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1. (SBU) Summary: Iceland's Foreign Minister has announced a twenty percent reduction in the Ministry's budget for FY 2009. Four Icelandic missions will be closed down and the positions of six Ambassadors, who are retiring, will not be filled. Some Icelandic foreign service staff at overseas posts will be moved back to Reykjavik, and nonessential travel has been frozen. Iceland's international aid contribution will be reduced drastically and the newly established defense budget will be slashed, though MFA officials stress to us they are trying to avoid a direct operational



impact. As part of the fallout, Iceland's Ambassador to the United States will be transferred several years ahead of schedule in early 2009, though we have been assured in Reykjavik that the MFA will make staffing in Washington one of its top priorities. With the cuts, the Foreign Minister is sending a clear signal that she will be demanding fiscal responsibility from the coalition's other ministers. End Summary.

2. (U) On November 12, Foreign Minister Ingibjorg Solrun Gisladdottir announced Ministry for Foreign Affairs (MFA) plans to cut its expenditures in FY 2009. In the context of the current economic crisis, the MFA is the first ministry to propose cutting its allocations in the draft budget bill currently with the Althingi (parliament). The MFA plans to cut a total of ISK 2.3 billion (roughly \$17 million) or 20 percent of its share of the proposed 2009 budget. Most notably, four Icelandic missions will be closed: the Icelandic Embassy in Pretoria, South Africa; the Permanent Mission to the Council of Europe in Strasbourg, France; the Permanent Mission to the United Nations Agencies in Rome; and an Icelandic International Development Agency office in Colombo, Sri Lanka that handles Iceland's development aid. Six Icelandic Ambassadors will retire in 2009: two at the beginning of the year and four later in the year; they will not be replaced, thereby reducing a major salary expense for the MFA. FM Gisladdottir appointed one new Ambassador, Kristin Arnadottir, who previously was a Special Envoy for Iceland's bid for a UN Security Council seat and will now serve in effect as her Chief of Staff.

3. (SBU) Iceland's diplomatic presence in the U.S. will also be affected. Ambassador to the United States Albert Jonsson will leave his post in early 2009 to head the Icelandic liaison office in the Faroe Islands. Jonsson's departure will shorten his tenure by several years from the traditional ambassadorial tour of duty, as he has only been in Washington a little less than two years. Post had also initially understood that the Deputy Chief of Mission post in Washington would not be filled when the incumbent transfers next summer; however, senior MFA officials here tell Ambassador that the MFA is committed to staffing Washington with the best people it can find. In New York City, two positions at the Consulate General will be moved to Iceland, and the position of Consul General will not be filled when the current Consul General retires at the end of this year. This is part of a worldwide shift in which foreign service staff at different overseas posts will be moved back to Reykjavik to work at the MFA main office.

4. (SBU) The cost cutting will also affect defense-related spending. The MFA proposes that this be cut by ISK 257 million (about \$1.9 million), from the previous allocation of ISK 1.4 billion (roughly \$10.3 million). Post learned from a contact at the Icelandic Defense Agency that the MFA had simply notified them that their budget had been cut by a certain percentage, but that the details would be left up to the agency. The contact did not indicate what that percentage was. In the announcement, the FM suggested that the Icelandic Defense Agency would reduce the frequency of air policing by other NATO member states from four to three deployments annually.



However, in a subsequent conversation with Ambassador, MFA officials stressed that they were looking first at overtime and "inflated" salaries at the IDA as targets for cuts. The MFA is making every effort to avoid cuts that will have a direct operational impact on the IDA.

5. (U) The MFA has also proposed to lower Iceland's contribution to international aid. Allocations to this spending item would decrease by ISK 1.67 billion (approximately \$12.3 million). The GOI planned to contribute 0.35 percent of GNP to international aid, but after the proposed reduction the share will be 0.24 percent of GNP. The GOI had hoped to reach the UN benchmark of 0.7 percent of GNP in the next couple of years, but the cost-cutting measures at the MFA will without a doubt put that goal on hold for the unforeseeable future. Initial reaction from the NGO community here was measured; the Head of the Icelandic Human Rights Center, which has long pressed the MFA to increase development aid, said the cuts were "understandable" given the economic situation in Iceland.

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6. (U) One of the MFA's showpiece public diplomacy and trade promotion tools also came under the knife. The MFA had expected to spend ISK 485 million (about \$3.6 million) on Iceland's participation in the World Exposition at Shanghai in 2010. The MFA now proposes that only ISK 140 million (about \$1 million) be spent on the EXPO. This is a 71-percent reduction from the total budgeted amount.

7. (SBU) Comment: The Foreign Minister is the first agency head here to announce what specific programs she will cut in light of Iceland's economic collapse. She obviously intends to use this example to press other ministries to follow her lead. Some are concerned that closure of embassies will be a mistake in the long run, but cuts here and in defense spending address two of the most commonly-criticized areas of the MFA's budget: expensive overseas operations and defense spending in a country without a military. On the other hand, bloggers and pundits are having a field day with the appointment of Kristin Arnadottir, a long-time friend and colleague of FM Gisladottir, as Ambassador. Observers also see political motives in the transfer of Ambassador Jonsson from the United States to the Faroe Islands, with some calling it humiliating for both Jonsson and his long-time mentor David Oddsson, former PM and current Central Bank Chairman. Oddsson and Gisladottir are known to be political rivals, so the shift is unsurprising in that regard. That said, we expect that the MFA will place a priority on staffing the Washington Embassy well. End Comment.

VAN VOORST