TOURISM IN ICELAND: PHASE TWO VOLUME TWO, BOOK FIVE

# TOURISM DEVELOPMENT PROGRAM

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# I.1 MARKET STRATEGY

## A. General Remarks

The Phase I study on markets for tourism to Iceland found that international travel to that country had increased from a rather small base of 12,800 visitors in 1960 to nearly 61,000 visitors in 1971, representing an average annual growth of 16.3 percent over this eleven-year period. The study also forecast that future growth would decline to a rate in the eight to twelve percent range, based on anticipated patterns in air arrivals.

The actual rates of growth of 12 percent in 1972 and 8.8 percent in 1973 are clearly within the range projected. They are also nearly double the rates of seven and four percent respectively experienced by all OECD member countries combined, even though many of these countries rank among the world's most popular tourist destinations.

Data for 1974, however, show a slowdown in tourist traffic across the North Atlantic. Visitors to Iceland numbered 7.5 percent fewer in 1974 compared with the previous year's totals, and were approximately equal to total arrivals in 1972. This phenomenon is not at all unique to Iceland: statistics recently published by the U.S. Immigration and Naturalization Service, for example, show that arrivals by U.S. citizens in Europe dropped nearly 15 percent during 1974. According to experts in the travel trade, rising rates of inflation, energy shortages, deterioration in many countries' balance of payments, and threats of recession have all combined to reduce the number of travelers venturing overseas. Since Americans make up by far the single largest national group of tourists coming to Iceland (see Exhibit V-2, page V-6), the U.S. trend is of particular importance.

Exhibit V-1, on the following page, shows trends in visitor arrivals by means of transportation since 1971. Sea arrivals, which had become an increasingly smaller proportion of total volume since 1966, fell to zero after February 1974, when Iceland's passenger ship, the Gullfloss, was retired from service. Iceland's tourism industry is now completely dependent on air transportation, with the single exception of passengers on liners that call at Icelandic ports as part of a transatlantic voyage or cruise. It should be noted that these passengers are not included in Iceland's "total visitors" statistics because they do not utilize onshore hotels. They can, however, be important to any country's tourism development efforts, as they tend to be high spenders for local souvenirs and tours, and because they are often excellent

EXHIBIT V-1

VISITOR STATISTICS BY MEANS OF TRANSPORTATION

1972 - 1974

| | 1972 | | Change from '71 | 1973 | | Change from '72 | 1974 | | Change from '73 |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Percent | Percent | Number | Percent | Percent | Number | Percent | Percent |
| Total Visitors | 68,026 | 100.0 | 12.0 | 74,024 | 100.0 | 8.8 | 68,476 | 100.0 | (7.5) |
| Means of Transportation | | | | | | | | | |
| By Sea | 1,263 | 1.9 | (2.9) | 1,299 | 1.6 | 2.9 | 20 | 2/ | (98.5) |
| By Air | 66,763 | 98.1 | 12.4 | 72,725 | 98.2 | 8.9 | 68,456 | 100.0 | (5.9) |
| Stopovers | 15,492 | 22.4 | 2.6 | 12,768 | 17.2 | (17.6) | 13,659 | 20.0 | 7.0 |
| Regular | 51,492 | 75.7 | 15.6 | 59,957 | 80.9 | 16.4 | 54,797 | 30.0 | (5.6) |
| Liner Passengers 1/ | 13,734 | - | 28.8 | 11,538 | - | (16.0) | 5,756 | - | (50.0) |

1/ Not included in "Total Visitors."

2/ Less than 1/10 of one percent.

publicity agents among potential travelers back home. For these reasons, additional efforts should be made to encourage cruise ships to call at Icelandic ports, especially in view of the sharp decline in liner traffic shown for 1974 compared with previous years.

Exhibit V-1 also shows an appreciable fall in the number of air arrivals who took advantage of the Icelandic airline's 24-, 48-, and 72-hour stopover offerings in 1973. Whereas stopovers represented approximately one in every four visitors each year between 1966 and 1972, this proportion dropped to one in five in 1973. In 1974, however, this downward trend was somewhat reversed, with the stopover program registering a gain of seven percent over the previous year's total in spite of a decrease in tourist arrivals overall.

While the absolute decline in numbers of stopovers since 1972 is by no means welcome, it may have had a less significant effect on Iceland's tourism industry than the statistics would indicate. For one thing, it is the 24-hour stopover that has accounted for most of the decrease. The number of 48-hour stays has remained relatively stable and 72-hour stays have increased by 31 percent since 1972. Therefore, a fall in Iceland's stopover visitor traffic does not necessarily translate into a fall in visitor nights of the same proportion. Nevertheless, it is important to recognize that any drop in the number of stopovers has a stronger negative impact during off-season, when other types of visitors are few, than it does on peak period activity.

It is also significant that the 1974 stopover program attracted a larger percentage of all passengers crossing the North Atlantic via Loftleidir than it did in 1972. Whereas the Icelandic airline's trans-atlantic volume declined by 27.2 percent between 1972 and 1974, stopovers fell by only 11.2 percent over the same two-year period. Thus the program actually increased its share of the total transit market from 4.3 percent in 1972 to 5.2 percent in 1974.

## B. Major Market Areas

Iceland's most important markets continue to be in North America and Western Europe. Ten countries (United States, West Germany, United Kingdom, France, Switzerland, Denmark, Sweden, Norway, the Netherlands, and Canada) generate approximately 90 percent of all visitors to Iceland.

Exhibit V-2, page V-6, shows absolute and percentage changes in the distribution of visitors by nationality since 1971. One important variation from trends in the previous decade is that the number of visitors from the United States has remained relatively stable over the past several years, while visitor volumes from some of the European countries have grown at higher than average rates. In 1971, 47.5 percent of Iceland's visitors came from the United States and Canada and 50 percent from Europe, of which 17 percent were from the Scandinavian countries. 1/ By 1973, the North American share had declined to 41 percent, while total Europe represented more than 56 percent, and Scandinavia, 24 percent. In 1974, although arrivals by nearly all leading nationalities declined on an absolute basis compared with 1973, some, like the Germans, Norwegians, Swedish, and Swiss, fell at below the average rate of 7.5 percent, whereas others, including citizens of the United States, United Kingdom, Denmark, and France, exceeded this average by two or more percent. Of the major tourist-generating countries on both sides of the Atlantic, however, only Canada was able to send more visitors to Iceland in 1974 than it did in 1973.

## C. Seasonality

Exhibit V-3, page V-7, shows absolute and percentage changes in the seasonality of visits to Iceland that have occurred since 1971. It is evident that patterns of foreign visitor travel remain highly seasonal. Iceland's characteristic summer peaking phenomenon intensified in 1972, when more than 55 percent of all foreign visitors arrived in the country in June, July, and August. In 1973, the comparable figure was 53 percent, a relatively insignificant improvement except for the fact that it was made during a year when stopovers, traditionally the biggest source of off-season visitors, fell off by nearly 18 percent. In other words, Iceland was able to maintain its off-season visitor base by attracting a larger number of independent visitors, and this more than offset any losses resulting from the decline in stopover traffic.

The 1973 data also show substantial increases in foreign visitation for the months of May and November. The high May total is no doubt attributable to the Nixon-Pompidou meeting which occurred toward the end of that month, just as the Fischer-Spassky chess tournament

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1/ Denmark, Norway, Sweden, and Finland.

EXHIBIT V-2

VISITOR STATISTICS BY NATIONALITY

1972 - 1974

| Leading Nationalities | 1972 | | Change from '71 | 1973 | | Change from '72 | 1974 | | Change from '73 |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Percent | Percent | Number | Percent | Percent | Number | Percent | Percent |
| United States | 28,124 | 41.3 | 1.9 | 29,499 | 39.8 | 4.9 | 26,587 | 38.8 | (9.9) |
| W. Germany | 7,369 | 10.8 | 14.1 | 8,010 | 10.8 | 8.7 | 7,491 | 10.9 | (6.5) |
| United Kingdom | 7,127 | 10.5 | 23.2 | 5,317 | 7.1 | (25.4) | 4,603 | 6.7 | (13.4) |
| Denmark | 4,986 | 7.3 | 18.1 | 7,040 | 9.5 | 41.2 | 6,173 | 9.0 | (12.3) |
| Sweden | 4,258 | 6.3 | 28.9 | 5,441 | 7.4 | 27.8 | 5,348 | 7.8 | (1.7) |
| Norway | 2,757 | 4.1 | 36.6 | 4.317 | 5.8 | 56.6 | 4,035 | 5.9 | (6.5) |
| France | 2,723 | 4.0 | 14.7 | 3,167 | 4.2 | 16.3 | 2,573 | 3.8 | (18.8) |
| Switzerland | 1,700 | 2.5 | 38.2 | 1,684 | 2.2 | (0.1) | 1,591 | 2.3 | (5.5) |
| Netherlands | 1,302 | 1.9 | 19.4 | 1,490 | 2.0 | 14.4 | 1,385 | 2.0 | (2.0) |
| Canada | 1,187 | 1.7 | (7.5) | 934 | 1.2 | (21.3) | 1,307 | 1.9 | 39.9 |
| Total Ten Leading Nationalities | 61,533 | 90.2 | 4.3 | 66,899 | 90.3 | 8.7 | 61,093 | 39.1 | (8.7) |

EXHIBIT V-3

VISITOR STATISTICS BY MONTH (SEASONALITY)

1972 - 1974

| Seasonality | 1972 Number | 1972 Percent | Change from '71 Percent | 1973 Number | 1973 Percent | Change from '72 Percent | 1974 Number | 1974 Percent | Change from '73 Percent |
|---|---|---|---|---|---|---|---|---|---|
| January | 2,030 | 3.0 | (15.5) | 2,118 | 2.8 | 4.3 | 2,815 | 4.1 | 32.9 |
| February | 2,447 | 3.6 | 19.1 | 2,408 | 3.2 | (1.6) | 2,000 | 2.9 | -- |
| March | 2,829 | 4.2 | 9.1 | 3,236 | 4.3 | 14.4 | 3,114 | 4.5 | -- |
| April | 3,758 | 5.5 | 8.6 | 4,225 | 5.7 | 13.2 | 3,711 | 5.4 | -- |
| May | 5,000 | 7.4 | (9.1) | 6,561 | 8.8 | 31.2 | 5,363 | 7.8 | -- |
| June | 10,178 | 15.0 | 23.9 | 11,004 | 14.8 | 8.1 | 9,651 | 14.1 | -- |
| July | 16,128 | 23.7 | 30.8 | 17,178 | 23.2 | 6.5 | 15,788 | 23.1 | -- |
| August | 11,494 | 16.9 | 7.9 | 11,254 | 15.2 | (2.1) | 11,579 | 16.9 | 2.9 |
| September | 5,894 | 8.7 | 10.6 | 6,468 | 8.7 | 9.7 | 6,121 | 8.9 | (5.4) |
| October | 4,044 | 5.9 | 8.7 | 4,445 | 6.0 | 9.9 | 4,012 | 5.9 | (9.3) |
| November | 2,223 | 3.3 | 1.0 | 3.024 | 4.0 | 36.0 | 2.220 | 3.2 | (26.6) |
| December | 2,001 | 2.9 | (11.6) | 2,073 | 2.8 | 3.6 | 2,081 | 3.0 | 0.04 |

may have heightened the seasonal peak during the summer of 1972. Because Iceland's visitor volume is comparatively small, the scheduling of a major international event can have a significant impact on the structure of tourism in any given year.

Data for 1974, when compared with those for the same months in 1973, show an absolute increase in January and August arrivals, a stable December, and decreases for all other months. On a relative basis, July was once again Iceland's peak month for foreign visitors, and the percentage of tourists arriving between June and August was 54 percent. It is evident that unless a major promotional program is mounted to attract visitors during the off-season, historical seasonality patterns are not likely to change by more than a few percentage points from one year to the next, in regardless of total visitor volumes.

## D. Current Prospects for Specialized Market Development

One objective of the Phase One study was to investigate the market potential for the development of specific resources and facilities in Iceland, 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. The study concluded that, while skiing and fishing offered limited prospects for attracting additional special interest visitors, and while a new resort spa would provide strong support to Iceland's overall tourism development program, the greatest potential was with conventions and, in particular, conventions which could be attracted to Iceland during the spring and fall of the year.

The term convention tourist is used to describe a member of any group that meets formally and in a specific location to pursue a common interest, be it business, religion, education, government, profession, or avocation. The market is a massive one, and is among the few travel markets on which the current world economic situation does not appear to have had any significant negative impact. It is estimated that U.S. business firms conduct nearly 400,000 meetings a year in public places, 20,000 of which take place outside the continental United States. About 10,000 American trade and professional organizations hold national conventions or trade shows each year, as do nearly 4,000 international associations. Moreover, these figures do not take into account the thousands of members of local and regional associations who come together on a regular basis, nor do they include meetings sponsored by European or other non-U.S. business corporations.

In the Phase One analysis, it was estimated that development and promotion of conventions in Iceland could draw up to 5,000 visitors within five years, and as many as 10,000 a few years thereafter. In 1972, the year the analysis was conducted, about 2,700 foreigners came to Iceland as meeting participants. The great majority of these visitors were representatives of Nordic groups which hold their meetings in June, July, or August.

Information available on conventions held in Reykjavik since 1972 indicates that the number of foreign meeting participants is increasing, but that little has been done to alter patterns of seasonality or to broaden Iceland's market base to include North American and non-Nordic European groups. Of the 20 conventions booked by the Loftleidir Hotel for 1975, for example, 17 will take place between June 1 and August 19.

Iceland's airlines have, however, been trying to promote conventions, particularly in Great Britain where they are cooperating with Lep Travel Ltd. to sell off-season packages at very reasonable all-inclusive rates. This promotion began in 1974, and to date two conventions have been scheduled in response. Information about Iceland as a convention destination has also appeared in the U.S. trade press. Nevertheless, there is still no single body responsible for promoting, scheduling, and servicing conventions in Iceland. Provided that such a body can be established, on the government level and with the objective of attracting those groups which meet in the spring and fall, there continues to be good reason to assume that Iceland can attract 10,000 or more convention participants per year after five or ten years of successful experience.

## E. Targets for Future Growth

The Phase One study proposed a 12 percent rate of growth in foreign visitor arrivals to 1980 as a target that was considered to be sufficient to attain significant economic benefits, but not so high as to cause adverse impact on Iceland's environment or culture. This target was judged to be attainable if adequate facilities and services could be made available, and specific development plans were presented to meet that anticipated need.

Since 1972, rising rates of inflation, falling real incomes, energy shortages, and sluggish economies have weakened the demand for international pleasure travel on both sides of the Atlantic. The resulting uncertainty has led some governments to review their forecasts for tourism growth. Although the annual air traffic growth rate on the North Atlantic averaged 18 percent from 1961 to 1972, a recent study by the European Travel Commission 1/ predicted that growth in 1975 and 1976 would be limited to five to seven percent per year under the most optimistic circumstances; under the least optimistic circumstances, their projection was negative, approaching minus five percent.

It is still too early to tell what the longrun effects of the current economic upheavals will mean for tourism in Iceland, although the decrease in numbers of arrivals in 1974 compared with 1973 is disquieting. Equally disquieting is the drop off in Loftleidir's transatlantic passenger volume since 1972, especially since air traffic trends have historically borne a close relationship to trends in visitation to Iceland. Moreover, Loftleidir's future as the tourist's lowest-cost solution to air transportation between North America and Europe may soon be in jeopardy with the anticipated introduction of Laker "Skytrain" service between New York and London this summer. Any further reduction in the number of travelers landing at Keflavik en route between the United States and Luxembourg is likely to have a negative impact on stopover traffic, which now accounts for about 25 percent of all overseas visitors to Iceland.

In view of the many uncertainties surrounding the future of tourism in those markets which have traditionally generated 90 percent of Iceland's visitor arrivals, it is our judgment that a more realistic target for tourism growth through the end of the decade would be eight, rather than twelve, percent. In Exhibit V-4, this revised growth rate has been applied to 1974 data to forecast visitors to Iceland in each year up to and including 1980. Assuming these targets can be met, Iceland must be prepared to accommodate 108,700 visitors in 1980 compared with 68,500 in 1974 -- an overall increase of 58.7 percent. It is important to note that this projected increase is considerably lower than that which was used in the Phase I study to estimate requirements for new tourism facilities and services in Iceland.

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1/ As reported in The Travel Agent, September 8, 1974, page 4.

EXHIBIT V-4

PROJECTED INCREASE IN NUMBER OF VISITORS

AT EIGHT PERCENT ANNUAL GROWTH RATE

COMPOUNDED FROM 1974

| YEAR | TOTAL TOURISTS 1/ |
|---|---|
| 1974 (actual) | 68,500 |
| 1975 | 74,000 |
| 1976 | 79,900 |
| 1977 | 86,300 |
| 1978 | 93,200 |
| 1979 | 100,700 |
| 1980 | 108,700 |

1/ Rounded.

F. The Local Market

Any official policy of encouraging tourism to Iceland should be based on the premise that use by foreigners of certain facilities, however minimally, contributes to Iceland's ability to provide these facilities for its own citizens. Conversely, local utilization of accommodations built primarily to attract foreign tourist dollars can help to reduce seasonal peaks and improve year-round occupancy levels by providing the secondary or off-season support that is often required for a project to be a financial success. Moreover, it is important to recognize that tourists in general prefer to be a part of the local scene, and may shy away from attractions and special events which are frequented exclusively by foreign visitors. Thus the market for almost any tourism product will include segments of the local population as well as travelers from overseas.

Iceland's population is small - about 215,000 people - but its propensity to travel is among the highest in the world. In 1974, Icelanders made approximately 55,000 journeys abroad. The rate of departures has more than doubled over the past five years, and increased by 17.4 percent in 1974 alone. At least part of this growth has been in response to the large number of low-cost tour packages to European sun, sand, and sea destinations being offered by local travel agencies, and at least part to the fact that in many cases it is cheaper to vacation overseas than to stay at home in Iceland.

The typical Icelander is entitled to four weeks paid vacation each year. For those who travel abroad, the most popular months are August and September, followed by July and June. Last year, nearly 60 percent of all departures by Icelanders for overseas occurred during these four months. In fact on a single day in August, more than three percent of the country's population was out of the country.

In an attempt to discourage lengthy stays by its citizens abroad, the Central Bank of Iceland has recently tightened up restrictions on foreign travel allowances. Whereas before an Icelander could prepay the land portion of his tour in local currency and still be entitled to the full amount of his allowance in foreign exchange, he is now required to deduct prepaid land costs from his total entitlement. 1/ The effect of this restriction will no doubt be to shorten length of stays and limit expenditures in foreign countries, rather than to reduce the number of overseas trips per se, as travel agents can adapt to the changing demands of the marketplace by promoting tours priced to fit within the tourist's foreign currency budget.

Unless further restrictions are imposed on foreign pleasure travel, it is unlikely that the introduction of new tourist attractions and facilities in Iceland will do much to diminish the high propensity for overseas travel. It should be remembered, however, that the majority of Icelanders do not vacation abroad, and those that do generally spend no more than half their vacation days at foreign destinations.

Unfortunately, little statistical information exists on the extent and patterns of domestic travel in Iceland. Icelanders do, of course, use the city and island hotels, particularly during the off-season when rates are comparatively low. In the Phase One report, it was estimated that local utilization of accommodations in Reykjavik accounted for 31,000

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1/ The foreign travel allowance granted to residents of Iceland is equivalent to $250 per year at current rates of exchange. For children, the allowance is half this amount. In the event of a second journey in the same year, a supplementary allowance is given equal to 50 percent of the initial allowance.

room nights in 1972, or about 25 percent of total occupancy in that year.

One good indication of trends in local expenditures on leisure activities is the sale of admission tickets at liquor-licensed establishments. Approximately 571,000 such tickets were sold in Reykjavik restaurants in 1974, and another 66,500 sales were reported by establishments outside the capital city. The volume of sales, however, has increased by only 1.2 percent since 1972, which suggests that the market for such facilities is a relatively stable one, and that prospects for growth may be limited. As was pointed out in the Phase I report, the Icelandic market cannot be expected to expand at a rate comparable to foreign tourism. The standard of living in Iceland is one of the highest in the world, and most of its citizens who have the desire to travel are already doing so. Nevertheless, there is potential to increase both the frequency and the amount of local expenditures on leisure and tourism, as well as to reduce the concentration of the expenditures in the Reykjavik area. The facilities, product design, and marketing strategies that will be required to realize this potential are discussed in the following sections.

## I.2 FACILITIES STRATEGY

### A. General Remarks

The revised market targets presented in the section on market strategy are predicated on the assumption that the supply of tourist facilities will be kept in balance with demand both qualitatively and quantitatively. This section considers the nature and extent of new accommodations, attractions, transportation services, and travel facilitations that will be required to maintain this balance through 1980.

The Phase One report estimated the average length of stay of foreign visitors to Iceland in 1972 at 4.9 nights in-season and 2.7 nights off-season. More than two-thirds of all visitor nights were concentrated in June, July, and August; one third stemmed from package tours as opposed to independent travelers; nearly two thirds were spent in Reykjavik hotels, one fourth in other hotels on the island, and one sixth in campgrounds, cottages or shelters.

For purposes of this analysis, it is assumed that identical patterns prevailed in 1974. It is further assumed that a strong tourism development program will help to alter these patterns toward more favorable ones in the future. Among the objectives of this program will be 1) to improve the ratio of in-season to off-season visitor nights by actively promoting off-season business, and 2) to reduce the percentage of total visitor nights that are spent in Reykjavik hotels by providing new packages and attractions which will draw more people out of the capital city.

Exhibit V-5 shows an estimate of the distribution of foreign visitor nights spent in Iceland in 1974 and a planning projection for 1980. The planning projection reflects a re-apportionment of visitors upward by ten percent in the off-season, and a re-apportionment of visitor nights spent in accommodations by ten percent in favor of camping and island hotels in-season and by five percent off-season.

EXHIBIT V-5

ESTIMATED TOURISM PATTERNS IN ICELAND IN
1972 AND PROJECTIONS FOR 1980

| | 1974 | | 1980 | |
|---|---|---|---|---|
| | Total | Percent | Total | Percent |
| Visitors | 68,500 | 100.0 | 108,700 | 100.0 |
| In-season[1] | 37,000 | 54.0 | 53,700 | 49.4 |
| Off-season | 31,500 | 46.0 | 55,000 | 50.6 |
| Length of Stay | | | | |
| In-season | 4.9 | | 4.9 | |
| Off-season | 2.7 | | 2.7 | |
| Visitor Nights in Accommodations (in-season) | 181,300 | 100.0 | 263,100 | 100.0 |
| Reykjavik Hotels | 85,000 | 46.9 | 109,500 | 41.6 |
| Island Facilities[2] | 96,300 | 53.1 | 153,600 | 58.4 |
| Visitor Nights in Accommodations (off-season) | 85,000 | 100.0 | 148,500 | 100.0 |
| Reykjavik Hotels | 80,000 | 94.1 | 139,300 | 93.8 |
| Island Facilities | 5,000 | 5.9 | 9,200 | 6.2 |

[1] June, July and August

[2] Island hotels and camp facilities.

If this planning projection can be achieved, the total number of visitor nights spent in Iceland in 1980 will be 411,600, compared to 266,300 in 1974. Assuming that seasonal patterns for length of stay do not change, 64 percent of these nights will be in June, July and August, and more than three out of every five will be spent in hotels and campgrounds outside the Reykjavik area. Visitor nights in island facilities in-season are projected to grow by 60 percent, more than double the expected rate of increase for nights in Reykjavik hotels.

The modification of existing patterns of tourism in Iceland in the direction shown in the planning projection for 1980 would have several advantages. First, it would eliminate the need for construction of extensive new hotel facilities in Reykjavik at a time when off-season occupancy levels in existing facilities are felt to be less than satisfactory. Second, it would help to improve summer occupancy rates at island hotels, where there is now considerable unused capacity. Third, it would broaden the distribution of tourism job and income benefits by dispersing more visitors to more regions of the country.

Such benefits will not be realized, however, until certain new facilities and services are made available to tourists. The kinds of improvements and additions to Iceland's tourism plant that will be required to encourage and accomodate new patterns of tourism are described in detail below.

## B. Accommodations

Exhibit V-6 shows a breakdown of Iceland's hotel plant in 1974. There are 86 hotels open in the summer, of which 11 are in Reykjavik and 75 in other regions of the country. These hotels have a total of 2,072 rooms and 3,085 beds. Outside Reykjavik, the largest numbers of rooms and beds are in summer hotels, mainly boarding schools. It should be noted that the size of the total plant remains essentially unchanged from 1972, when the Phase One study was completed.

EXHIBIT V-6

ICELAND HOTEL PLANT - 1974

| Region | Hotel Type | Number Hotels | Number Rooms | Number Beds |
|---|---|---|---|---|
| I Reykjavik | All year | 10 | 664 | 1,238 |
| | Summer | 1 | 90 | 150 |
| Subtotal-Reykjavik Hotels | | 11 | 754 | 1,388 |
| II Borgarfjordur | All year | 3 | 46 | 92 |
| | Summer | 1 | 30 | 58 |
| | | 4 | 76 | 150 |
| III Snaefellsnes | All year | 3 | 26 | 54 |
| | Summer | 2 | 26 | 52 |
| | | 5 | 52 | 106 |
| IV Western Fjords | All year | 6 | 43 | 80 |
| | Summer | 2 | 30 | 64 |
| | | 8 | 73 | 144 |
| V Northwest | All year | 6 | 48 | 98 |
| | Summer | 6 | 132 | 257 |
| | | 12 | 180 | 355 |
| VI Akureyi | All year | 4 | 72 | 143 |
| | Summer | 3 | 122 | 244 |
| | | 7 | 194 | 387 |
| VII Northeast | All year | 4 | 98 | 197 |
| | Summer | 3 | 55 | 96 |
| | | 7 | 153 | 293 |
| VIII East | All Year | 12 | 134 | 260 |
| | Summer | 4 | 101 | 216 |
| | | 16 | 235 | 476 |
| IX South | All year | 6 | 57 | 110 |
| | Summer | 8 | 268 | 528 |
| | | 14 | 325 | 638 |
| X Vestmann Islands | All Year | 1 | 30 | 58 |
| Subtotal-Island Hotels | All Year | 43 | 454 | 900 |
| | Summer | 35 | 746 | 1,560 |
| | | 78 | 1,200 | 2,460 |
| Grand Total | All Year | 55 | 1,218 | 2,330 |
| | Summer | 31 | 884 | 1,665 |
| | | 86 | 2,072 | 3,995 |

Source: Ministry for Communications.

A comparison of room occupancy rates in the major Reykjavik hotels in 1971 and 1974 is presented in Exhibit V-7. In 1974, the average year-round rate was 57.6 percent. This is approximately three percent lower than 1971 utilization of rooms in the same hotels. The decline could reflect any number of factors, including a drop-off in utilization of hotel rooms by Icelanders, an increased availability of small guest houses in Reykjavik whose occupancy rates are not included in the statistics, a trend toward shorter lengths of stay in the capital city, or the fact that the Loftleider Hotel had only 109 rooms through May of 1971, whereas it now has 218.

The exhibit also shows that Reykjavik hotels have experienced an above-average decline in occupancy rates during the high season. Rates during the winter months (December, January, and February) have actually increased, indicating some growth in both foreign and local off-season utilization.

While the problem of saturation of facilities in the summer season appears to have been somewhat alleviated since 1971, it is certain to surface again if the number of foreign visitors to Iceland grows as targeted. Even if patterns of tourism can be changed in the manner described in the planning projection (see Exhibit V-5), there will still be a requirement for additional accommodations in Reykjavik in the summer of 1980.

It is estimated that the capital city will need a total of about 1,000 rooms in facilities of all types in 1980 in order to accommodate anticipated flows of foreign and Icelandic visitors during the peak months of that year. This estimate was derived from the planning projection in Exhibit II-5 by assuming that hotel room demand would be approximately equal in all three months, and by allowing a margin of 30 percent for local use and unavoidable vacancies. At the present time, there are about 750 rooms in the city, exclusive of boarding houses and camping facilities. The target for development, therefore, is approximately 250 new rooms.

It should be noted that this target falls substantially short of the 1,000 room requirement that was foreseen for 1980 in the Phase One study, for several reasons. First, growth targets have been adjusted downward from 12 to eight percent. Second, it is felt that adequate planning and promotion can succeed in attracting a larger percentage of total visitors outside of the Reykjavik area than had originally been anticipated. Third, the ratio of in-season to off-season utilization by foreign visitors has been projected at 11/14, in contrast to the 7/6 ratio used in the initial study. These three factors combine to reduce the required increase in accommodations capacity by 75 percent, a reduction which should be

EXHIBIT V-7

ROOM OCCUPANCY RATES OF MAJOR REYKJAVIK HOTELS
1971 AND 1974

| YEAR | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1971 | 35.8 | 46.8 | 57.6 | 59.5 | 70.7 | 80.8 | 81.4 | 87.7 | 68.2 | 53.5 | 54.3 | 31.3 | 60.5 |
| 1974 | 38.9 | 50.2 | 54.3 | 49.1 | 65.6 | 70.0 | 78.5 | 81.8 | 67.9 | 48.1 | 52.4 | 35.7 | 57.6 |

Source: Ministry of Communications

greeted with enthusiasm by Icelandic tourism planners confronted with what is at present an unfavorable climate for private investment in new Reykjavik hotels.

Since most, if not all, of this additional capacity will be needed only during the high season months of June, July, and August, the most practical solution is that which is now being followed elsewhere in Iceland. This is to convert rooms that are used for other purposes between September and May into hotel rooms during the summer, thereby achieving almost 100 percent utilization of the facility year-round.

One possible application of this solution would be to include multi-purpose accommodations in the design of the proposed geothermal research center, thus enabling rooms in use by resident and visiting scholars and research personnel over the nine-month university year to be made available to tourists in the summer months. The number of units feasible would be a function of the initial size and growth potential of the research center, as well as its calendar for research activities and seminars. As suggested in the Phase One study, additional hotel rooms could also be supplied by converting bedrooms in Reykjavik boarding schools into dormitory summer hotel facilities.

Outside of Reykjavik, there is considerable unused capacity of accommodate additional numbers of foreign and Icelandic visitors during June, July, and August. To improve the utilization of rooms in island hotels and boarding schools, it is recommended that a central booking office be established and that tour departures be coordinated to help eliminate the kind of massing problems that result in rooms being fully booked one night and virtually empty the next. It is also suggested that private toilet/shower facilities be added to as many existing rooms as possible.

Additions to the island hotel plant can be provided, as and where required, either by converting new boarding school accommodations into summer hotels, preferably with private bathrooms, and/or by constructing overnight facilities as part of or near the mini-museums recommended for the Natural History Display Network. These structures should be simple, self service type facilities, providing shelter and basic amenities at a cost of no more than $5,000 (Ikr. 750,000) per room, so that they can be operated at satisfactory profit levels based on a three- to four-month season. Their location would be dependent on the supply of and demand for new accommodations along regional tour circuits developed in conjunction with the mini-museum program.

There is also a need for addition sanitary facilities with adequate provision for sewage treatment at highland campgrounds. Some progress has already been made in this regard by the Touring Club of Iceland, which has installed simple toilet facilities at selected camping sites. As suggested in the Phase One report, consideration should also be given to constructing more shelters along highland tracks where campers could be protected from the elements. Similar shelters might also be placed at new sites accessible from major roads for use by campers touring the island by car or minibus.

In summary, an accommodation strategy for Iceland must recognize capital limitations that are likely to be a fact of life for some time to come. At the same time, if tourism is to grow at the target rate of eight percent, supply must be kept in balance with demand. It is therefore recommended that tourism development authorities approach the problem of saturation of facilities in the summer season by planning and promotion designed to: (1) draw more visitors out of Reykjavik and thereby improve the utilization of island hotels; (2) encourage the construction of multi-use facilities in Reykjavik which can be converted to hotel rooms during the summer months; and (3) include simple accommodations structures in the program of selected mini-museums on the proposed Natural History Display Network.

## C. Transportation

With two flag carriers providing service to Europe and across the North Atlantic respectively, Iceland has always had excellent international air service. Since the Phase One report was completed at the beginning of 1973, however, the total number of flights provided during the summer season has declined by about 15 percent, and Pan American and British European Airways have both suspended service to Iceland. Aside from Scandinavian Airlines, which continues to stop at Keflavik four times a week en route between Copenhagen and Greenland, all scheduled flights to Iceland are now operated by Loftleidir and Icelandair which in 1974 were consolidated by a holding company called Flugleida.

The recent reduction in scheduled service is due in part to improved coordination by Loftleidir and Icelandair on European routes, and in part to a sharp decline in numbers of passengers flying the North Atlantic; Loftleidir's transatlantic volume declined by 27.2 percent between 1972 and 1974. While there are no direct flights to countries in middle and southern Europe (other than Frankfurt), Iceland's airlines continue to fly to the major population centers of northern Europe and Great Britain, including Oslo, Stockholm, Copenhagen, London, and Glasgow. In 1974, Loftleidir initiated non-stop service between Chicago, Keflavik, and Luxembourg, thereby opening up the large Midwest American tourism and convention markets for future development by Iceland.

Scheduled passenger transportation by ship was discontinued to and from Iceland early in 1974, when the Gullfloss was retired from service. While the country is now completely dependent on the airlines for non-freight transport, there are plans to introduce an oceangoing car ferry on a route which will connect eastern Iceland with the Faroe Islands and Bergen, Norway. The ferry will make one round-trip per week during the summer months, and will certainly be popular with Icelanders who, until now, have not been able to bring their own vehicles onto the European mainland. It also suggests good possibilities for the development and promotion of air/sea tours integrating travel to Iceland, the Faroe Islands, and Scandinavia.

In addition to its international schedule, Icelandair maintains an adequate network of domestic services connecting Reykjavik with most other population centers in Iceland. Last winter, the airline began to offer reduced rate weekend packages combining airfare and accommodations for three or four days in Akureyri, Egilsstadir, or Vestmannaeyjar. It is hoped that this promotion can be made available on a continuing basis, and possibly expanded to include other destinations on the island.

At present, there is an ample supply of tour buses, taxis, and rental cars in Iceland, 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 of new tour circuits, attractions, and facilities.

## D. Attractions

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 at various locations in Iceland which will help to improve tourists' perceptions of the country and will be of permanent value to Iceland's citizens. Book Three of this report provides a list of some of the unique geological, geophysical, natural, and historical features of Iceland that could be included in regional display networks. It is emphasized that the list is a partial one, and that the total number of displays will depend more on cost factors and the willingness of local and regional groups to build and administer the museums than on the availability of material for display.

A prototype circle tour has also been developed for the Akureyri, Husavik, and Myvatn area of northern Iceland in order to illustrate the concept, which is itself based on the premise that the most compelling way to present the unique resources of Iceland is to encourage visits to the country's most important sites, supplemented with information on their natural or historical significance.

The proposed geothermal research center would also be an important addition to Iceland's inventory of tourist attractions, particularly among special interest visitors such as educators, geologists, environmentalists, and engineers. General purpose tourists as well should be drawn to the institution to learn more about its programs, research activities, and focus on developing alternative sources of energy for a world plagued by energy shortages. It should be noted that properly organized tours of comparable facilities in the United States draw large numbers of visitors each year because they help to satisfy many travellers' urge to learn and provide an educational experience for themselves and/or their children.

Attention also needs to be paid to providing more centers and activities for evening entertainment, especially in Reykjavik where there is little for visitors to do on weekday nights once they have had dinner and a few drinks. Folk dances, theatrical performances or sound and light shows dramatizing the Icelandic sagas, and night tours by boat or bus are possibilities for development. During the summer months, the Visitor Center on the Austurstraeti should maintain a program of evening activities, including films and illustrated lectures designed to enrich tourists' knowledge and understanding of Iceland.

New festivals, competitions, and special events should be devised and promoted as a way of attracting visitors as spectators and participants. It is important to remember that special events cannot be promoted for their foreign visitor content alone, but must have a strong measure of Icelandic participation if they are to avoid being designated as "tourist traps." Icelanders already take part in a number of annual events which could be packaged and marketed abroad, including the sheep roundup and celebrations of the first days of summer. Other possibilities might be fishing, golfing and skiing competitions, a Viking festival, and classic film weeks.

E. <u>Travel Facilitations</u>

Tourism facilitations 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, and along hiking trails as well. Clearinghouses 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.

The establishment of a new Visitor Center on the Austurstraedi mall in downtown Reykjavik will fill Iceland's need for a centrally located facility to inform and serve its visitors. The Center will be equipped to book places on regularly-scheduled tours, as well as to advise and assist tourists who wish to arrange special itineraries. It must also be prepared to find accommodations for those who arrive in the country without confirmed reservations, or who decide to extend their length of stay. The key to the Center's success will be personalized service of such quality that it will leave the tourist with a lasting impression of Iceland as an interesting and friendly place to visit.