for much greater clarity and a re-evaluation of the impact of EU directives on financial stability. Clearly, the complexity of the current regulatory framework exacerbated the Icelandic situation. We hope to offer whatever information and assistance we can in the development of a more effective EU banking legislation.

In addition, during recent months Icelandic representatives have met with representatives of the local government authorities, charities and action groups who are depositors with Icelandic banks. We have noted with interest the Committee's recommendation that the charities concerned should receive support from the UK Government. We were also pleased to learn that the Local Government Association expects its Councils to receive "the lion's share of money back" from the banks as part of the administration process. Furthermore, recent information from the British administrators of the Landsbanki owned Heritable Bank, indicates a high rate of return to depositors, possibly up to 80% if the assets are fully maximised and market conditions are favourable on disposal.

All of these issues remain hugely important for Iceland. As a Government and a nation, we are keen that British Parliamentarians understand our position in these difficult times. If you have further questions please contact me at the Embassy.

Best regards,

A handwritten signature in black ink, appearing to read "Ambassador".

Ambassador