

**Address by Mr. Össur Skarphéðinsson,
Foreign Minister of Iceland,
at the seminar „Is the Euro the Solution“
marking the re-establishment of the
Icelandic-French Chamber of Commerce**

Madame Vigdís, ambassador Bouteiller, ladies and gentlemen.

It is a pleasure to be with you this morning, and a distinct privilege to share with you a few remarks on the topic of the day, not least in the presence of such a distinguished speaker as our guest of honour, Mr. Silguy.

I want to use the opportunity to congratulate you all, not least the Ambassador, on the relaunch of the Icelandic-French Chamber of Commerce.

Indeed, Iceland and France share a long trading history. For centuries very brave fisherman from Pompol, Dunkerque and various fishing communities in France set sails to Iceland and formed a special relationship between our nations that till this day have endured. No doubt they left with good memories, a lot of cod, but the genetic suspicion remains that they also left the Icelandic blood with a valuable chunk of creative latin and bretonic genes.

I am not sure whether it reflects French boldness, or ingenuity, to ask a fisheries biologist like myself to open such a distinguished meeting on a matter of great economic importance, such as the euro.

Needless to say, it makes perfectly good sense to me. The fate of the euro is decided by the markets. The markets always move by the same instincts as a large shoal of small fish – greed and fright. Lately they act like a shoal that is hunted by a herd of killer whales.

You ask quite a big question: Is the euro the solution?

Almost every day the Anglosaxon press, that dominates the Icelandic media - who appears to only read English – announces the imminent death of the euro.

I don't have a death wish, and I shall use my brief remarks to explain why I believe the euro not only will endure, but finally prosper, despite the present problems.

First, the euro is made of some pretty tough stuff. Despite all its woes and predicament for two years, at the beginning of last August the euro still stood 6,5 % stronger than the dollar, and from its inception has on average been 4 % stronger than the noble American dollar.

That's not a bad performance of a currency that is about to be buried.

Secondly, let's look at the place we're in, good old Iceland. We were the first country down. But we were also the first up. What cut us apart from those countries in the eurozone that also were hit by difficulties?

We accepted an economic plan, and Iceland stayed the course. We swallowed all the bitter medicine prescribed. Europe hasn't stayed the course. We - now along with Ireland and Portugal - have demonstrated that if you have the political courage and leadership to follow the prescribed plan, you will be delivered.

Thirdly, although Europe has the plan individual countries - so far at least - have lacked the political stamina to implement it. In the last few weeks Europe, however, finally seems to be finding her steel. As a more frequent visitor to Brussels than I care to remember I have had the privilege to follow her developments quite closely and it is my belief that finally Europe is finding the courage and leadership needed to solve her problems.

Of course, only time - or perhaps Mr. Silguy - can tell. But the ruling of the constitutional court in Karlsruhe last week perhaps is a reflection of this. Certainly, a much stronger confirmation is the recent statement of Mr. Draghi, that the ECB will do whatever it takes to put the eurozone in order.

Fourthly, there is a bunch of reasons, political and economic, too many to recount, why Europe cannot afford to, and will not, let the euro break down.

So in the spirit of Mark Twain, I would suggest that reports of the imminent death of the euro are somewhat exaggerated.

In fact, I am very convinced that the euro will survive, and emerge a stronger currency, on a stronger foundation, than it was before.

And please bear in mind what the Icelandic grandmothers always used to say: What doesn't kill you will make you stronger.

Finally, a few thoughts on whether the euro is the solution for Iceland.

We have just this week had a long awaited 620 pages report from the Central bank on the currency issue.

It very eloquently addresses the three possible paths for Iceland: The euro, the króna in some stronger armour, and the adoption of a third currency, which in Iceland in effect means the Canadian dollar.

Well, I always considered the Canadian adoption a bit of an absurdity for many reasons. An eminent Canadian economist coined it well, when he said that whilst the Canadians sure loved Iceland perhaps it would be better for both if we opted instead for the Australian dollar. Why not? Why not the New Zealand dollar?

The report puts this fanciful idea to a long deserved rest.

It also points out, rightly, that regardless of whether Iceland becomes a member of the EU or not, we will have to use the króna for quite some years.

In a difficult environment the Central Bank is to be admired for its ability to dance like a Nureyev or a Fountain, and in a ballet of nimble diplomacy it effectively says the jury is still out, and that it is too early to state, whether the króna, or the euro, will in future be the Icelandic solution.

You may already have noticed that I'm not a ballet dancer. But I'm a careful reader. I read the following from the report of the Central Bank:

First, the greatest advantage of the floating króna has been assumed to be the ability to act as a buffer against economic fluctuations. Yet, the report devotes a whole chapter to demonstrate that economies with floating currencies appear not to have any less fluctuations than those with a fixed rate of exchange. Hence, the argument most often used in favour of the króna may not be as valid as previously thought.

Some of you may then with a whiff of disbelief ask if the króna didn't assist in absorbing the shock of the banking collapse of 2008? Well, if it did, it also contributed to that very crisis – to quote the Central Bank Director in a recent interview.

Secondly, the report repeatedly states with reference to impressive research done by, among others the Chief Economist of the Central Bank, that the króna is not

a defender against fluctuations, but is itself a source of fluctuations. The króna isn't a buffer, it is an amplifier.

Thirdly, the report of course points out that due to the present difficulties it wouldn't be advisable to adopt the euro anytime soon – but that anyhow is not on offer.

But even a humble fish biologist doesn't need to read between the lines of the report to understand that in a future, where these problems have been laid to rest, the advantages of the euro would be considerable for Iceland.

Apart from the possibility of lower rates, larger markets, increased stability, lower prices, less inflation, the report gives reasons to expect that membership of the monetary union would permanently increase the Icelandic GDP by 20 to 160 billion króna's, it will reduce the cost of business by 5-15 billion each year, and in addition it will save us heaps of króna's by making a large currency reserve redundant.

Ladies and gentlemen,

Only time will tell how the Icelandic public finally will decide the objective contest between the króna and the euro in the next few years.

I'm not a boxer, but if common sense prevails, I know what term Muhammad Ali most likely would use for the outcome.

I'm not, however, going to offend anyone's sensitivities by using it, - but I leave you, respected audience, with no doubts about my answer to today's question.

Thank you for you beautiful silence.