



**A Keynote Speech
by
the President of Iceland
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Institute of Corporate Governance
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Mr. Chairman
Ladies and Gentlemen
Kære venner

Det er en ære og en særlig glæde igen at være her i København, byen, som i 500 år var Islands hovedstad, og få lejlighed til at diskutere de sidste års erfaringer, mulighederne og fremtiden.

I København bliver islændinge ved hvert skridt mindet om vores egen historie, den fælles arv og kultur, hører på hvert gadehjørne det første fremmedsprog, de islandske børn undervises i – selvom mange har svært ved udtalen.

Dansk var gennem århundreder det sprog, der åbnede islændinge adgang ud i verden, men nu har engelsk overtaget den plads, ikke blot for vores vedkommende, men i hele verden. Derfor blev det bestemt at bruge det sprog her i dag, også at hensyn til de gæster, der ikke har været så privilegerede at lære dansk som modersmål eller som en vennens sprog.

While paying respects to the Danish language and centuries of shared cultural heritage and common history I am deeply honoured to be invited here today, to speak about the recent experience of my country, to explain how Iceland is recovering from the financial crisis earlier and more effectively than many other countries in Europe, to outline the fundamental long-term strength of the Icelandic economy, the combination of great natural resources and the creative capabilities of our educated work force and to draw your attention to the strategic

importance which Iceland is now gaining due to the evolution of the Arctic and the Northern Regions.

In the last decade of the 20th century and the first years of the 21st, economic policymaking in my country was greatly influenced by the prevailing laissez-faire ideology which then dominated most of the Western World: the belief that with privatisation, deregulation and the growth of privately-owned financial institutions, the future would bring prosperity to all. The state-owned banks were sold; our country aligned itself with European economies through the EEA agreement at a time when the globalisation of finance was rapidly transforming the old way of doing things. Markets were awash with money, and Icelandic banks and entrepreneurial young companies joyfully took advantage of the situation, as was witnessed both here in Denmark and other European countries.

All this was a complicated story and many mistakes were made, by bankers, by entrepreneurs, by regulatory authorities, by all of us in elected positions, by our partners in other countries, by governments and by foreign authorities.

In the two and a half years that have passed since the banks collapsed, Iceland has attempted to deal with the consequences and to meet profound economic and political challenges. Parliamentary elections were called to give a new legislature a fresh mandate. A new government was formed; an Investigatory Commission headed by a Supreme Court Judge was set up and a year ago it issued a comprehensive report in nine volumes. Special Prosecutors were appointed to investigate the banks and failed companies, to lay the foundation for an extensive judicial process aimed at prosecuting those who may prove to be guilty. We have reformed the legal framework of the financial and the banking sectors, changed the leadership of the Central Bank and the Financial Supervisory Authority and held two national referendums to determine how to settle the Icesave dispute with Britain and the Netherlands.

All of this constitutes a comprehensive response and I doubt if we can find other countries which have responded to banking crises with such wide-ranging democratic and judicial measures.

We have also tried to learn from the experience of other countries, from the banking crisis which our Nordic friends, including Norway, Sweden and Finland, suffered in recent decades. In a light-hearted way, we could say that Iceland has always been lagging a few decades behind the other Nordic countries. We urbanised later, we industrialised later and we had our banking crisis a few decades after the other Nordic countries had theirs.

Through our domestic dialogue we have attempted to formulate some key lessons to share with the international community, especially since all nations must work towards establishing more stable and responsible financial systems in the coming years.

The first lesson is how difficult, if not impossible, it is to let a pan-European financial market function freely without an effective pan-European regulatory system, to rely mainly on national institutions to control a system which has, in effect, become wholly European, operating within a globalized world.

The second lesson is that policies of financial stability have focused too much on individual institutions and too little on the risk involved in the financial sector as a whole. It is imperative, both at the European and the global level, to develop monitoring of the possibility of comprehensive system breakdowns. We saw in Iceland how the banking sector collapsed in a few days and in parts of Europe and the United States it was indeed a close call.

The third lesson is how old fashioned the regulatory system was, compared with the fast high-tech IT-driven nature of modern banking. The core of the Icesave dispute between us and the UK and the Netherlands resulted from the failure of the authorities in our three countries to fully comprehend the scope and speed of this new high-tech banking. We must now examine thoroughly the link between technical developments and the evolution of banking; an issue which up to now has not been sufficiently addressed either in Europe or the United States.

The fourth lesson to be learned is not to be led astray by the “hype economy”; not to neglect the export-driven, productive sectors; not to be fooled by the siren song of the financial institutions, their big bonuses, flamboyant lifestyles and efficient PR machines. In the long run it is what we produce, not what we can hype, that will be the basis of our prosperity.

The fifth lesson is that a big banking sector was in fact bad news for the creative sector of our economy. The Icelandic banks became so big that they prevented these companies from realizing their own growth potential. The banks hired not only engineers, software programmers, mathematicians and other IT specialists, but also designers, artists, writers, musicians, thinkers and many others, attracting all with impressive salaries and bonuses. When the banks collapsed, a wealth of talent suddenly became available to a multitude of creative companies, to new start-ups, IT companies and others which in the last two years have consequently enjoyed a successful growth period.

We have thus experienced the paradox that the failure of banks can lead to a great boost for the creative and exporting side of the economy.

The sixth lesson involves the consequences of losing our memory of history and believing, as most of us did over the last 20-30 years, that somehow the Western World had found a magic formula for eternal non-stop growth, forgetting that the essence of capitalism is cyclical; there will be failures and collapses and the system will restore its balance in due course.

The seventh lesson is the danger involved in creating a system of banking which privatises the profits but nationalises the losses. The stance taken by the UK and the Netherlands in the Icesave dispute in 2009, with support from their EU partners, implied that farmers and fishermen, teachers and nurses, industrial workers and others in my country were being forced to shoulder, through their future taxes, the losses created by irresponsible private bankers in foreign operations. However, the essence of EEA and EU regulations is that commercial banks and private financial companies should not have a permanent state guarantee because this would greatly distort competition with those that do not enjoy such backup.

In the last two years, Iceland has demonstrated its willingness to negotiate agreement in this dispute; we have shown fairness, but at the same time stuck firmly to our democratic and legal rights.

The people of Iceland have now spoken clearly in two referendums in accordance with the democratic tradition which is Europe's most important contribution to world history. The leaders of other states and international institutions will have to respect this expression of the national will. Solutions to disputes arising from financial crises and failures of banks must take account of the democratic principles which are the foundation of the constitutional structure of the West.

Although a majority of the Icelandic electorate has in the referendum last Saturday said 'no' with respect to the conclusions of the negotiations which took place last year, it is necessary to emphasise that the nature of the Icesave issue is such that the British and Dutch authorities and agencies will still, notwithstanding this result, receive immense sums from the estate of Landsbanki. In all likelihood, the amounts paid to them will come to the equivalent of USD 7-9 billion, the first payment taking place within a few months.

It is therefore not correct to maintain that the United Kingdom and the Netherlands will not receive any payments. They will, in fact, get the largest sum of money that has ever been paid out in Icelandic history. The

Icesave dispute has not been about paying or not paying. It has centred on different interpretations of the European Union's regulations and the question of the rate of interest.

It is also worth noting that influential international media, for example the Financial Times and the Wall Street Journal, have in the last two years expressed strong support for Iceland's position, and for this we are grateful.

Having listed the previous seven lessons, all of which have already served as basis for reforms and restructuring of policies in my country, let me now turn to the economic dimension of our recovery which also raises some interesting questions.

Why is Iceland recovering faster than many other European countries with economic growth expected to be over 2% this year, and employment lower than in some other parts of Europe? Why is it that companies in a multitude of sectors – fishing, tourism, energy, IT, manufacturing industry, design and many other sectors – have in fact done much better in the last two years than in the period prior to the collapse of the banking system?

Icelandair, our paramount tourism company, showed record profits last year and plans to expand its operations by 17% this year. 2009 and 2010 were extraordinarily good for Iceland's tourist industry while tourism in Southern Europe suffered greatly. One reason is the weakness of our currency after the collapse: visiting Iceland became cheaper than before.

Actavis, going from humble beginnings to become one of the five largest generic pharmaceutical companies in the world, declared 2010 to be its most successful year ever and is now significantly expanding its research and development activities in Iceland.

The fishing companies are also faring well; the big ones, like Grandi and Samherji, which are considerable players by European standards, are demonstrating impressive strength.

Many IT companies have flourished after the banks collapsed, partly because then they could hire qualified staff who had up to that time been monopolised by the banks. CCP, which produces the world famous Eve Online internet game, has broadened its customer base from about 200,000 subscribers in different parts of the world at the time when the banks collapsed to over 350,000 subscribers now, each paying about 12 Euros a month to play the game.

Icelandic design companies have also gathered momentum, as was demonstrated at the recent DesignMarch Festival in Reykjavík where a multitude of fashion, furniture and other companies displayed their successes.

The prosthetics company Össur, a global leader in its field, experienced in 2010 what its CEO explained was an extraordinarily profitable outcome.

I could go on to list other similar success stories but we should also remember that many companies in Iceland still face difficulties, especially in the construction sector, in commerce and services. Thousands of Icelanders have suffered loss of income and are struggling to keep possession of their homes and apartments. We will continue to face challenges, but overall, the situation is far better than anyone, including ourselves, could have expected in the autumn of 2008, when the banks collapsed.

In analysing the favourable course that fate has taken, let me mention four factors.

Firstly, the devaluation of the krona has certainly helped to strengthen the export sectors: fishing, energy, tourism, IT and others. While using an independent currency in a small but globally-engaged economy could be seen as a part of the problem prior to the collapse of the banks, it has definitely been a key element in the solution during the recovery process. Our adjustment has consequently been quicker, firmer and more effective than in some other European countries.

Secondly, the private banks were allowed to fail. We did not try to keep them afloat with huge financial contributions, perhaps because we were paradoxically blessed with not having the funds to do so. Therefore it has turned out to be easier to construct a new banking system aimed primarily at serving the Icelandic economy.

Thirdly, our natural resources, particularly marine resources and the means to generate clean energy, together with the natural beauty of the country, have turned out to be strong assets and foundations of the recovery process.

Fourthly, the high level of education and the creative and entrepreneurial capabilities of our people have led to dynamic responses to the crisis, with new companies being created and existing companies utilising new opportunities. Thus, despite the justified anger caused by the great losses in Iceland, we have also witnessed a new sense of solidarity and creativity.

The experience following the collapse of the banks has brought out the long-term strength of the Icelandic economy and shown us that we hold many assets of key importance for progress in the 21st century, assets that are inducing foreign partners to seek cooperation with Iceland.

The country has become a widely-recognized leader in clean energy, with 100% of our electricity and all of our space heating derived from geothermal and hydro resources. The geothermal sector has also provided the framework for extensive greenhouse agriculture and fish farming, world-famous tourist locations like the Blue Lagoon, the creation of spas and the production of cosmetics.

Three aluminium companies, Rio Tinto Alcan, Alcoa and Century Aluminium, two of them global leaders in their field, now operate smelters in Iceland and all want to expand by building more. Clearly, neither our recent economic difficulties nor the prevailing currency controls have prevented these global companies from wanting to increase substantially their investment in Iceland.

Furthermore, the country is well suited to host data-storage centres because the running costs for server farms in Iceland are about 40% less than in most other countries, and the availability of space and green energy is a considerable advantage.

Clean energy thus helps to make the country an attractive location for foreign investments. But it has also helped the nation to survive the recent banking shock, especially because the cost of heating and electricity for ordinary people, families, homes and business companies is considerably lower than in most other European countries.

The scale of the national savings resulting from geothermal space heating alone is demonstrated by the fact that every decade, Iceland saves what amounts to one year's GNP by not having to import oil and coal to heat our houses.

There are over 100 countries in the world which could similarly benefit from their geothermal resources, many of them in Europe, yet somehow, the great geothermal potential has been the forgotten secret of the European and the global energy debate. This brings Iceland fascinating opportunities. Our engineering firms and energy companies are now engaged in such projects in many different parts of the world: in China, India, East Africa, Central America, the United States and countries in Central and Eastern Europe. The potential in this area is determined by the speed with which clean energy is becoming an important pillar of success in the 21st century economy.

We in the Nordic countries could pool our experience and technologies in different branches of clean energy and thus become what former Prime Minister Anders Fogh Rasmussen called the Silicon Valley of clean energy, a vision which he vividly described a few years ago at a Nordic seminar held in the famous Blue Lagoon location in Iceland.

In January, at the World Future Energy Summit in Abu Dhabi, I had the privilege, as a member of the jury of the Zayed Future Energy Prize, to award the main prize to the great Danish company Vestas, a global leader in wind energy, and thus salute Denmark's notable achievement in this field. Together with the achievements of Norway, Sweden and Finland, Iceland and Denmark could utilize this Silicon Valley vision to make the Nordics a predominant global trade mark in the clean energy sector; by joining our forces we could reap great benefits.

Another major element in Iceland's long-term strength is how we have developed a sustainable and highly profitable fishing sector and established strong market positions in Europe, Asia and the United States. In contrast to the failed EU Fisheries Policy, the Icelandic system has turned out to be a great success.

The country is also blessed with great reservoirs of fresh water, perhaps the largest left in Europe, at a time when quality water has become one of the most valuable commodities in the world. We are already exporting bottled water to Europe and America, and entrepreneurial businessmen, together with their Arab partners, are examining how Icelandic water could be transported in tankers to the Middle East, using an older fleet to carry water instead of oil.

This abundance of water brings me to the great display of wonders with which Mother Nature has endowed Iceland: magnificent rivers, lakes, glaciers, volcanoes, lava fields, green valleys, black deserts, deep fjords of all shapes and sizes. Nowhere in the Western World can we so easily witness the creative forces of nature, contrasts in colours, light and different landscapes. Therefore more and more people are flocking to our country. In recent years, annual growth in tourism has been 10-15%, bringing in valuable currency and helping to diversify the economy. We need to start planning how to welcome over a million foreign visitors every year – three times our own population.

A growing interest in the Northern Regions and the Arctic can also be seen everywhere in the global media, helped by climate change. The possibilities of new Northern Sea Routes have become a major topic on the global agenda. Within one or two decades they could link Asia to Europe and America in a way which reminds us how the Suez Canal introduced a revolutionary change in global trade 100 years ago.

This new potential in the northern regions gives Iceland a position of strategic importance in the 21st century global economy, not only because it could serve as a hub for cargo traffic to and from Asia but also due to the utilisation of energy resources in the Arctic, which amount to a quarter of the untapped global reservoirs, and due to the growing significance of our neighbour, Greenland. These developments could bring Iceland great opportunities, allowing the country to facilitate fundamental global and regional transformations, involving a variety of corporate and national interests.

If approached correctly, all of this could be the foundation of a prosperous future, making us stronger and hopefully wiser due to the lessons we have learned in recent years, inspired by a dialogue with those who are interested in being our partners.

Throughout the 20th century, and even earlier, Denmark contributed perhaps more than any other country to Iceland's progress.

The leaders of our independence movement in the 19th century were educated in Copenhagen and a few lived here for decades.

Here our first engineers and technicians were trained, as were many other professionals, artists and craftsmen. Our early companies in industry and trade were profoundly influenced by Danish traditions and Denmark still hosts thousands of Icelanders.

Our friendship and cooperation is deeply rooted in shared history and culture. Our modern relationship is a model with a message for others.

It is therefore only logical to enhance our dialogue and productive relations, to welcome Danish partners to join us on this future journey. Both the present and the future are rich in opportunities, waiting to be explored by us all.

It is in that spirit of cooperation and friendship that I come here today.