

Iceland Policy Tour

A report back to Alaskans on lessons shared between small, remote arctic populations

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Iceland sits at a North Atlantic shipping “hub” location, ideal for shipping across the Arctic Ocean and between Europe and North America. It is also an “air-crossroads” for European and North American passenger and air cargo traffic. This parallels Alaska’s location at the top of the Pacific. Alaska and Iceland sit at the two gateways to the Arctic. Alaska is located at a similar strategic location for surface shipping between the Arctic, North American and Asia and for air shipments between Europe, North American and Asia.

Themes in Brief

- **Strategic planning**
 - Identify competitive advantages and develop in-country expertise
 - Diversify economic portfolio through value-added options and cluster development
 - Create a Master Plan that evaluates and prioritizes energy projects based on economic, social, cultural and environmental impacts
- **Fiscal prudence**
 - Big projects (both public and private) are only pursued with financing/buyer in place
 - Spend less than you earn; state as guarantor rather than providing direct financing
- **Infrastructure investment**
 - Sacrifice in the short term for future, long-term prosperity
 - State policies and investments support foundational infrastructure – power grid

Who Went

More than 30 Alaska leaders participated in the Iceland Policy Tour – an impressive group representing key Alaskan business, political, independent and academic sectors. Participants were curious, inquisitive and diverse in their approach to the topics addressed by speakers.

Why We Went

Alaskans are looking for answers. Our challenges are different, but not unique, in a region connected by ice and water. Faced with uncertainty and intense scrutiny, Alaska policy and thought leaders are understandably careful in their search for new and creative ideas. Fortunately – and building on decades of close cooperation between northern nations – Alaska can find implementable and innovative policy and best practices here in the North, in a region defined by its common challenges and opportunities.

Recent Circumpolar Policy Tours to Norway, and now to Iceland, have been an exchange of knowledge and experience, with reciprocal interest from our neighbors in how Alaska operates. This fostering and strengthening of relationships means that participants recognize that there is no “right” way. Rather, there are multiple paths to prosperity.

Reflections from Tour Participants

The fundamental lesson, for me, about Iceland is that it is really very easy to do things differently. We cannot copy them. But we can take their approaches and apply them to our context. In many cases a few tweaks will manage things at relatively little cost. In other cases targeted investment can create economies of scale, liberate future investment and create a virtuous circle. Iceland does these things. They experiment, sometimes fail, correct and build. Within this spirit, most of all they invest.

They invest directly in their people. Their spending per capita on health care is tiny compared to Alaska, yet their health outcomes (in terms of life expectancy, for example) are far superior.

They invest in innovative institutions. These are often the bridge between investing in people and investing in strategic projects. Iceland's strategic "clusters" transfer education and know-how between industry and University. They also help foster a knowledge economy with the ability to spur export and direct investment, and help ensure that the best knowledge is brought to bear for Icelandic investments. They have clear rules of the road for wholesale electricity sales, which fosters competition and innovation and helps liberate strategic investment. They have a strategic plan for which energy projects to pursue.

Iceland is adept at identifying their particular natural gifts, where they have strategic advantage, and are willing to pursue these efforts in a targeted way. Clearly, they sometimes fail to properly identify their gifts. Their experience in the banking sector is a good example. And yet, they learned. Redirected. And they've moved on, seemingly with an astonishing quick recovery from the cycle of recrimination.

So I have a working hypothesis. Owing to foresight of its political leaders, Alaska has a remarkable stock of financial capital. We have accumulated an asset that does, and will, provide a long term flow of benefits. As well, we have a unique opportunity to make strategic physical investments. However, our stock of financial resources is not limitless. If we choose to invest in the wrong things – because they are politically popular, or haven't been subject to adequate scrutiny, or were made without key data that could predict success – we will squander our chance.

Alaskans need to invest in the three-legged stool that Iceland has invested in:

1. Physical assets – projects – that will generate long term benefits and liberate future and further opportunities
2. Institutions, both to facilitate effective processes and enable domestic and international investments
3. People. This is not just about job training for projects. It is also about striving to bolster collaboration and knowledge transfer between those who are investing and Alaska's institutions and people.

What We Learned

Iceland's government has been able to implement shifts in policy on a grand scale, in ways that impact the social and economic fabric of the entire nation. These efforts have been gamechanging at critical junctures in Iceland's history. Stakeholders have been well-aligned and change has been effected in partnership with the private sector, with little direct government financing. Iceland's strategy is characterized as proactive, realistic and long-term.

Except for the recent experience with the country's financial sector, Iceland has traditionally been fiscally prudent—big projects, both public and private, are only pursued when they're economic, i.e. when they have a buyer in place. One strategy has been to use the strength of government as a guarantor, rather than financier. Certainly, the recent banking collapse triggered a renewed sensitivity to a fairly simple principle—"spend less than you earn."

While Icelanders are debt adverse, they are willing to make significant infrastructure investments. This has laid the groundwork for, and has had a multiplier effect on, economic development. Incremental and long-term returns are normal for infrastructure, and a 10-20 year payoff on infrastructure investment is expected in many cases.

Icelanders are deliberating the common ownership of resources. A proposal exists for a new constitution that allocates to the government all resources that not already privately-owned—similar to the way the Alaskan Constitution was written. Iceland is also examining the potential of developing a sovereign wealth fund for resource revenues, much like the Alaska Permanent Fund.

Iceland has maximized the benefit of clean/renewable energy by 1) providing the supportive infrastructure – a power grid that connects the entire country to low cost energy, and 2) identifying value-added economic development for local energy projects. Once community energy needs are met, economic prosperity follows.

Iceland generates (and uses) substantially more electricity per capita than other European nations, the vast majority of which is renewable. The Icelandic energy sector has several other special features—no gas production, infrastructure or market; no cross-border connections; no coal production; no crude oil imports or oil refineries; no nuclear power plants or research reactors—that differentiate it from the energy sector in Alaska.



Efficient energy policy requires a good regulatory framework and must take environmental concerns seriously. The Master Plan for Utilization of Renewable Energy Resources (currently in development) weighs aspects of a project's development and has a ranking system (evaluating social, economic, cultural and environmental impacts) that helps decide whether to energize, wait for more information or preserve the area.

Positive socio-economic impacts (e.g., from construction; or, an even better example – in 2010 the per capita benefit from geothermal in Iceland was 1600-2400 USD) are recognized as a vital element of project development. However, the profitability of investments brings permanent economic growth, not the investment itself.

Though energy intensive industry (EII) has become a major part of the economy, Icelanders recognize the importance of diversification in a small and open economy. Investment is increasing in other industries, particularly ones that are not reliant on physical limitations. Iceland is actively developing clusters that promote economic development by improving the competitiveness of specific business sectors – geothermal and ocean industry, for instance. In Iceland there is an emphasis on building knowledge and expertise within the country.

"The overall goal of our trip was to form relationships with people in Iceland." commented Hugh Short, chair of the board of directors of Alaska Industrial Development and Export Authority (AIDEA) and the Alaska Energy Authority (AEA). "Hopefully this visit will be a first step in a long and successful cooperation between Iceland and Alaska."



Reflections from Tour Participants

Energy Policy—

- Iceland prioritized getting its citizens off dependence on expensive imported fossil fuels for heat and power first, and then built on that platform to create excess power from geothermal and hydro projects solely for economic development.
- Iceland is blessed by a unique geological anomaly (rift zone) that produces a geothermal zone that spans most of the country, something that will be hard to reproduce anywhere else at this scale. Alaska's geothermal potential is more localized by comparison and is not located directly below our major population centers as is the situation in Reykjavik.
- Iceland has developed an energy policy that rates potential projects as green light, need more study and off-limits. It has taken them several years to develop and there is some politics injected into the process, no doubt, but at least they are attempting to organize their society around these priorities.

Energy Export—

- Iceland is an island in the North Atlantic, isolated from the rest of Europe. Alaska is an island, infrastructure-wise, isolated from the rest of the US.
- Iceland exports energy through the aluminum business and is looking to expand, especially in the north of the country. But, Iceland is also looking to diversify, seeking data centers as a way to use excess energy. Or perhaps build a long transmission line to connect to Europe. Both are viewed as ways to leverage the big aluminum companies so they can get a better return on the sale of power.

Other Interesting Observations—

- The number of years in advance that the country strategizes and plans for is impressive. For instance, they are already looking to the opening of the passage through the Arctic Ocean and port infrastructure necessary for the Arctic shipping.
- Iceland looks to Alaska for leadership in how the United States deals with the Arctic and crafts its Arctic policy. Hopefully this confidence isn't misplaced, given we are only a state and we must drag our federal government along with us.
- Iceland's small population and system of government allows them to have difficult conversations and take action quickly (e.g., financial crisis in 2008)
- Following the European model, the Icelandic transmission system model is enviable—utilities must divest of their transmission assets to get all transmission systems into a single organization, thus standardizing access and control across the transmission grid.
- In considering new power projects and industrial off-takers, Iceland's political leaders are also debating the appropriate level of government's return on invested capital, return gained through property taxes on infrastructure, job creation, and return on the sale of power.

Lessons for Alaskans

The secret to Iceland's economic development has been inexpensive, accessible energy for the majority of the nation. That it comes in a renewable form has only been an added benefit from which a competitive advantage has formed – Iceland is now a global leader in geothermal energy development.

That said, it's not simply inexpensive energy but energy produced domestically that has been critical to Iceland's well-being. They aren't exporting money to import energy, and local currency circulates and multiplies in their island economy, much as it would in ours (state-wide and regionally).

Alaska can draw many lessons from this. The most important is to identify and carefully, intentionally develop an energy resource that addresses domestic power and heating. By focusing our efforts on a high impact strategy, the state will be able to provide a significant long-term economic benefit for Alaskans. Transmission infrastructure is a corresponding investment decision that will have to be made to ensure accessible, inexpensive power distribution. Power generation can be community- and industry- led.

With this basic infrastructure in place, follow-on economic activity can take place and attention can be paid to the diversification of the economy.

In all of this, Alaskans must be willing to make long-term decisions (with a promise of future gain) and be prepared for short-term sacrifice. Infrastructure needs patient capital and large initial investment that may not seem to make sense in the short-term, but will ultimately benefit future generations.

With this in mind, it is worth remembering that strategic decisions are empowered by sound research based on accurate forecasting and accessible data.

Finally, Iceland completed their Arctic Policy in 2011. As the Alaska Arctic Policy Commission begins their work, the efforts of Iceland and other Arctic jurisdictions will be informative.

Next Steps

More than anything else, the connections between Iceland and Alaska were most evident in their development trajectories. Becoming a state and nation just a decade apart, developing rapidly, distant from capitals and markets – Alaska and Iceland should approach the future in partnership.

Alaska can take a strong role in cementing this relationship by building bridges with Iceland's government agencies, private companies and university system. These open lines of communication will be important in encouraging cross-border investment, developing projects, and sharing policy frameworks.

Alaska and Iceland have shared international concerns, especially related to the Arctic. Here, the state can work collaboratively with Iceland on Arctic Council issues and encourage ratification of the U.N. Convention on the Law of the Sea. Alaska should also think about positioning an Alaskan to be the next Executive Director of the Arctic Council.

More immediately, Alaska should celebrate the opening of Icelandair's seasonal direct flights between Reykjavik and Anchorage. A welcome reception for the inaugural flight would be appropriate.

A follow-up trip should be considered, which could explore rural development, fisheries and fiscal policy. This could be tied to a potential Greenland Policy Tour in late June 2013.

In the long term, Alaska should consider a trade office in Reykjavik that is able to maintain a strong relationship in country. This could help to expedite investment opportunities as well as facilitate the exchange of policy and best practices.

