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# ICELAND



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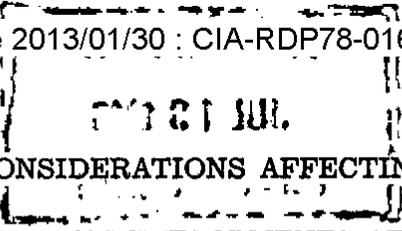
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## SUMMARY

So far as US security is concerned, Iceland represents an arctic base strategically located on the flank of north Atlantic shipping lanes and having two well developed airfields suitable for trans-Atlantic planes. The island was utilized extensively by US forces during the recent war and undoubtedly would become an important US base again in time of war if only to deny its use to enemy forces. The chief obstacle to US strategy in this regard is the parochial, highly nationalistic attitude of the Icelandic people who resent any foreign influence. Though the Icelanders could not and would not defend the island, they can and do impose obstacles to activities in Iceland by foreign powers. For these reasons the negotiations which resulted in the present US-Iceland Airport Agreement were protracted and delicate while the presence of US personnel at the Keflavik Airport today is largely due to favorable but unpublicized support from a few influential members of the present Icelandic government.

The government of Iceland, sovereign only since 1944, cannot be considered stable because the present coalition is composed of varied elements which disagree on certain basic issues, and is furthermore opposed by a strong Communist Party which can wield the strike threat against the government through its domination of the Icelandic Federation of Trade and Labor Unions.

The opposition's main criticism of the government has been concentrated on the issues of domestic inflation and the US-Iceland Airport Agreement. Control measures taken against inflation have been only partially effective because of fears of the coalition government that the Communists, by exploiting the resultant labor dissatisfaction, might be able to eliminate the present cabinet and to secure participation in the new government if such measures were taken. Though the US-Iceland Airport Agreement, conclusion of which caused the dissolution of the previous government, is still the object of considerable opposition, its supporters in the present cabinet have so far succeeded in averting a political impasse over its implementation.

The present difficulty of replenishing rapidly dwindling US dollar reserves is also plaguing Iceland's economic well-being. Iceland's abnormally large postwar reserve of US dollars was rapidly expended for capital goods, largely to modernize its fishing industry, and in part to satisfy the war-acquired demand for luxury imports. Modernization of the fishing industry had been considered justifiable in view of the anticipation that reduced production costs would enable Iceland to compete profitably in world markets which were again becoming competitive. Production costs continued to rise, however, and production decreased simultaneously because of three successive disappointing summer herring catches. The reduced exports of Iceland's fishing industry

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Note: The information in this paper is as of April 1948.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

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provided neither sufficient hard currency nor essential goods in exchange, so rapidly dwindling dollar reserves were further reduced by purchases of essential imports.

Iceland's difficulty in disposing of its postwar production of fish and fish products attracted the attention of the USSR which, with an obvious view to propitious timing, negotiated the purchase of substantial portions of the 1946 and 1947 production on terms very favorable to Iceland. The political implications of this postwar trade are especially apparent when it is considered that USSR-Iceland trade for 1946 alone was 33 times greater than it had been for the entire sixteen-year period 1930-45. This increased trade may be partially attributed to Russian need for herring oil but political motives were certainly predominant.

In foreign relations, which it must conduct without benefit of armed forces, Iceland vigorously resists any deviation from the "independent" course to which it feels entitled. Iceland is hesitant to take sides in the controversy between the West (with which Icelanders' essential sympathies lie) and the East, which they regard as a potentially important market for their products and, therefore, not to be offended. Iceland's future orientation, although presently pro-Western, may incline toward the USSR if the Soviets continue giving favorable consideration to Icelandic economic and foreign trade difficulties without concurrently seeking strategic advantage or endangering the nation's independence.

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## SECTION I

### POLITICAL SITUATION

#### 1. GENESIS OF THE PRESENT POLITICAL SITUATION.

Iceland, one of the world's youngest sovereign nations, now comprising a population of 133,000, was colonized by Norsemen late in the ninth century and the first Icelandic republic was established in 930. The republic endured until 1262 when the Icelanders swore allegiance to the Norwegian throne. The union with Norway ended in 1534 when Norway was made a dependency of Denmark and the Danish king became absolute monarch of Denmark, Norway, and Iceland. It was not until 1918 that Iceland regained virtual independence, but it still remained united with Denmark under a common king. In 1944 the Icelandic people voted for dissolution of the union with Denmark, a course of action authorized by the Act of Union of 1918; and Iceland again, after almost 700 years, became an independent, sovereign republic.

The period of Norwegian-Danish rule was one of political and economic decay for Iceland. The island suffered while it was alternately ignored or exploited by its rulers. A series of natural catastrophes — earthquakes, volcanic eruptions, and plagues — in the 14th and 15th centuries reduced the population to extreme poverty. After six centuries of self-government the Icelanders in 1534 lost all voice in the administration of their affairs. In the 17th and 18th centuries Iceland was exploited by a Danish trade monopoly.

After the Napoleonic wars, a revival of national consciousness stimulated the Icelanders to increased political and economic activity. The low level of living and culture was contrasted with the achievements of the early independent republic. A nationalist movement, aimed at the restoration of sovereignty and autonomous, representative government, attained increasing degrees of success. In 1843 the Althing (parliament) was restored, and in 1874 a constitution was granted by the Danish king.

The movement for political independence was accompanied by an endeavor to build Iceland into a more prosperous and self-sufficient nation. Towards the end of the 19th century industrial development began modifying Iceland's heretofore completely agricultural economy. The first trade union was organized in 1894, and the Federation of Icelandic Trade and Labor Unions was founded in 1916, commencing its rapid ascendancy to its present position as a primary factor in the political-economic balance of the country. The first real cooperative society was established in 1882 and the Federation of Icelandic Cooperative Societies, which is now one of the major aggregates of economic power in Iceland, was formed in 1902.

In 1918 when the Danish Rigsdag and a majority of the Icelandic people in a referendum approved the Act of Union, Iceland attained virtual independence but was united with Denmark under a common king, its foreign affairs being conducted by Denmark. The Icelandic constitution, which was revised in 1920 in accordance

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with the Act of Union, established a constitutional monarchy. The Act of Union provided for its revision after December 1940 and dissolution of the union three years thereafter if no new agreement had been reached. Taking advantage of the German occupation of Denmark, the Althing transferred the functions and authority of the Danish king to the Icelandic government and, in June 1941, elected a regent. The same year the Althing declared the agreement abrogated, by reason of Denmark's inability to fulfill its obligations, and announced Iceland's intention to dissolve the union. On 17 June 1944, after a popular referendum, Iceland declared itself independent and established a constitutional republic.

## 2. PRESENT GOVERNMENTAL STRUCTURE.

The Constitution of 1944 provides for a President who is elected for a four-year term by direct, popular vote. Succeeding to the functions formerly exercised by the Danish crown, the President has vested in him the executive and legislative powers of the government, but they are to be exercised in conjunction with his ministers and the Althing. He appoints ministers and presides over the Council of State (composed of the President and his ministers) which must consider all legislation and important acts of the government. He also is empowered to make treaties with foreign nations, but any transfer of land or territorial waters must be first approved by the Althing. The President summons and may dissolve the Althing.

The authority of the President is largely nominal. Constitutionally the ministers, not the President, are responsible for all acts of the Government, and the President's signature on legislation or governmental proclamations does not confer validity unless countersigned by a minister. In practice the ministers exercise most of the prerogatives assigned to the President. After an election, or the resignation of a cabinet, the President designates a member of one of the parties represented in the Althing to form a cabinet. Should the original selectee for the Premiership prove unsuccessful in forming a cabinet, the President designates another party leader; if he in turn should fail, a new Althing election must be held. The present coalition \* cabinet is composed of six ministers who each hold two ministerial posts. The ministers have ex-officio seats in the Althing but may not vote unless they also hold elected seats.

The legislative power is vested in the President and a parliament of not more than 52 members, the latter, chosen for a four-year term, being the real legislative authority. Forty-one members are chosen by direct popular ballot, and after the elections additional seats, not to exceed eleven, are distributed among the parties so that each party receives parliamentary representation in proportion to its votes in the general election. The constitution directs members to act solely on their convictions, and they cannot be held accountable outside the Althing for any statements made therein.

The Althing assembles for its regular session on 1 October each year, and divides itself into an upper house (*efri deild*) and a lower house (*nedri deild*) composed of

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\* (Conservative, Progressive, Social Democrat).

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one-third and two-thirds of the members respectively. There is no difference in the functions of the two houses. Bills may be introduced in either house or by the President but may not become law unless approved by both houses, signed by the President and countersigned by a cabinet minister. If the houses do not agree in separate session, they meet in joint session where passage of a bill or resolution requires a two-thirds majority. In the event that the President refuses to approve a bill, it is referred to the electorate for acceptance or rejection by secret ballot.

Changes in the constitution can be made by the Althing, but when such changes are approved, the assembly must be dissolved and a general election must take place. If the changes are voted by the new Althing, they become law upon the approval of the President.

The Icelandic legal system is almost entirely of foreign origin. The basis of Iceland's jurisprudence is Scandinavian (principally Norwegian and Danish) with only fragments of Roman or Canon law appearing in the legal code. The system of laws is composed of separate acts passed since the re-establishment of the Althing in 1843, which have been strongly influenced by the codes of Denmark.

The administration of justice is exercised by judges whose decisions on the interpretation and constitutionality of laws are final. The constitution has set up safeguards for the political independence of judges by stipulating that after appointment by the President they cannot be relieved of their judicial duties except by legal action. In most cases, however, judges also hold administrative office, often of a political nature. Juries are not employed.

The judicial machinery is composed of a system of courts which handle "ordinary" and "special" lawsuits. There are 24 "ordinary" courts of first instance, presided over by sheriffs in the rural areas, and an "ordinary" appellate court in Reykjavik. These courts have jurisdiction in all cases not specifically excepted to them by law. The "special" courts are set up to try precise types of lawsuits and interpret special types of law, including ecclesiastical and maritime law. The most important of the "special" courts is the High Court of the Realm, which hears cases brought against ministers for the improper discharge of their official duties.

The constitution maintains the principle of universal suffrage which was introduced in 1915. The franchise is extended to all citizens over 21 who are "financially independent", and who have been residents of the country for at least five years prior to the election. During recent elections an unusually large proportion (over 90%) of the eligible voters exercised their franchise. The civil liberties characteristically accorded to citizens in a democracy are guaranteed by the Icelandic constitution and are enforced by the judiciary.

For the purposes of administration Iceland is divided into 21 districts and 10 townships, each administered by a government-appointed sheriff, whose principal duties are the collection of taxes and maintenance of order. There is no constitutional division of power between the central government and local units, the national government being the supreme authority in cases of jurisdictional dispute. The State provides officials for each of 207 parishes, to aid the sheriff in fulfilling his functions

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on the local level. For the administration of purely local affairs, such as poor-relief and maintenance of roads, each of the parishes and towns has an elected council. Parish councils are responsible to the district councils, composed of one elected representative from each parish.

**3. POLITICAL PARTIES.**

The parliamentary strength of the political parties has special significance in Iceland because, except for the trade unions, there are no other effective centers of influence and power at present. Iceland has no armed forces and the police force is too small to be influential. The bureaucracy hardly possesses influence independent of the politicians who name the incumbents to their posts. The press is completely identified with the parties. The church is without political influence. Political interest tends to be manifest almost exclusively in terms of personal loyalties and enmities. The idealism of the average Icelander is coupled with a fanatical stubbornness which makes compromise difficult and generally results in bitter political campaigns. The party organs and spokesmen, especially at election time, engage in political invective that is seldom surpassed in other countries.

Prior to 1918 the political field was dominated by the Independence and Home Rule parties, and political alignments were based on the issue of independence and separation from Denmark. The Act of Union partially removed this issue, and the increased importance of economic problems resulted in a new orientation of the Icelandic political parties. The division of political power in Iceland today is based on the incidence of economic influence, the major aggregates of which are organized into four political parties: Conservative, Progressive, Communist, and Social Democratic.

The relative strength of the four political parties in terms of their parliamentary representation and popular support in the last national election (7 June 1946) is as follows:

PARTY	SEATS IN ALTHING	PERCENTAGE OF TOTAL SEATS	PERCENTAGE OF TOTAL VOTE
Conservative	20 *	38.5	39.73
Progressive	13 *	25.0	22.64
Communist	10	19.2	19.72
Social Democrat	9	17.3	17.91
	52	100.0	100.0

\*Currently 19 Conservatives, 14 Progressives. A by-election in July 1947 to fill a vacancy created by the resignation of a Conservative member resulted in a Progressive victory.

The present three-party coalition cabinet, formed on 6 February 1947, is composed of Conservatives, Progressives, and Social Democrats under the Prime Ministership of Stefan Johann Stefansson (Soc. Dem.).

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*a. Conservative Party.*

The control of the Conservatives by the Thors family, representing the large fishing interests, is buttressed by wealth, ability, and family connections. Since 1938, the Thors family has been the major influence in the economic life of Iceland, and since 1942 it has dominated Iceland's political life as well. Olafur Thors is the leader of the Conservative Party which also accommodates certain small agrarian interests and the Reykjavik merchant group.

The Conservative Party, formed in 1924, has polled the greatest number of votes in each national election since 1931 and has held the largest number of Althing seats since 1942. The actual membership is about 6,000; it polled 26,000 votes in 1946.

Although the Conservatives support such measures as social security and old age pensions, their economic platform, by Icelandic standards, is definitely "conservative". Conservative party leaders see the United States as the defender of capitalism and free enterprise and are generally pro-American on the grounds of what they conceive to be Iceland's or their own interests. Olafur Thors, although opposed to Communism on ideological grounds, previously considered Communist collaboration in the government essential to political stability, and he believed he could control the Communists if they were admitted. His present attitude may be less positive toward the necessity for including them. The extreme right wing, which has its own press, opposes cooperation with the Communists and is as pro-American as any Icelandic political group can afford to be.

*b. Progressive Party.*

The Progressive Party, the second strongest in Iceland, was founded in 1916 and now has a membership of about 4,000. The Progressives dominated the political scene from 1927 to 1942, and governed the country largely for the benefit of their constituents, the farmers and the cooperative interests.

During the period of Progressive rule, the party developed into a formidable organization based on a personal following whose loyalty was cemented by patronage. The Progressives are basically a center party, but there are left and right (moderate) wings, led by Herman Jonasson and Eysteinn Jonsson, respectively.

The economic policy advocated by the Progressives is one of large state expenditures on behalf of the farmers, a state import monopoly, a privileged position for the cooperatives, and soak-the-rich taxation.

*c. Social Democratic Party.*

The Social Democratic Party has the smallest representation in the Althing. Founded in 1917 by the working-class and seamen's groups, the party has suffered since 1930 from the competition of the Communists and from weak leadership, but it gained a substantial proportional increase in its voting strength in the 1946 elections when it polled 11,914 votes. The right wing, under the leadership of Stefan J. Stefansson, dominates the party. Although ostensibly espousing socialism, the Social Democrats have receded from their early radicalism. The leadership presently pursues a policy of idealistic, equitable government rather than urging legislation

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which benefits primarily their constituents. The party, therefore, has lost adherents who have shifted their allegiance to the more aggressive Communist Party.

*d. Communist Party — (Amalgamated Workers Party — The Socialist Party).*

The Communist Party, organized in 1930, has a membership of about 1,500, of which approximately 400 are active party workers. It has 10 seats in the Althing, 29 representatives on 13 city councils, and polled 13,049 votes in the 1946 election.

The party obtained its first Althing seats in 1938 when the diminishing radicalism of the Social Democrats caused the dissident left wing of that party to join the Communists. The "new" party was called the "Amalgamated Workers Party — The Socialist Party", still the official designation of the Icelandic Communists. The growth of this group is illustrated by the following table, showing Communist gains in terms of popular vote and Althing seats in relation to the other parties.

**REPRESENTATION IN TERMS OF PARLIAMENTARY SEATS AND PERCENTAGE OF TOTAL VOTE**

ELECTION YEAR	1934		1937		1942		1946	
	<i>Percentage</i>		<i>Percentage</i>		<i>Percentage</i>		<i>Percentage</i>	
	<i>of vote</i>	<i>Seats</i>						
Communists	6.0	..	8.5	3	18.94	10	19.72	10
Conservatives	42.3	21	41.3	17	39.39	20	39.73	20
Progressives	21.9	15	24.9	19	27.18	15	22.64	13
Social Democrats	21.7	10	19.0	8	14.49	7	17.91	9
Agrarian *	6.4	3	6.1	2	..	..	..	..
Others	1.7	..	.2	..	..	..	..	..

\* (Dissident right-wing group of Progressive Party formed in 1933.)

Communist influence in Iceland exceeds that inherent in the party's parliamentary representation and stems from several factors, the principal among them being the Communists' strategic position in the trade union federation, (see Page I-7), the important cabinet portfolios they have held, their participation in local administration at strategic points, and the delicate balance of power among the other parties.

During their participation in the cabinet, 1944-46, the Communists were able to seat one of their members as Director of Aviation, and also appointed many teachers who were Communists or Communist sympathizers. As these were permanent appointments, the Communists were able to retain influence after they withdrew from the cabinet. The balance of power among the political parties results in a situation whereby a coalition which excludes the Progressives or Conservatives would have little prospect of success unless it included the Communists.

Icelandic youth contributes considerable support to the Communists, largely because of disillusionment with the corruption of present party politics and secondly, a desire for social reform which they feel the Communists can provide. Since Icelanders are having difficulty in disposing of their fish products and are deeply con-

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cerned about the future of their export market, offers by the Soviet Union to purchase large quantities of fish at high prices have made excellent propaganda material for the Communists even though the relatively favorable price agreed upon did not reflect the original lucrative offer. The failure of the present Icelandic Government to obtain more favorable trade agreements with the USSR has been attributed by the Communists to their absence from the government, but they have not overplayed their hand in praising the Soviet Union, being careful always to maintain the role of Icelandic patriots and guardians of nationalism.

#### 4. OTHER INFLUENTIAL GROUPS.

The Federation of Icelandic Trade and Labor Unions is a politically active and influential power in Iceland. Labor movement support of government policies is essential for an effective economic program and can be obtained only with Communist consent, since the Communists dominate the Federation.

The Federation is an association of 123 individual labor unions, whose total membership is 21,417 and thus includes well over 90% of all organized labor and 17% of Iceland's population. Officially organized in 1916, the Federation was identified with the Social Democrats until 1940 when Communist trade unionists began dominating its policies. In 1944 the Communist leadership gained complete control of the Federation, and now controls two-thirds of the delegates to the Congress of the Federation as well as completely monopolizing its executive council. While the Communists are firmly entrenched in several of the stronger unions of the Federation, the real key to their influence is the control of the unskilled workers' union (*Dagsbrun*) of Reykjavik. Presently the Communists have about two-thirds of the votes in this union, which, with its membership of 3,000, controls the transportation facilities and dockworkers in Reykjavik \* and therefore is in a position to paralyze transport and supplies for the whole of Iceland.

Communist strength in the labor movement can be attributed largely to the party's aggressive leadership which has consistently won improved working conditions and increased wages for the workers. The Social Democrats, in contrast, appear to the laboring class to put political expediency before the interests of the workers.

In 1947, the Communists attempted to bring about a cabinet crisis by use of the strike weapon. The effort failed because anticipated labor support did not materialize; consequently Communist prestige in the unions suffered a serious blow. Although the unsuccessful strike did not unseat the Communists from their positions of authority in the unions, the extent to which they can exploit the labor movement for political objectives has temporarily been limited. They are still in a position to harass the present administration by arousing labor movement opposition to wage reduction of a deflationary program. Thus the Communist Party, through its domination of the Icelandic labor movement, frequently holds the balance of power in party politics.

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\* The nation's capital and principal port of entry — population, 51,000.

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**SECRET****5. CURRENT ISSUES.**

The two most significant issues in Iceland at the present time are inflation and the US-Iceland Airport Agreement.

Inflated production costs in Iceland's fishing industry seriously restrict the sale of fish and fish products to other countries. The consequent decline in foreign exchange earnings is becoming increasingly serious because Icelandic economy is dependent to an unusual degree upon foreign trade to provide the country's requirements of food, raw materials, and manufactures. An effective anti-inflation program is essential to an orderly restoration of economic equilibrium, but adoption of such a program is being delayed because each political party desires to shift the burden of the sacrifices to groups other than those from which it receives support.

The Communists, through their domination of the Trade and Labor Federation, hold the key to the success of any solution involving substantial reduction of wages paid to labor. The parties represented in the present government are therefore reluctant to submit a deflationary proposal for fear that Communist-inspired opposition from the trade unions may precipitate a cabinet crisis. The anti-inflation program adopted in December 1947 effected a slight reduction of the cost of production in the fishing industry, which provides roughly 93% of Iceland's foreign exchange earning power. The fishing industry, however, is still not producing exports at prices competitive with those prevailing in world markets.

The United States "base" issue was largely removed from partisan politics when the US-Iceland Airport Agreement was concluded on 7 October 1946, but the presence of United States personnel at Keflavik Airport still exerts considerable influence on the political scene. All changes and improvements which the Icelandic Airport Corporation — agent of American Overseas Airlines for the operation of Keflavik — desires to make at the airfield must have the prior approval of Icelandic officials. The present cabinet members are generally favorable toward the United States and accept the presence of United States personnel at the airport as a means of enabling Iceland to benefit from the operation of an airport serving trans-Atlantic air routes. As the general public is not sympathetic to the presence of foreigners, however, the Government tries to keep the airport issue out of the news. The Communists seek to publicize all airport activities in the most unfavorable light, with a resultant barrage of accusations, denials, and counteraccusations. The Communists propagandize all improvements and additions at the airfield as evidence that the United States does not intend to relinquish its privileges, and they accuse the government officials of sacrificing Iceland's sovereignty. These accusations gain the Communists considerable support because the extreme nationalism of the Icelanders makes them resentful of foreign personnel at an Icelandic airfield. This state of mind is intensified by enforced recognition of the fact that they are unable to operate a first-class airport themselves. The Communists are therefore able to impede implementation of the Airport Agreement by preventing many Icelandic politicians from publicly exhibiting a cordial attitude toward the United States.

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## 6. STABILITY OF THE PRESENT ADMINISTRATION.

The present administration cannot be considered a stable one because its continued existence depends upon several factors beyond the administration's control.

The principal factor is a need for a deflationary program to avoid an economic crisis, and the Communists, who are in the opposition, could probably induce a cabinet crisis by creating labor union opposition to any deflationary program not acceptable to them. The Communists, in addition to opposing any deflationary proposals of the administration, are losing no opportunity to place the responsibility for the extremely bad economic conditions upon the present government and the wealthier classes. The parties comprising the present cabinet had considerable difficulty in formulating a program acceptable to all three but finally agreed to exclude the Communists and to concentrate on a program of inflation control and economic stability. This was possible only after a voluntary eclipse by the left-wing factions of the Progressive and Social Democratic parties. The coalition thus formed was assured of 33 out of 52 possible votes on most issues. (20 Conservative, 7 Progressive, 6 Social Democratic.)

The leaders of the left-wing factions are still capable of withdrawing their support, forming a left-wing coalition with the Communists, and thereby probably attracting from the remaining Progressives and Social Democrats the eight additional votes necessary to unseat the present cabinet.

A major factor in the success of the present coalition is the willingness of the Progressive Party to remain in the coalition. This the Progressives will do only until they see an opportunity to improve their political position by withdrawing. If economic conditions continue to deteriorate, it is therefore possible that Herman Jonasson, strong left-wing Progressive leader, will withdraw his party's support of the government and attempt a left coalition with the Communists and the left-wing Social Democrats. Such a coalition attempt can also be initiated by the Communists who can offer labor union support for a deflationary program in exchange for participation in the government.

Unless the administration can adopt an effective deflationary program acceptable to labor, the only alternative means of avoiding serious economic difficulties appears to be financial aid from an outside source. The latter alternative, however, would only give the administration added time in which to muster support for a deflationary program and in which to derive benefits from the ERP.

The likelihood that the present coalition will remain in power until the next general election in 1950 has been definitely increased by the recent improvement in Iceland's economic condition resulting from the unexpectedly profitable winter herring catch, inflation controls applied by the government, and the planned US assistance to Europe.

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## SECTION II

### ECONOMIC SITUATION

#### 1. DEVELOPMENT OF THE PRESENT ECONOMIC SYSTEM.

Iceland's economy is based primarily upon its fishing industry which directly supports about 25% of the population and produces about 90% by value of Iceland's total exports. Sheep raising ranks second in importance, and wool, mutton, and sheepskins comprise the only other significant exports. Iceland is dependent to an unusual degree upon foreign trade to provide her requirements of food, raw materials, and manufactures.

During the war Iceland's foreign exchange earnings were increased partly because of the higher prices paid for Icelandic fish but chiefly by military expenditures by the British and US troops stationed there. The resultant abundance of easy money caused a sharp rise in wages and purchasing power, and when the troops were withdrawn, Iceland was left with a greatly inflated economy in support of which its foreign-exchange earning power had not increased proportionately. The wartime accumulation of foreign exchange reserves began to be expended in 1945 when the government launched a program to expand and modernize Iceland's industry by purchasing capital equipment abroad. Increased imports of consumer goods to satisfy the greatly increased purchasing power of the general public also depleted foreign exchange balances. Iceland's foreign exchange reserves are now so limited that extensive controls over external purchases and internal distribution are maintained. They will remain necessary until Iceland's wage and price levels are brought into line with other countries, either through devaluation of the currency or internal deflation.

#### 2. DESCRIPTION OF PRESENT ECONOMIC SITUATION.

##### *a. Agriculture.*

In the early Icelandic economy farming was the chief occupation, but the percentage of the population engaged in farming has decreased considerably in recent years. Of the 14,650 square miles of inhabited land 92% are rough grazing grounds and only approximately 1% are cultivated. The main agricultural regions are in southwest Iceland near the coast, but grazing lands with some agriculture occur generally along the entire coast and extend inland along the principal river valleys. On account of uncertain weather conditions, soil of poor quality, and a climate unsuited for cereal crops, most of the farm area is in pasture, and cultivation is devoted largely to raising hay for winter feeding of livestock. Most farms have a cultivated home-field, hay meadows, home pastures, and mountain pastures. Potatoes and turnips are raised but not in sufficient quantities to satisfy the home market. Hothouse cultivation of vegetables, chiefly in the areas of hot springs, has increased and is being encouraged — but there is still an acute lack of fresh vegetables. Livestock production in

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Iceland is concentrated on sheep, with some dairy cattle. The Scandinavian countries and Great Britain are the principal markets for sheep products. Dairy production does not satisfy domestic needs, although it provides relatively small amounts of cheese for export.

Agricultural exports for 1947 totalled 18,000,000 kr. (\$1,772,000). Agricultural imports for 1947 amounted to about 48,000,000 kr. (\$7,392,000) or 9% of total imports.

*b. Natural Resources.*

Iceland's only significant natural resources are its fishing banks, which are among the richest in the world, and its relatively undeveloped water power potential. There is no coal, oil or metal. Even cement must be imported. The sulphur deposits and a deposit of Iceland spar have been exhausted. Low-grade peat is dug by the farmers for their own domestic use and does not enter into trade channels.

The numerous hot springs in Iceland are of potential value as sources for heating buildings and of steam for low pressure steam turbines. Extensive utilization of this potential appears unlikely because of Iceland's limited industrial development and the improbability that foreign interests will be authorized to participate.

*c. Industry.*

Iceland's annual per capita output of fish is estimated to exceed 6,000 pounds, or about four times that of Newfoundland and nine times that of Norway. More than 25% of Iceland's total population derives its chief means of support directly from the fisheries. An additional significant percentage is dependent on the income from the fish canning and freezing, herring meal and oil plants.

Industrial enterprises produce almost solely for the domestic market, and their production, inadequate to supply domestic needs, is dependent upon the importation of all necessary raw and semi-finished materials. Manufactured goods include margarine, soaps, paints and varnishes, shoes and leather goods, cloth and clothing, fishing equipment, and books and other publications.

Normally Iceland accounts for about 20% of the total fish output of the ten commercial fishery countries of northwestern Europe and about 2% of the total world output. Before the war Iceland was the fifth most important fish-producing country of Europe, ranking behind the United Kingdom, Norway, Germany, and France. With the sharp decline of fishery activities by these countries during the war, Iceland enjoyed exceptional prosperity. With the postwar recovery of the British and Norwegian fisheries, however, Iceland is faced with a decline in the British dependence on foreign fish and with heavy competition from Norway, whose fish exports in 1946 exceeded Iceland's total catch. With competition thus increasing, the fishing industry tried to regain its prewar markets in Germany and the Mediterranean but the inability of those countries to provide the goods that Iceland needs or to make payments with hard currency has impeded resumption of normal trade.

The catch consists chiefly of cod, which is processed into frozen fillets and wet-salted fish, although considerable quantities of coal-fish and haddock are also caught. Normally there is a very important summer catch of herring along the north coast

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and a lesser one in spring off the southwest coast. These supply the herring oil, currently so much in demand because of the world shortage of fats and oils.

Primarily because of the wartime wage increases, still in effect in the fishing industry, production costs are considerably above the prices for fish products in the world markets. In order to avoid idleness among the fleet fishing for white fish and to prevent a sharp reduction in wages, the government in December 1946 passed a minimum fish price law guaranteeing a 30% increase in prices. Subsidy payments became necessary and were a substantial drain on the Treasury.

The fishing industry has benefited substantially from the government's New Construction Program initiated in 1945. New vessels were built or purchased abroad, new gear was imported, and older trawlers and motor boats were re-equipped in order to place the industry in a better position for competition with other countries. This modernization cannot, however, overcome the high production costs brought about by wartime wage increases. Consequently, the country appears to be confronted with the necessity for wage reduction or currency devaluation.

*d. Finance and Foreign Exchange Position.*

The National Bank of Iceland, a state-owned institution with the exclusive right to issue bank notes, and two other commercial banks, operate over a dozen branches throughout the country. There are, in addition, over fifty savings banks. The foreign exchange value of the krona has been stabilized at \$0.154 since September 1939.

At the end of 1944 Iceland's foreign exchange credits totalled 562,900,000 kr. (\$86,686,000), of which only 57,300,000 kr. (\$8,824,000) was accounted for by the favorable export trade balance. The remaining \$77,862,000 represented military expenditures payments made by the British and American garrisons. At the end of 1944, Iceland's dollar assets alone totalled \$44 million, an amount 36 times greater than the total value of her 1938 surplus of exports over imports. Taxable income rose from \$17.5 million in 1938 to \$111 million at the end of 1945, a six-fold increase, or, if the tripling of the price level is taken into consideration, a doubling of real income.

In January 1945, the government adopted a New Construction Program designed to utilize the large foreign exchange holdings by importing capital goods to modernize and expand Iceland's industry, particularly fishing. Heavy importation of automobiles, radios, and other war-scarce goods has also contributed to the rapid utilization of the foreign exchange accumulation. By the end of October 1947, unobligated foreign exchange reserves had dwindled to less than a million dollars equivalent value. The export of Iceland's exceptionally large 1947-48 winter herring catch had increased foreign exchange holdings to the equivalent of \$1.5 million by 1 March 1948. The National Bank recently obtained a loan of one million pounds sterling from Great Britain in 1947 and is negotiating for an Export-Import Bank loan of approximately \$2 million.

*e. International Trade.*

Prior to 1940 more than 60% of Iceland's foreign trade was with Scandinavia, central Europe, and the Mediterranean countries. When trade with those countries

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was almost eliminated after June 1940, Icelandic trade shifted to the UK, Canada, and the US. In 1940, all exports, except for cod-liver oil to the US, dried fish to Spain and Portugal, and a small quantity of salted herring to Sweden, went to the UK. This diversion of trade from normal channels continued through 1946 when the USSR, with which trade had previously been almost nonexistent, showed a sudden interest and purchased 20% of Iceland's exports to become her second largest customer. The UK retained first place by purchasing 36% of Iceland's exports. Trade with other European countries was again resumed on a limited scale, Italy in particular, rising to third place as a market for Icelandic exports during 1947.

Iceland's difficulties in disposing of its expensive fish products have been accentuated by a poor summer herring catch for three successive years. The demand for herring oil has been so great that Iceland has been able to command favorable prices for frozen fillets by tying their sale to herring oil purchases. For example, the USSR and Britain were each promised 40% of the 1947 herring oil production, contingent on their purchase of frozen fillets in a 3:2 proportion to the herring oil delivered. With the herring catch about one-half the amount anticipated, Iceland was left with over half of her fish catch in fillets and iced fish to dispose of elsewhere. In the summer of 1947 the US arranged for purchase of fish under its Mediterranean relief program. A favorable development toward the end of 1947 was the agreement in principle by the United States and the United Kingdom to purchase with sterling substantial quantities of Icelandic fish for shipment to the bizonal area of Germany. Prices are, however, to be established at the open market level prevailing in England for comparable qualities. The exceptionally large catch of herring during the winter of 1947-48 provided a greatly increased export surplus of herring and herring oil. This herring was caught off the west coast, however, abnormally far from the processing plants located on the north coast so added transportation further increased the already excessive production costs.

*f. Cooperative Societies and State Monopolies.*

The Federation of Icelandic Cooperative Societies is the largest single business concern in Iceland. It controls between 80 and 90% of the total export of agricultural products, about 90% of the total meat export (including the entire export of frozen mutton), and 80% of the wool export. It has not penetrated the fish export business. It handles about 20% of the total imports, including most of the agricultural machinery.

State monopolies are another distinctive feature of Iceland's economy. State monopolies currently import some of the indispensable commodities, including tobacco, liquor, radios and radio parts, fertilizers, vegetables, and drugs.

**3. ECONOMIC STABILITY.**

Prior to the war, economic stability in Iceland was maintained because the standard of living was firmly based on the earning power of Iceland's exports, a balance being maintained through government control of imports. Wartime conditions destroyed this equilibrium.

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A return to economic stability is contingent upon a return to a considerably lower living standard supportable by Icelandic foreign trade. The basic problem arises from the inflated production costs of the Icelandic fish industry, in the face of renewed foreign competition and falling world prices for fish.

Opposition to wage reduction, led by the Communists who control the labor movement, is an important deterrent to effective deflationary legislation. Recent measures taken to increase government revenues and to absorb excessive purchasing power include a capital levy and a sales tax, as well as the abandonment of consumer subsidies.

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### SECTION III

#### FOREIGN AFFAIRS

##### 1. GENESIS OF ICELAND'S FOREIGN POLICY.

Iceland's foreign policy has been developing only since 1941 because prior to that time its foreign affairs were conducted by Denmark. The effective period is even shorter considering the fact that Iceland was practically isolated during the war except for contact with the United States and Great Britain and that its trade was governed, not by choice, but by circumstances beyond her control.

Iceland's foreign policy is compounded of these basic factors: a struggle for national survival, a desire to minimize foreign attention resulting from the island's newly acquired strategic importance, a complete lack of armed forces or any military potential, and the economic necessity of acquiring suitable markets for fish exports. Preference for any one of the major powers or any political orientation is confused by the necessity of reconciling these usually divergent factors. Icelanders who desire to avoid "Americanization" and who oppose Communism may seek closer connections with Scandinavia; merchants, for economic reasons, desire collaboration with the United States or England, while the fishing interests look to Britain and the USSR.

##### 2. SIGNIFICANT RELATIONS WITH OTHER NATIONS.

###### *a. United States.*

Icelandic relations with the US are significantly influenced by Iceland's policy of "neutrality" between East and West, by fear of "Americanization", and a determination not to become a military base of the US.

Under an agreement of July 1941, US forces entered Iceland to protect the country and Allied shipping routes in the North Atlantic. The US took over this responsibility from the British, who had landed in 1940, and agreed to occupy until "the end of the war." After hostilities with Germany ceased, the US, in October 1945, negotiated with Iceland for a long-term lease of two air bases and one naval base which had been constructed by the occupying forces. The proposal was made public in April 1946, when the Icelandic Prime Minister announced that Iceland could not consider such an arrangement. The announcement increased an already awakened antagonism for the Americans, and the Icelanders considered such a request for bases an infringement of their sovereignty. The United States then invoked the clause "end of the war" and, maintaining that the war was not officially ended, continued to operate Meeks Field. About 1,000 of the original 50,000 men stationed in Iceland remained. A new proposal was submitted to the Icelanders, and on 7 October 1946 the US-Iceland Airport Agreement was signed whereby Meeks Field (at Keflavik) was transferred to the government of Iceland, and Iceland granted the

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US landing rights there. The US was granted permission to operate the technical facilities of the airfield and to provide the technical personnel necessary to maintain the field as an international airport for a minimum of 6½ years in order to fulfill "US obligations to maintain control agencies in Germany." American Overseas Airlines, through its subsidiary, the Icelandic Airport Corporation, is designated as the agent of the US in the operation of the field. The last of the United States armed forces were withdrawn in April 1947.

US operation of the facilities at the Icelandic-owned field continues to present many technical difficulties which cloud the friendliness of US-Icelandic relations. Icelanders, in their trepidation of harboring a military base, or even an "American air base," question every improvement involving the use of American personnel and material. Propaganda in the Communist press keeps this fear constantly before the public, with most officials and politicians reluctant to display any cooperation which could be labelled pro-American.

One exception to the general rule is Foreign Minister Benediktsson (Conservative) who is outspoken in his anti-Communism and pro-Americanism. He has been extremely cooperative in attempting to alleviate the difficulties involved in the implementation of the airport agreement and is anxious to promote closer US-Icelandic relations. Present US efforts to aid Iceland's economy (projected ERP aid and the promotion of the UK-Icelandic arrangement for the sale of Iceland's fish for consumption in the Western occupied zones of Germany) may help to improve relations.

*b. Scandinavian Countries.*

Iceland is considered one of the Scandinavian countries by virtue of racial origin, cultural heritage, and close association with both Norway and Denmark. Not being absolutely sovereign prior to the war, Iceland was not a member of the Oslo States. The country is now participating, however, in Nordic ministers' meetings which endeavor to formulate a unified and cooperative policy for the Scandinavian countries in international organizations, and is consulting with the other Scandinavian countries concerning closer economic collaboration and the possibility of a Scandinavian customs union. Iceland is eager to develop closer relations with Norway, Sweden, and Denmark, but in addition to Iceland's nationalism and jealousy of sovereignty the competitive nature of their economies imposes added obstacles. Iceland is resentful of any moves by the other Scandinavian countries which appear dominating or dictatorial.

Iceland considers itself closer to Norway than to Denmark or Sweden. In recent Nordic ministers' meetings the Icelandic spokesmen aligned themselves with the Norwegians to urge the Swedish and Danish governments to adopt a strong anti-Communist program. Iceland's Foreign Minister is extremely critical of Swedish Foreign Minister Uden's neutrality policy.

*c. The United Kingdom.*

Iceland's ties with the UK are principally economic, and since 1939 the UK has purchased the major part of Iceland's exports. Iceland's inability to secure re-

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quired imports from the sterling area because of shortages of available goods, a recovery of the British fishing industry, and a rapid decline in Iceland's sterling reserves have hampered recent trade relations. In negotiations over the purchase of fish for the US-UK occupied zones of Germany, Icelandic officials have been fearful of hard bargains that would be asked by the British. Earlier trade negotiations between the UK and Iceland have resulted in mutually acceptable terms, but in the future, as Iceland's herring oil becomes less important because of improvement of the world fat situation, the Icelanders probably will find it increasingly difficult to compete in the UK markets unless Icelandic fish prices are reduced to a competitive level.

*d. USSR.*

Icelandic relations with the USSR were practically nonexistent until January 1944 when an agreement was signed for the first exchange of diplomatic representatives. Iceland's present day strategic importance attracted increasing Soviet attention, and in 1946, just one month before the Icelandic parliamentary elections, the USSR offered an Icelandic trade delegation a proposal more favorable than even the most optimistic Icelander could have hoped for. The prices offered were higher than any obtainable elsewhere; the commodities to be exchanged gave Iceland a possible favorable trade balance of almost \$10 million which, as an added inducement, was payable promptly in US dollars.

In October 1946, just a few days after conclusion of the US-Iceland Airport Agreement, the Icelandic Minister for Fisheries (Communist) announced that he had been negotiating with the Soviet Commercial Attaché for the sale of Iceland's entire anticipated 1947 production of fish and fish products at prices even higher than those paid during 1946. Shortly after the Communist withdrawal from the cabinet in protest against the Airport Agreement, the Soviet Commercial Attaché and his purported trade offer returned to the USSR. An Icelandic trade delegation subsequently spent four months of frustrating negotiations with the Soviets for a 1947 trade agreement which was finally concluded, this time immediately following the announcement of a UK-Iceland trade agreement.

The political implications of these postwar trade agreements become even more apparent when a comparison is made with prewar USSR-Iceland trade. The total trade for the sixteen-year period 1930-45 amounted to only 3% of the trade for 1946 alone. Further indication of Soviet interest in Iceland is the increase in Legation personnel at Reykjavik.

There has been no reported demand by the Soviets for privileges in Iceland comparable to those afforded the United States, but Iceland's fear of such a demand is apparent in the conduct of its foreign affairs.

*e. International Organizations.*

Iceland's participation in international organizations is predicated largely upon national rather than international considerations. Participation in the Paris Conference for discussion of European recovery was considered an excellent opportunity to remind the nations gathered in Paris that Iceland had fish for sale. Ice-

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land viewed this conference as a good thing for Western Europe but actually of little or no consequence to Iceland itself.

In July 1946 Iceland applied for admission to the United Nations and was admitted to membership in November 1946. The head of the Icelandic delegation to the General Assembly is Thor Thors, Minister to the United States. Iceland has not been represented on any of the UN commissions to date. Iceland's membership in international organizations extends also to the ILO, FAO, IRO, ITO, ICAO, and the International Bank and Monetary Fund.

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SECTION IV  
MILITARY SITUATION

Iceland has no military, naval or air forces and has declared itself permanently neutral. The constitution provides that service for the defense of the country can be made mandatory on every man capable of bearing arms, but supporting legislation has not been enacted.

Internal order is maintained by a police organization responsible to the Minister of Justice. Its present strength is about 100 uniformed policemen, most of whom are used to preserve order and direct traffic in Reykjavik.

Iceland has no forces to resist aggression, and the sparsity of population makes it highly improbable that any organized underground resistance would be formed in the case of occupation by a hostile power.

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## SECTION V

## STRATEGIC CONSIDERATIONS AFFECTING US SECURITY

The importance of Iceland, from the point of view of US security, lies in its strategic location and in its possession of two well developed airfields suitable for use by long-range aircraft. Under hostile control, Iceland would serve as a base for the interdiction of North Atlantic shipping routes and for one-way air attack on installations in all of the US except possibly the extreme southwest area. Conversely, if cooperative and secure, Iceland would be of great value as a US base for the protection of North Atlantic shipping, air transit to northwestern Europe, and long-range air operations over Europe.

Iceland's indigenous military potential is insignificant. Its only economic significance lies in the relatively minor importance of the Icelandic fisheries as a source of food for Western Europe.

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## SECTION VI

## PROBABLE FUTURE DEVELOPMENTS AFFECTING US SECURITY

The impact of Iceland's newly acquired strategic importance upon the country's insularity and traditionally intense nationalism is expected to promote the pro-Western tendencies already evident in the present coalition government. The government's stability, although uncertain at its inception, has improved and the continuing benefits to Iceland's economy from the economic recovery of Western Europe and from the ERP may well enable the present coalition to remain in power until the next general election in 1950. The Communists, whose bargaining position was strong when the present government was formed early in 1947, subsequently have suffered severe setbacks as well as perceptible loss of popularity. Their influence in the labor unions may be further weakened by a continuing improvement in Iceland's economic position. This trend combined with the cooperative viewpoint of a few influential members of the Icelandic government definitely limits Communist capabilities for obstructing the implementation of the Airport Agreement and consequently of denying to the United States the advantages of Iceland's strategic location.

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## APPENDIX A

### TOPOGRAPHY AND CLIMATE

Iceland lies in the North Atlantic approximately 200 miles southeast of Greenland and 600 miles west of Norway, with its northernmost point at the Arctic Circle. It has an area of 40,437 square miles; the greatest length of the island is about 300 miles east and west and the greatest width is about 200 miles from north to south. Geologically, Iceland is an unfinished country because it is frequently being added to by outpourings of lava and volcanic ashes.

The name Iceland is a misnomer because only about one-eighth of the surface is covered by ice. The surface is largely a bleak, rugged upland averaging 2,000 to 3,000 feet above sea level with numerous peaks and volcanoes rising to 4-5,500 feet. Around this upland are narrow borders of rugged coastal land, valleys leading into the interior and a few small low areas in the south and west. The coast varies from the deeply indented fjord coast of the east, north and west to the low, sandy, surf-beaten south shore.

Iceland's glaciers, melting snow, and high rainfall produce extensive runoff, and the rivers are consequently numerous. The rivers are for the most part unnavigable because of their steep fall, but they are potentially useful for waterpower development. Hot springs and geysers are spread over a larger area, and their activity is more intense in Iceland than anywhere else in the world. The waters vary in temperature up to two or three degrees above boiling point and constitute a virtually inexhaustible store of energy.

Only a small part of Iceland is covered with a continuous carpet of vegetation. Forests, which existed in Iceland at the time of the first settlements, were thoughtlessly used up and the consequent denuding exposed the loose soil to the wind, leaving only gravel and lava on which no new vegetation could grow. Scrub growths of birch, dwarf willows, and mountain ash now exist only in the more favorable areas. The government is sponsoring a reforestation program but progress is difficult because of the extremely unfavorable soil conditions.

The climate is tempered by the North Atlantic drift and affected by the arrival or nonarrival of drift ice along the north and east coasts. The climate is prevailingly very damp, relative humidity averaging about 80% throughout the year. Air temperatures can be characterized as mild in winter and cool in summer. The mean annual range of temperatures for seven stations recorded over a forty-seven-year period is 53° F, the mean annual extremes for the coastal stations included above being 70° and 3° F. The climate of the interior is more extreme.

Iceland does not experience the long Arctic nights, the shortest winter day having more than 2½ hours of daylight.

## APPENDIX B

## SIGNIFICANT COMMUNICATIONS FACILITIES

Communications facilities in Iceland are relatively undeveloped because of the sparsity of the population and the great physical contrasts which exist within the island. Icelandic transport falls mainly into three categories: (1) land transport along the coast and across the coastal plains; (2) sea transport around the island and to foreign countries; and (3) air transport.

Road transport in Iceland is a comparatively recent development. Prior to 1900 there were very few bridges, and wheeled vehicles were almost unknown. All inland transport was by pack horses over bridle paths. Construction of bridges and roads was undertaken about 1900, and at the present time the road net is approximately 3,000 miles in length of which, however, only a few short stretches are suitable for two-way traffic. Except for some of the roads in the coastal regions of the western half of the island, few can be considered suitable for conventional motor vehicles, and of those only a limited few are passable from October to early May. The Icelandic pony is, therefore, the chief means of land transportation.

Sea transport around the island is limited by the lack of adequate harbors along a large part of the coast. Coastal steamers are forced to anchor at a distance offshore while passengers and freight are transferred in rowboats. Limited port facilities are available at many of the coastal towns and cities, but the harbors are either too small or too shallow to accommodate large merchant vessels or naval ships. Good anchorages, however, exist outside several of the harbors.

Air transport in Iceland is not extensively developed because funds and manpower are limited. The two domestic air lines, Iceland Airways, Ltd., and Skyways, Ltd., have expanded domestic operations since the war, and scheduled flights are operated between Reykjavik and Copenhagen via Prestwick, Scotland.

Meeks Field near Keflavik, the largest airfield in Iceland, which is operated by US and Icelandic personnel, is now being used by international civil air lines. It has four runways exceeding 6,000 feet in length, complete weather service, and radio aids. Night landings are made frequently. Continued operation is contingent upon considerable outside aid because Iceland has neither financial resources nor technically trained personnel adequate to fulfill its commitments under ICAO requirements.

## APPENDIX C

## POPULATION: STATISTICS, CHARACTERISTICS, AND INSTITUTIONS

The population of Iceland as of 31 December 1946 is estimated at 133,000. Since 1880 the population has grown steadily with the greatest increase occurring since 1920 (35.9% from 1920-44). The growth is due almost entirely to the excess of births over deaths. In 1944 the birth rate was 25.1 per 1,000 compared with a death rate of 9.4.

The population is concentrated in the villages and towns on the periphery of the island, chiefly in the west and southwest sectors. With three-fifths of the total land area uninhabitable, the effective population density of the island is 3.16 per square mile, the lowest in any European country. An upward trend in the rural to urban population shift has accompanied the change from a predominantly farming economy to one where fishing and fish processing are the major industries. Whereas in 1920 the rural areas were settled by some 54,000, or 58% of the inhabitants, the shift towards towns and cities has reversed the rural predominance so that of the 1944 population only 36% lived in rural areas.

Iceland is one of the most racially pure countries in Europe. In 1940, of the 1,158 foreigners on the island only 58 were non-Scandinavian. The basic Icelandic stock is Scandinavian, chiefly Norwegian. Minor Celtic and Scottish strains were introduced in the early immigrations, and there are some identifiable Armenian and Mediterranean racial types. The average Icelander is tall, light-eyed and fair complexioned. Stubbornness and argumentativeness are recognizable characteristics of the Icelandic temperament, which is predominantly gentle, and kindhearted. Extreme patriotism from which has sprung uncompromising nationalism is a characteristic of the Icelanders as a people.

The Icelandic language is described as 10th century Scandinavian or Old Norse which has been preserved almost unchanged from the early settlers. No dialectic variations occur and few international terms for new ideas or scientific developments are incorporated in the language.

Universal compulsory education in Iceland dates from 1907 and has been extended so that schooling is now compulsory for all children from 7 to 14 years old. Although elementary education is free and the system has been expanded in the past two decades, the difficulties of transportation are a limiting factor in extending educational facilities to the rural and outlying fishing districts.

Compulsory education ends with the elementary schools. There are district secondary schools, subsidized by the state, which prepare students for admission to various technical schools or the University of Iceland. The state-owned technical schools include a teachers college, a nautical school, marine and electrical engineering school, agricultural schools, and nurses training schools. The University of Iceland has five colleges — Theology, Medicine, Law, Philosophy, and Research.

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Illiteracy is rare in Iceland and there is a great emphasis placed on intellectual pursuits. Proportionate to the population the number of books published in Iceland far exceeds that in the US, and there is an extensive daily and weekly press. The daily press is limited to Reykjavik. All the newspapers in Iceland are associated with the political parties. Latest figures indicate about 1 in every 4 persons on the island owns a radio receiving set. Radio broadcasting is a monopoly of the government which operates Radio Reykjavik, the sole station, through the Ministry of Education.

Iceland adopted the Christian faith as a state religion by parliamentary decree in the year 1000. It is a Protestant country and 98% of the people are members of the Lutheran Church. The Evangelical Lutheran Church is established by the constitution as the national church with a single bishopric in Reykjavik. Of the 2,859 persons who were not members of the Lutheran Church in 1940 less than half were members of other churches, principally Adventist and Roman Catholic. Full religious liberty has existed in Iceland for over 50 years. Although the Lutheran Church is the national church, no one is required to contribute to its support if not subscribing to its faith.

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APPENDIX D  
SIGNIFICANT PERSONALITIES

**BJORNSSON, SVEINN:** President of Iceland.

Date of birth: 27 February 1881.

Education: Law degree from University of Iceland.

Career: Supreme Court Lawyer — 1907-20; Member of Althing 1914-16, and 1919-20; Icelandic Minister to Denmark 1920-24, 1926-40; Regent of Iceland (elected) 1941-44.

Remarks: Elected for the Presidency by the Althing in 1944, Björnsson, unopposed as a nominee for popular election, was named President by acclamation in July 1945 and was unopposed in 1946 for a succeeding 4-year term.

Experienced in international relations, he is regarded as a prudent and judicious arbitrator. While considered the only nonpartisan political leader in the country, he was opposed in his first election by all the Communist Althing members and a few Conservative and Progressive members. There is no question of his popularity with the people in whom he seems to inspire great confidence.

He speaks English, French, and German, in addition to the Scandinavian languages. His attitude toward the US is very friendly. Björnsson visited the US in 1944 on the invitation of President Roosevelt.

**BENEDIKTSSON, BJARNI:** Minister of Foreign Affairs and Minister of Justice.

Date of birth: 30 April 1908.

Education: University of Reykjavik, Law degree 1930; Graduate studies — Berlin University 1930-32; Speaks English and German.

Political affiliation: Conservative Party.

Career: Conservative Party Committee Member 1936 to date; Mayor of Reykjavik — 1940-47; Member of Althing — 1942 to date; Delegate to UN General Assembly, 1946.

Remarks: Benediktsson is regarded as one of the most influential men in the Conservative Party. He is described as an extremely capable young man, an astute politician, and clear thinker. In his first years as Mayor he initiated a policy of collaboration with the Communists, but he is said to have become fully alive to the Communist danger. Immediately after the announcement of his appointment as a delegate to the United Nations, he was attacked by the Reykjavik Communist press as being an agent of the United States and therefore not trustworthy as an Icelandic representative.

Since his appointment as Foreign Minister, Mr. Benediktsson, in speeches before the Althing and in a series of newspaper articles, has castigated the activities of the Communist Party. His efforts in this direction have been so strong that a few of the more cautious members of the Conservative Party are reported to have suggested that he adopt a more circumspect tone lest his writings jeopardize any chances for Con-

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servative-Communist collaboration in future cabinets. Although a protégé of Olafur Thors, Benediktsson appears to have joined the right-wing Conservative faction, violently opposed to Thors' policy of Communist collaboration.

He has made every effort to alleviate difficulties in the implementation of the Airport Agreement and to promote closer and better US-Icelandic relations. Recently he made mention to the US Chargé of the desirability of extending the agreement past its initial duration.

**THORS, OLAFUR:** Leader of the Conservative Party; member of delegation to UN General Assembly.

Date of birth: 19 January 1892.

Political affiliation: Conservative Party—which he dominates.

Career: Member of Althing 1926 to date. Minister of Justice 1932-39. Minister of Foreign Affairs 1939-42. Prime Minister 1942, 1944-47 (also Foreign Minister).

Remarks: Olafur Thors is the outstanding personality among the small group of politicians whose personal relationships contribute as much to the complexion of Icelandic politics as do the clash of political ideas. Thors is the head of the Conservative Party and the head of the Thors family, which controls a large part of the country's shipping and processing industries. He also controls the Reykjavik daily morning newspaper, which reputedly has the largest circulation in Iceland. Until recently Olafur Thors' domination of the Conservatives was almost undisputed, but his program of collaboration with the Communists has evoked strong criticism from right-wing anti-Communist Conservatives. Bitter personal and political enmity between Olafur Thors and Herman Jonasson, leader of the Progressive Party, has consistently been an obstacle to Progressive-Conservative cooperation, which otherwise would be feasible on the basis of party interests. It is believed that Olafur Thors entertains ambitions of becoming President of Iceland.

As Prime Minister of the coalition cabinet formed in 1942 Thors succeeded, by adept juggling and finesse, in holding together the warring elements of his own party as well as the rival parties participating in the government. He is the most seasoned politician in Iceland.

Throughout his tenure of office he showed himself to be definitely favorable to the US, finally losing control of the government after forcing through the US-Iceland Airport Agreement. Extremely nationalistic and chauvinistic, however, Thors is inclined to be very resentful of any indications of domination or attempts by a foreign government to influence Icelandic affairs. Olafur works closely with his brother, Thor Thors, Icelandic Minister to the US, whose pro-Americanism is frequently demonstrated. While exceedingly opportunistic, Olafur is not likely to change his Western orientation.

**STEFANSSON, STEFAN JOHANN:** Prime Minister and Minister of Social Affairs; Chairman of Social Democratic Party.

Date of Birth: 20 July 1894.

Education: Law degree, University of Reykjavik 1922.

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Career: Member of Althing 1934 to date; President of Federation of Icelandic Trade and Labor Unions 1938-40; Foreign Minister and Minister of Social Affairs, 1939-42.

Remarks: In January, when Thors failed to form a government, President Björnsson chose Stefansson, although the Progressives and Communists had larger Althing representation, to form a cabinet. A right-wing Social Democrat, Stefansson was able to reach an agreement with right-wing Progressives and Conservatives and form the present anti-Communist cabinet in February 1947.

Internationally he is a strong supporter of the UN and favors closer relations with the UK and Scandinavia. He voted for the Airport Agreement and is said to be favorably inclined toward the US.

Domestically he is a strong parliamentarian of the right wing (dominant wing) of the Social Democratic party. Stefansson is active in espousing the cause of organized labor and favors enlarging the sphere of government ownership. A violent anti-Communist, and *persona non grata* to the Communists, he is acceptable to both the Progressives and Conservatives on whom he exerts a mediating and stabilizing influence. He is one of the few Icelandic politicians without violent personal or political enemies.

JONASSON, HERMAN: Progressive member of Althing; Member of Iceland Delegation to UNGA 1947.

Date of birth: 25 December 1896.

Education: University of Reykjavik, Law degree 1924; Speaks English, German, and Danish.

Political affiliation: Chairman of Progressive Party.

Career: Chief of Police, Reykjavik 1929-33; Prime Minister 1934-42; Member of Althing 1934 to date; Member of Althing Foreign Affairs Committee, 1944 to date.

Remarks: Herman Jonasson has been the leader of the Progressive Party since 1942. He controls the left-wing group which is not giving its full support to supporting the government but he has given his consent to participation by the moderate and right-wing factions under the leadership of Eysteinn Jonsson. Although voting against the Airport Agreement, it is believed that Jonasson is anti-Communist but politically radical and opportunistic. He has recently made protestations of extreme anti-Communist feeling to US Legation officials. However, his political ambition is very great and ambition again to become Prime Minister might lead him to strike a bargain with the Communist Party for formation of a Progressive-Communist coalition under his leadership. His personal feud with Olafur Thors, although now showing definite signs of abatement, has been the chief obstacle to a Conservative-Progressive coalition. Of the 13 Progressives in the Althing 6 are supporters of Herman Jonasson. There are some indications that his power in the party may be declining and that Eysteinn Jonsson may oust him as leader.

Although favorably inclined toward the US, political opportunism is more likely to influence his action than any idealistic convictions.

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**BJARNASSON, BRYNJOLFUR:** Chairman of the Executive Committee of the Communist Party.

Date of birth: 26 May 1898.

Education: Bachelor's degree, University of Copenhagen 1919; studied in Berlin 1923-24.

Career: Member of Althing 1942 to date; Minister of Education 1944-47.

Remarks: Although not the leader of the Communist Party in Iceland, Bjarnasson is reliably reported to be the most powerful member in the party. A teacher by profession, he is the leader of the intellectual Communists who dominate the party. Politically he is said to be ruthless, fanatical, and willing to sacrifice for party ideals. He is a great admirer of the Communist system with which he became personally familiar on two trips to the USSR prior to 1942. In all probability his faith in the Communist system and his admiration of Russian methods dominate his views on Icelandic foreign policy.

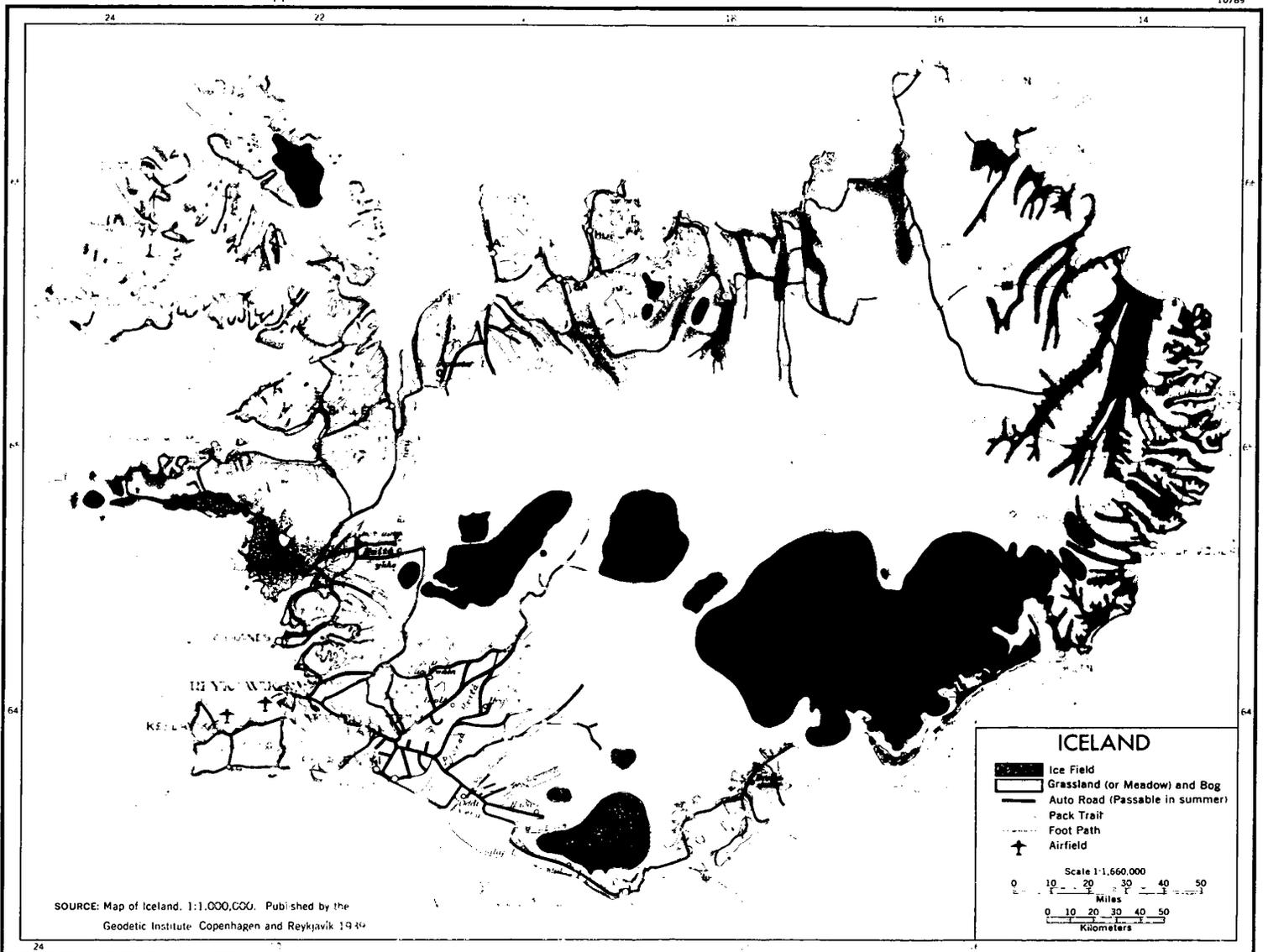
He is anti-US, voted against the Airport Agreement, and constantly attacks Foreign Minister Benediktsson and ex-Prime Minister Thors as traitors to Iceland because of their support of the Agreement.

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APPENDIX E  
CHRONOLOGY OF SIGNIFICANT EVENTS

- 930 — First Icelandic Republic established.
- 1000 — Christianity adopted by Parliamentary Decree.
- 1262 — The Republic ended when Iceland's Althing swore allegiance to the Norwegian king.
- 1534 — Danish king acquired control of Iceland from Norway.
- 1602 — King Kristian IV of Denmark granted a monopoly of Icelandic trade to three Danish towns.
- 1662 — Icelanders swore allegiance to King Frederik of Denmark as absolute ruler of Iceland.
- 1787 — Free trade with Iceland reopened to all subjects of the kings of Norway and Denmark.
- 1843 — Iceland's Althing revived by Danish king.
- 1874 — A constitution granted to Iceland.
- 1915 — Constitution revised—suffrage granted to all men and women above 25 years.
- 1918 — Act of Union came into force whereby Iceland became an independent state, united with Denmark under a common king.
- 1940 — (10 April) Parliamentary resolution placed the authority of the King in the hands of the Icelandic Government.
- 1940 — (10 May) British forces landed in Iceland.
- 1941 — (17 June) Sveinn Björnsson elected regent and vested with virtual royal authority.
- 1941 — (July) US-Iceland Defense Agreement approved by the Althing. US Forces replaced the British.
- 1944 — Dissolution of the Act of Union. Iceland became an independent sovereign nation.
- 1944 — Sveinn Björnsson elected first President of the Icelandic Republic.
- 1946 — (7 Oct) US-Iceland Airport Agreement approved.
- 1946 — (November) Iceland admitted as a member of the UN.
- 1947 — (April) Remaining US troops of the Iceland garrison withdrawn.





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