

Preface

This third OECD Environmental Performance Review of Iceland shows that the people of Iceland enjoy a very good environmental quality of life, with excellent water quality, low air pollution and easy access to nature. Indeed, one-fifth of the country's area is under some form of nature protection. Nevertheless, the report argues that the quality of some environmental services, such as waste disposal and wastewater treatment, could be further improved, and calls for additional efforts to achieve Iceland's green growth objectives.

Iceland's economy and environment are unique in many respects. The country has recently started to emerge from the deep economic recession sparked by the 2008 financial crisis. The natural environment is a key asset in Iceland's recovery: it provides plentiful renewable energy reserves, as well as the pristine wilderness and spectacular landscapes that attract thousands of tourists every year. This is why energy and tourism were chosen as focus topics for this review.

Nearly all Iceland's electricity and heat are generated from hydro and geothermal sources, by far the highest share in the OECD. Power production capacity has expanded enormously to meet the demand of aluminium smelters and other energy-intensive industries. However, building new power capacity exerts pressures on the country's unique landscape and fragile ecosystems, and has generated heated public debates. In response, Iceland developed an energy master plan, which is an innovative approach for resolving land-use conflicts related to energy projects. Road transport and fishing are the main users of fossil fuels. Reducing greenhouse gas emissions from these sectors remains a major challenge, largely due to the lack of alternatives.

The report highlights that nature-based tourism is an important source of economic growth. Over one million tourists per year are expected to visit Iceland by 2020, more than three times the country's population. Increased international arrivals and high seasonality exert growing environmental pressures. Iceland has made strides to ensure the environmental sustainability of tourism, but more needs to be done. Challenges include strengthening inter-institutional co-ordination in policy making and implementation, ensuring adequate finance and improving the environmental performance of tourism operators.

This review presents 28 policy recommendations. It suggests, for example, that institutional arrangements should be further rationalised, administrative capacity reinforced, and environmental assessment and licensing procedures streamlined. It calls for the reform of implicit and explicit subsidies for fossil fuel use and sheep grazing, and for a review of building energy efficiency standards.

The review also recommends that the independence of scientific assessments, the use of economic analysis and the role of public participation should be strengthened in the

next phases of the energy master plan. More effective urban planning and design of public transport services could help reduce urban sprawl and private car use. In addition, the opportunities and obstacles for greater use of electric vehicles merit further consideration.

Iceland would benefit from a comprehensive action plan for sustainable tourism developed in close co-ordination with land-use and nature conservation policies. A more effective mechanism is needed to co-ordinate the actions of governmental and other stakeholders. Well-designed financing mechanisms are necessary to support the construction and maintenance of infrastructure needed to allow access to tourist sites while protecting their vulnerable ecosystems.

This review is the result of a constructive policy dialogue between Iceland and the other members and observers of the OECD Working Party on Environmental Performance. Beyond the valuable findings and recommendations for Iceland, I am confident that this collaborative effort will help to improve the management of the environmental challenges faced by other OECD members and partner countries.



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