

TOURISM IN ICELAND: PHASE TWO

VOLUME ONE, BOOK TWO

TOURISM PROJECTS AND PROGRAM

A. Multi-Purpose Resort

The initial concept of the multi-purpose resort was to combine Iceland's natural resources--especially geothermalism--into one facility that was uniquely Icelandic. The basic idea was to develop a high class spa-type resort with the major emphasis on health maintenance and some overtones of a curative establishment. The major emphasis of the resort concept was on its multi-purpose nature--appealing to the spa market and skiers in winter, international and local conventions in the spring and fall, and general tourism in the summer. Even in the initial conceptual stage, the idea of locating the resort in or around a micro-climate to ameliorate the cold and darkness of the Arctic winter was considered central to the use of the resort as a year-round facility.

A complete description of the design solution finally selected by the architects is contained in Volume Two, Book One, of this report which describes the development scheme for the multi-purpose resort in terms of its two major components: the resort hotel itself and the micro-climate structure. A separate discussion of the use of Iceland's hot water resources for health maintenance and curative purposes is contained in Volume Two, Book Six.

A crucial aspect of the resort is the symbiosis existing between the hotel and the micro-climate. While it is possible to split the resort into its two components for the purpose of financial feasibility, conceptually neither can exist without the other. In particular, the hotel's feasibility is predicated on the adjacent location of a micro-climate able to provide a full range of luxury activities and amenities

to the hotel guests. Similarly, the micro-climate can only make sense if there is a nearby guest facility providing a ready market for the micro-climate's services.

The capital cost of a resort hotel of 300 rooms of the sort envisioned for the multi-purpose resort is estimated at US\$15 million (2,250 million Ikronur). The tensile-structure micro-climate and associated equipment will require US\$32 million (4,800 million Ikronur). This brings the total cost of the resort, including related infrastructural expenses (\$12 million) to US\$59 million (8,850 million Ikronur). The resort hotel itself would be economically viable as a commercial proposition (as shown in the financial analyses in Volume Two, Book One) provided it could operate year-round. But to repeat, it is idle to envision the hotel without accompanying micro-climate. Even after an interproject contribution of US\$500,000 per annum from the resort hotel to the micro-climate, the cost of amortizing a 4,800 million Ikronur micro-climate structure, and of covering annual operating and maintenance costs, results in some heroic assumptions relating to other revenue sources for the micro-climate.

Such an investment is currently beyond the capabilities of the Icelandic economy to support; nor, for reasons mentioned above, is it likely that significant foreign investment for such a project would be forthcoming. It is therefore recommended that consideration of the multi-purpose resort project be deferred until more propitious economic conditions prevail in Iceland. With the return of more normal economic conditions a resort project will again be considered as part of Iceland's

tourism development plans. For this reason, we have conducted a full study of the location, development and feasibility of the project.

For its economic possibilities, resources and appearance, the area surrounding Kleifarvain--particularly Stora Lambafell--has been identified as the best site for the resort. Appendix A to Book One in the second volume contains a wealth of particulars on the site. The resort's design is a stunning one, combining luxury hotel accommodations and prime convention facilities with the tropical lushness of the micro-climate and the special characteristics of Iceland's hot water resources. The resort would almost be a village in itself, with large amounts of commercial and recreational space that would be extremely attractive to the local market as well. Located at the lakeside, the structure is designed to meld unobtrusively with the landscape surrounding it.

Aside from the more conventional mechanisms for financing the construction and operation of the resort (hotel and micro-climate), two alternatives are considered in Volume Two, Book One to test the viability of the complex: (a) establishment of an international fair or exposition, and (b) levy of a charge on trans-atlantic passengers on short-term stopovers in Iceland. But in light of the earlier discussions on the present condition of the Icelandic economy, it is difficult to see how the front-end capital cost of a project of this magnitude--especially with its heavy foreign exchange component--can claim any priority in Iceland's investment plans at the moment.

B. Iceland Cultural Complex

The initial concept for the Iceland Cultural Complex included the following elements: an earth science museum and research facility; a history museum; and a visitor complex. Our increased familiarity with Iceland's current situation and needs during this phase led us to re-arrange the elements of the Cultural Complex and distribute them geographically. Thus, we are recommending the establishment of a visitor center in downtown Reykjavik, a series of small museums devoted to Iceland's historical and geophysical resources throughout different regions of Iceland (so-called natural history display networks), and a research center in an outlying area of Reykjavik. The first two projects are discussed here, while the third is considered in Book Three.

1. The Visitor Center

The absence of a one-stop visitor center in Iceland that would combine the educational, promotional and commercial aspects of "What is Iceland" for the benefit of foreign tourists is an obvious lacuna in the country's tourism plant. While our original aim had been to design a brand new facility to fill this gap, integration of the concept with the redevelopment and rejuvenation of the original center of the City of Reykjavik began to emerge as a more suitable option. Not only is this a more cost-effective way of achieving a solution to the problem of disseminating tourist information, but it introduces new life and vitality to the most charming and historical area of Reykjavik. The fact that our efforts at focusing the attention of foreign visitors on the city center are in consonance with those of the urban planners of Reykjavik, who

have already turned part of the city into a pedestrian mall, militates further in favor of this new approach.

Our selection of the Austurstraeti mall area as the best site for the visitor center is based on the area's current appeal, market potential, ease of construction and program possibilities. In regard to the last of these, *it is important that two kinds of facilities be included in the visitor center: (a) an information center for tourists making their first visit to Iceland, where information of a general nature can be obtained, and (b) space where different tourism interests can show to tourists all the variety Iceland has to offer.* Likely beneficiaries of the latter are the groups encouraging regional tourism in Iceland, as well as special interests like hotels, restaurants, automobile rental firms and so forth. *Particularly because existing plans for the Austurstraeti mall are in flux, there is enormous potential for the inclusion of a visitor center in whatever development occurs.*

For this reason, we have suggested several ways in which the visitor center might be developed. These are discussed in detail in Volume Two, Book Two. Under one series of options, all activities would be located on the mall itself. The information center would be housed initially in rented space at the Laekjargata end of the mall, and ancillary activities would be housed in kiosks running along the mall up to the post office. If the mall were extended a second block (as has been considered by Reykjavik planners), more kiosks would be installed and the information center could be moved to the other end of the mall, across from the Morgunbladid building, so as to better distribute

activity along the mall. With the full development of the mall, possibly including the roofing over of the entire two-block stretch, the information center could be lodged in a building built especially for that purpose.

It is not clear at this point that the mall is to be extended; in the opinion of some merchants in the area, not enough promotions and activities have been staged along the mall to compensate for the exclusion of auto traffic, and some feel that business has suffered. It is likewise uncertain at this point whether the commercial building planned for the Laekjargata end of the mall will, in fact, be constructed. This space is essential for the information center, and so it is prudent to consider a second alternative for the visitor center. Retaining the appealing concept of small kiosks along the Austurstraeti mall, planners might look to the renewal of the Bernhoftstorfa area across the Laekjargata as an alternative site for the information center. The row of houses on this site are among the oldest in Reykjavik, and some plans for their use must be drawn up soon to ensure their renewal. The fact that the first block of Bankastraeti (between Laekjargata and Ingolfsstraeti) is definitely slated for conversion to a pedestrian mall makes the use of the Bernhoftstorfa houses for an information center attractive. In fact, plans already exist (as discussed in Volume Two, Book Two) which would easily integrate an information center into a fuller renewal plan to create a series of small shops, restaurants and artists workshops. Therefore, if plans for enlarging the Austurstraeti mall and/or the in-availability of rental space for an information center become problems,

the alternative location of the center in the Bernhoftstorfa section--with the use of kiosks on the existing mall--is recommended.

Financially, the visitor center makes minimal demands on Iceland's resources. A program of phased construction is envisioned, requiring only US\$90,000 (13.5 million Ikronur) to complete the first phase and begin operation of the visitor center. This is a very modest expenditure, in view of the central role to be played by the center, and could be shared by the Government of Iceland, the City of Reykjavik and the private businesses located in the area, who would most likely benefit most from increased pedestrian traffic through the mall. As an offshoot of the visitor center, we have recommended the creation of a Convention Bureau and an Accommodations Clearing House. There is further discussion of both these in Volume Two, Book Five, which is devoted to the proposed tourism development program.

2. The Natural History Display Network

As with the visitor center, the suggestions for an earth sciences museum and a history museum underwent revision during the Phase Two work. In a country the size of Iceland, it was deemed impractical to simultaneously construct two separate museums, and so a single museum embodying the two disciplines emerged as more realistic. More importantly, several factors indicated the need for a less centralized concept than had been put forth:

- (a) The existing National Museum and Museum of Natural Science, both in Reykjavik, already have much display space devoted to Iceland's history and geology.
- (b) Geophysical phenomena--glaciers, volcanoes and geysers--are best seen first-hand, rather than through a

museum presentation away from the site.

- (c) Actual sites of geophysical and historical importance are currently underdeveloped in that at best they present little information to the visitor, and at worst are not even marked.
- (d) Consequently, areas outside of Reykjavik, many of them rich in historical and geological resources, have not shared in the riches increased tourism has brought to Iceland.

The obvious solution to these difficulties would appear to be a series of small, inexpensive but highly-informative "mini-museums" organized on a regional basis to present to the visitor the highlights of Iceland's natural and historical features. Utilizing a common motif and program, museums would be developed so as to create a tour for hikers, bicyclists and auto travellers, so that the ensemble of the museums would properly form a display network for each of Iceland's distinct regions. In Volume Two, we explain in greater detail the kinds of attractions that should serve as the focus of the natural history display networks, and a prototype network of eight mini-museums is suggested in order to explore the financial feasibility of the concept. It is essential that the museums be built in clusters, so as to create a series of regional tours.

Each unit of the natural history display network should be located at a place where the phenomenon occurring naturally could be translated by graphic and dramatic presentation in situ. This would enhance the natural experience and lead to a better understanding of natural phenomena by the scientist, the student, and the average tourist. Not only is this concept more faithful to the idea that

Iceland "the land in the process of formation" is itself a museum of the forces and majesty of nature, but it also serves the more practical purpose of distributing economic development projects to areas outside the capital city. *One of the greatest adventures in tourism is to travel through Iceland, and the strategic location of these units of the national history display network could also serve the utilitarian objective of providing rest, recreation and sanitation facilities to the traveler as well as the sense of arrival at a special place after a fairly long and usually arduous journey.*

The structural solution proposed for these so-called "mini-museums" would be unobtrusive and expandable. They could consist of one, two, three or four sections of a basic design depending on the space required to adequately present the specific natural phenomenon and the number of visitors likely to be accommodated. It is to be stressed that the museums should have a standard form throughout the country, to make them instantly recognizable and provide a sense of continuity throughout the tour.

The section on financial feasibility of the natural history display network in Book Three, Volume Two, provides unit costs for one-, two-, three-, and four-section units (which include the costs of sanitation facilities). Obviously, such an approach has a great deal of flexibility to recommend it.

- *Mini-museums could be built over a phased program period and the low capital cost of each unit could be defrayed by contributions from the Government of Iceland (perhaps through the Development Fund of Iceland), the local community or a combination of both. It is shown*

in Volume Two that a network of eight regional museums--a large development--would still cost considerably less than US\$1 million.

- *Museums could be located either in isolated areas or strategically dispersed so as to strengthen existing circuits or develop new circuits.*
- *While keeping their standard form throughout, the mini-museums could be simple or elaborate in terms of facilities. Some could be just a simple structure by itself, others a grouping of like structures. The more elaborate could even have snack-bars or simple overnight facilities (such as the highland huts put up by the Explorers Club) and/or include tenting facilities for campers who would use the sanitation facilities in the museum core.*

It is in fact a recommendation, made further below, that a small sum of money be devoted to the construction of such overnight installations. These summer huts would then operate in support of the Edda Hotels in drawing visitors outside of Reykjavik during the summer months when tourism is at its peak in Iceland.

C. Living History Village

The basic concept of a living historical village, combining a dynamic presentation of Icelandic history with imaginatively designed and operated lodging facilities, arose from the perceived need to provide additional hotel facilities and to highlight Iceland's unique historical character. It was felt that a link between the two might be forged on the basis of the widespread popularity of such historical village concepts as Colonial Williamsburg and Old Sturbridge Village in the United States, Skansen in Stockholm, Aarhus in Denmark, and Bygdoj in Oslo. A more detailed review of the feasibility of a living history hotel village

was, therefore, scheduled for Phase Two.

The initial research was directed at current preservation and commemorative efforts, and public attitudes toward historical reconstructions, and mixed commercial/non-commercial use of them. Research was first focused on the evaluation of conceptual viability before examination of the financial or economic feasibility of any plan. This enabled us to broaden our scope to incorporate the potential external effects of this project upon other efforts--current and projected--in both historical preservation and tourist lodging activities. This form of conceptual analysis covers not only the general market feasibility but such broader questions as whether the particular thematic treatment has historical relevance and authenticity for Iceland and whether the project contributes to the efforts currently underway to preserve and present the evidences of past habitation patterns. These elements are crucial in light of the intense pride and interest in the country's history that prevail throughout Iceland and the desire to avoid any irreverent use of that history for strictly commercial purposes. Finally, in a country with a small population and resource base, it was considered essential that a plan be devised to stimulate cooperative efforts among the diverse groups active in the field of historic preservation.

Conceptually, there are three ways a living historical village can be created. Most authentically, existing historical structures on their original sites are simply opened to the public, perhaps with some restoration if necessary. This is, for example, typical of the attractions in Rome, Williamsburg, and at Versailles. Secondly, authentic

structures are removed from their original site and collected at a new site to form a new ensemble of historical interest. Sturbridge Village is of this type. Finally, a historical village can simply be created without any original structures on a site without historical significance; examples of these abound, all the way from serious re-creations to amusement parks.

It is our evaluation that none of these concepts is appropriate for Iceland, and that the concept as originally conceived should be abandoned. The following pages detail our reasons for this judgment.

1. Historical Overview

A proper evaluation of the appropriateness of the historical village concept obviously requires a familiarity with both the major periods of Icelandic history and the present attitudes of the population toward the particular characteristics of these periods. The gravamen is the creation of the flavor of an epoch that enjoys an appeal on an international basis and a local pride in the accomplishments or style of the era.

As a graphic means of condensing and relating a large number of events and living patterns, Exhibit IV-1 in Book Four of Volume Two divides Icelandic history into eight epochs and depicts both the major events that characterize the age and the pattern of human settlement. One salient fact of Icelandic life emerges: isolated, rural habitations prevailed until the twentieth century. Villages did not exist until the late eighteenth century, and it is not until the late nineteenth century that "urban" communities were seen to any extent. From that

period onwards there was a rapid urbanization of the Icelandic population. A thematic treatment of village life would therefore deal with this relatively modern period. Examples of this type of life style still exist in Iceland, but they are scattered throughout the country. It is, therefore, impossible to recreate a historical village on an original site using the original structures since such sites only came into being in modern times. The alternative of moving historic structures to a new site, however, is still open.

2. Arbaer

This movement of historical structures to a new site is precisely what is currently underway at the Arbaer Museum in Reykjavik. Arbaer is an outdoor museum and exhibition of old structures built around the nucleus of a traditional turf farm. The site, in eastern Reykjavik, has been in continuous use as "Arbaer Farm" since at least 1464, and was utilized in the nineteenth and twentieth centuries as an inn for travelers to the capital; the present farm buildings, however, date only from the late nineteenth century. The museum was established in 1957 and has been expanding since.

There are two kinds of building at Arbaer: the turf-built farm houses originally on the site and the nineteenth century houses moved to the site from the older sections of Reykjavik undergoing renewal. The latter urban zone is an attempt to recreate the flavor of an "Old Reykjavik."

Arbaer is a well-established museum with guaranteed access to structures of historical significance (in Reykjavik and elsewhere) and additional land for expansion purposes. Its location--in the high

growth eastern district--provides a ready access to Reykjavik's increasing population, as well as to the great majority of tourists that visit the area. It is served by municipal bus lines and is within walking distance for many nearby residential areas. The surrounding area, although not rich in scenic beauty, is part of Reykjavik's recreational space and contains other amenities such as horse trails, sledding and gardening. Finally, the site enjoys not only a historical authenticity as an original farm location, but also has established a seventeen-year tradition of recreational, educational and preservation service to the Iceland community.

It is thus our opinion that any re-creation of a historic village--already a questionable concept in view of Iceland's short experience in village living--risks to compete with the already established Arbaer Museum. (It is significant that Arbaer is built around the concept of a farm, rather than a village.) This is particularly true if the new village has to vie with Arbaer for historic buildings.

Likewise, we recommend against the establishment of an artificial historic village devoid of historic structures. It is necessary to spend only a short period of time in Iceland to learn and gain appreciation of the Icelanders' intense pride in their country's history, cultural development and literary achievements. Respect for Iceland's traditions runs deep, and any activity that endangers or debases these will encounter sharp opposition. It is probable that attempts to create historic villages without historic structures will be viewed as demeaningly phony.

In summary, authenticity in the context of a historical village means that locations on a site with historical significance and tradition is more important than a site that has other advantages but lacks historicity (e.g., a more scenic location but without the historical importance of Arbaer). The desire for the true and the natural also means that actual historical structures are preferable to reconstructions and to relocated structures. In fact, it is probably preferable that the structures be not only the original houses on the original sites, but that they be in use and inhabited, as opposed to simply on display.

It is thus our recommendation that the living history village concept be abandoned, and that future developments of a historical nature be done within the context of Arbaer, which has a number of problems and areas in which it could be improved. The problems and promise of Arbaer are discussed in detail in Book Four of Volume Two.

D. Tourism Development Program

A comprehensive program for tourism development in Iceland is presented in Book Five of Volume Two. The following discussion summarizes the principal findings and recommendations for the program. It includes strategies for the development of tourism markets, facilities, resources, and product design and marketing activities, in addition to suggestions on how such a program can be organized and financed in Iceland.

1. Market Strategy

Since the Phase One study was completed in 1972, rising rates of inflation, falling real incomes, energy shortages, and sluggish

economies have weakened the demand for international travel on both sides of the Atlantic. This phenomenon is reflected in Iceland's visitor statistics for 1974, which show a 7.5 percent decline in total arrivals compared with 1973.

In view of current uncertainties surrounding the future of long-haul tourism in those markets which have historically generated 90 percent of Iceland's foreign visitors, it is felt that a realistic target for tourism growth through the end of the decade would be eight percent per annum, rather than twelve percent as proposed in the Phase One study. Assuming this revised target can be met, Iceland must be prepared to accommodate 108,700 visitors in 1980, compared with 68,500 in 1974, representing an overall increase of 58.7 percent. The majority of these visitors are expected to be general interest tourists, although about 15 percent of the total might come to Iceland for specific purposes such as to participate in conventions, to fish, or to ski. The local market, although characterized by a high propensity for travel overseas, can nevertheless be expected to provide strong support of new facilities and attractions in Iceland, especially during the off-season.

2. Facilities Strategy

Additions to Iceland's tourism plant should be planned not only to attract and accommodate more foreign and local visitors, but also, where possible, to reduce seasonal peaks and spread the job and income-generating benefits of tourism throughout the country. An objective of reappportioning visitor nights upward by ten percent in the off-season and again by ten percent in favor of island facilities can be

used to project more favorable patterns of tourism in Iceland in 1980. Based on an eight percent annual growth rate, visitor nights spent in hotels and campgrounds outside of Reykjavik will increase by 60 percent, more than double the expected rate of growth in demand for hotel rooms in the capital city.

In light of limited capital availability and the relatively short tourist season outside of Reykjavik, it is proposed that any new accommodations facilities be simple, low-cost structures that will operate at satisfactory profit levels based on a three- to four-month season. Existing hotels should be upgraded to include private bathrooms in at least some of the rooms. Additional sanitary units and shelters will be required at highland campgrounds.

The development of a new research center in the Reykjavik area can provide another low-cost solution to the potential shortfall in supply of hotel rooms in-season. It is expected that rooms in use by resident and visiting scholars and research personnel over the nine-month university year can be made available to tourists during the summer months.

The mini-museum concept, if applied at sites of natural and historical interest throughout the island, will provide a focus for the development of new tourist attractions and facilities at various locations in Iceland. Attention should also be paid to the provision of centers and activities for evening entertainment, especially in Reykjavik. New festivals, competitions, and special events should be devised and promoted in foreign and local markets alike.

Iceland has excellent international air transportation and an

adequate network of scheduled domestic services. There is also an ample supply of tour buses, taxis, and rental cars, due to the heavy investment in equipment inventory that is characteristic of Iceland's inflationary economy. *Future requirements for transportation goods and services should be projected and coordinated by tourism planning authorities in conjunction with the development and promotion of new tour circuits and attractions.*

Tourism facilities should include the availability of rental equipment for fishing and skiing, and boat charters for deep sea fishing. Simple toilet facilities should be provided along all major tourist routes, including hiking trails. *Clearing houses to provide information on available fishing rod locations and centralized booking services for overnight accommodations should be organized and managed by the tourism development authority in cooperation with the Federation of Fishing Associations and the Hotel and Restaurant Association respectively.*

3. Resource Strategy

Iceland's natural scenery, such as volcanoes, glaciers, geysers, and other indications of recent geological formation, is considered to be its most important tourism asset. *Since unique geographical features are present throughout the country, the potential is good for the development of regional circuits that will draw travellers out of Reykjavik and help to disperse the benefits of tourism to other areas.*

In addition to scenic attractions, Iceland's natural resources include an abundance of geothermal energy, snowfields for skiing and

winter sports, lakes, streams, and coastal waters for sport fishing, and an uncrowded, unpolluted atmosphere in which to enjoy general and special interest pursuits. The country's geothermal resources, in particular, can be used in a variety of ways to support the tourism industry. Aside from the traditional uses for bathing, drinking, and physical therapy, thermal waters can provide low cost energy for heating, electricity, and other requirements of a nation's tourism plant. It has also been suggested that Iceland serve as a center for research activities investigating potential uses of geothermal resources for advanced energy systems, recycling and reclamation of materials, and other technical applications.

Since the natural environment is an essential aspect of the Icelandic tourism product and of the heritage of Iceland's own citizens, every effort must be made to insure that the existing ecology of the country is preserved for future generations. It is therefore recommended that an inventory be undertaken of natural, unique and fragile areas, and that the carrying capacities of these areas be defined and strictly enforced.

The resource strategy should provide for adequate marking and maintenance of roads included on tour circuits, as well as for the expansion of the airport runway at Akureyri to accommodate international flights. Wherever possible, future tourism development projects should be planned to take advantage of existing infrastructure and local materials. Moreover, to minimize the impact of Iceland's full employment economy on investment and operating costs, emphasis should be on projects using modular, rather than traditional, construction techniques.

4. Product Design Strategy

Iceland's uniqueness is its most important tourism product.

This quality is reflected in its climate, its geology, its natural history, and the way in which its citizens have succeeded in extracting one of the world's highest standards of living from what is essentially a hostile environment. Specific characteristics which have had, and will continue to have, broad appeal in Iceland's tourist markets include the fire and ice phenomenon; the fact that the country is uncrowded, its nature unspoiled and its air and water clean; and Viking history as documented in the renowned Icelandic sagas.

The projects proposed for development in this second phase study have been designed to add dimension to Iceland's basic product. The mini-museum concept, in particular, suggests many possibilities for new circuits that will increase visitor flows around the island. The research facility will provide a necessary emphasis to Iceland's wealth of geothermal resources and to the many points of geological interest which exist throughout the country. The center should also attract groups of special interest visitors participating in study tours or other scholarly activities. The Visitor Center on the Austurstraeti will also serve to focus the attention of tourists on Iceland's major assets and attractions, and to inform them of the variety of tours, accommodations, and services that are available to make their stay a pleasant and informative one.

In addition to its tourism resources that have been or should be developed to attract the general purpose visitor, Iceland has certain

products to sell in markets that are motivated to travel for specific recreational or educational purposes. Among these are skiers, naturalists, photographers, geologists, fishermen, health curists, and participants in meetings and conventions. While specially-designed tour packages are already available for some segments of these markets, others remain to be developed and/or more widely promoted. The pursuit of convention business, in particular, demands a well-organized and broadly cooperative effort among all tourism product suppliers who stand to benefit from such activity. Foreign scientists and explorers are also a small, but important, specialty market for Iceland. They should be encouraged to combine their research efforts with sightseeing and other leisure activities, to extend their length of stay, and to return to Iceland as repeat visitors for educational or recreational purposes.

5. Marketing Strategy

Major elements of a tourism marketing strategy include research, country promotion, the development and maintenance of sales channels through tour operators and retail travel agents, and consumer advertising. *In the future, Iceland will need more detailed statistical data on which to base its marketing program.* To provide this information, it is recommended that visitors be required to complete disembarkation cards prior to their entry into the country, and that motivational sample surveys be conducted at regular intervals. In addition, hotels and other tourist facilities can assist government tourism authorities by maintaining statistics on occupancy rates and nationality breakdowns of guests on a month-by-month basis.

Relationships with the travel trade could be improved in several areas. Price quotations must be made to tour operators in time for them to be included in printed brochures. A centralized booking system for hotel rooms should be established to minimize agents' complaints of difficulties in securing block bookings and firm reservations for accommodations in Iceland. Also, to encourage private travel agencies in Iceland to devote more energy and resources to the development and promotion of local tours, the Icelandic Tourist Bureau should divest itself of its travel agency functions as soon as possible.

Information on new tour circuits, attractions, and facilities should be made available to the trade and, where possible, published in the trade press in Europe and North America. Iceland's travel industry should cooperate in providing familiarization tours for selected travel agents and tour operators. It is recommended that the initial program of trade promotion be concentrated in a few selected European markets, and that consumer advertising activities at stimulating market interest in the United States and Canada.

To attract conventions, it is first necessary to identify those organizations and associations with the greatest potential for holding a meeting in Iceland. Efforts must be made through both direct mail and personal solicitation, to interest association decision-makers in the Icelandic convention product. *A convention bureau, representing all segments of the tourist industry which stand to benefit from the spending of group meeting participants, should be established as an arm of the new national tourism organization.* The mission of this bureau would be

to print and distribute literature promoting Iceland as a convention destination, define and contact convention prospects, and follow through with convention planning and monitoring of convention service.

6. Institutional Reorganization

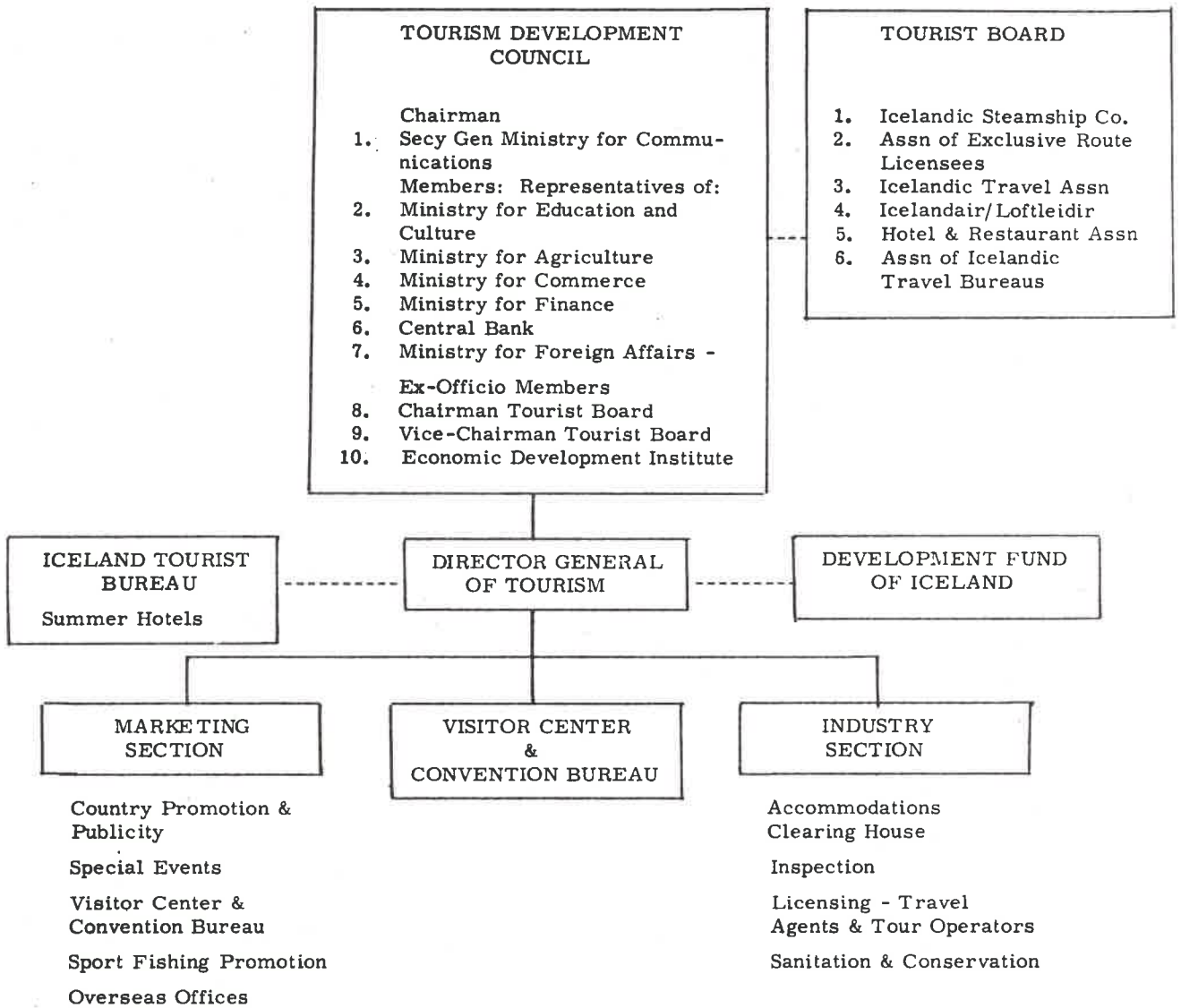
A redoubled effort on Iceland's part to increase the numbers of tourists and especially to enhance the enjoyment both Icelanders and foreigners derive from travel in Iceland will require a certain amount of reorganization in the agencies currently charged with directing tourism in Iceland. The purpose of this sub-section is to outline the form of a recommended National Tourist Organization for Iceland.

The proposed National Tourist Organization is shown diagrammatically in Exhibit II-1 on the following page. *Overall direction, policy-making and responsibility for tourism will continue to be lodged in the Ministry for Communications. For obvious reasons, the Secretary-General of the Ministry for Communications would also serve as the chairman of the Tourism Development Council, which is seen as the principal organ for inter-governmental consultation and planning in tourism development.* The membership of the Tourism Development Council will consist of representatives from the major governmental offices concerned with tourism development and policy: the Ministries for Education and Culture, Agriculture, Commerce, Finance and Foreign Affairs; and the Central Bank of Iceland. Rounding out the Council in an ex officio capacity will be a representative from the Economic Development Institute and the Chairman and Vice-Chairman of the Tourist Board.

The Tourist Board is the private industry counterpart of the

EXHIBIT II-1

NATIONAL TOURIST ORGANIZATION



Tourism Development Council. Included in its membership are representatives from the major transportation industries in Iceland, the hotel and restaurant association and travel bureau association. The Tourist Board is the principal advisory group to both the Tourism Development Council and the Ministry for Communications itself (through the Secretary-General). It is especially hoped that including two of the Board's representatives as ex officio members of the Tourism Development Council will increase and improve the coordination between public and private bodies concerned with tourism development.

Day-to-day direction of tourism will be the responsibility of the Office of the Director-General of Tourism. This individual will exert the main operating influence on tourism development in Iceland, and hence should be a person familiar not just with touring in Iceland but with the mechanics of attracting foreign visitors to Iceland, publicizing Iceland abroad and so forth. In particular, what is needed is an individual, perhaps with both a private industry and public sector background, who has an understanding of the intricacies of promotion, organization, and budgeting. It is expected that many of the functions of the Director-General's office will be assumed from the existing Iceland Tourist Bureau (ITB). All matters of long-term development, publicity and operating policy should thus be ceded by ITB and come under the aegis of the Office of the Director-General of Tourism.

The Office of the Director-General should concentrate its efforts in three directions. Its marketing section will undertake the functions of both domestic and foreign publicity, and should plan to

operate a number of special events geared for tourists and local residents alike.

A second wing of the Director-General's Office will oversee the operation of the visitor center and the proposed convention bureau. The bureau will operate on the basis of long-term plans drawn up by the Director-General's Office to increase the number of conventions in Iceland and thereby improve the seasonal distribution of visitor arrivals. It is expected that the principal target of its efforts would be the United Kingdom, Continental Europe and North America. Not only are these areas under-represented in Iceland's conventions picture, but organizations from these regions are more likely to hold their meetings in spring or fall, as opposed to the Scandinavian groups who now make up so large a portion of Iceland's convention market and almost always schedule their events for the summer. It is hoped that the new convention bureau will find the recommendations of the Phase One report of use in beginning operations.

A third section of the Director-General's Office will be charged with working directly in certain areas of the tourism industry. This industry section will handle all necessary licensing and inspection operations involving agents and tour operators. It will assume the functions of sanitation and conservation of existing attractions as well as of new ones that Iceland may construct or develop. And it should initiate an accommodations clearing house to improve the utilization of hotel rooms throughout the country and also to enable foreign visitors to stay in Icelandic homes in Reykjavik, particularly in the summer months when hotel

accommodations may be difficult to find.

While the Office of the Director-General of Tourism is clearly to be the cornerstone of tourism operations in Iceland, it will work as necessary with ancillary agencies. It should be able, for example, to draw on the resources of the Development Fund of Iceland, should it initiate new projects that would qualify for funding from that source. It is also important that the relationship of the existing Iceland Tourist Bureau to the proposed Office of the Director-General be spelled out. Many of the current functions of ITB are obviously recommended for transfer to the new agency. In particular, most of the administrative staff and marketing and promotion personnel from ITB should be shifted. The sole function of ITB that it should retain is the operation of the summer hotels, an operation requiring only a small staff. In time, it is to be hoped that ITB can sell these hotels to the various localities in which they are located, so that the localities can run them in conjunction with their mini-museums and summer huts and so better organize tourism in Iceland as a regional enterprise.

It should be apparent that this proposed reorganization of the direction of tourism in Iceland would not involve a great deal of new hiring or budget increases. Particularly in the Office of the Director-General of Tourism, the principal effort is one of shifting functions from existing agencies and reorganizing them under three well-defined categories. *It will be clear from the following sub-section on financing what the new functions assumed by the National Tourist Organization are expected to cost.*

7. Financing Tourism Development

As shown in Exhibit II-2, the implementation of the recommendations in this study will require only modest amounts of capital. The capital requirements schedule draws on the financial feasibility information adduced in Volume Two for the visitor center and the natural history display network. For the former, it is assumed that the first phase of construction (involving three information kiosks and a rented information center on the Austurstraeti mall) can be completed in 1976, and that operation of the visitor center will commence in 1977. Phase Two construction will be completed in 1979 and the slightly larger operation will require a small increase in operating subsidies.

With the natural history display network, construction costs sufficient to construct two mini-museums per year are allocated; again, it is assumed that operations will begin the year after the first mini-museums are built. Naturally, as the museums proliferate the operating subsidies increase.

The summer huts program to append simple lodgings to the major mini-museums will require smaller amounts of capital than the natural history display network. It is estimated that basic structures can be built for \$2,500 per bed (\$5,000 per room); thus the figures shown include construction of 20 beds (perhaps two structures of ten beds each) in 1976 and 1977, and double that number from 1978 until 1980.

The convention bureau and accommodations clearing house are budgeted at \$50,000 each in 1976. While the expenses in real terms will not rise, a ten percent inflation index is built in for the next four years.

EXHIBIT II-2

TOURISM DEVELOPMENT PROGRAM
FIVE-YEAR FINANCIAL REQUIREMENTS
(in thousands of dollars)

	1976	1977	1978	1979	1980
1. Visitor Center					
a) investment costs	90	--	--	60	--
b) operating costs	--	67	67	74	74
2. Natural History Display Network					
a) investment costs	240	240	240	240	240
b) operating costs	--	6	8	11	14
3. Summer Huts Program					
a) investment costs	50	50	100	100	100
b) operating costs	*	*	*	*	*
4. Convention Bureau					
a) investment costs	**	**	**	**	**
b) operating costs	50	55	61	67	74
5. Accommodation Clearing-House					
a) investment costs	**	**	**	**	**
b) operating costs	50	55	61	67	74
ANNUAL TOTAL	480	473	537	619	576

* Operating costs for the self-service summer huts are expected to be very minimal and have accordingly been excluded from this estimate.

** Investment costs for the Convention Bureau and the Accommodation Clearing-House are included in the totals for the Visitor Center.

Source: Checchi and Company.

The total requirements, fluctuating from \$473,000 in 1977 to \$619,000 in 1979, are reasonable in themselves and particularly well-suited to a small country like Iceland where capital is expected to be scarce in the intermediate run. The question does arise, however, as to the likely sources of capital for these projects. In the case of each investment, it is possible to identify a number of beneficiaries. While it may be difficult to arrive at an exact formula for sharing the load, the diversity of beneficiaries should make it possible to spread the burdens and so avoid too heavy a load on any one source.

For the visitor center, the beneficiaries are first of all the citizens of Iceland in general, who benefit from the foreign exchange earnings of increased tourism. Assistance from the Government of Iceland should thus be forthcoming. But the City of Reykjavik and also the private businessmen in the Austurstraeti area also stand to gain, and so should be induced to participate in the building and running of the visitor center. The national government assistance might logically come from the Development Fund, particularly as the amount necessary would be quite small.

For the natural history display network, the dispersed nature of the projects makes local government initiative essential. In fact up to 50 percent of the construction costs of the mini-museums should be the share of the local governments, with the remaining half put up by the national government. In this case, the Government of Iceland's portion might be channeled through the Regional Development Fund, once again because the total government share is not a large sum of money.

Similarly, construction of the summer huts ought to be shared by the national and local governments.

For the convention bureau and the accommodations hotel clearing house, the major source of funds will be the Government of Iceland, since these agencies will come under the aegis of the Iceland Tourism Bureau. Nevertheless, the government may feel it justified to enlist the support of the numerous private beneficiaries (e.g., hotels, restaurants, tour operators and so forth) of the new programs.

Financing for the ensemble of programs, in other words, will be a cooperative effort by private business, local government and the Government of Iceland. The section of this study devoted to institutional sources of financing indicates that the Development Fund of Iceland, through the Tourism and Regional Development Funds, are particularly good ways to channel government support to the Tourism Development Program. What remains to be worked out are the details on sharing between the different sectors.

It is clear from the foregoing that great care has been taken to find for Iceland investments in keeping with both its needs and its ability to pay. *Current economic constraints impose definite limits on the financing of projects in tourism or any other field in Iceland at present. It is hoped that the modest scale of the investments recommended here will obviate the possibility of Iceland's delaying needed investment for purely financial reasons.* For the same reasons, it is strongly recommended that new construction for the purposes of tourism development be exempted from applicable import duties and sales taxes.