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WITHDRAWAL

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1. (C) Summary: A year after the closure of U.S. Naval Air Station



Keflavik and the withdrawal of permanent U.S. forces from Iceland, Post agrees with Prime Minister Haarde that the turnover went better than either party expected. After recovering from the initial shock of our base closure notification in March 2006, the Icelandic Government has solidified its defense links with its neighbors and within NATO, successfully hosted U.S. and NATO ship visits as well as a multinational air defense and counterterrorism exercise, strengthened its Coast Guard in resources and in international ties, and begun canvassing for NATO air policing support. Former base properties now house university students and academic research centers. Although several difficult issues remain -- intelligence cooperation and the future of the air defense radar system among them -- they are partially due to domestic political considerations, and will be solved as the new coalition government settles in. With climate change, a likely increase in North Atlantic energy shipments, a new focus on Arctic resources, and a more visible Russian presence, the High North could easily reemerge as an area of high strategic importance in the decades ahead. U.S. interests in the region will be well served by encouraging Iceland to continue to develop its security and defense capabilities while we keep our defense options--including access to the base--open. End Summary.

From protests to robust joint efforts

2. (C) When we notified the Icelandic Government in March 2006 of the decision to close U.S. Naval Air Station Keflavik (NASKEF) in six months, bitter disappointment and, in some quarters, outrage were evident. Commentators predicted the end of the bilateral relationship and opined that the 1951 U.S-Iceland Defense Agreement was now worthless. Former Prime Minister David Oddsson let it be known that had he been in office, he would have immediately abrogated the treaty and ejected the U.S. military ahead of the September deadline. Minister of Justice Bjorn Bjarnason, considered by many the most pro-U.S. and pro-NATO member of the cabinet, acidly questioned U.S. dependability in defense matters.

3. (SBU) A year after NASKEF's closure, the state of the bilateral relationship is quite different from the gloomy predictions. This past August, Prime Minister Haarde told former lead negotiator ASD Tom Hall and Commander U.S. Air Force Europe (USAFE) General Tom Hobbins that "no one could have imagined a year ago how well things would turn out." Negotiations in 2006 resulted in a technical agreement to close the base and a political Joint Understanding pointing the way forward. The continuing defense relationship was then made visible to the public by cooperation on two major ship visits, a search-and-rescue training visit by a U.S. P-3 aircraft, and a large-scale multinational air defense and counterterrorism exercise. Links between the Icelandic and U.S. Coast Guards -- both bilaterally and within the newly-formed North Atlantic Coast Guard Forum -- continue to grow in depth and breadth. Exchanges in law enforcement training and operational information have shown results in counter-narcotics and document fraud detection work. Politically, we have worked together at NATO to gain consensus on a peacetime air defense plan for Iceland; transferred Iceland's air defense radar system and are nearing completion of future support arrangements; and



held the first round of high-level Security Dialogue consultations as outlined in the Joint Understanding.

Looking beyond the bilateral relationship

4. (C) Outside the bilateral field, PM Haarde has pressed ahead with a strategy of greater engagement with Iceland's neighboring NATO Allies. In early 2007, Iceland signed agreements with Norway and Denmark on increased defense and security cooperation, and began talks with the UK and Canada along the same lines. Despite a change in government (and Foreign Minister) in May, the GOI has continued to flesh out the earlier agreements. These efforts have resulted in increased visits by Danish Navy and Coast Guard vessels, as well as the participation of Norwegian and Danish forces in the NORTHERN VIKING air defense and counterterrorism exercise in August 2007. Norway was among the first NATO Allies to show interest in providing aircraft for air policing in Iceland. MFA efforts to secure periodic air policing represent a welcome change in Iceland's traditional approach to defense: a recognition that Iceland must assume more responsibility and, to accomplish this, must be more active within the Alliance in promoting its own affairs. The recent MFA briefing for all resident NATO ambassadors on air policing was a first: a true lobbying effort directed at capitals. The brief was a shrewd sales pitch, including pledges of significant host nation support for the mission, which would be funded out of the first-ever defense budget in the Icelandic government's history. This budget (\$8.6 million of a total GOI budget of \$6.9 billion) is a concrete acknowledgment that Iceland has realized it needs to provide more for its own defense.

5. (C) Along the same lines, the GOI has boosted efforts to provide for greater domestic security. In the last year, the Icelandic Coast Guard (ICG) has awarded contracts for a new patrol vessel and fixed-wing aircraft, while also leasing three search and rescue (SAR) helicopters to replace the USAF helos that previously provided SAR backup. Minister of Justice Bjarnason, who controls the ICG, has been developing a plan for procurement of permanent helo support and has been discussing joint purchases with the Norwegian SAR authorities. The ICG has also continued a practice of robust international deployments of the ICG Explosive Ordnance Disposal (EOD) team to peacekeeping operations, most recently in Lebanon in the winter of 2006-2007. Post has encouraged the MOJ and ICG to make their procurement and training plans with an eye towards maintaining the capacity to deploy abroad in NATO or UN peacekeeping operations.

6. (U) Smart governance has also mitigated the local impact of NASKEF's closure on the community of Reykjanesbaer/Keflavik. Job losses, initially feared to be in the hundreds, were minimal as all but a handful of 700-plus former NASKEF employees found new work. This was due to quick engagement by the outgoing NASKEF/Iceland Defense Force command and the town of Reykjanesbaer in providing job referral and counseling services, helped by the robust Icelandic economy and a low unemployment rate. Similar focused planning and creative thinking are turning the base facilities into a significant plus for the economy and society. On the first anniversary of the



March 2006 base closure notification, the Government of Iceland announced plans to create a university-level academic institution on the former NASKEF site. The "Keilir Atlantic Center for Excellence" has already begun operations. Among other initiatives, it hosted productive meetings with U.S. Assistant Secretary of Energy for Energy Efficiency and Renewable Energy Alexander Karsner and the Director of the U.S. National Renewable Energy Laboratory during summer 2007. Discussions are underway about a formal relationship on renewable energy research. Meanwhile, the Keflavik Airport Development Corporation (KADECO), established to handle other commercially viable real estate on the base, opened 1100 apartments for rental by eager university students and brought in nearly \$270 million from the sale of other buildings on the base.

Remaining Issues: Intelligence, Division of Labor

7. (S) Despite progress, some areas of difficulty remain, particularly in the fields of intelligence-sharing and the operation of the Iceland Air Defense System (IADS). These issues are rooted in domestic political battles. On intelligence matters, Icelandic law does not authorize any collection other than for law enforcement purposes, and the MFA and Justice Ministry are consequently engaged in a turf battle over the intelligence portfolio. The MFA has responsibility for coordination with NATO Allies on defense matters while police, under the authority of the MOJ, handle international law enforcement cooperation. At the same time, the MOJ-controlled Coast Guard and "Viking Squad" special police are the units most likely to operate together with NATO military units during exercises in Iceland and elsewhere. As such, the MFA and MOJ have been the main players in a tug-of-war over intelligence authority, a battle which has thus far stalled serious efforts to provide USG training and institute regular intelligence exchanges (a stated goal in the Joint Understanding).

8. (C) Similarly, the MOJ has tried to grab authority for operation of the IADS air defense radars from the MFA, with Minister Bjarnason arguing that in peacetime the system plays more of a "homeland security" role than a defense role. Though this argument has not yet produced any results, it has been a distraction in the MFA's task of reorganizing the Iceland Radar Agency (the state-owned corporation that operates IADS) in order to cut costs. The press has been quick to note that recent management decisions have been handled clumsily. However, the MFA plans to introduce legislation this winter to formally bring the Radar Agency under its authority and clarify the agency's status under Icelandic law. Likely to go unaddressed are ongoing questions regarding combat controllers and rules of engagement for IADS and any NATO air defense assets it operates with, meaning that continued bilateral and NATO engagement on this matter will be necessary.

9. (C) A further complication is posed by incoming Foreign Minister Gisladottir, who is struggling to reconcile her instinctive discomfort with the use of force to the defense and security responsibilities in her portfolio. The Social Democratic Alliance (SDA) party she leads has never been able to agree on a defense



policy, not least because of its fairly large pacifist wing. After some early stumbles -- e.g., announcing the news of Iceland's withdrawal from the NATO Training Mission Iraq on the day of SACEUR's visit to Reykjavik in September -- Gisladottir has proven to be an interested student on defense issues. Even her strong reluctance to allow Icelandic peacekeepers to be armed while abroad may be softening somewhat in response to interlocutors' arguments that unarmed peacekeepers can be as much of a force protection burden as they are an asset to deployed units. Both her senior Political Advisor and the MFA Defense Department Chief have told the Ambassador in recent weeks of her keen desire for additional information and discussion in security matters. Continued engagement and exposure will likely prove the best means to develop the Foreign Minister into a long-term partner.

The Road Ahead

10. (C) This fall, Minister of Justice Bjarnason and others in Iceland have been nearly overcome with "I told you so" fever in response to increased Russian air activity and renewed territorial claims in the Arctic. To these observers, the decision to close the base was a strategic mistake: climate change, increased shipping routes and oil exploration in the North Atlantic and Arctic, and a resurgent Russia will make the High North (and Iceland) more strategically significant in the future, not less. Post has countered that the current status quo--ongoing support for the 1951 Agreement combined with first class maintenance of base military facilities, periodic exercises, and an agile U.S. and NATO force structure--keep our options open.

11. (C) To that end, our military engagement with Iceland should continue along current lines. Regular exercises and operational unit visits will demonstrate the U.S. interest in and ability to live up to our bilateral commitment. We should show support and provide training opportunities for the Icelandic units most likely to be called on in a crisis. Initial discussions for the NORTHERN VIKING 2008 exercise have focused on a USN role with the possibility of USCG involvement, which meshes perfectly with this aim. While arrangements for a more robust intelligence relationship depend on Icelandic domestic political decisions, we should continue to offer our assistance and make clear what is available once local obstacles are overcome. Similarly, post will continue to explore ways to increase Icelandic participation in U.S. training opportunities, of which the GOI has not thus far taken full advantage. A crucial tool in our progress thus far has been EUCOM's provision of an activated reserve officer to support Embassy Reykjavik. This position serves as the key link between the USG and Icelandic government institutions recalculating their strategic worldview and seeking to improve their security capabilities. Embassy Reykjavik believes funding for this position beyond spring 2008 will be essential in helping Iceland's transformation into a more active and capable NATO ally.

12. (C) Politically, we should continue to support Iceland's efforts to increase its defense ties with other NATO Allies and neighbors. We also want to quietly but strongly support efforts to improve the

quality of the national discussion on defense and security affairs, such as the FM's appointment on 8 November of a working group to study Iceland's strategic environment. Continued expert- and high-level discussions under the Security Dialogue rubric are a further means of engagement and should be maintained, particularly as Iceland faces up to the possibility of winning election to the UN Security Council for the 2009-2010 term. We should accommodate the request for a second series of discussions at the U/S level, in late winter/early spring, if possible in the U.S. These steps will help ensure that we and the Icelanders will be in sync as the security environment in the High North evolves.

van Voorst

