

Reykjavik, October 31st 2008

Sir,

Björk, energy and aluminum in Iceland

Björk, the famous Icelandic popstar, wrote an article appearing in the *Times* on October 28, on the financial crisis in Iceland, the Icelandic energy sector and aluminum industry. Björk cares deeply for Iceland and its nature, as do all Icelanders, but unfortunately some misunderstanding and misleading arguments are evident in her article, which I would like to correct and comment on.

Sensible and sustainable use of renewable energy resources has been one of the foundations for Iceland's economy for over half a century. With the collapse of the banking system, it has become even more important than before for the Icelandic nation of 300,000 people to use its natural resources in a sensible and sustainable manner. We are doing just that.

Hot water utilities and hydroelectric power plants satisfy nearly 100% of energy needs for the production of electricity and the heating of buildings in Iceland. 80% of all energy used by Icelanders is renewable. The European Union, by comparison, has the goal of getting this ratio up to 20% in 2020.

Aluminum manufacture is one of the most efficient ways to create export value from Iceland's renewable energy resources. Currently about 80% of electric energy production in the country goes to energy-intensive industries, which use renewable energy exclusively. The emission of greenhouse gases from the aluminum industry in Iceland is one of the lowest in the world, and the industry operates under the most stringent environmental regulations there are. If aluminum manufacturing were done elsewhere, with energy generated from the combustion of coal or oil, the emission of greenhouse gases would be up to nine times greater than here. Iceland's use of renewable energy sources is an important contribution to the fight against the global greenhouse effect.

For decades the Rio Tinto Alcan smelter in SW-Iceland has been an important economic cornerstone in the capital area. More recent build-up of the aluminum industry in rural areas has been especially important because of decreasing fishing quotas and contraction in other traditional occupations. In West and East Iceland, the build-up of two aluminum smelters by Century Aluminum and Alcoa, respectively, has revitalized the local economies and created opportunities for young and well-educated people to work and live. Other companies in various sectors have flourished, and culture has boomed. In a recent poll conducted by Capacent in Iceland, 78% of those answering considered the aluminum industry to have a positive effect on the Icelandic economy.

Björk is right that our business environment has not been very favourable towards high-tech entrepreneurs. The Federation of Icelandic Industries has for many years voiced its concerns over this fact because a large majority of Icelandic high-tech companies and start-ups are members of the Federation, as is the aluminum industry. However, the unfavourable environment is not due to the expansion of the aluminum industry but rather to wrong monetary policy, an abnormally strong krona and high interest rates. So contrary to Björk's conclusion, there is no reason whatsoever that high-tech companies and the aluminum industry cannot coexist and flourish.

The aluminum industry in Iceland employs more than 1,500 people, and through derivative employment more than 3,000 people work directly or indirectly in the aluminum industry in Iceland. Forecasts call for aluminum to generate 30% of Iceland's much needed export revenues this year. For every Icelandic krona of revenue generated by the aluminum companies, 30-40% remains in Iceland as wages, taxes, and payments for electricity as well as other local goods and services.

The Icelandic Parliament passed the Act on Environmental Impact Assessment in 1993. Since then, all major construction projects in Iceland have been subject to environmental impact assessments. Since 1993, two aluminum smelters and a number of power stations harnessing renewable energy have been built in Iceland, all of which have been subject to extensive assessments of environmental impact, as required by law. Iceland is a member of the European Economic Area and, as such, has the same stringent environmental impact assessment process for all industrial development as the EU. I can assure your readers that the aluminum companies operating in Iceland have no interest in ignoring an environmental impact assessment for planned projects in Iceland.

Björk says that two planned aluminum smelters in Iceland would need "...energy from a handful of geothermal power plants and the building of dams that would damage pristine wilderness, hot springs and lava fields." The fact is that the Icelandic energy companies have no plans to construct dams to supply energy in connection to the possible construction of those two smelters. Plans call for both of them to use electricity produced by green power stations harnessing geothermal energy.

Iceland has pioneered in the use of geothermal energy. One of the more exciting research and development projects growing out of build-up in this area is the Icelandic Deep Drilling Project. It is a pilot project aimed at drilling to depths of 4 to 5 km (13,000-16,000 ft) in order to reach water with temperatures of 400-600°C. The project is led by a consortium of Icelandic energy companies, with support from various other companies and institutions, for example, Alcoa. The aim of the project is to produce up to ten times more electricity from each geothermal well than from those now in service around the world. This is just one example of how research and development within the Icelandic energy sector, which has been able to grow and prosper due to sales of electricity for the manufacture of aluminum, could lead to a major step forward for the energy business of the world. What could be greener than that?

Yours faithfully,

Signed

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