

**AN EXECUTIVE SUMMARY OF THE REPORT OF  
ÖSSUR SKARPHÉÐINSSON MINISTER FOR FOREIGN AFFAIRS  
TO ALTHINGI THE PARLIAMENT OF ICELAND ON 14 MAY 2010**

***ICELAND'S INTERESTS AND A RESPONSIBLE FOREIGN POLICY***

It is vital for an island nation, situated far away from other countries, to engage in active relations with the outside world. The government must ensure access for Icelandic products, services and ideas to foreign markets and attract investment and tourists to Iceland. Security must be guaranteed, as well as employment and welfare in Iceland, and the interests of Icelandic citizens abroad. Iceland must take part in shaping a better and more just world in cooperation with other states, institutions and organizations.

Protecting Icelandic interests and conducting a responsible foreign policy are the main objectives. The Foreign Service is a shield for Icelandic interests, a tool for the nation to respond to situations that arise, the axe that breaks the ice for companies seeking new markets, and the keystone on which the implementation of international projects rests. We have seen clear examples of such tasks since the last report of the Minister for Foreign Affairs was presented to the Parliament of Iceland over a year ago.

This report emphasizes four areas which much time has been devoted to in the last few months. Firstly, attention is given to how the Foreign Service collaborates with others on rebuilding the reputation and credibility of Iceland following the banking collapse of October 2008. Second, issues of the High North are given special attention and a series of policy projects for the future put forth. Thirdly, the employees of the Foreign Service, other ministries, institutions, interest associations and other organizations have accomplished a tremendous task in preparing for accession talks with the European Union. In the fourth place, there is a new approach in the organization of security and defense issues in the administration, and proposals on the shaping of a new security policy which is based on civilian values, civilian institutions and the fact that Iceland does not have a military force.

*The role of the Ministry for Foreign Affairs in turbulent times*

Since the Foreign Minister delivered his last report to the Parliament in March 2009, the tasks of the Foreign Service have focused on responding to the economic crisis. When the private banking system collapsed in October 2008, with drastic consequences for the Icelandic economy, Iceland requested the assistance of other countries and international organizations. The crisis severely affected Iceland's relations with the international community, and to the same effect, international relations have been crucial in the recovery process.

The collapse of the Icelandic banks had a substantial impact on other countries, foreign companies and individuals. Evidently, foreign creditors stand to lose considerable amounts due to these bankruptcies. Hundreds of thousands of depositors in the UK, the Netherlands,

and Germany and in the Nordic countries were affected when they could not temporarily access their deposits in the midst of the financial crisis. All of these have now been fully compensated apart from a relatively small group of depositors of Landsbanki who will have to wait for the final outcome of the solvency process before it becomes clear how high a proportion of their deposits as priority claims will be recovered. According to reports from its winding-up board, dispositions are estimated to be equivalent to 89% of priority claims.

The Icesave issue as such has been difficult, and attempts to link Icesave with the IMF economic recovery program have been unfortunate. The sound resolution of Icesave is based on active diplomacy. The Ministry for Finance is responsible for the Icesave talks and the cooperation with the IMF falls under the responsibility of the Ministry of Economic Affairs. The Icelandic Foreign Service cooperates closely with both of these ministries.

The task of providing other countries with precise information, including on how different solvency processes that involve foreign creditors are organized, is both critical and must be worked on around the clock in a crisis situation such as that in which Iceland has found itself. The Foreign Ministry has played a key part in informing other countries about the economic recovery programme and in communicating on the international level how rigorous reform has been implemented in Iceland in an effort to prevent that such a banking collapse ever takes place again. The report of the Special Investigation Committee published in April 2010 has been particularly useful in this regard as it has reinforced trust in Iceland and the investigation of Icelandic authorities into what went wrong and where the responsibility lies.

The implementation of the economic recovery program supported by the IMF is a core issue for Iceland. The first and second review of the IMF program was positive, acknowledging and complimenting the radical measures taken by the Icelandic government in order to stabilize the economy and put it back on track. IMF's endorsement has been important for re-establishing trust in Iceland and the Icelandic economy, which again is crucial for the economic recovery.

The Foreign Ministry has participated actively in the Icesave affair and had a representative in the Icesave negotiations. The basis for continued negotiations with the UK and the Netherlands after the President of Iceland refused to sign the Icesave bill into law on 5 June 2010 was laid at a meeting in the Haag in January this year where the Icelandic Minister of Finance, with the leaders of the opposition present, met his counterparts. In February, the parties met for discussions in London. They resumed until the national referendum on Icesave on 6 March 2010. Since then, there have not been formal negotiations but informal discussions are ongoing. The Icelandic government has on various occasions reiterated its willingness to conclude the Icesave affair. There is every intention for formal negotiations to resume at an opportune moment.

The resolution of the Icesave affair has been complex. The issue itself is complicated and Iceland has frequently been portrayed as an unbending and irresponsible small state that "refuses to repay". Direct ministerial and other high level contacts have been critical when it comes to explaining Iceland's viewpoints to other countries and international organizations, and so attempt to avoid the potential negative impact of Icesave on other unrelated issues of great importance to Iceland. In this regard, active media relations have been important.

### *Consular services*

Each year the staff of the Ministry for Foreign Affairs, the staff of 25 diplomatic missions and nearly 250 Honorary Consuls of Iceland in 80 states, handle over one thousand cases

concerning the rights, welfare and interests of Icelandic nationals abroad. Service to Icelandic nationals abroad is one of the most important missions of the Icelandic Foreign Service.

### *Iceland's interests in the High North*

The High North is somewhat belatedly gaining more international relevance. Firstly, the Arctic nature and ecosystem are sensitive to climate warming and need to be closely monitored. Secondly, it contains a large portion of the world's unused oil and gas deposits. Thirdly, it is expected that future shipping routes will open up between the Pacific Ocean and the Atlantic Ocean, via the Arctic Ocean.

In his speech to the UN General Assembly last September, the Minister for Foreign Affairs identified the High North as one of the key priority areas of Iceland's foreign policy. Further, the Minister is of the opinion that the following objectives should be among those included in the development of a new foreign policy strategy on the High North:

Firstly, to secure Iceland's position as a coastal state and a key stakeholder in shaping the future development of the High North. Iceland should be considered a full-fledged coastal state on a par with such countries as the USA, Denmark (for Greenland), Canada, Norway and Russia.

Secondly, to develop legal and geographical arguments for Iceland's role in international decision-making regarding the High North. This should draw on the fact that the Exclusive Economic Zone lies within the Arctic region to the north and extends to the Denmark Strait adjacent to the Arctic Ocean. It is therefore fully logical that Iceland should be involved in all international decisions regarding the High North.

Thirdly, to advance and gather support for a definition of the High North, as an area comprised of the Arctic and those parts of the North-Atlantic which are closely connected to it. Thus, the High North as such should not be narrowly demarcated by geographical definition but should be seen as a far reaching area from an ecological, political, security and economical perspective.

Fourthly, to promote and strengthen the Arctic Council as the most important forum for circumpolar cooperation.

Fifthly, to side firmly against the so-called five states meetings i.e. Canada, Russia, Denmark (for Greenland), the USA and Norway. That forum undermines the Arctic Council and therefore undermines other stakeholders that have strong interests, including indigenous peoples.

Sixthly, to work towards ensuring that all possible future disagreements concerning jurisdictions and rights will be solved on the bases of the UNCLOS.

Seventhly, to continue to support and contribute to international agreements with regard to preparedness in the field of surveillance, SAR, and pollution prevention, in order to protect Iceland's interests in natural resources, fishing and oil and gas exploitation.

Eighthly, to work against the militarization of the High North

Ninthly, to take up close consultation and cooperation with Iceland's neighbors to the west on issues concerning the High North. Increased cooperation between Iceland and Greenland within the energy sector, both with regards to oil and the generation of electricity, will give both nations increased relevance, geopolitically and strategically.

Tenthly, to support the rights of indigenous peoples in the region.

The Foreign Ministry plans to host an international conference on matters of the High North, in cooperation with the University of Iceland and other partners, in order to promote Iceland's policy as outlined above. Future policy-making should address clearly a wide range of factors including politics, international agreements, protection of the environment, security, exploitation of natural resources, human rights and social and trade issues. Preparations for this action plan are already under way, and the goal is to develop, for the first time, a future policy for Iceland on issues pertaining to the High North.

#### *Iceland's application for membership of the European Union*

On 16 July 2009 the Icelandic Parliament, Lathing, passed a Government bill on application for membership of the European Union (EU). Since then preparations have been made purposefully in accordance with the guidelines presented in the opinion of the Foreign Affairs Committee. Step by step progress has been made towards actual accession negotiations. It is assumed that the European Council will soon decide on launching accession negotiations based on the European Commission's positive opinion expressed last February. On the whole, Iceland's application for membership has been positively received by the EU Member States and the European Parliament among others. Due to the EEA Agreement Iceland enjoys good will and there is an understanding of its strong position as a European partner, which gives Iceland a different position from that of other applicant countries.

A negotiating committee, chaired by the Foreign Ministry's chief negotiator, has been appointed as well as ten negotiating sub-committees which are responsible for different subject areas. The sub-committees represent Government Ministries and agencies, unions and organized interest groups. More than two hundred individuals are directly involved in the negotiation process. A consultation group is being set up in accordance with the opinion of the Foreign Affairs Committee. Its primary role will be to provide counselling to the negotiating committee and the Government on Iceland's positions in the accession negotiations with the EU.

The chief negotiator has strengthened his relations with key persons in EU institutions and representatives of EU Member States in Brussels and has presented Iceland's application, e.g. in the German Parliament.

After its establishment the negotiating committee has met on six occasions and is expected to meet more frequently in the near future when the work of the sub-committees has reached a certain stage that calls for discussions within the committee. The negotiating committee has mainly focused on organizing its work and monitoring the processing of Iceland's application within EU institutions and among EU Member States.

Substantive preparations for the negotiations have been in good progress within the sub-committees. It is anticipated that work with the Commission on a systematic comparison of Icelandic legislation with EU legislation, i.e. the screening meetings, will begin this fall.

The Foreign Minister puts great emphasis on the transparency of the negotiation process and all related work. This has already been demonstrated in practice by publicizing the EU questionnaire and Iceland's answers as well, and by publicizing the minutes of the meetings of the negotiation committee and the sub-committees. This approach will be followed throughout the negotiation process to the extent possible. The combination of the sub-committees is also important with regard to transparency, as their members represent organizations that have vested interests in the relevant subject areas. Thus they participate directly in the negotiations and have an opportunity to influence Iceland's bargaining position.

On 24 February 2010, the European Commission presented its opinion on Iceland's application for EU membership to the Council of Ministers. The opinion is generally positive towards Iceland as an applicant state, although various aspects of the Government's administration are considered to be in need of improvement, e.g. the procedure for judicial appointments. The Commission's opinion confirms that Iceland fully lives up to the Copenhagen criteria and recommends that negotiations for accession be opened with Iceland.

In its opinion the Commission expresses the view that Iceland is well prepared for the negotiation process, not least due to its close cooperation with the EU based on the EEA Agreement. The opinion makes reference to several issues relating to the economic crisis; it points out the need for a balanced budget and that the revival of the financial system and the strengthening of the economy remains a key challenge. The International Monetary Fund's (IMF) economic plan and its implementation are favorably mentioned. The opinion addresses the lack of surveillance in the financial sector and stresses the importance of the implementation of a credible fiscal strategy. In addition, the opinion expresses the view that the EU could look towards Iceland while reviewing its common fisheries policy.

The role of the ten sub-committees is mainly to prepare negotiations with the EU. This includes, among other things, analysis of EU legislation, as well as joint analysis with the EU, preparing Iceland's bargaining position, discussions with the EU on the negotiation topics and their development as the negotiations progress. In addition, the sub-committees shall be at the chief negotiator's and the negotiating committee's disposal for consultations throughout the negotiation process. The ten sub-committees deal with the following subject areas: Regional policy and coordination of structural instruments, justice and internal affairs, customs union and financial matters, legal issues, agriculture, monetary union issues, fisheries and foreign policy. In addition two sub-committees divide between them the issues that fall under the EEA Agreement. The report covers the work of each of the sub-committees. Most of them will sum up their analysis prior to the anticipated beginning of the screening meetings.

The next step in the negotiation process after the European Council's decision will be an intergovernmental conference between Iceland and EU Member States. Following the conference, the so-called screening meetings with the Commission will begin. Following the screening meetings, the Commission will present a report to Member States which, among other things, evaluates to what extent Icelandic legislation complies with EU legislation. On the basis of this report, the Member States will decide whether to start negotiations on specific chapters. Icelandic authorities have emphasized that both largely implemented chapters and chapters that fall outside the scope of the EEA be opened already in the early stages.

Ever since the Althingi instructed the Government to submit an application for EU membership, Iceland's application and viewpoints has been introduced to other countries. During the past year, the Foreign Minister has had meetings and discussions with most of his European colleagues. The Minister has taken advantage of those meetings and discussions to explain Iceland's standpoint as regards the Icesave issue, the progress of Iceland's and IMF's economic plan, as well as Iceland's interests in the negotiation process. In addition, public officials and members of the sub-committees have done likewise through meetings with their colleagues in the Member States and the EU institutions.

Iceland's Embassies in EU Member States have also prepared the ground for the application process. Iceland's ambassadors introduced the application through a concerted démarche as soon as it was submitted. Ever since numerous meetings have been held with different parties from the administrations of the Member States, parliamentarians, EU institutions and ambassadors in host countries to further explain Iceland's viewpoints, explore the viewpoints of the Member States and build up new channels and networks.

### *Human rights*

The fight for human rights and women's liberation, peace and disarmament has high priority in Iceland's foreign policy. These are values that the Icelandic Government wants to emphasize in international cooperation, values that the Government has also taken on as an international commitment. There is a clear connection clear between the respect for human rights, including the rights of women, and sustainable security and peace. It is in the interest of Iceland to contribute to the respect for human rights, which it does through participation in various international organizations and in bilateral relations with individual states.

Human rights are not an internal matter of the state and such arguments can not be used to prevent a debate in the international arena. Iceland is of the opinion that discussions, especially at the United Nations on the situation of human rights in individual countries and in specific regions, are necessary in order to apply moral pressure to states. Iceland takes full part in discussions at the UN on the situation of human rights in individual states, *inter alia* by delivering statements, participation in negotiations and by co-sponsorship where applicable. In meetings of the UN Human Rights Council and in the General Assembly, Iceland exerts itself for the improved situation of human rights in the occupied territories in Palestine, Iran, Myanmar (Burma), North-Korea, Sudan, Sri-Lanka and other states.

Iceland has in its work in international fora, especially endeavoured to contribute to the enhanced participation of women in all decision making. Special attention has been given to UN Security Council Resolution No. 1325 and to ways to enhance the participation of women in peace negotiations, post-conflict reconstruction and other peace processes, as well as in decision making in the field of climate change and adaptation to climate change.

### *Natural resources and environmental affairs*

Iceland has, like other countries, great interests at stake in how the international community addresses the threats resulting from climate change. Negotiations for a new international agreement on climate change were not concluded in Copenhagen. It is becoming increasingly urgent to reach an agreement, not least since the Kyoto Protocol will soon expire. At the end of last year the European Union agreed to Iceland's request to negotiate an agreement to undertake a joint emission reduction commitment under a future international climate agreement after 2012. Under such an arrangement, Iceland would fully adhere to the EU Climate and Energy Package and not merely to the Emissions Trading Scheme, as is required by the agreement on the European Economic Area. This will avoid the possible complications that could arise with Iceland taking on a double commitment regarding greenhouse gas emissions, under both the EEA and a future international climate agreement.

The Copenhagen Accord is a milestone, as under it all the biggest emitters of greenhouse gases commit themselves to undertaking measures for reduction. In Copenhagen, Iceland announced its intention to reduce emissions, in a joint effort with the EU, by 30% until 2020, compared to 1990 levels, provided an ambitious international agreement is reached.

### *Defense and security issues*

During the last couple of years, there have been significant changes in the security environment following the departure of the United States forces from Iceland in September 2006. Membership of NATO and the 1951 Bilateral Defense Agreement between Iceland and the United States remain fundamental pillars of Iceland's security and defense.

A broader definition of security and defense has been gaining currency across the world, and this new definition must, as a matter of course, form the basis of any further policy making in Iceland. In order to further enhance its capacity to manage the changed situation, Iceland has entered into cooperation with neighboring states, which entails dialogue on security and defense issues as well as situational awareness and search and rescue.

Nordic cooperation in security and defense has an increased profile, *inter alia* through proposals set forth in the Stoltenberg report. Iceland participates in the Nordic defense cooperation (NORDEFCO) which has been strengthened in the last couple of years.

The Icelandic Government has submitted a bill to Althingi amending the Defense Act, in accordance with the conclusions of a report by a working group under the auspices of five Government Ministries which was appointed last December. The working group was established to make proposals on how to implement the Government's decision to disband the Icelandic Defense Agency (IDA) this year and integrate its tasks with the functions of other Government agencies. The bill has no impact on Iceland's security policy, related participation in international forums such as NATO or Iceland's bilateral or multilateral obligations in the field of defense and security. The Ministry for Foreign Affairs will continue to be responsible for foreign policy aspects of defense and security.

NATO conducts air policing missions in Iceland as decided by the Alliance in July 2007 in order to ensure that air sovereignty is maintained as well as familiarity within the Alliance of Iceland's environment. Missions are carried out by NATO Member States at an average three times a year, for 2 to 3 weeks at a time.

Iceland has participated in the development of a new NATO Strategic Concept reflecting the changes that have taken place since 1999 when the current one was adopted.

The Minister for Foreign Affairs intends to initiate the development of a comprehensive national security policy. The Threat Assessment Report for Iceland, issued by the Ministry for Foreign Affairs in March 2009, will provide an important platform for its preparation.

### *Disarmament*

The Government of Iceland emphasizes the importance of disarmament, international security, nuclear disarmament and dialogue on peace. Iceland's main objective in disarmament is the eradication of weapons of mass destruction and inhumane conventional weapons, as well as to minimize the threat of conventional weapons by restricting quantity, types and proliferation, without challenging legitimate concerns for the security of states. Iceland focuses on two specific challenges regarding international disarmament; nuclear disarmament, and combating and eradicating illicit trade in small arms and light weapons.

### *The Middle-East*

The effect of instability and lack of security in countries and regions can be felt far beyond their borders. A lucid example of this is the Israeli-Palestinian conflict. It is not least for this reason that the Icelandic Government, which supports the right to self-determination and independence of the Palestinians, considers increased international demands for a two state solution to be of utmost importance. The Icelandic Government also emphasizes strengthening relations with the Palestinian National Authority. This has been reflected, i.a. through the Icelandic Representative to the Palestinian Authority, appointed in 2008.

Iceland is involved in issues concerning the region through its participation in the United Nations, through direct contribution to its agencies, staff members of the Icelandic Crisis Response Unit located in the area, and bilateral relations with the Israeli and Palestinian Governments. The Minister for Foreign Affairs has announced his intentions to visit the Gaza Strip to further familiarize himself with the situation.

### *International Development Co-operation*

Considerable progress has been made in the fight against poverty and hunger during the ten years since the Millennium Development Goals (MDGs) were adopted. Iceland's development policy is based on the MDGs as well as reflecting the Act on Iceland's Development Co-operation of 2008. The main objectives of Iceland's international development co-operation are to support the efforts of Governments in developing countries to eradicate poverty and hunger and to promote economic and social development, including human rights, education, improved health, gender equality, sustainable development and the sustainable use of natural resources. These objectives also extend to ensuring security at the international level, e.g. by promoting and preserving peace, peace-building and peacekeeping, and by providing humanitarian aid and emergency relief where needed..

In accordance with the Act, a proposal for a parliamentary resolution concerning the Government's programme on international development co-operation for the next four years will be presented to the Althingi in the autumn of 2010. During 2009, Iceland's Official Development Assistance (ODA) amounted to ISK 4.2 billion (34 m. USD<sup>1</sup>), representing an estimated 0.32% of Gross National Income (GNI). In 2010, Iceland's ODA is expected to amount to 3.2 billion ISK (24.5 USD<sup>2</sup>), an estimated 0.23% of GNI.

Co-operation with NGOs that provide humanitarian and emergency assistance is based on rules of procedures that were adopted in 2009. During 2009, 103 million ISK (0.8 m USD) was allocated to humanitarian and emergency assistance, channeled through NGOs. Icelandic authorities supported the largest emergency operation to date, when the Icelandic Search and Rescue Team was deployed to Haiti following the devastating earthquake in January 2010.

Iceland's support to multilateral organizations reflects its policy, i.e. the promotion of human rights, women's rights, peace and security and the fight against social injustice, discrimination and hunger. Emphasis is placed on gender equality as well as the fishery sector and the harnessing of renewable energy. Three United Nations University programmes operate in Iceland, in addition to a pilot programme on gender equality (GET). The Geothermal and Fisheries Training Programmes graduate around 20 fellows each from developing countries each year after a six month training course. The Land Restoration Training Programme became a formal party to the UNU network in February 2010. Six fellows will attend the LRT and the GET each this year. Iceland supports UNICEF, both with core funding, as well as with earmarked funds, to projects in the occupied Palestinian Territories and in Guinea Bissau. Iceland sits on UNICEF's executive board during 2010. Support to the World Bank is in the fields of geothermal energy, fisheries, gender equality and human rights.

Iceland's contribution to peace building and peace-keeping is based on emphasis on peaceful resolution of conflict, support to civil institutions, gender equality and humanitarian assistance. Icelandic experts work in Afghanistan, the Middle East, the Balkans and in Africa.

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<sup>1</sup> Average exchange rate USD/ISK during 2009: 123.6.

<sup>2</sup> Reference exchange rate USD/ISK 2010 according to the Ministry of Finance: 125.06.

In addition, stand-by agreements are in force with the UN's World Food Programme (WFP) and UNICEF. Iceland also engages in election monitoring.

By the end of 2010, the number of bilateral partner countries will have been reduced to three, all in Sub-Saharan Africa: Malawi, Mozambique and Uganda. Emphasis is mainly on education, health, fisheries, adult education and geothermal energy.

#### *Trade related matters - The EEA Agreement*

The Agreement on the European Economic Area continues to be one of the cornerstones of Iceland's foreign policy. In addition to making Icelandic companies competitive in the European internal market, the Agreement opens up opportunities for Icelandic workers and students. Furthermore, it sets the basis for flourishing operations in Iceland in the area of research and development. One of the main tasks of the Foreign Ministry is to ensure the smooth functioning of the EEA and to safeguard Iceland's interests under the Agreement.

Following the collapse of the Icelandic banks in October 2008, Iceland resorted to safeguard measures under Article 43 of the EEA Agreement, by introducing rules on foreign exchange. The rules restrict, or temporarily stop, certain types of cross-border movements of capital and foreign exchange transactions related thereto which, in the Central Bank's estimation, cause serious and substantial monetary and exchange rate instability. Restrictions on cross-border movements of capital and foreign exchange transactions still exist for certain types of capital movements, however, these restrictions have been subject to amendments. The aim is to abolish the restrictions in several steps. The first step was taken at the end of October last year, by permitting inflows of foreign currency for new investments and potential outflows of foreign currency that may derive from such investments in the future. Less substantial amendments were introduced on 30 April this year by reducing the maximum amount for which foreign currency may be purchased for travel, and by amending certain exemptions in order to remove any doubt about the illegality of so-called offshore trading.

The EFTA Surveillance Authority has received several complaints resulting from the collapse of the Icelandic banks, the introduction of the Emergency Act, and the splitting up of assets and debts between the old banks and the new banks. Most of these complaints are still under consideration by the Authority.

The Report provides information on some of the issues that are high on the agenda within the EEA, as well as on the implementation and the parliamentary procedures for EEA-acts in Iceland. It also deals with the EFTA Development Fund and Iceland's participation in the Schengen cross-border cooperation. It furthermore informs on the state of play of trade negotiations, including on free trade agreements, both bilaterally and within the framework of EFTA. The report also includes a chapter on the establishment of *Promote Iceland*, which main tasks are to promote Iceland as a tourist destination, to run the Investment Agency, to promote Icelandic businesses and the nation-branding of Iceland.

#### *Information activities and Iceland's reputation*

In the coalition platform of the Government of the Social Democratic Alliance and the Left-Green Movement from May 2009 it is stated that among the main tasks of the Foreign Service in the next few years is to regain Iceland's reputation internationally; rebuild Iceland's image in the world based on knowledge, culture and human capital; and to support the export of Icelandic products and services abroad.

Over the period of last year, the Ministry for Foreign Affairs, in cooperation with the Ministry of Finance and the Ministry of Economic Affairs, has put emphasis on informing partner countries and relevant multilateral institutions on the status and prospects of Iceland's economic recovery programme supported by the IMF, in addition to explaining Iceland's viewpoints on the Icesave issue. The Foreign Minister has had close to 70 meetings with colleagues from Europe and around the world and has given numerous interviews to media.

Disruption in international flights due to the eruption of the volcano Eyjafjallajökull made Iceland the focal point of the world media. Close to two hundred reporters, representing around eighty news media from around the world came to Iceland to cover the volcanic eruption. A task force from relevant Government agencies and various stakeholders in the tourism trade was formed to coordinate actions and respond to media coverage on Iceland due to the volcanic activities and distribute accurate information of the fact that safety in Iceland was assured and that society at large was functioning normally.

Since the collapse of the banking system, the Foreign Ministry has placed emphasis on effective communications with diplomats in Reykjavik and foreign Embassies accredited to Iceland. Foreign diplomats have regularly been invited to participate in briefings, where they have received information on current issues. In doing so, the Foreign Ministry seeks to enable the Embassies to inform their respective capitals on Iceland's position and interests, instead of relying predominantly on domestic and foreign media coverage.

### *The Foreign Service*

Operation of the Foreign Services, its main office and diplomatic missions, was kept within the allocated budget for 2009, as it had been in 2008. This was achieved through a concerted streamlining effort at every level and by continued operational stewardship, e.g. by cutting down on travel expenses and wage and salary costs, by cutting down on housing costs for diplomatic missions, and by reducing the numbers of staff posted abroad.

Since the economic collapse, the Ministry for Foreign Affairs has had to make some difficult but necessary decisions to cut down its budget as part of the concerted administrative effort to control the deficit. In the autumn of 2008, the Ministry took the initiative of cutting its budget for 2009 by ISK 2,387 million, amounting to 23% of the general budget project submitted for approval. It was decided to resort to such drastic measures, *inter alia* because the costs incurred by the Ministry are payable in foreign currencies.

About two thirds of the Ministry's budget is allocated to contributions to development and international institutions. It has not been possible to avoid cutting down allocations to these items. Yet, the measures incurred will not affect the Icelandic Government's commitments, but there will be no new commitments for the time being. In the Ministry's budget for 2010 the allocations to these items are cut down by ISK 624 million, amounting to 43% of the Ministry's total cuts. Cut-backs to development are seen as a temporary measure, as it is the Government's aim to be among the states that proportionally contribute most to development.

At the same time, preparations have begun within the Ministry for Iceland's application for accession to the European Union. This is a large project, probably the most extensive one ever taken on by the Government Offices. Special budgetary resources have been allocated for the accession process and the Ministry for Foreign Affairs has also met the increased pressures in European affairs by prioritizing its tasks and transferring staff within the Foreign Service.