

Fishy Financial Magic

Icelandic fishermen will play a major role in getting the nation back on its feet after the recent economic disaster brought on by fishy financial excesses

If Icelanders had a choice, they would like to forget the year 2008. In the beginning of October, the Icelandic economy crumbled to the ground. The three major banks in the country went under and the national currency lost its value by more than 100 per cent overnight. Not surprisingly, a lot of Icelanders are fearful, confused and angry.

As I write this article, nine months after the crash, two things happened last week, far out of the ordinary daily peaceful life in Iceland. An individual destroyed a house that he had lost to a bank. He rented a bulldozer and in 10 minutes, levelled to the ground most of his former house. On 21 June another Icelander drove his car in a frenzy into all the exit doors of the fire station

The worldwide depression is one, but the main reasons are homemade. The Icelandic banks were allowed to grow to a monstrous size, nine to ten times the size of the national economy. The surveillance system was weak, as were the laws and regulations set by the legislature.

Some have suggested that the roots of today's situation lie in the implementation of the individual transferable quota (ITQ) system in Iceland's fisheries, back in 1984. When the quotas became available for mortgage in 1990, a huge amount of money was 'released' into the financial system. As some economists and politicians said, "sleeping money was put to work". The snowball started to roll.

For me it is hard to tell if this is the main cause of the downfall of the Icelandic economy. But I have no doubts that the ITQ system did play a part, maybe a big one. It is a fact that the first huge sum of money the Icelandic public heard about—made by shuffling paper alone—was when a shareholder in one of the country's largest seafood companies sold out in 1999. The sum involved back then was huge. Today, when facts are unfolding about what was actually going on within the banking system, that sum appears tiny.

Unrealistic prices

It is also a fact that some years ago, a few big quota holders started to pump up the price of the quotas to totally unrealistic heights. Then they took huge loans (based on a 'better' mortgage since the prices were up), went to the stockmarket and played

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in Reykjavik and then took off to the police station, where he was stopped by police cars.

Most Icelanders expected a tough fall and winter in 2008. But nobody, at least not among the public, thought things would come to what they did. The economic disaster in Iceland is one of the worst—if not the worst—any nation in modern history has faced. In comparison, the Versailles Agreement, which the Germans were forced to sign after World War I, looks like an IOU at the local store.

There are several reasons for Iceland's financial disaster.

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all kinds of speculative games that, on the surface, looked very sophisticated and intellectual. Among those money games was the buying of shares in the ill-fated Icelandic banks. All that turned out to be not so splendid by the end of the day.

It is impossible, in a short piece, to account for everything that has been going on since the crash in October. One important outcome was that the government that was in power, resigned. In Iceland, that episode was called the 'kitchenware revolution'. Thousands of people gathered for weeks on the square in front of the parliament (Austurvöllur), banging pots and pans, and screaming in unison to the drumbeat of "Incompetent government!". The demonstrations continued day and night. There are plenty of video clippings on YouTube that document this episode.

The government in power then had been put together by the Conservative party and the Social Democratic Alliance. The latter group was the one that ended the co-operation. For around 80 days, Iceland had a minority government, put together by the Social Democratic Alliance and the Left-Green party, supported by the Progressive party. After negotiations following Iceland's general elections on 25 April, the Social Democratic Alliance and the Left-Greens formed the government that reigns today. These two parties have 34 members out of the 63 in parliament. It is the first time that a leftwing government has won a majority in the Icelandic parliament since the nation got its independence in 1944.

The new government is dealing with enormous tasks. Today, the national treasury is buried in debts and liabilities. The main reason for this, ironically enough, is that the Icelandic banks were 'privatized' a few years ago. It turns out that they were privatized only to a certain extent. When they fell, the crash exploded in the faces of the public who would have to foot the bill. The banks had privatized their profits, while the debts were nationalized.

What a genius of a plan concocted by the greedy and irresponsible! The gangsters who robbed the banks from inside (someone said that the best way

to rob a bank is to own one) are still playing around while the government works day and night to increase taxes, cut public services and lower wages. The unemployment rate in Iceland is higher today than it has been for decades.

The Icelandic seafood industry is in trouble. It owes three to four times its annual turnover in debt. Technically, many of the seafood operations are

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bankrupt. The price of quotas for cod is estimated to have fallen by 60-70 per cent. Loans in foreign currencies, mainly used to buy quotas, are up 130 per cent. The export price for the most important species, cod, has fallen by 20-40 per cent. Service and maintenance costs are up 50-130 per cent. One needs no imagination to realize that the situation is almost unbearable.

Still, the fact is that the debts of the seafood operators are only 2 per cent of the total debts of Icelandic companies as a whole. The fisheries account for at least 40 per cent of the nation's currency income. As ridiculous as it may sound,

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A 1392 GT midwater factory trawler in Vestmann Islands, Iceland. Fisheries account for at least 40 per cent of the nation's currency income

the seafood operators are in a better situation than most other businesses in the country.

It is important to keep in mind, when talking about the debts of the Icelandic seafood industry, that the operators do not comprise one company. Within the sector, there are many companies that do not owe a dollar. Most of these debt-free operators are in the small-boat sector. Today, these companies are doing relatively well, specifically after the devaluation of the Icelandic currency. As always, however, when dealing with fisheries, the reality is complicated.

The importance of the fisheries sector is maybe greater than ever in the history of the Icelandic nation. When the ‘bank rage’ was at its height, I heard a banker say that Iceland could easily exist without the fisheries sector. The future was the financial sector, he said. I hope to meet this man again. The fact is that the virtual world of people who think that wealth can be created without ever getting away from a computer, has to be set aside. The virtual world can only exist for a short time. The reality is that we have to work with our hands on the ground and at sea to create real wealth. And that is what Icelanders will do.

The Icelandic banks were privatized some six to seven years ago. Shortly afterwards, the media lost interest in the seafood business. Before the privatization, the media was in constant touch with the National Association of Small Boat Owners (NASBO) on a daily or at least weekly basis. News about the fisheries appeared regularly on television and radio. There was even a special radio programme on fisheries. That programme has since been shut down. Newspapers have cut down coverage on fisheries, and reporters who specialized in the field were fired. The editorial focus shifted to the financial magic that was advertized daily for years by the banks and the financial sector.

Something fishy

Most fishermen watched in wonder and disbelief. They felt that there was something ‘fishy’ about all of this. Nevertheless, some of them sold out

and jumped on to the ‘adventure’ bandwagon. Some of the bigger companies played for large stakes.

The rest of the fishermen did not think much about all of this. They kept on doing their jobs, not caring less about whether or not they were of interest for the media. Now, post-crisis, the media has turned its focus back on the fisheries, and even the old radio programme is back.

The new government has on its agenda a plan to change the ITQ system. The first step has already been taken. On 18 June, the parliament agreed on a new system, which gives everyone who has a seaworthy boat and a skipper’s licence, the opportunity to go jigging over the summer time, without buying quotas. As usual, the trawler association is furious when any ‘slack’ is given to the small boats. On the whole, the small-boat owners have welcomed the new system. They feel that the new government is actually putting a ‘window’ on the ITQ system— something that most thought impossible to do.

Icelandic fishermen are in no doubt about their future task. They will play a major role in getting the Icelandic nation back on its feet. I hope that in the future school books all over the world will tell the story of the Icelandic economic disaster. I say “hope”, because it would be sad beyond words if something good is not brought about, something for others to learn from in the future. 

For more

www.fisheries.is/management/
**Information Centre of the
 Icelandic Ministry of Fisheries and
 Agriculture**

<http://eng.sjavarutvegsraduneyti.is/>
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[http://fisheries.eplica.is/media/skjal/
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