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Turning the tides?

Aluminium smelter plants and regional development in Iceland



Similarities between Iceland and Greenland?

Yes and no

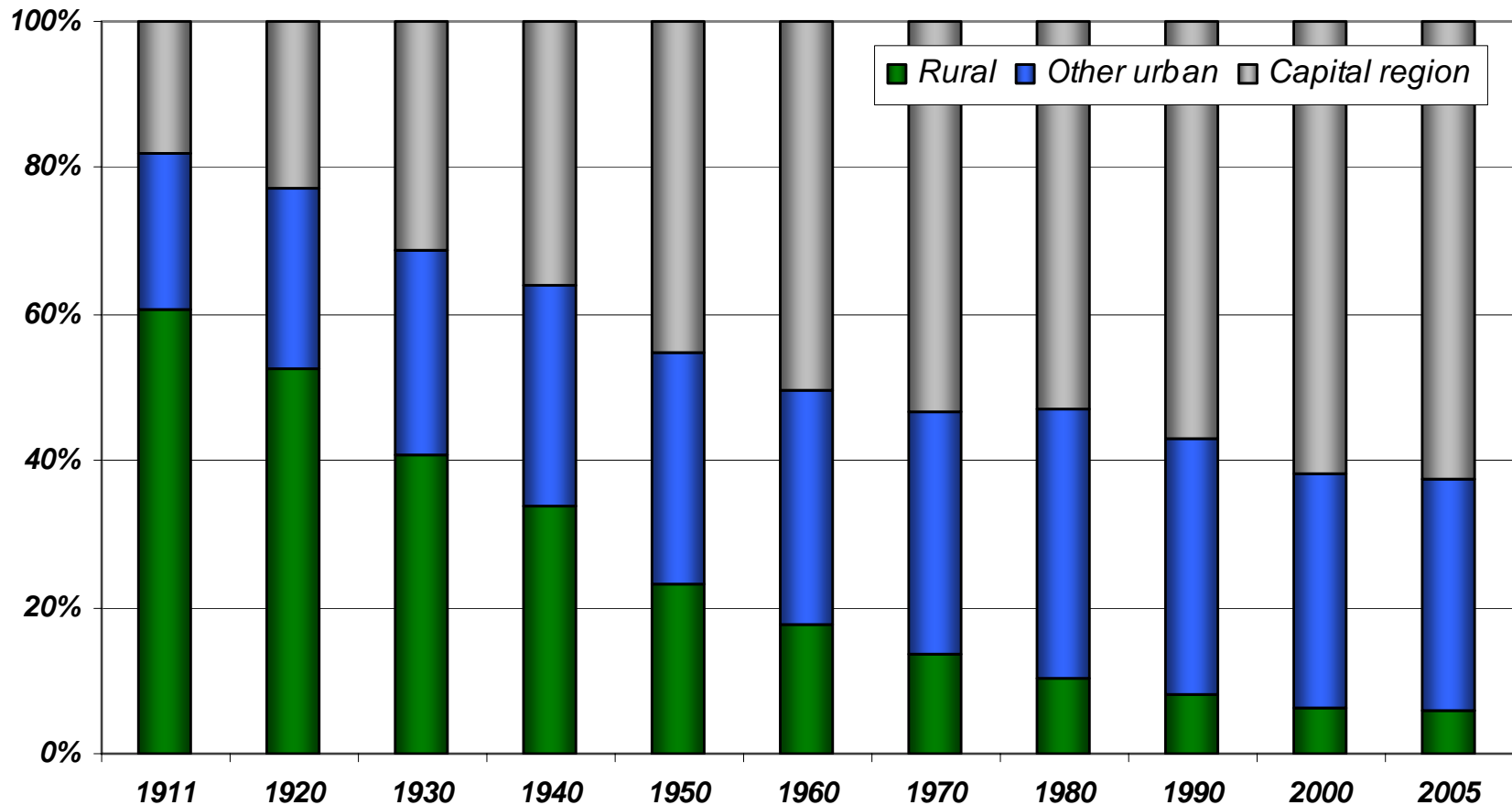


Distribution of population in Iceland

- The Icelandic settlement pattern:
 - 103,000 sq. km
 - 307,000 inhabitants
 - A growing capital region
 - 192,000 inhabitants (63%)
 - Approx. 230,000 (75%) if an area within 45 min. commuting distance is included, primarily in smaller towns in this urban fringe
 - More sparsely populated regions outside the capital region
 - Small towns and rural areas 115.000 (37% of the total population) Usually referred to as “landsbyggðin”
 - Strictly defined, rural settlement in Iceland accounts for merely 6% of the population (a settlement of less than 200 inhabitants)

Rapid shifts of the population from rural to urban – but is this a problem?

Share of population in different types of settlements



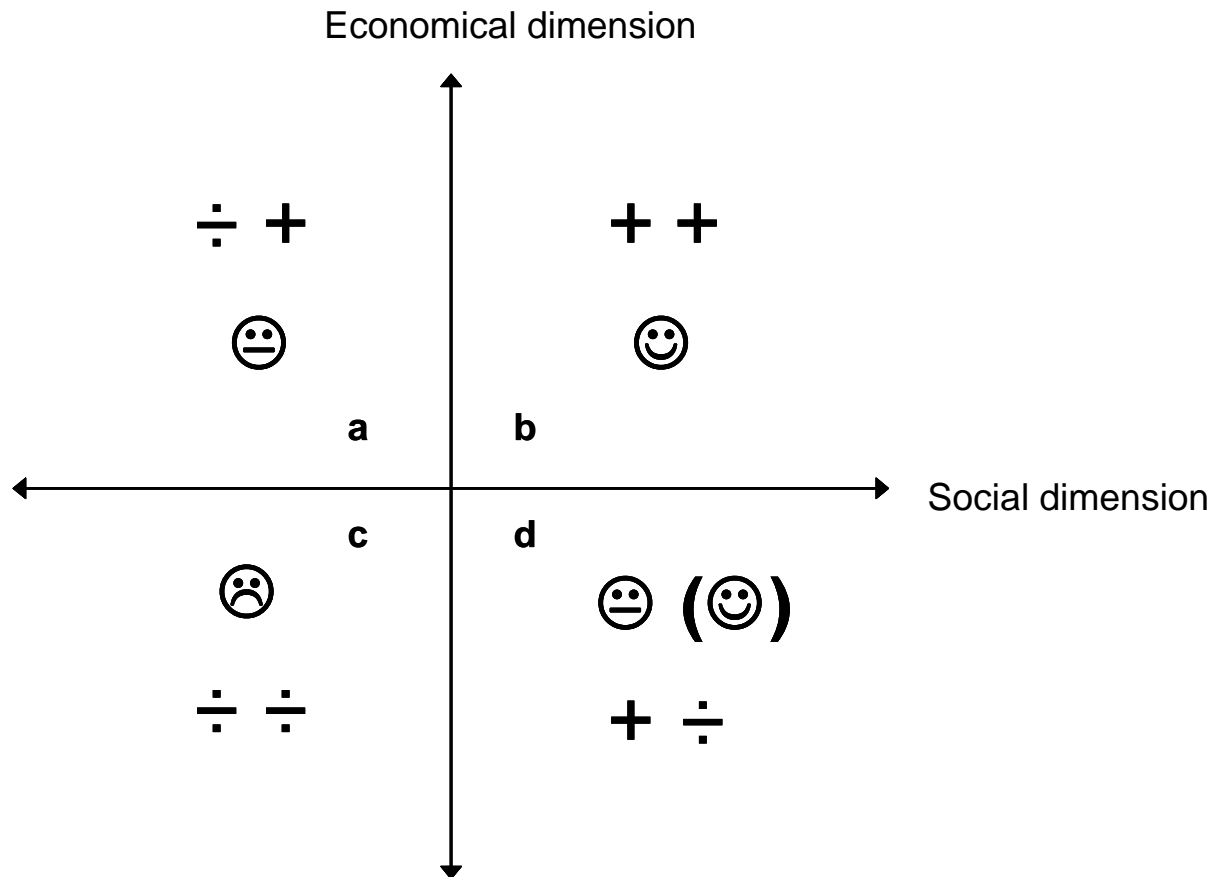
The moral ideal...

Experience from all over the world has proven that the countryside usually turns out stronger people, both physically and mentally, than the towns and the cities. Thus, the bigger the proportion of any nation living in cities, the larger the risk of stagnation and degradation. Not to say that *all* people living in cities are or will become bums but nevertheless the cities seem to possess far too many inferior individuals. (Jónas Jónsson, *Skinfaxi*, 1913:57).

But why are people migrating?

- It must be because living conditions are worse in “landsbyggð” than in the capital
- Therefore countless plans to prevent, stop or even reverse the migration trends
- But...
 - Living conditions are not a one dimensional concept
 - Living conditions are not something which is bound to a certain community but something that is created in the interaction between the individual and the community

The two dimensions of living conditions?



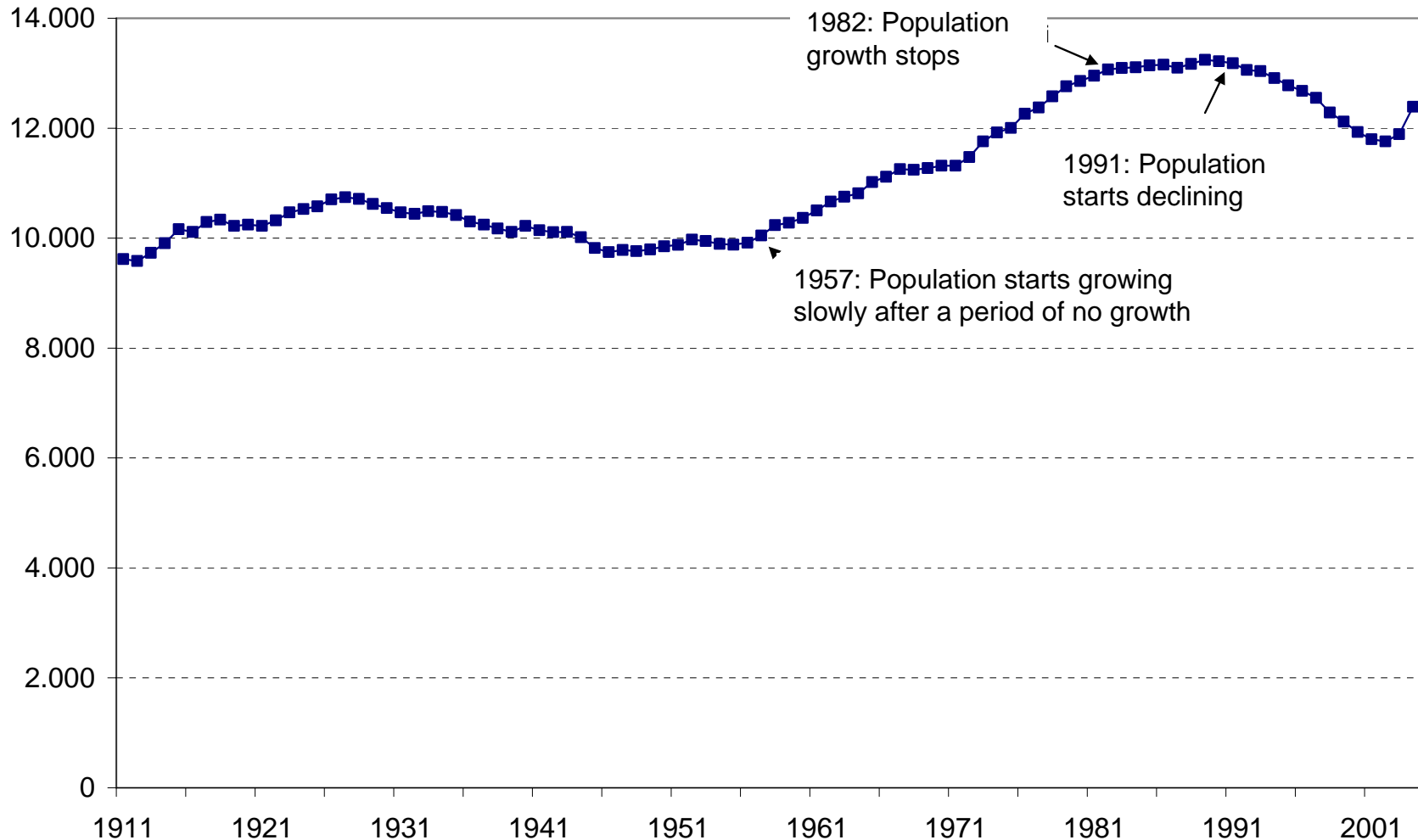
Possible counter measures

- Regional development plans
- Innovation
- Availability of funding
- Changes in the tax system
- Financial support to back migrants
- Public investment
- Relocation of government jobs outside the capital area
- Industrial development
- Improved transportation
- Improved housing
- Improved education
- Policy decisions

East Iceland - Following a similar path as other regions of “landsbyggðin”

- Development and distribution of population
 - Out migration
 - Uneven age- and gender balance
 - The largest towns are of similar size – no specific regional centre
- Socio- economic conditions
 - Lower wages
 - Low price of real estate
 - Less diverse choice of jobs
 - Slower pace of life
- Infrastructure and services
 - Demands to extend road network, esp. tunnels (high mountains)
 - Service base rather weak due to low population number

Population in East-Iceland 1911-2004



The context of the debate in East-Iceland

- The construction projects in East-Iceland have not come about in an economical, social or political vacuum
- Icelandic welfare- and economic policy?
 - Employment for all
 - Natural resources are to be used for the benefit of the people
 - Social benefits should be at a minimum and should never discourage people from working
- Icelandic regional policy?
 - Emphasis on creating and maintaining a balance in the distribution of the population and stop out migration from rural areas and peripheral regions
- Almost undisputed in the 20th century

A glimpse of the history in East-Iceland

- **1946** ideas to dam Bessastaðir river to produce electricity
- **1954** ideas on using Jökulsá river in Fljótisdalur to produce electricity
- **1964** proposal from National institute for energy research to harness Bessastaðir river and Jökulsá river in Fljótisdalur in one power station also ideas for even bigger power stations in East-Iceland
- **1974** RARIK power permitted to build a power plant in Bessastaðir river
- **1979** Decision to build a power plant in Bessastaðir river but the decision is cancelled a month later
- **1981** Parliament grants permission to Landsvirkjun power to build a power plant in Jökulsá river in Fljótisdalur along with other power plants
- **1990** Parliament decides to alter a decision on the timing of individual power plants from 1982 but decides also that a power plant in Fljótisdalur is next in line if an aluminium smelter plant in Keilisnes (SW-Iceland) is to be built

And on it goes

- **1991** Minister of industry grants permit to Landsvirkjun power to go ahead with a 210 MW power plant in Fljótsdalur and a 100m tunnel is built but the project is cancelled when a proposed smelter plant in SW-Iceland is cancelled
- **1999** A declaration signed by Norsk Hydro, Landsvirkjun power and the Icelandic government to explore the possibilities of building an aluminium smelter plant in Reydarfjordur using electricity from the already approved power plant in Fljótsdalur – Strong opposition to the power plant and a demand that the plans be subject to a new law on environmental impact assessment
- **2000** Norsk Hydro wants to build a bigger smelter plant and as a consequence the Fljótsdalur power plant is abandoned as it is too small but plans are introduced to build the Kárahnjúkar power plant these plans are met with fierce opposition

And on and on

- **Des 2001** Minister for the environment approves Kárahnjúkar power plant
- **Mar 2002** Minister of industry announces in the parliament that Norsk Hydro does not want to continue preparations for a smelter plant in Reyðarfjörður
- **Apr 2002** Parliament approves Kárahnjúkar power plant and the minister of industry appoints a committee to negotiate with other interested companies to replace Norsk Hydro – soon Alcoa expresses interest and preparatory construction work begins
- **Mar 2003** Contracts signed at Reyðarfjörður sports hall

The construction project in East-Iceland

- Core projects
 - The Alcoa Fjarðaál smelter plant + New harbour
 - Kárahnjúkar power plant + Two 400 KV power lines




- Connected and derived
 - New residential housing
 - New road tunnel between Fáskrúðsfjörður and Reyðarfjörður





A time for celebration!

A large crowd of people is gathered in a sports hall, likely for a significant event. The hall has a wooden floor and a high ceiling with exposed beams. In the foreground, there are blue stanchions connected by a white rope, forming a queue or a designated area. In the background, a stage is visible with several flags, including the American flag and the Icelandic flag. A large number of people are seated in bleachers on the right side of the hall. The overall atmosphere is one of a major public gathering.

Around 1000 people from all over East-Iceland were gathered in the Reyðarfjörður sports hall to witness the signing of the contract of an aluminum smelter plant at Reyðarfjörður after nearly three decades of waiting...

(homepage of Fjarðabyggð municipality March 15th 2003)

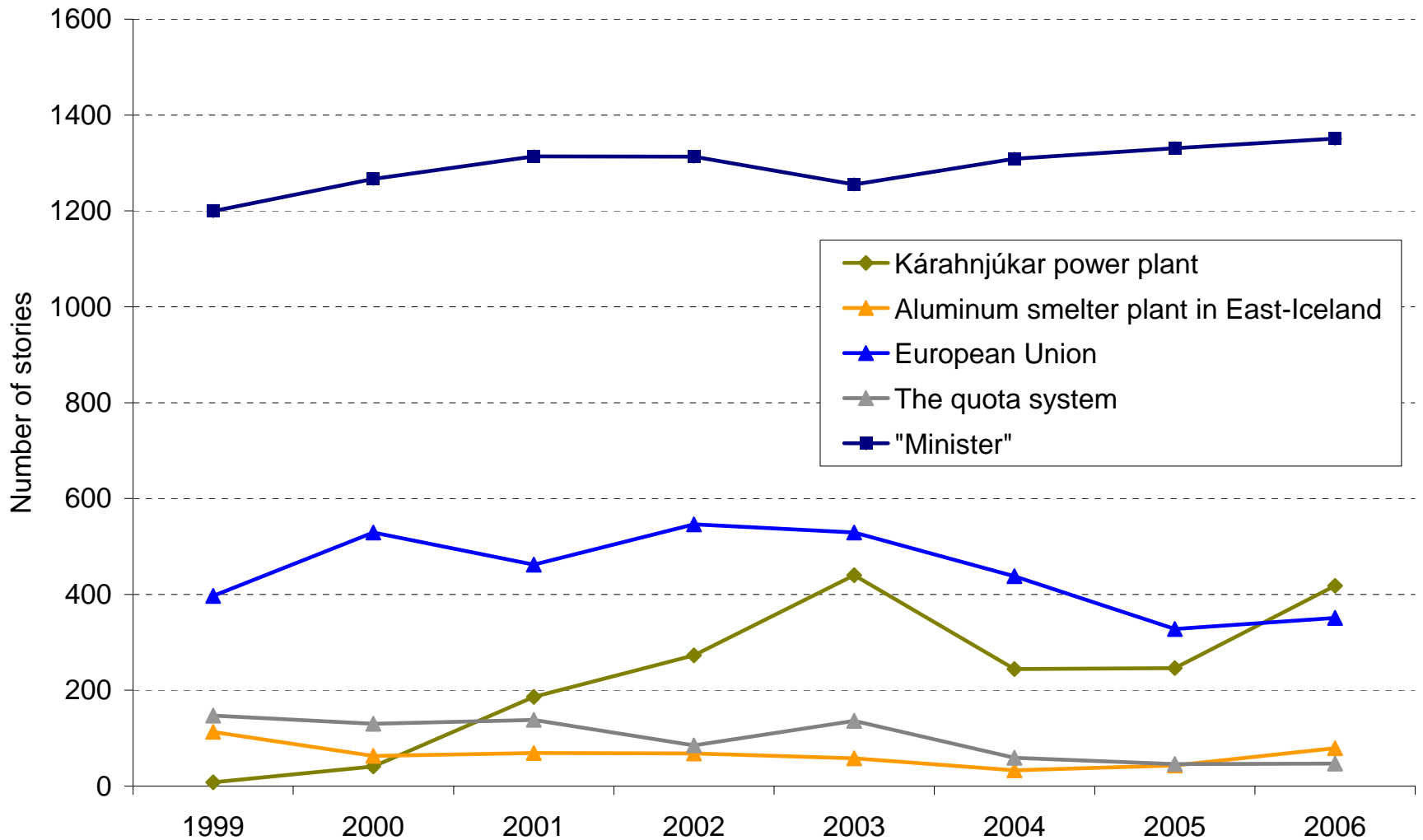


And a toast to job well done!

Social and economic “impact” of large construction projects?

- A tendency to polarize the debate
 - It will be just great and we will end up having the best of all possible worlds (it's do or die)
 - It will be awful and we will end up destroying everything which is most dear to us and what that which makes us into what we are (we're selling our soul for thirty peaces of silver)
- A third point of view?
 - We will end up in a different kind of an ordinary world
 - A new distribution of goods and bads

Stories and articles in the Morgunblaðið containing various words 1999-2005



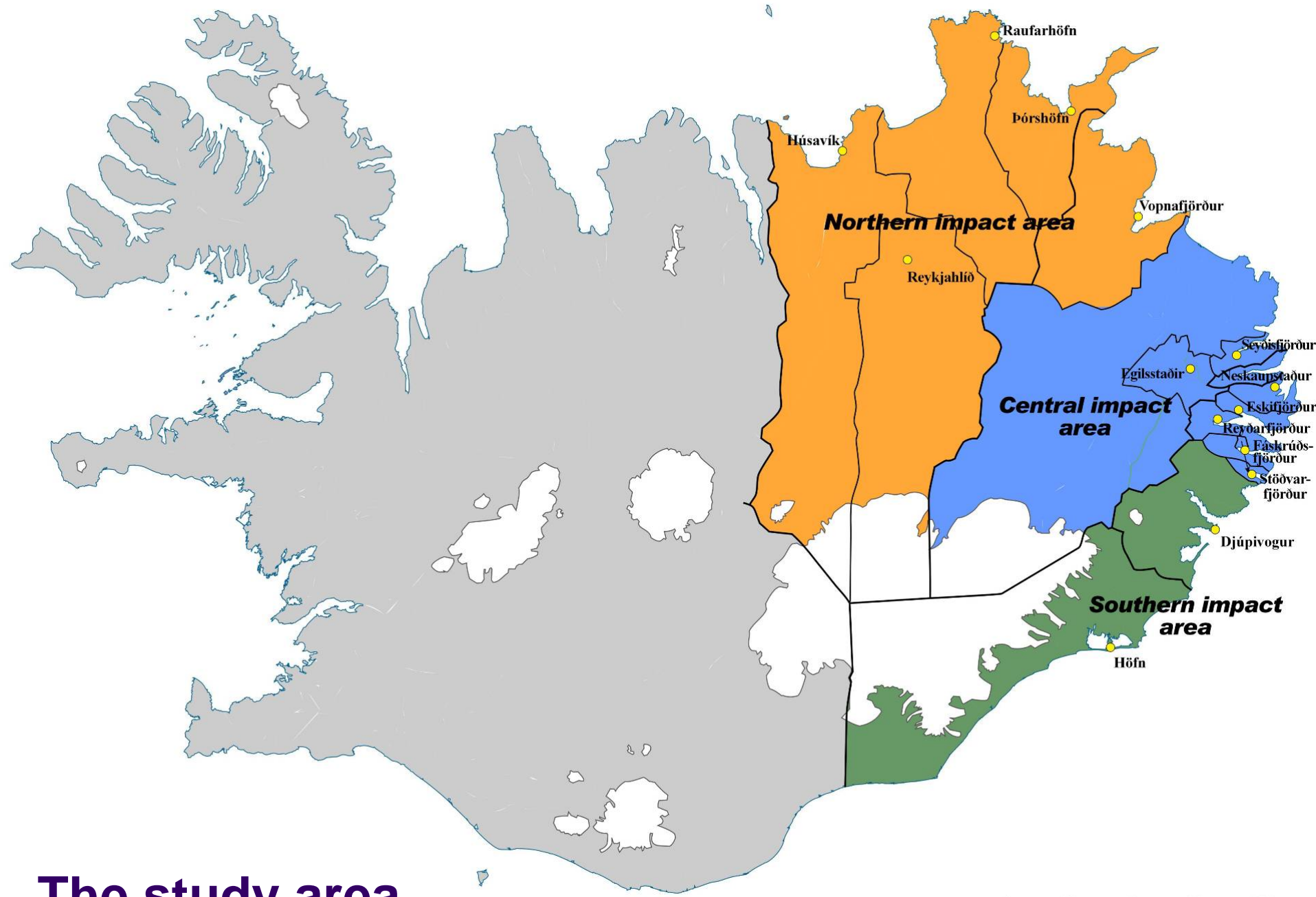
What was promised?

All in all some 750 new jobs will be created as a result of the smelter plant, thereof some 450 in the smelter plant itself and some 300 in related industries and services. These new jobs will be a vital contribution to the economy in East-Iceland which in the previous years has seen a decrease in activities related to fishing and agriculture. The operations of the aluminium smelter plant will turn around the negative regional development in East-Iceland (Alcoa press release, spring 2003)

Mr. Speaker! The Fjarðaál plant will have a positive impact on Icelandic society. It will benefit the state budget, export income will increase, salaries will rise, purchasing power will increase, a lot of good and interesting jobs will be created. East-Iceland will benefit. Every Icelander will benefit from this project! (Iðnaðarráðherra á Alþingi, vorið 2003).

A study on the social and economical impact of the construction projects in East Iceland

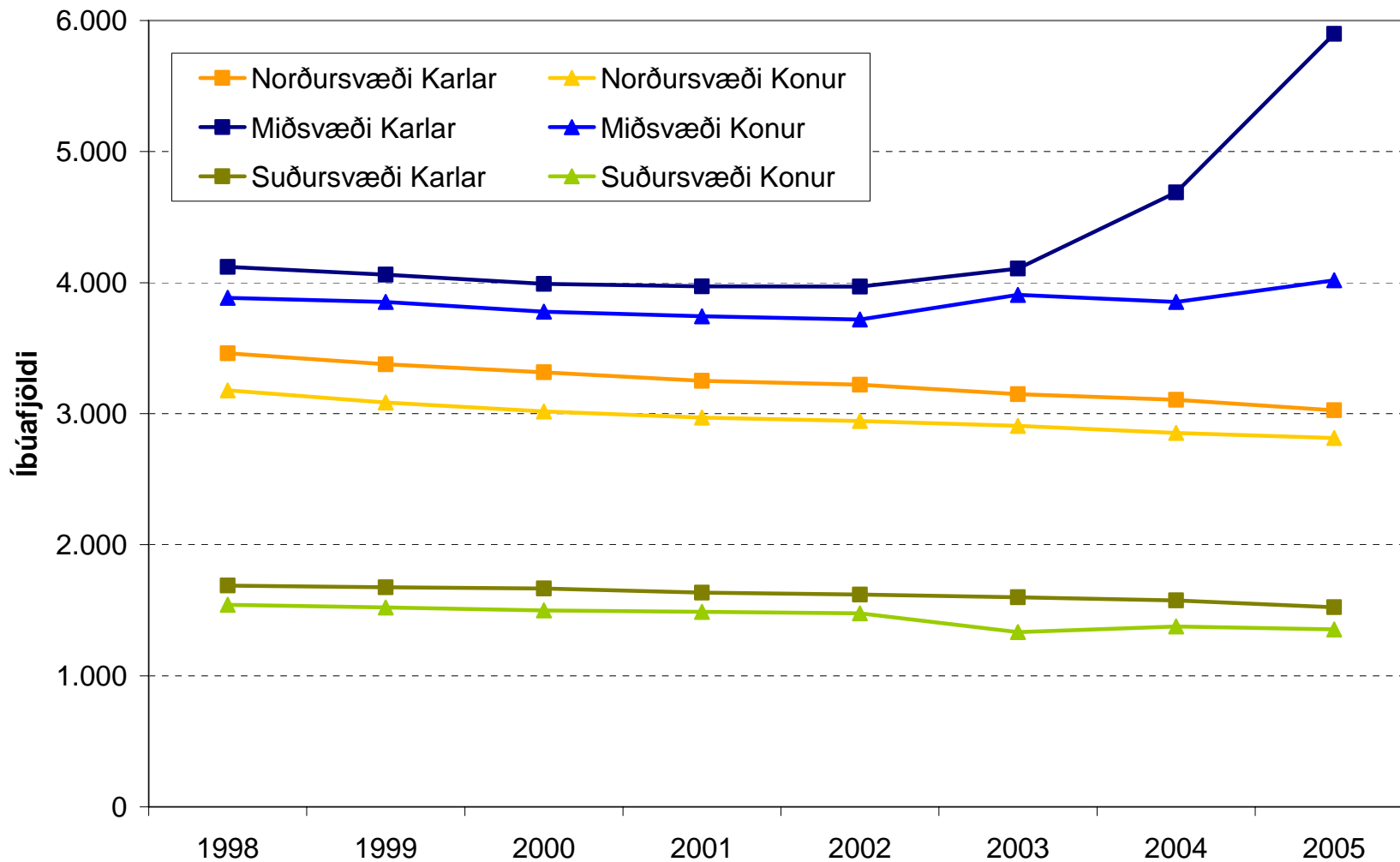
- Based on a decision by the Icelandic parliament in 2003
 - Funded by the state
 - Steering committee of four persons
 - The Ministry of Industry and Commerce and three other institutes
 - Carried out by the University of Akureyri Research centre in cooperation with Economic development Agency in East Iceland
- The study began in 2004 and ends in 2009
 - Sociological and economic emphasis
 - Surveys in 2004, 2007 and 2008
 - Interviews 3-4 times during the study
 - Official data on population, wages, economic structure e.t.c.
 - Data from the companies
 - Main reports in 2005 and 2007 and a number of special report on specific issues (e.g. on housing and economic development)



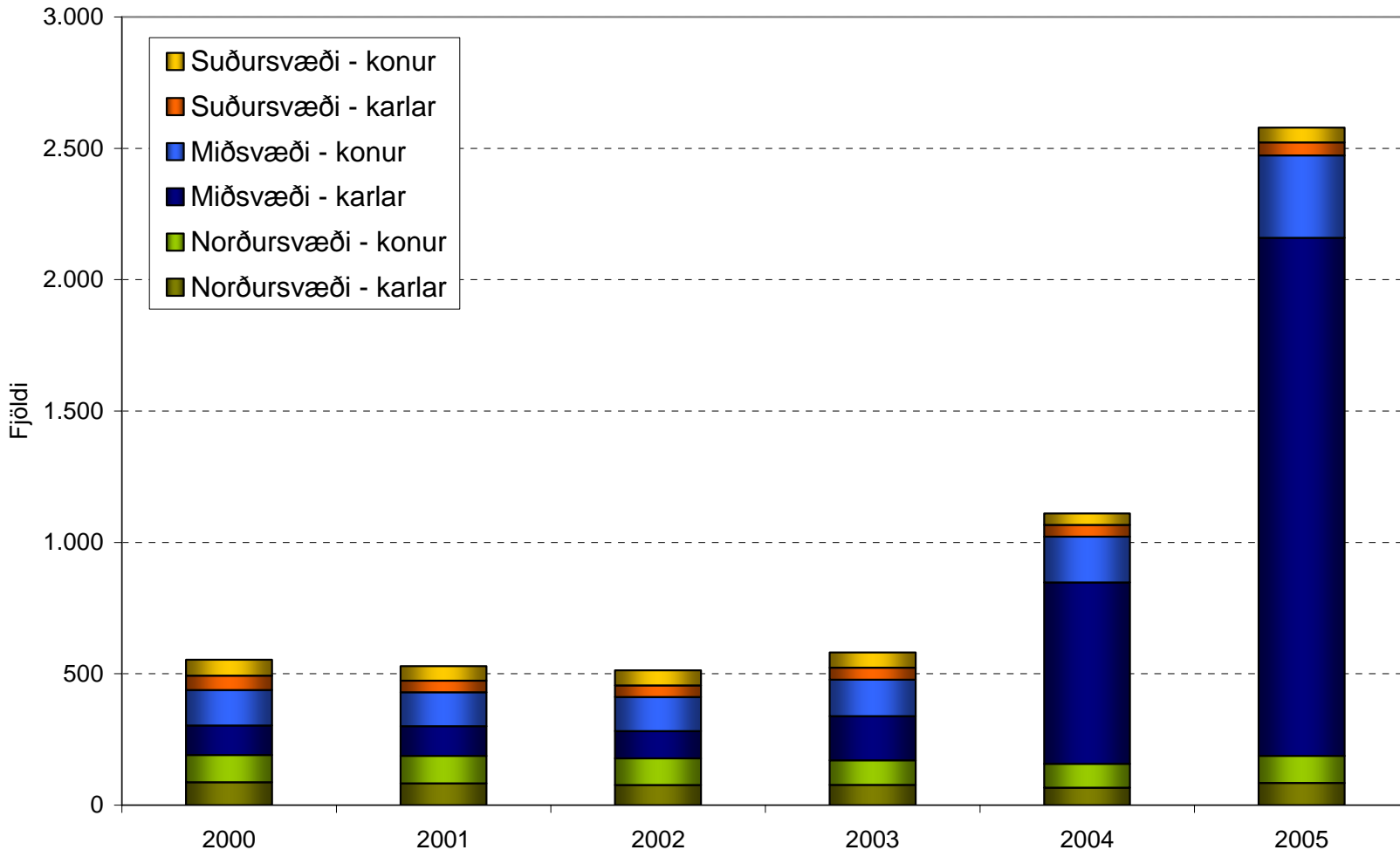
The study area



Population in the study areas 1998-2005 by gender



Number of foreign citizens 2000-2005 by gender and study areas

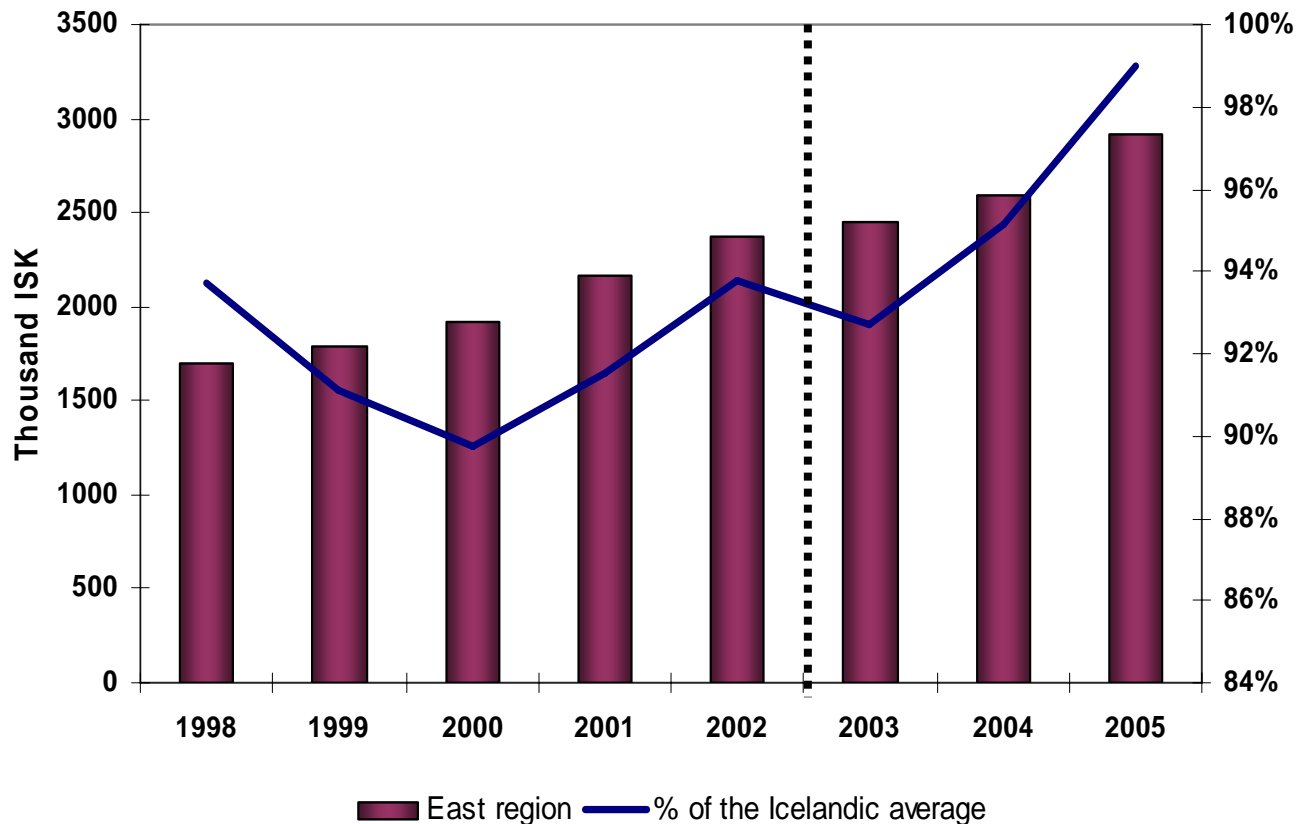


Rapid changes during the construction phase

- Foreign workers the majority of workers on the project
 - Huge net immigration of males to the region
 - Primarily population increase in the central impact area (less than 2 hours driving distance from the construction sites)
 - Population development in the impact area as a whole:

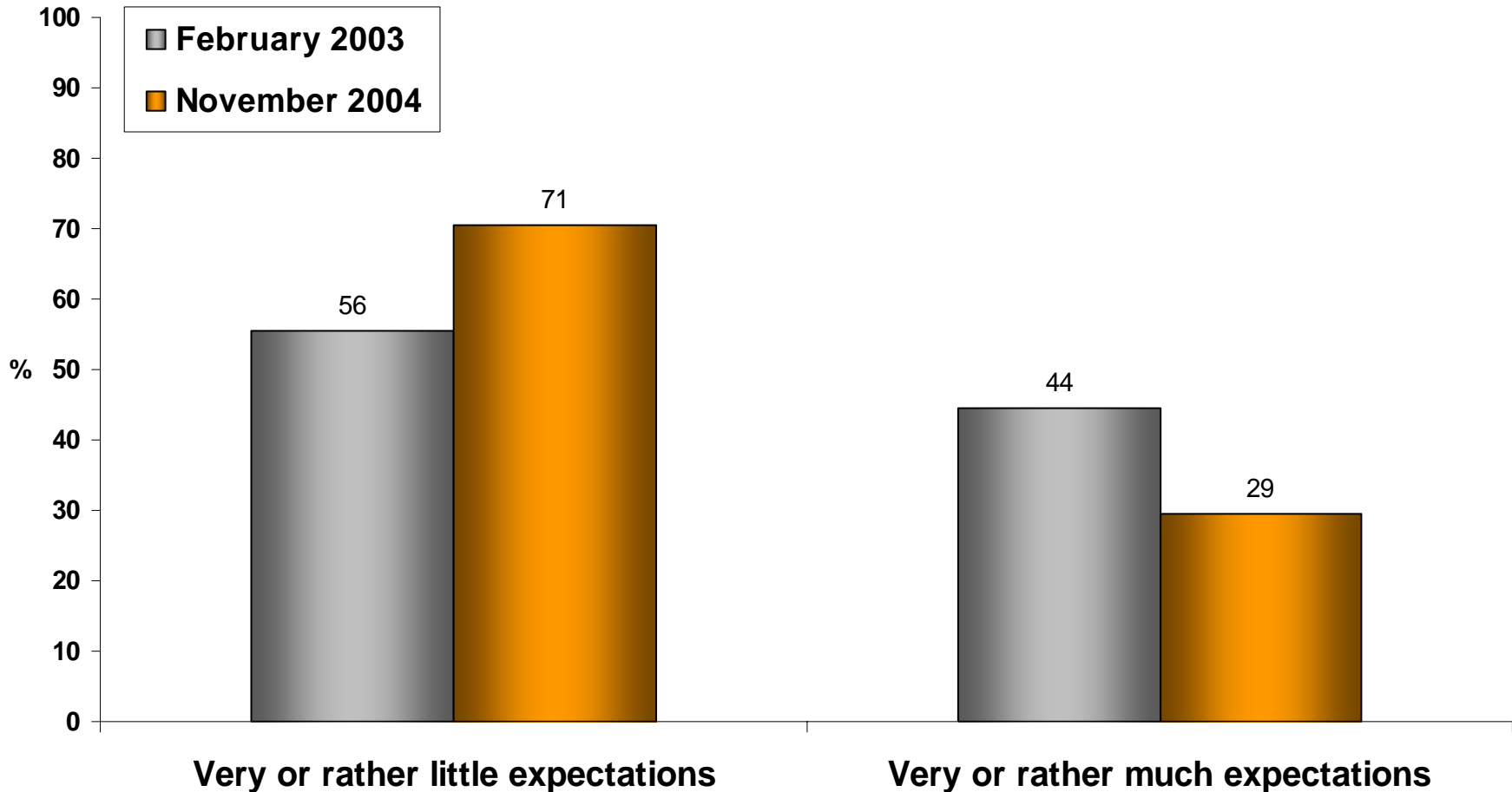
	<i>Total</i>	<i>Males</i>	<i>Females</i>
2003	17.071	8.889	8.182
2006	20.423	12.046	8.377

Wages were lower than the Icelandic average

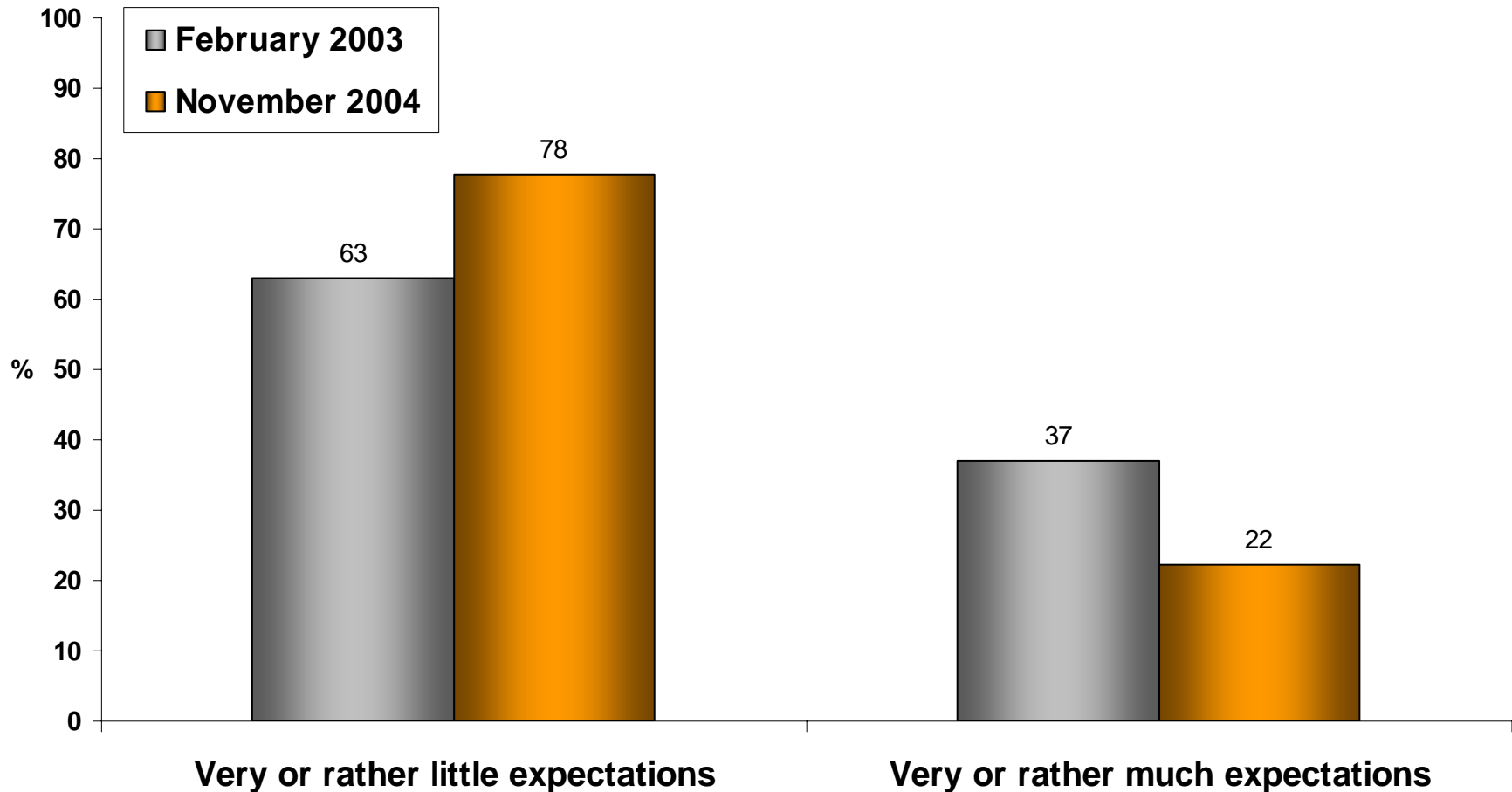


Out-migrant: "Wages [in the East region] are low, I am a carpenter and did my vocational training there. The wages were low there - I think I got a raise of ca. 80% by moving to the capital region."

Expectations towards better financial status due to construction of the large project in East Iceland (surveys in East Iceland)



Expectations towards better financial status due to the operation of the aluminum plant in East Iceland (surveys in East Iceland)

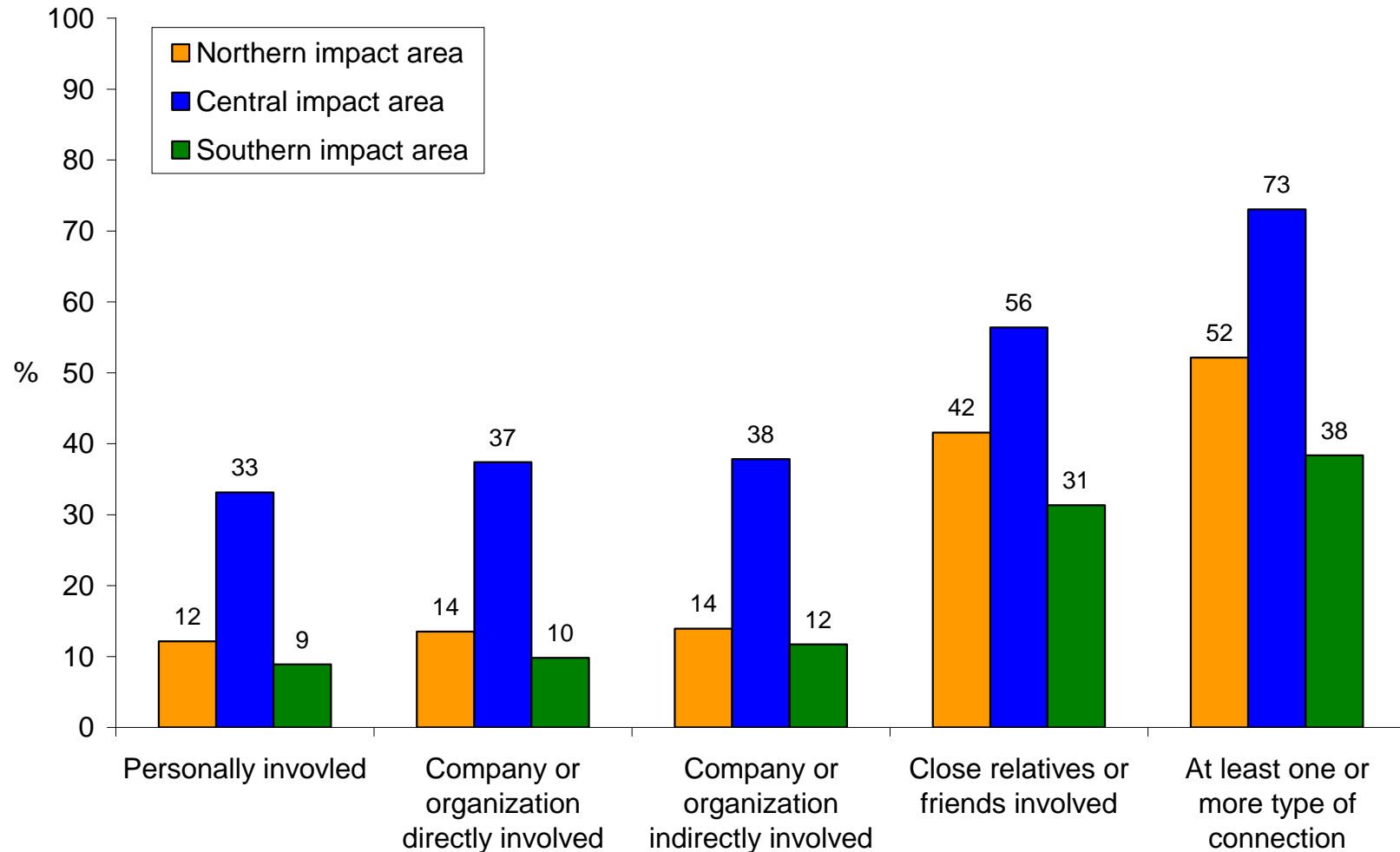


Survey in 2004: Connection to the construction work

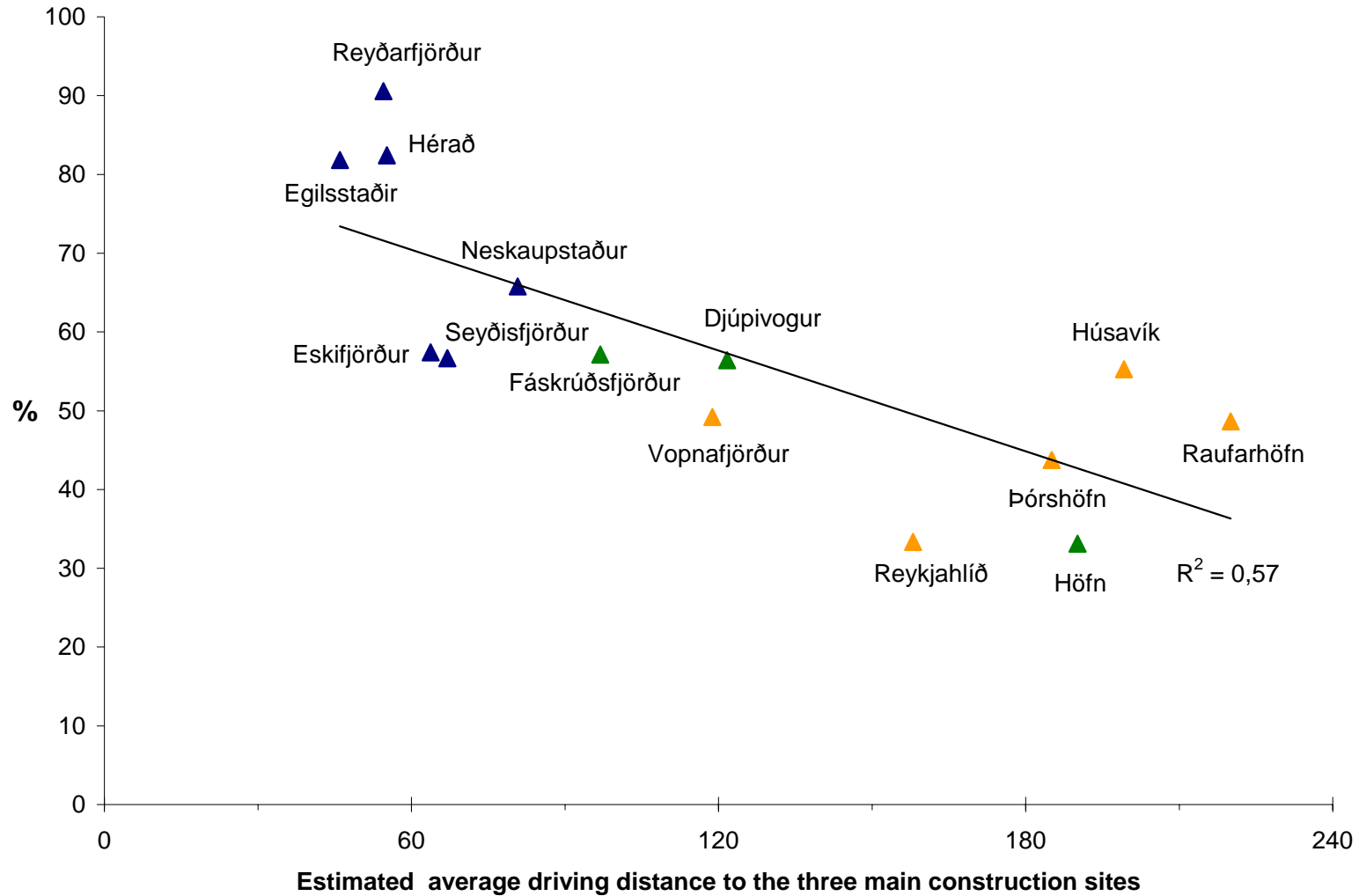
Please describe how you are connected to the construction work in East-Iceland by saying **how well the following statements apply to you ?**

	Applies very well to me	Applies rather well to me	Does not apply very well to me	Does not apply to me at all
I have been directly involved in the construction work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The company/organization I work for has been involved in the construction work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The company/organization I work for has been selling goods/services to contractors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Close relatives or friends of mine have been involved in the construction work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

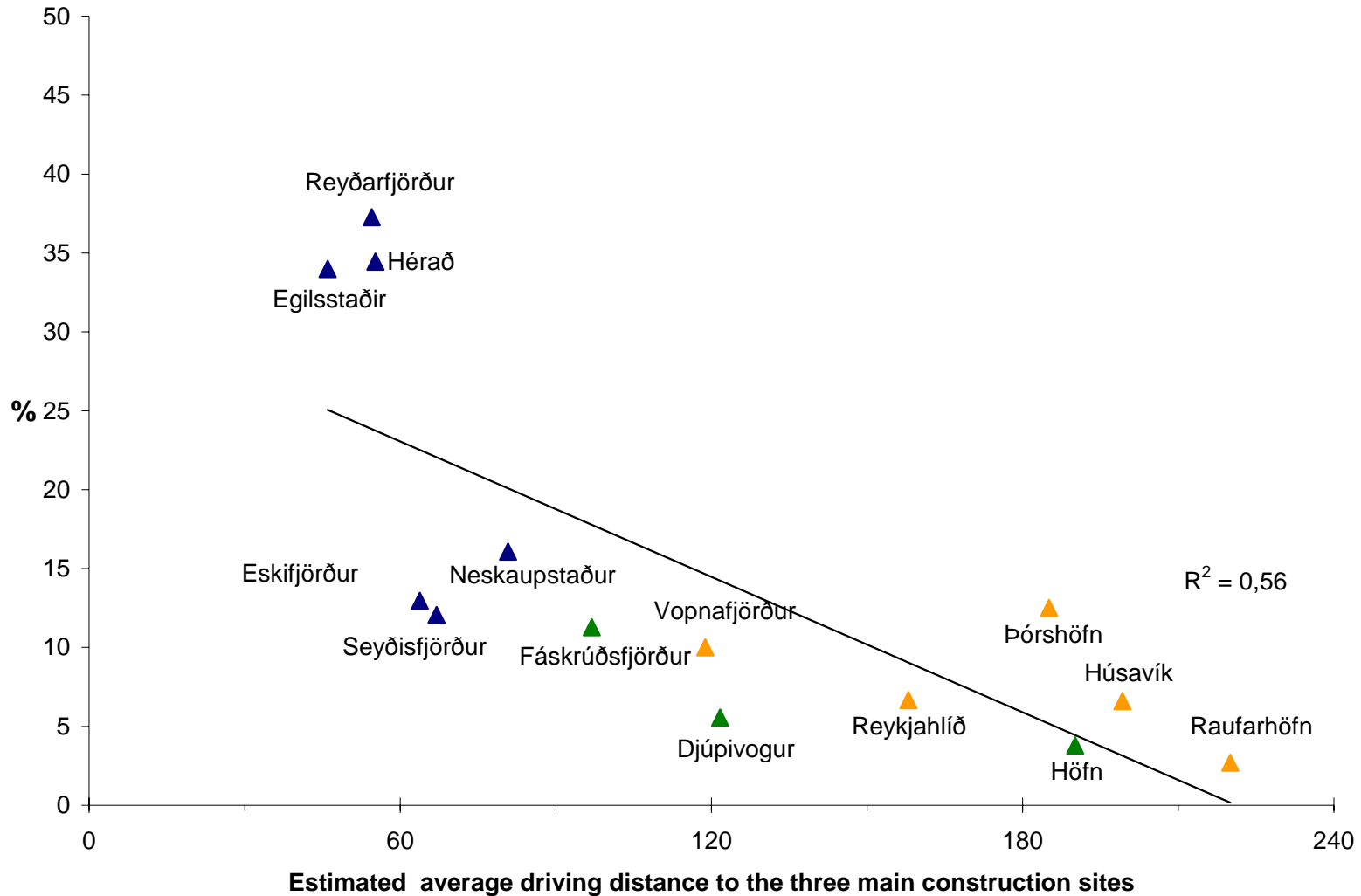
Connection to the construction work



Percentage having at least one type of connection by distance to construction sites (2004)



Percentage involved in direct work by distance to construction sites (2004)



The local spirit and the pace of life before...

- Small communities of families and friends
 - Survey 2004:
 - 55% indicated that all or most of their friends lived in the region
 - 64% met their friends daily or at least weekly
 - Interviews in 2002:
 - “This is so small community. Everyone is so close, all distances so short. People maybe often tend to stick together”
 - “But this is of course a small community, just one family”.
 - Interviews in 2004:
 - “... we who choose to live in rural Iceland are here because the small communities are attractive to us, more personal interaction, social life, shorter distances, more security, slow pace of life, relaxed atmosphere...”
 - “... not everyone wants commotion. I have heard from those who are working there now, it is so crazy in Reyðarfjörður especially [the location of the aluminum factory] and locals who are working there say that they are so happy to get back here in the peacefulness after work in the evening”.

Some general changes since 2003

- More optimism since the project commenced
 - “People began mending their fences and painting the roofs”.
 - Rising housing prices.
 - Positive spirit in society.
- Faster pace of life.
 - Especially in the main impact area, e.g. the main service centre and in the town where the aluminum plant is being built.
 - Too fast for some people...
- Changes in lifestyle.
 - More mobility, e.g. travel to work over longer distances, as indicated from the survey on likely application for work in the plant.

What was at stake, had the project not materialized?

- Local responses if the large project in 2003 had not materialized?
 - Even less belief among its residents in the future of the region?
 - Mass out migration?
 - Turn their sights increasingly to other projects/other sectors of the economy?
 - Fish farming, tourism, culture and education...?

Interview from 2002: “...if this manufacturing project materializes, then a great change will occur, especially in Reyðarfjörður, because Reyðarfjörður has been waiting 30 years for this. It’s just like the little boy said to his grandfather when they were taking their Sunday stroll. The grandfather asked the boy what he would like to be when he grew up... *I’m going to wait for the aluminum smelter like you granddad!*”

Reflections

- A region that has experienced some economic stagnation
 - Shares the development with most other regions outside the capital region and its immediate hinterland
 - There was not a specific interest in the region among Icelanders – a forgotten region?
- A large project in sight which materialized
 - Has been looked upon as an important step into a brighter future for the region
 - Population increase, diversifying the economy, increase in wages and more



Thank you !

