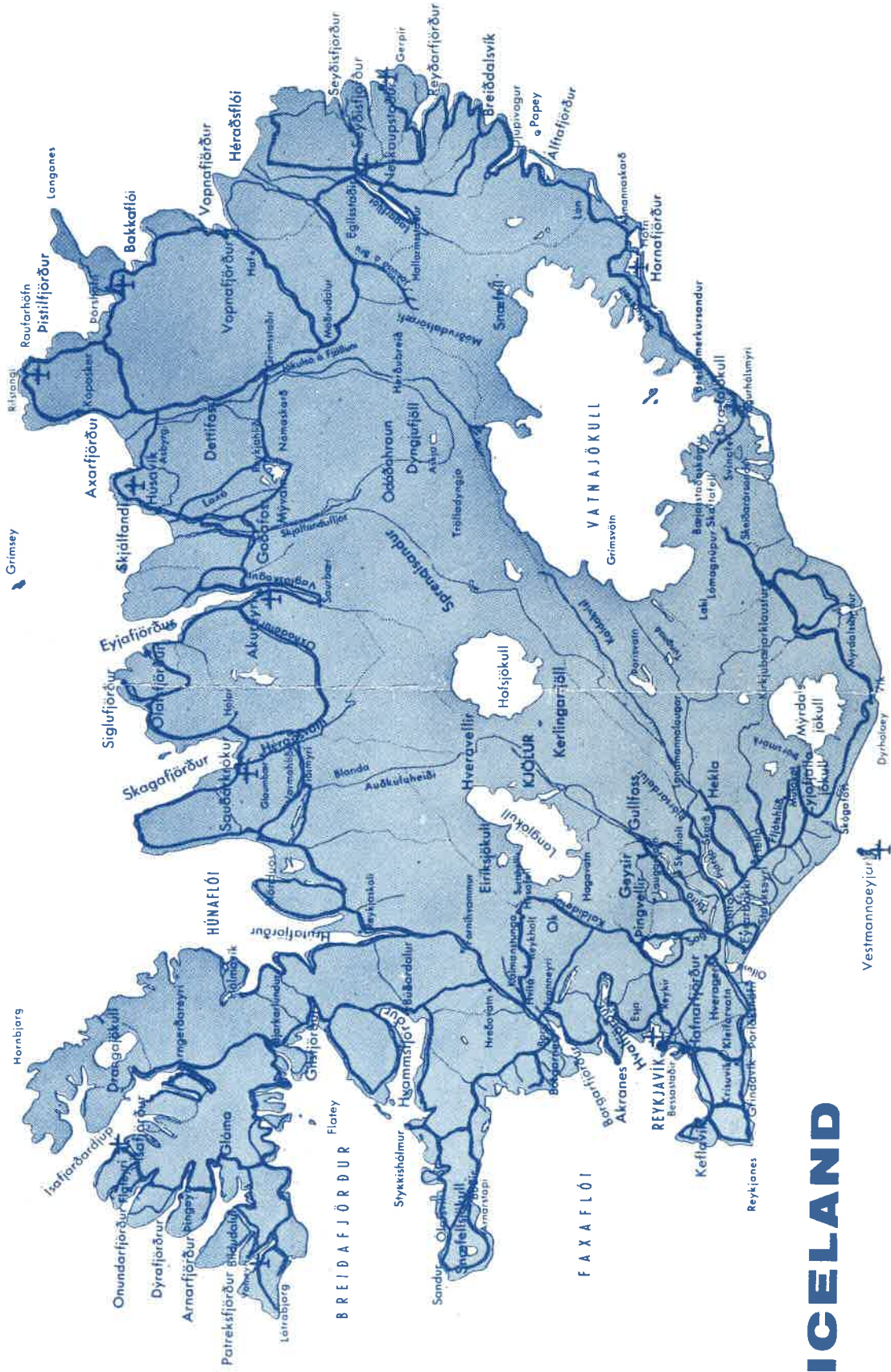


Tourism In Iceland Phase II

Volume I: Strategy Report

**Feasibility analyses of specific tourism
projects and a tourism development
program for the Republic of Iceland.**

**Checchi and Company
The Architects Collaborative, Inc.**



ICELAND

Vestmannaeyjar
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TOURISM IN ICELAND: PHASE TWO
VOLUME ONE: STRATEGY REPORT

Commissioned By:

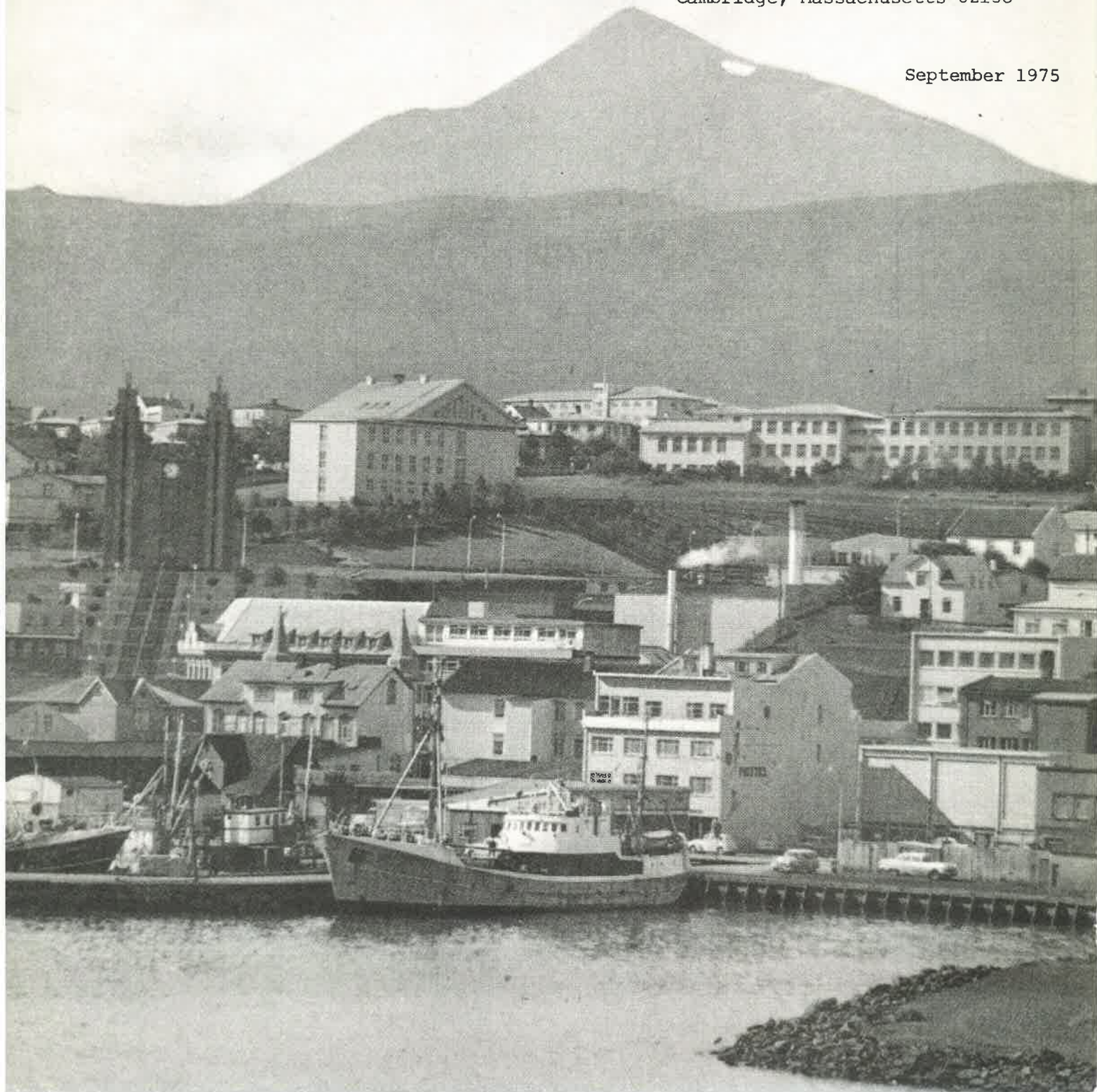
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WASHINGTON, D.C.
SEPTEMBER 19, 1975

Albert J. Gomes
Director, Tourism and
Area Development
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ORGANIZATION OF THE REPORT

The report contained herein represents Phase Two of a multi-phased study of tourism in Iceland commissioned by the United Nations as part of its technical assistance to the Republic of Iceland. The long-range objective of the study is to increase the flow of foreign visitors to Iceland by developing the country's tourist resources in a systematic and integrated way.

During the first phase, four resources were chosen for intensive study, including hot springs for spas and recreational purposes; lakes, streams, and sea for recreational fishing; snow fields for skiing; and meeting facilities for conventions, conferences, and seminars. Based on analysis of resource characteristics, markets, and development options and priorities, the Phase One report outlined a strategy through which optimal tourism growth could be achieved and identified a series of projects for inclusion in a tourism development program.

The second phase of the study was to provide in-depth feasibility analyses for three specific projects in addition to a tourism development program incorporating the conclusions and recommendations of the Phase One report. Projects selected for follow-up work in Phase Two include:

- A multi-purpose resort, consisting of a 300-room luxury hotel and adjacent "tropical" micro-climate;
- A cultural complex consisting of a science museum, history museum, and visitor center; and
- A living history village.

This Phase Two report on Tourism in Iceland summarizes and details the contractor's findings regarding the technical and financial feasibility of each project. It also recommends a development program by which such projects can be integrated with Iceland's existing tourism facilities, attractions, and attributes into a cohesive and rational whole.

The report is presented in two volumes. Volume One contains the Strategy Report and is organized into three books. Book One discusses prospects for tourism development within the context of Iceland's economic situation and, in particular, the changes that have taken place since the Phase One report was completed at the

beginning of 1973. Book Two provides a synopsis of the findings and recommendations for the multi-purpose resort, the cultural complex, and living history village, and the tourism development program. Book Three includes a perspective on the development potential of Iceland's geothermal resources for purposes of (a) medical hydrology, and (b) scientific research.

Volume Two, the Technical Report, is organized in six books and provides detailed background data in support of the comments, conclusions, and recommendations contained in the first volume. The material in Volume Two is arranged in such a manner that it can be read in conjunction with the Strategy Report in Volume One.

Book One of Volume Two discusses the feasibility of the Multi-purpose Resort. Books Two and Three consider two elements of the proposed cultural complex; the Visitor Center and the Natural History Display Network respectively. Each analysis provides data on the concept, the site, the development scheme, and financial feasibility as well as appropriate architectural graphics and sketches.

Book Four presents the results of the contractor's conceptualization of the Living History Village, and discusses some problems associated with its establishment.

Book Five is directed at the problems and prospects for tourism development in Iceland, with related recommendations on market and facilities development, resource utilization, product design and marketing, and financing and institutional reorganization. The result is a Tourism Development Program which, when combined with the specific recommendations of the first four books, is Iceland's blueprint for development of its tourism resources to achieve optimal growth.

Book Six contains the report of Maurice Lamarche, Professor of Hydrology at the University of Nancy (France) Medical School. Professor Lamarche considers the aspects of Iceland's hot waters that have curative value and/or touristic appeal. It is expected that his report -- the first of its type -- will indicate the potential inherent in Iceland's best-known resource.

The reader who would like additional information on Iceland's prospects for tourism development is referred to the contractor's Phase One report on Tourism in Iceland. This document contains a considerable amount of background data which could not be reproduced in extenso in the report on Phase Two, but which served as a starting point for the execution of the second phase study.

TABLE OF CONTENTS

Organization of the Report

Acknowledgements

BOOK ONE: CONTEXT OF TOURISM DEVELOPMENT

A. Overall Approach	I-1
B. The Economic Context	I-6
1. Introduction	I-6
2. Tourism, Foreign Trade and the Balance of Payments	I-7
3. Inflation	I-20
4. Financial Markets	I-22
5. Public Debt	I-30
6. Employment and Productivity	I-32
7. Regional Development	I-35
8. Recommendations in Light of Recent Developments	I-43

BOOK TWO: TOURISM PROJECTS AND PROGRAM

A. Multi-Purpose Resort	II-1
B. Iceland Cultural Complex	II-4
1. The Visitor Center	II-4
2. The Natural History Display Network	II-7
C. Living History Village	II-10
1. Historical Overview	II-12
2. Arbaer	II-13
D. Tourism Development Program	II-15
1. Market Strategy	II-15
2. Facilities Strategy	II-16
3. Resource Strategy	II-18
4. Product Design Strategy	II-20
5. Marketing Strategy	II-21
6. Institutional Reorganization	II-23
7. Financing Tourism Development	II-28

TABLE OF CONTENTS

BOOK THREE: PERSPECTIVE OF TOURISM DEVELOPMENT

A. Medical Hydrology in Iceland	III-1
1. Definition of Mineral Waters	III-1
2. Modern Concept of a Thermal Cure	III-2
3. Classification of Mineral Waters	III-3
4. Icelandic Mineral Waters	III-4
5. Development Potential	III-6
6. The Conditions for Balneologic Development in Iceland	III-8
B. Icelandic Geosciences Research Center	III-9

LIST OF EXHIBITS AND FIGURES

<u>Exhibit No.</u>		<u>Page</u>
I-1	Correlation Between External Trade (Import/Export) and the Number of Foreign Visitors to Iceland in 1969 and 1974	I-2
I-2	Per Capita Tourist Expenditures: Visitors to Iceland and Icelanders Abroad (1970-74)	I-3
I-3	Indicators of Living Standards in Iceland and Other OECD Countries: 1972	I-8
I-4	Openness of National Economies: Iceland and the OECD: 1972	I-9
I-5	Balance of Payments: Iceland (1967-74)	I-11
I-6	Tourist Receipts Compared to Population and Exports of Goods) Services in OECD European Countries: 1972	I-12
I-7	Tourist Expenditures Compared to Population and Imports of Goods and Services: OECD European Countries: 1972	I-14
I-8	Terms of Tourism Trade	I-15
I-9	A Comparison of Fluctuations in Output and Earnings in Tourist and Marine Products Industries in Iceland: 1965-1974	I-16
I-10	Stability of Earnings: Agricultural Exports Vs. Tourism Earnings for Representative Countries: 1966-1969	I-18
I-11	Wages and Price Levels: 1967-1974	I-21
I-12	The Supply of Credit: 1971 and 1972	I-27
I-13	Total Loans Outstanding of Financial Institutions	I-29
I-14	Public Debt Comparison: U.S. and Iceland	I-31

LIST OF EXHIBITS AND FIGURES

<u>Exhibit No</u>		<u>Page</u>
I-15	Unemployment in Iceland: 1969-1974	I-33
I-16	Forecast Increase in Labor Force to 1985	I-34
I-17	Forecast Distribution of Labor Force Increase (1971-85)	I-36
I-18	Gross Domestic Product and Employment by Industry	I-37
I-19	Demographic and Income Data by Region	I-40
I-20	Population of Designated Growth Centers (December 1973)	I-42
II-1	National Tourist Organization	II-24
II-2	Tourism Development Program Five-Year Financial Requirements	II-29
III-1	Principal Physiological Characteristics and Medical Uses of Mineral Waters, by Chemical Type	III-5

Figure No

I-1	Designated Growth Centers in Iceland	I-41
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TOURISM IN ICELAND: PHASE TWO

VOLUME ONE, BOOK ONE

CONTEXT OF TOURISM DEVELOPMENT

A. Overall Approach

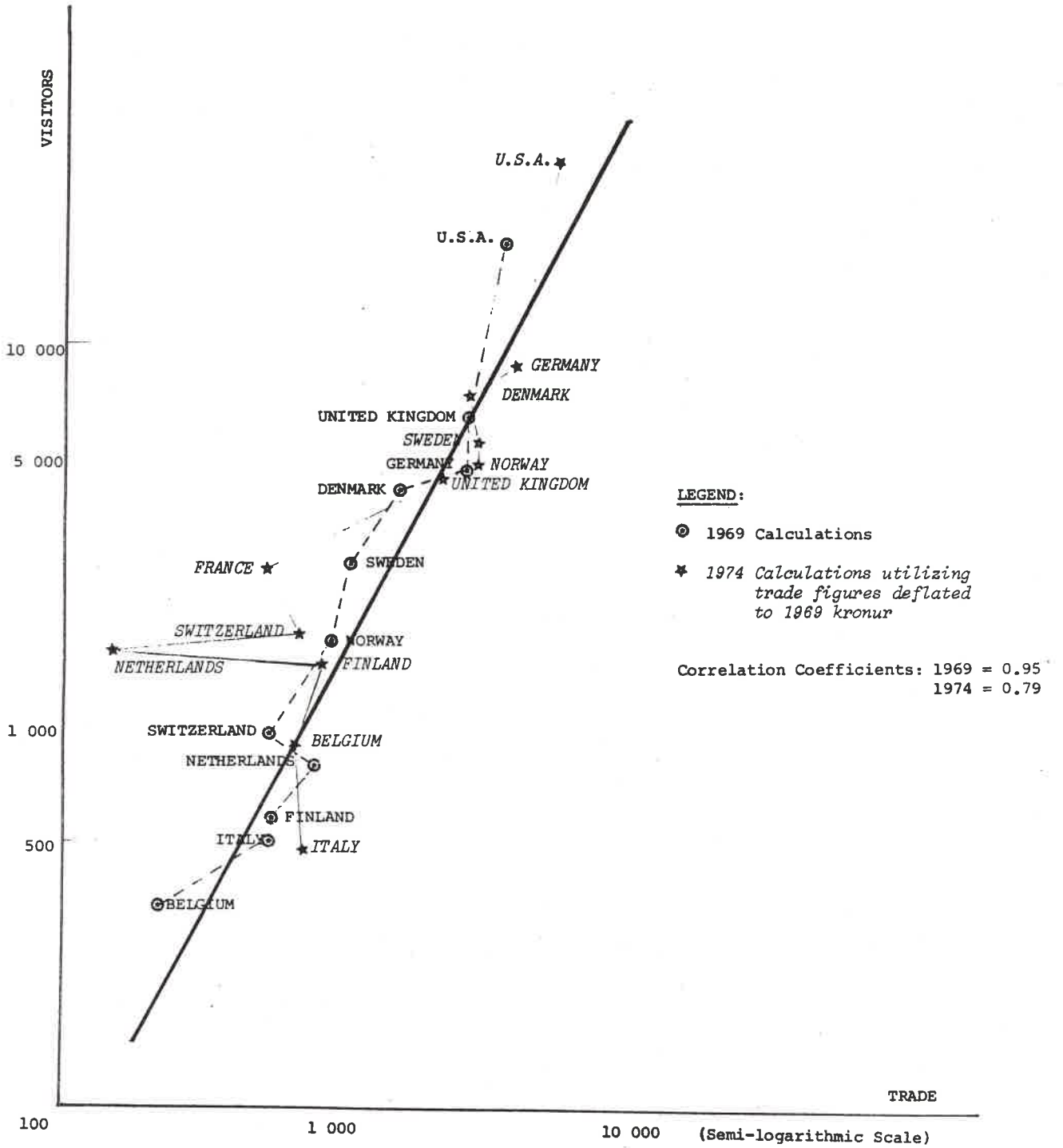
In discussing tourism to Iceland it is necessary to begin with a definition of terminology. Throughout our study we have been guided by the definition of "tourism" as developed by the UN Conference on International Travel and Tourism held in Rome in August/September, 1963. In the Conference report, entitled Recommendations on International Travel and Tourism, (E/CONF. 47/48), it was suggested that tourists comprised "temporary visitors staying at least 24 hours in the country visited, and the purpose of whose journey can be classified under: (a) leisure (recreation, holiday, health, study, religion, and sport) and (b) business, family, mission meeting."

This definition significantly broadened the previously-held notion that all tourists were pleasure travelers, which is, nevertheless, still prevalent in certain circles in Iceland. *An index of the "serious" nature of the tourist business in Iceland is provided by the attached graph (Exhibit I-1) which shows that there is a very close correlation between the number of tourists a country sends to Iceland and the volume of its trade with Iceland.*

The need to promote tourism to Iceland is even more important in the context of the Icelanders' own propensity to travel outside their country. Thus, Exhibit I-2 shows that the expenditure of Icelandic tourists abroad during the last four years was consistently greater than those of foreign tourists in Iceland. Restrictions of the type recently imposed on Icelanders traveling abroad are a natural outcome of this consistently unfavorable balance on the tourism account in the context of a sharp deterioration in Iceland's overall balance of payments

EXHIBIT I-1

CORRELATION BETWEEN EXTERNAL TRADE (Import/Export)
AND THE NUMBER OF FOREIGN VISITORS TO ICELAND IN 1969 AND 1974



External trade in millions of IKr.

EXHIBIT I-2

1/
PER CAPITA TOURIST EXPENDITURES : VISITORS TO ICELAND
AND ICELANDERS ABROAD (1970-74)

	1970	1971	1972	1973	Growth Rate 1970-73	1974
1. No. of tourists to Iceland	52,908	60,719	68,026	74,019	39.9%	68,726
2. No. of Icelandic tourists abroad	26,899	32,205	37,807	47,661	77.2%	57,971
3. Expenditures in Iceland (million Ikr.)	441	555	710	1,133	155.1%	1,613
4. Icelander expenditures abroad	428	590	797	1,187	177.3%	n.a.
5. Per capita tourist expenditures in Iceland (in Ikronor) : (in US\$) :	8,335 \$94.82	9,140 \$104.36	10,437 \$119.80	15,307 \$170.70	82.4% 78.8%	23,470 \$235.24
6. Icelander per capita tourism expenditures abroad (in Ikronor) : (in US\$) :	15,911 \$181.01	18,320 \$209.18	21,081 \$241.98	24,905 \$277.74	56.5% 53.4%	n.a. n.a.
7. Balance on tourism account (in million Ikronor) : (in thousands US\$) :	13 \$148	- 35 \$400	- 87 -\$999	- 54 -\$602	-- --	n.a. n.a.

1/ Does not include international airfare expenditures.

Avg. conversion rates

1970 : 87.90 1973 : 89.67
1971 : 87.58 1974 : 99.77
1972 : 87.12

Source: Central Bank of Iceland, June 1974

position. *The current situation, with Iceland holding almost no foreign reserves, makes a reversal of the deficit on the tourism account all the more essential.*

The overall approach to tourism development in Iceland was therefore conditioned by fundamental economic imperatives. In specific terms it was considered important for Iceland to undertake promotional activities aimed at increasing the flow of tourists with all types of motivations.

In studies undertaken by the United Nations in other countries the following list of ten tourism motivations has been used:

1. Production: business, mission, meeting.
2. Health: visiting spas and special clinics.
3. Family and Hospitality: visiting relatives and friends.
4. Security: armed forces' rest and recreation.
5. Home: returning home.
6. Education: formal or informal, including research.
7. Recreation: active and/or passive.
8. Culture: art, history, music and religion.
9. Politics and Diplomacy.
10. Home Resettlement.

The relative weight to be assigned to each of these motivations will differ from country to country and some of them are obviously not appropriate to Iceland. Although a motivational analysis of tourism to Iceland is not yet available, an ordinal listing of the most important motivations for visiting Iceland would probably comprise the three generic categories of: Recreation (Motivation #7); Production (Motivation #1); and Education (Motivation # 6). The specific orientation of the

consultants, based on the findings of the Phase One Report, was that each of these three motivations could be strengthened in an overall tourism development program.

It is now recognized that the UN definition of tourism and trip purposes emphasized international travel exclusively and gave no attention to domestic tourism. *While tourism is certainly an important export industry, it has a significant local or native component as well. Failure to recognize the domestic side of tourism--the use of hotels, recreations and amusements by natives as well as foreigners--has often had unfortunate repercussions.* Facilities are sometimes planned uniquely for foreign guests and local visitors are forgotten. Not only can this vitiate the economic benefits accruing to the host country (in that increased importation of luxuries must be undertaken for the foreign guests) but a subtle barrier is erected between guest and host that can spoil the experience for both. Such points have been made at greater length elsewhere. Their importance for Tourism Development in Iceland is pragmatic: a country the size of Iceland cannot afford to construct one tourism plant for foreigners and another for Icelanders. *The Government of Iceland is sensitive to the fact that both foreign and local tourists seek the same things--relaxation, adventure and diversion--and can fulfill their responsibilities to both in no better way than to base tourism planning around projects of interest to both groups.*

The basic strategy recommended for future tourism growth in Iceland was based on two separate elements. The first related to the creation of certain physical facilities--the multi-purpose resort, a cultural complex, and living history village--all requiring substantial

fixed capital investment and all aimed at improving Iceland's tourism "product". The second related to better planning, organization and management of tourism, its overall promotional posture, and control of future growth through a tourism development program.

B. The Economic Context

The ability of Iceland to make any substantial capital investment in tourism facilities must be examined in the overall context of the Icelandic economy and especially the changes that have taken place in the last two years.

Although it is not intended that this book provide a comprehensive analysis of the national economy, several key considerations are introduced which affect economic development opportunities in general, and more specifically, the question of supply/demand of foreign exchange and credit. Tourism is singled out for particular attention with its relative stability of earnings noted both in Iceland and worldwide. Finally, problems of labor supply and regional development are briefly discussed.

1. Introduction

Iceland, although a developed nation in the context of living standards, per capita income, and other demographic characteristics of population and labor force, must still cope with an uncertain economic future clouded by many of the problems associated with the developing world: (a) underdeveloped capital markets; (b) heavy dependence upon outside sources of capital and imported commodities and equipment; (c) national production strongly biased toward primary produce (agri-

culture, fisheries) with relatively little manufacturing; (d) an absence of any substantial growth centers beyond the single capital/metropolitan region; and (e) limited scope for local market expansion due to size (in Iceland's case) or per capita income levels. Therefore, the Icelandic economy balances somewhat uneasily between these poles of development. *Uncertainties notwithstanding, the current population of approximately 214,000 enjoys one of the highest standards of living in Europe with a per capita income level exceeding (in 1972) that of Great Britain, Austria, Finland, and the Netherlands (among the industrialized nations of the OECD). Exhibit I-3 shows this high relative standing in both income and major consumption items.*

The government has since World War II pursued a policy of full employment and rapid economic growth in its efforts to match and surpass the European average. As a result of these successfully implemented objectives, there is basically no unemployment in Iceland, the gross national product has passed \$1.3 billion, and the real growth rate average 4.7 percent a year in the 1951-61 decade and 5.4 percent in the 1961-73 time-frame. Because the Icelandic economy is an open economy (as shown in Exhibit I-4) with 1973-74 exports and imports averaging 45.6 and 38.2 percent, respectively, of GNP, it is highly susceptible to fluctuations imposed by worldwide economic conditions. These effects are discussed in more detail below.

2. Tourism, Foreign Trade and the Balance of Payments

With such high levels of imports and exports, foreign trade clearly plays a major role in Iceland economy. Although it has not been

EXHIBIT I-3

INDICATORS OF LIVING STANDARDS IN ICELAND AND
OTHER OECD COUNTRIES: 1972

	Gross Domestic Product (U. S. \$ per capita	Private Consumption per Head	Passenger Cars per 1000 Inhabitants	Number of Television Sets for 1000 Inhabitants	Number of Telephones per 1000 Inhabitants
<i>Iceland</i>	\$3,633	\$2,374	222	220	370
Austria	2,721	1,488	177	226	226
Belgium	3,664	2,215	212	236	240
Denmark	4,257	2,430	231	282	377
Finland	2,906	1,512	163	256	295
France	3,792	2,263	260	237	199
Germany	4,177	2,255	239	293	268
Greece	1,375	917	22 ²	31 ¹	160
Ireland	1,831	1,195	140	173	114
Italy	2,165	1,399	209	202	206
Luxembourg	3,885	2,187	296	220 ¹	361
Netherlands	3,472	1,944	211	243 ¹	299
Norway	3,860	2,035	206	241	320
Portugal	952	588 ¹	72	63	99
Spain	1,303	864	81	145	164
Sweden	5,092	2,737	290	333	576
Switzerland	4,661	2,681	233	239	535
Turkey	446	258 ¹	4 ²	4	19
U. K.	2,759	1,754	219	305	314
U. S.	5,643	3,494	443	474	628

1 1971 figures

2 1970 figures

Source: OECD Economic Surveys

EXHIBIT I-4

OPENNESS OF NATIONAL ECONOMIES:
ICELAND AND THE OECD: 1972

	Imports as Percent of GDP	Exports as Percent of GDP
<i>Iceland</i>	<i>39.5%</i>	<i>38.2%</i>
Austria	30.9	30.5
Belgium	40.9	43.4
Denmark	28.6	29.4
Finland	27.4	27.5
France	16.4	17.2
Germany	19.9	21.6
Greece	20.7	12.0
Ireland	40.6	35.0
Italy	20.1	20.4
Luxembourg	77.8	81.5
Netherlands	43.4	46.1
Norway	38.3	39.9
Portugal	32.2	27.1
Spain	16.2	16.1
Sweden	23.2	24.4
Switzerland	32.6	32.7
Turkey	10.9	7.0
U. K.	21.8	21.6
U. S.	6.3	5.3

Source: OECD Economic Surveys

a highly diversified economy over the post-World War II years, rapid growth is largely attributable to the favorable terms of trade obtained by the fisheries sector. This sector accounted for up to 90 percent of the value of total exports and, with rising world demand for fish products, helped to finance Iceland's continually large import demands. Nevertheless, from 1967 to 1974, a softening of demand for these fish products coupled with fluctuation in the size of the fish catch--a situation common to countries so highly specialized in primary products--has resulted in large balance of trade deficits. These are shown in Exhibit I-5. The high level of deficits has not been materially affected by the Services or Transfer accounts so that a heavy level of long and short-term borrowing has been employed--averaging nearly U.S. \$50 million annually over the 1970-74 period. This has greatly affected Iceland's ability to finance additional projects aimed at diversification of the economy and has reduced the foreign exchange holdings to dangerously low levels. In fact, Exhibit I-5 shows that Iceland's foreign exchange holdings could consistently finance less than four months of imports throughout the 1967-74 period, and sank to a crisis level of 0.7 months in 1974.

One attempt to introduce a degree of stability/diversification to the economy and to earn additional foreign exchange has been the tourism industry. This industry has been the major focus of the UN team throughout this project. As shown in Exhibit I-6, Iceland's tourism receipts as a percentage of its 1972 exports (2.8 percent) lag considerably behind those of the other OECD countries, although tourist