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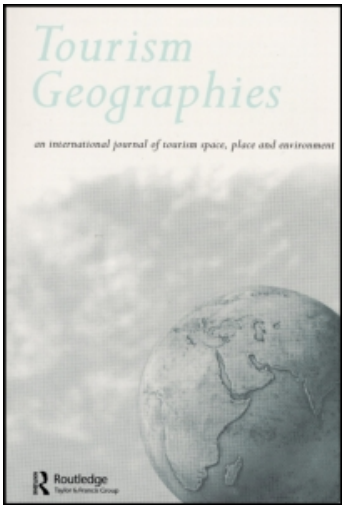

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Icelandic Tourism: Past Directions – Future Challenges

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ABSTRACT *Although island tourism in general has long been considered within the tourism literature, attention has been focused primarily on warm-water islands; conversely, limited attention has been paid to cold-water islands as destinations for tourists. This paper assesses the development of tourism in one such destination, Iceland, and discusses its history and the challenges confronting it. Tourism is one of the fastest growing sectors in the Icelandic economy. Tourism arrivals have multiplied in recent years, doubling, for instance, in the ten-year period between 1997 (201,000) and 2007 (459,000). This growth in arrivals has prompted rapid expansion in the tourism sector, invoking questions with regards to both the opportunities tourism presents and the challenges that will need to be addressed in the near future. In order to underpin a critical appraisal of future challenges, this paper reviews the history of modern tourism in Iceland with a focus on policy and entrepreneurship in tourism. It describes the characteristics of tourism in Iceland and its development, and critically illustrates some of the main challenges the tourism industry in Iceland is facing. In so doing, the paper seeks to add to the understanding of the opportunities and challenges facing cold-water island destinations that are experiencing significant growth in tourism.*

KEY WORDS: Cold-water island tourism, Iceland, tourism development, tourism policy, socio-sustainability

Résumé: Tourisme en Islande: L'orientation du passé–Challenges pour l'avenir

Bien que le tourisme des îles a généralement été consideré depuis longtemps une partie intégrante de la littérature touristique, l'attention a surtout été visée aux îles d'eau chaude; réciproquement, les îles d'eau froide ont reçu une attention limitée comme destinations pour visiteurs. Cette dissertation évalue le développement du tourisme dans une de ces destinations, c'est à dire l'Islande, et discute son histoire touristique et les challenges à l'avenir. Le tourisme est un des secteurs de l'economie nationale en grande croissance. Des visiteurs ont multipliés même doublés ces dernières années, spécialement pendant la période de 1997 (201,000) et 2007 (459,00). Cette croissance de visites a stimulé une expansion rapide dans le secteur du tourisme, et en même temps elle pose des questions concernant les occasions présentées par le tourisme et les challenges auquels il faut réagir á l'avenir

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immédiat. Afin de fortifier une évaluation critique de ces challenges, cette dissertation examine l'histoire du tourisme en Islande en visant la politique et les entreprises de tourisme. Elle décrit les caractéristiques du tourisme en Islande et son développement, et elle démontre d'un oeil critique les challenges principaux du tourisme en Islande d'aujourd'hui. De cette manière la dissertation cherche d'expliquer les occasions et challenges qui font face aux destinations d'îles d'eau froide et dont le tourisme est en pleine expansion.

Mots clés: Tourisme des îles d'eau froide, Islande, développement du tourisme, politique de tourisme, socio-viabilité

Zusammenfassung: Isländischer Tourismus: Reisepolitik der Vergangenheit–Aufforderungen der Zukunft

Im großen und ganzen gesehen, haben wir Insel Tourismus lange als einen integrierten Bestandteil der dazugehörigen Literatur betrachtet, obwohl wir unsere. Aufmerksamkeit meistens den warmwasser Inseln gewidmet haben; dagegen hat man wenig Aufmerksamkeit auf kaltwasser Inseln als Reiseziele für Touristen gelenkt. Diese Abhandlung bewertet die Entwicklung vom Tourismus in einem solchen Reiseziel, d.h. Island, und behandelt dieses Thema, die Geschichte davon und die Aufforderungen, die überwunden werden müssen. Der Tourismus in Island ist die Industrie, die in der ganzen wirtschaftlichen Tätigkeit des Landes, im schnellsten Wuchs ist. Die Anzahl von Gästen hat sich vervielfacht und so gar verdoppelt in den zehn Jahren, vom 1997 (201,000) bis zum Jahr 2007 (459,000)t. Diese Zunahme hat eine schnelle Ausdehnung im Sektor des Tourismus verursacht und Fragen gestellt in Verbindung mit den Gelegenheiten, die der Tourismus anbietet, und die Aufforderungen, die diese Tätigkeit in der nahen Zukunft überwinden muβ. Um eine kritische Bewertung der zukünftigen Aufforderungen zu unterstützen, bietet diese Abhandlung einen Überblick über die Geschichte des modernen Tourismus an und beschreibt seine Entwicklung in Island mit starkem Fokus auf Politik und Geschäfte. Sie erklärt die Kennzeichen des Tourismus, wirft einen Blick auf seine Entwicklung in Island, und zeigt auf kritische Weise einige von den heutigen Hauptaufforderungen dieser Tätigkeit. Dadurch versucht diese Abhandlung mehr Verständnis zu vermitteln für die Gelegenheiten und Aufforderungen, die von kaltwasser Insel Reisezielen in lebhaftem Wachstum benutzt und besiegt werden müssen.

Stichwörter:: Kaltwasser Insel Tourismus, Island, Tourismus Entwicklung, Tourismus Politik, soziologische Tragfähigkeit

Introduction

Island tourism enjoys a 'long tradition that continues unabated' (Conlin and Baum 1995: 4). The particular allure of islands – an amalgamation of their physical, cultural and climatic features with the less tangible characteristics of 'island-ness', such as a sense of distance, isolation, separateness, tradition and 'otherness' (Butler 1993; King 1993; Baum 1997; Lockhart 1997; Conkling 2007) – has ensured their continuing and increasing popularity as tourist destinations. As Gillis (2007: 278) observes, 'in Western cultures, islands have always been viewed as places of sojourn ... from the beginning they were seen as remote liminal places', usually associated with pilgrimage or spiritual travel. Nowadays, islands 'often capitalize on their apparent remoteness in time and space to become popular destinations ... islands slake the modern thirst for that authenticity which seems in short supply on the mainland' (Gillis 2007: 280). Indeed, according to Marín (2000), islands have collectively become the world's second most-visited category of destination after historic cities.

Consequently, tourism has become widely adopted as an integral element of development policy on islands and especially island micro-states, to the extent that reliance on tourism as an agent of development is, according to Lockhart (1997), almost universal in an island context. Certainly, the fact that the top 25 nations ranked according to the contribution of tourism to GDP are all island destinations is evidence of the significance of, and dependence upon, tourism in island micro-states (Sharpley 2007). Moreover, if subnational island jurisdictions are considered in addition to the 43 national states that are exclusively island states (Baldicchino 2006a), dependence upon tourism is even more marked (see, for example, Bull 1997; Andriotis 2001).

Not surprisingly, the issue of dependency is a dominant theme within the burgeoning island tourism literature. It has long been observed that many of the factors that contribute to the touristic allure of islands represent, at the same time, challenges to the longer-term sustainability of their tourism sector (MacNaught 1982; Bastin 1984; Wilkinson 1989; Milne 1992; Lockhart *et al*. 1993; Conlin and Baum 1995; Briguglio *et al*. 1996; Harrison 2001; Ioannides *et al*. 2001; Apostolopoulos and Gayle 2002). In particular, a traditional and limited agrarian economic base, a lack of resources and isolation from metropolitan centres serve to enhance the inevitability of a dominant tourism sector (Milne 1997), whilst external factors, such as historical or colonial links (Frendo 1993) or dependence on overseas corporations (Sastre and Benito 2001), compound the typical centre–periphery dependency model of island tourism development (Høivik and Heiberg, 1980; Opperman 1993).

Two related points, however, deserve emphasis. First, the great majority of the literature cited above focuses upon islands (particularly small island micro-states) with established and dominant, albeit in some cases declining, tourism sectors. This literature thus adopts a reactive perspective on the sustainable management and development of island tourism (Briguglio *et al*. 1996; Ioannides *et al*. 2001; Apostolopoulos and Gayle 2002). Secondly, as Baldicchino (2006b) observes, the study of island tourism has typically been concerned with warm-water island destinations and the environmental, economic and socio-cultural challenges associated with the (over)-development of sun–sea–sand tourism. Although there is a long history of tourism on cold-water islands (Cooper and Jackson 1989; Butler 1993), the most significant growth in contemporary island tourism, reflecting more general patterns of tourism development, has been in warm-water island destinations. Conversely, until recently and with some notable exceptions (for example, Baum 1999; Baldicchino 2006c), less attention has been paid to cold-water island tourism, a form of tourism that is typified not only by adventurous or challenging activities but also by natural and cultural environments that enhance a sense of island-ness (Conkling 2007).

Nevertheless, tourism in cold-water islands is not only becoming more widely adopted as a developmental option but it also faces a number of challenges related to both island tourism in general (for example, accessibility, developing tourism with a limited resource base, or economic dependence) and to the characteristics of

cold-water island tourism in particular (Baldicchino 2006c). The latter challenges include, for example, matching limited demand to supply based upon fragile or extreme natural environments, distinctive patterns of seasonality and the socio-cultural consequences of developing tourism within small, isolated and often strongly self-reliant communities.

The purpose of this paper, therefore, is to contribute to knowledge and understanding of cold-water island tourism development. It critically explores the past directions and future challenges facing the development of tourism in Iceland, the only cold-water island sovereign state (Baldicchino 2006b) and one in which tourism is assuming an increasingly important socio-economic role but which has attracted surprisingly limited attention within the associated literature (notable exceptions include: Jackson 1984; Baum 1999; Jóhannesson *et al*. 2003; Jóhannesson 2005; Gössling 2006; Reynisdóttir *et al*. 2008; Sæþórsdóttir and Karlsdóttir 2008). The country is now focusing more explicitly on tourism as a means of economic diversification although, following rapid growth in tourist arrivals in recent years, it has arguably reached a critical point in its development as a tourism destination. Based on an analysis of policy directions in the past, the paper identifies four areas that are especially critical for the future of tourism development in Iceland: (1) planning, (2) sustainability, (3) image and promotion and (4) research and education. Following a review of the general development of the tourism sector in Iceland, each of these topics will be addressed, singling out critical issues for future development. In so doing, the paper identifies a number of implications for the development of tourism in cold-water islands more generally.

Iceland

The 103,000 km^2 territory of Iceland is characterized by a varied rugged, volcanic topography, glaciated mountains, an uninhabited high-plateau desert interior and fjord coastal landscapes to the east and west (Figure 1). The population of 313,000 resides predominantly along the coast, with approximately 60 percent living in and around the capital Reykjavík (Statistics Iceland 2008d).

Iceland was first permanently settled by people of Norse descent in the ninth century. In 1262, it became part of the then Kingdom of Norway, then coming under Danish rule in 1380 and remaining so for almost six centuries. During the Second World War, however, the country's colonial status changed abruptly. In 1940, Iceland was occupied by British troops, subsequently replaced by US forces in 1941 and, in 1944, became a republic with a parliamentary democracy, unilaterally declaring independence under the auspices of the Allied forces while Denmark remained occupied by Germany. Although never having established an army of its own, Iceland joined NATO in 1949 and from 1951–2006 a US naval base was located in Keflavík, now the site of the country's international airport (Karlsson 2000).

Figure 1. Map of Iceland. *Source:* National Land Survey of Iceland (2008).

The modernization of Iceland started relatively late compared to most other European countries. During the last quarter of the nineteenth century, commercial fishing emerged and the mechanization of the fisheries followed during the first half of the twentieth century. At that time, Iceland was still ranked amongst the poorest countries in Europe according to common indicators of modernization, such as infant mortality rate, life expectancy and general living standards (Ólafsson 2005). Contrary to the experience of other European countries, the Second World War and concurrent occupation boosted the economy (Magnússon 1993). Following the war, Iceland received almost twice as much Marshall aid as any other country which, along with the wealth amassed through the sale of fish products to the warring nations of Europe, made it possible to build up infrastructure and establish a base for domestic industrial production (Karlsson 2000). The policy guiding this post-war era has been characterized by right-of-centre politics and more liberalist ideologies than in other Nordic countries (Ólafsson 2005).

From very early on, the Icelandic economy has been heavily dependent on fisheries for export. The role of agricultural production was also significant in the nineteenth and early twentieth centuries but decreased rapidly after the Second World War. During the latter half of the twentieth century, systematic efforts were made to diversify the economy through the development of other industries. Predominant was the emphasis on aluminium production, which represents, in effect, the indirect export of the island's plentiful supply of geothermal energy and hydropower. This, along with a burgeoning service economy similar to other Western countries, has resulted in a decline in the contribution of fisheries to GDP while that of industrial products and services has grown. In 2006, the largest sources of foreign currency receipts were fisheries (34%) and aluminium production (17%). Third was tourism (13%), accounting for 4.1 percent of the total GDP (Statistics Iceland 2008c, 2008e).

Table 1 compares Iceland to other Organization for Economic Co-operation and Development (OECD) countries in 2006. At that time, the island enjoyed what seemed to be a healthy economy, albeit experiencing high inflation. This apparently healthy state of affairs has been questioned as the current global credit crunch has had particularly severe consequences for Iceland. According to the Central Bank of

Table 1. Key economic indicators for Iceland compared to OECD average

2006	Iceland	OECD average
GDP per capita ($US)	35.750	31.520
GDP growth (%)	2.6	3.8
Inflation (%)	5.9	2.8
Employment rates (%)	85.3	67.3
Unemployment rates (%)	1.3	6.4

Source: Statistics Iceland (2008f).

Iceland (2008), inflation will rise to more than 20 percent in early 2009. There have been massive lay-offs during the latter half of 2008 and unemployment is forecast to rise by approximately 10 percent (Mbl.is 2008). At the same time, it is estimated that public sector debt will rise to 200 percent of GDP by the end of 2009 as a result of refinancing the banking system. Conversely GDP will decrease by approximately 10 percent (Andersen 2008; Forsætisráðuneytið 2008b; Fjármálaráðuneytið 2009). The consequences of this for the small island's economy remain to be seen but what is clear is that foreign investment will decrease significantly, unemployment will become entrenched and general living standards will decline.

Icelandic Tourism Background

Similar to the rest of the economy, albeit as a late-comer, tourism has grown with remarkable speed during the last twenty years and has become one of the central pillars of the Icelandic economy. However, it has only recently been adopted as an economic development option in public discourse and has yet to be promoted as such in any coherent manner.

Nevertheless, the country has a long history as a destination for travellers and explorers drawn by its reputation as a place of natural extremes (Ísleifsson 1996). The travelogues of many of the early visitors embellished this narrative, contributing to the construction of a particular place-myth of Iceland as an extreme environment which, according to Gössling (2006), still persists. In the late nineteenth century, with the modernization of Iceland and increasing affluence in Europe, people started coming to Iceland in growing numbers.

Policy Development

In 1936, the first legislation on tourism was issued (Lög um Ferðaskrifstofu Ríkisins, 1936). The purpose of the Act was to establish the 'State's Travel Agency', the objectives of which were to draw more visitors to the country and to administer the sector's operations. In addition, it was to function as a travel agent for foreign visitors, with a monopoly on providing services to them. Despite this monopoly, tourism development seems to have been left to its own devices for much of the twentieth century. After the Second World War, entrepreneurs created firms that offered tours into the highlands, while foreign travel companies that had their agents in Iceland prior to the 1936 Act were allowed to continue their businesses. With new legislation in 1964, the existing monopoly was formally abolished and the Icelandic Tourist Board was established, along with a specific *travel fund* that financed the construction of numerous hotels in the country. The Icelandic Tourist Board has since functioned as a channel for state support for tourism, mainly in the form of the marketing and promotion of Iceland as a tourist destination and in sponsoring infrastructure development.

The rationale for the establishment of the Icelandic Tourist Board was economic development (Samgönguráðuneytið, 1983, 2005). Later, this function of tourism was reflected in its role as a strategy to cope with economic crises in agriculture and fisheries in the 1980s and 1990s. In this respect, tourism as economic development has been translated into a tool for regional development (Benediktsson and Skaptadóttir 2002). Following the legislation of 1964, the first concerted efforts at developing a specific policy for the tourism sector were undertaken in the early 1970s. The project was commissioned by the United Nations as part of its technical assistance to Iceland. A US consultancy firm was hired for the task (Checchi and Co. 1975) (Table 2) but their proposals were not implemented. A domestic attempt was made in 1983, this time at the behest of the Icelandic government (Samgönguráðuneytið 1983). Although making a number of proposals, these were not discussed at the parliament and were not implemented as a formal tourism policy (Samgönguráðuneytið 1983). One can only speculate as to the lack of follow up concerning the implementation of the policy proposals. However, it may be suggested that tourism has never been a priority for the government and receives attention only when the traditional economic drivers face crisis, especially in a regional context. The first tourism policy to be implemented to some extent was issued in 1996 (Samgönguráðuneytið 1996) and, since then, the public authorities have devoted more attention to tourism policy making, reworking the 1996 document in 2005.

Table 2 illustrates some of the central themes of Icelandic tourism policy since the 1970s. While concepts have changed, the fundamental focus of the policy documents has remained on building transport and infrastructure and the importance of sustainable development. The 1996 and 2005 policy documents also emphasize image and the way in which cultural heritage and the natural environment could be highlighted through image development and marketing strategies.

As a result of the global financial crisis that has driven almost the entire Icelandic banking system into bankruptcy, tourism has been identified as a potential tool for economic and regional development. Key tourism stakeholders proclaim it as one of the most important pillars of the national economy (Atladóttir 2008a; Ferðamálastofa 2008a; SAF 2008) and political rhetoric reflects this (Skarphéðinsson 2009). Tourism is described as a flexible sector which may be boosted quickly to bring urgently needed foreign currency into the national economy. Thus, the Icelandic Tourist Board, in collaboration with the Icelandic Travel Industry Association (SAF), has called for more investment in marketing and infrastructure (Atladóttir 2008a; SAF 2008). At the time of writing, it remains to be seen if their calls will be answered by public and private sectors.

To summarize, during the twentieth century a regulatory framework was built up around tourism in Iceland. The authorities played a mostly passive role and it was only in the early 1970s that a general tourism policy first emerged. Since then, the authorities have acknowledged the economic potential of tourism and the state has become more active in policy making and planning of the tourism sector. Table 2

Table 2. Central points in tourism policies in Iceland 1972–2005

	Checchi and Co. (1972–5)	Ministry of Transport (1983)	Ministry of Transport (1996)	Ministry of Transport (2005)
Planning	Building up infrastructure. Need for holistic plan of tourism development. Decreasing seasonal shifts.	Building up infrastructure. Securing funding for the Icelandic Tourist Board. Decreasing seasonal shifts.	Focus on the policy and legal framework of tourism. Decreasing seasonal shifts.	Securing the competitiveness of tourism as an industry. Optimize economic yields.
Environment/ sustainability	Environmental protection mentioned. Tourism development also for local people.	Environmental protection mentioned as important.	Sustainability mentioned. Environmental awareness in tourism development emphasized.	Sustainability important. Tourism development related to research on carrying capacity.
Image/marketing	Marketing strategies sketched out. Ideas put forward for the government to implement.	Central markets defined as the USA and northern Europe.	Emphasized. Quality over quantity. Cultural heritage mentioned as important element.	Emphasized. Nature, culture and professionalism central pillars. Image will be constructed and defended.
Research/ education	Enhancement needed. Especially statistics for better planning.	Enhancement needed. Especially statistics. Vocational training.	Enhance research, education and vocational training. Establishment of tertiary education.	Recognized as means to ends and its role underlined as important. Enhancement of all levels of education.

Source: Checchi and Co. (1975), Samgönguráðuneytið (1983, 1996, 2005).

underlines four common themes the authorities have been dealing with from the outset. As will be discussed below, these themes still manifest critical areas of concern for the future development of tourism in Iceland.

Driving Forces of Development

When tourism's past directions and future challenges are discussed in Iceland, almost invariably the number of tourist arrivals is cited to demonstrate the industry's growth in the country. These figures are based upon the number of passengers in Keflavík International Airport showing a non-Icelandic passport on departure (Figure 2). A simple extrapolation of this growth curve, based on the up to ten percent annual increase in the last decade, reveals that annual tourist arrivals will reach approximately one million by 2017, by which time the local population is projected to stand at 342,500. In 2007, Iceland had 485,000 registered tourist arrivals, representing a 60 percent increase since 2000 (Ferðamálastofa 2008b; Statistics Iceland 2008b). It should be noted, however, that at the same time the Icelandic economy was booming and large numbers of migrant workers came to the country, most of whom were counted as tourists in the official figures. Key markets of inbound tourism had already been identified in the 1970s as North America, the Scandinavian countries, the UK and Western Europe. In 2007, these areas accounted for approximately 80 percent of registered tourist arrivals in Iceland (Ferðamálastofa 2008c).

The activities of various entrepreneurs were the principal driving force behind the emergence of Iceland as a tourist destination. The single most important event in this regard was the commencement of international passenger flights from Iceland to Europe in 1944, benefiting from the US naval base.

During the 1940s, two Icelandic airlines were established privately, namely Flugfélag Íslands (1940) and Loftleiðir (1947). From 1947, both companies were operating international flights and had soon established a route network connecting Iceland to both mainland Europe and North America, thus creating transport links that served as a precondition to tourism development on the island. These airlines immediately became the two key actors in the development of tourism in Iceland. Apart from providing passenger transport they have contributed to tourism infrastructure (for example through construction of hotels and the establishment of farm-based tourism), as well as in the general marketing of Iceland as a tourist destination (Bjarnleifsdóttir 1996; Ferðaþjónusta bænda 2008). In 1973, Loftleiðir and Flugfélag Íslands merged into Flugleiðir, or Icelandair, which still holds a key position in the Icelandic tourism sector under the name of its mother company: Icelandair Group Ltd. It is the country's largest travel organization which also runs a domestic airline and two hotel chains. In 2007, Icelandair carried 1.6 million passengers while the second largest carrier, the recently established (2003) Iceland Express operating on routes from Iceland to mainland Europe, carried 500,000 passengers (Icelandair Group 2007; Iceland Express 2008). Both are publicly traded companies with the majority of shareholders being Icelandic. Other international airlines, such as SAS and BA, have occasionally

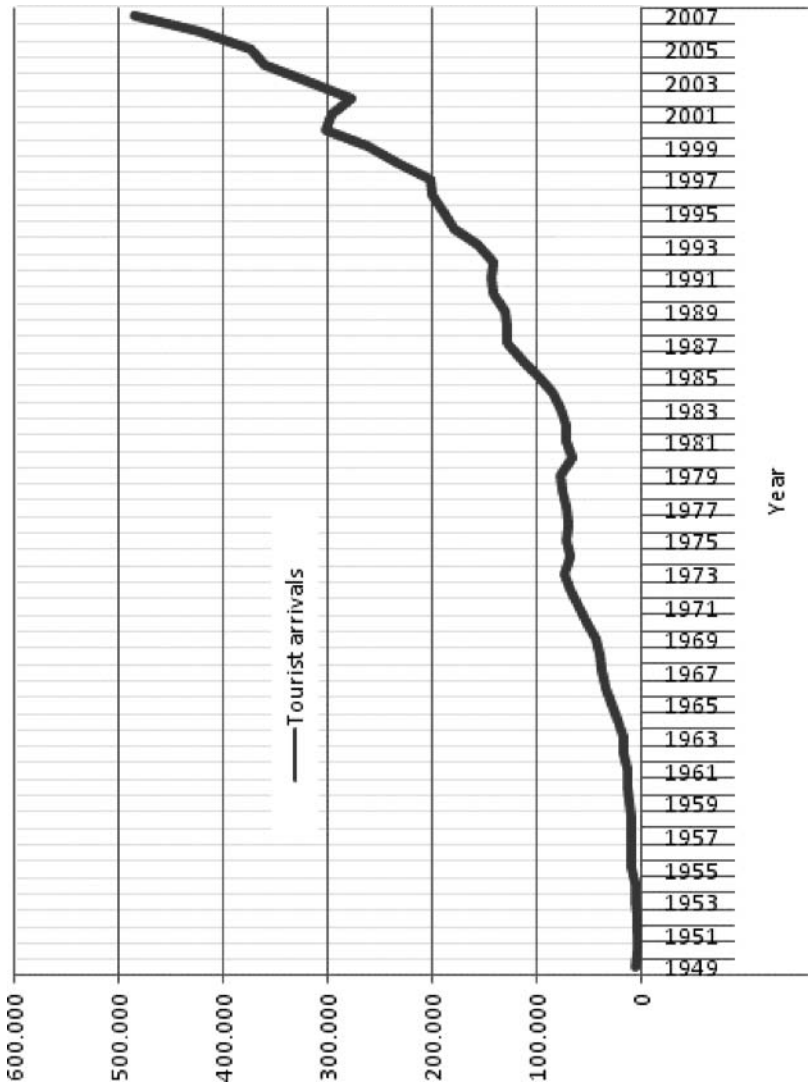

Figure 2. Registered tourist arrivals in Iceland, 1949–2007. *Source*: Ferðamálastofa (2008b).

competed with the Icelandic companies but have been unable to gain a firm foothold in the limited market. It is evident that, for Iceland, air transport is the lifeline of tourism, both in- and outbound, whilst efficient flight connections are crucial for the economy and society in general.

Entrepreneurism has also driven infrastructure development in the country, especially in the wake of economic crises, such as the decline in agriculture fisheries commencing in the mid-1980s. The entry barriers into tourism have been few, which is reflected in the organizational structure of an industry characterized by few large companies and many small entrepreneurial firms. For tourism to materialize, image and place-myth necessarily need to intersect with more tangible features such as transport infrastructure. In addition to air transport, road construction within the country has been fundamental for tourism entrepreneurs to thrive – the completion of the coastal road in 1973 encircling the island, linked communities and attractions along the entire coastline. Furthermore, reflecting the role of fishing in the national economy, almost all Icelandic towns and villages have good harbour facilities. These harbours increasingly facilitate cruise ship arrivals and, recently, cruise ship tourism has developed rapidly. Although sea transport has long provided essential links to European countries, the rapid increase in cruise ship arrivals in Iceland follows the general upsurge in the cruising industry and its diversification into new and colder environments. In 2005, 55,000 passengers came to Reykjavík with 77 cruise ships (Reykjavíkurhöfn 2008), up from 21,350 in 1995 and 10,825 in 1985.

The key driving forces in Icelandic tourism development are, thus, access and entrepreneurism, both intricately intertwined.

Icelandic Tourism: The Current State of Affairs

As noted above, the recent growth in visitor arrivals in Iceland has been remarkable. However, until recently tourism has not been prioritized in policy making at the national or regional levels, except for lip-service being paid to its potential in addressing regional imbalances and fuelling growth in the periphery in times of recession of other employment sectors.

Currently, tourism in Iceland is dealing with many of the common problems of island tourism, such as distinctive patterns of seasonality and high concentrations of visitor numbers in very few destinations, thereby putting stress on fragile environments (Figure 3). In particular, tourism activity is concentrated in the south-west of the island in the so-called Golden Circle region and on the Reykjanes peninsula. In 2007, the share of the capital area in all registered overnight stays was between 58 percent (July) and 83 percent (December) (Statistics Iceland 2008g). The destinations in this area include the Blue Lagoon, Reykjavík city and the Golden Circle – Þingvellir, Geysir and Gullfoss. Second in visitor numbers, although much more concentrated in the summer months, is the region around Mývatn and Húsavík. Both areas have as their key attractions the scenic and often rugged natural environment

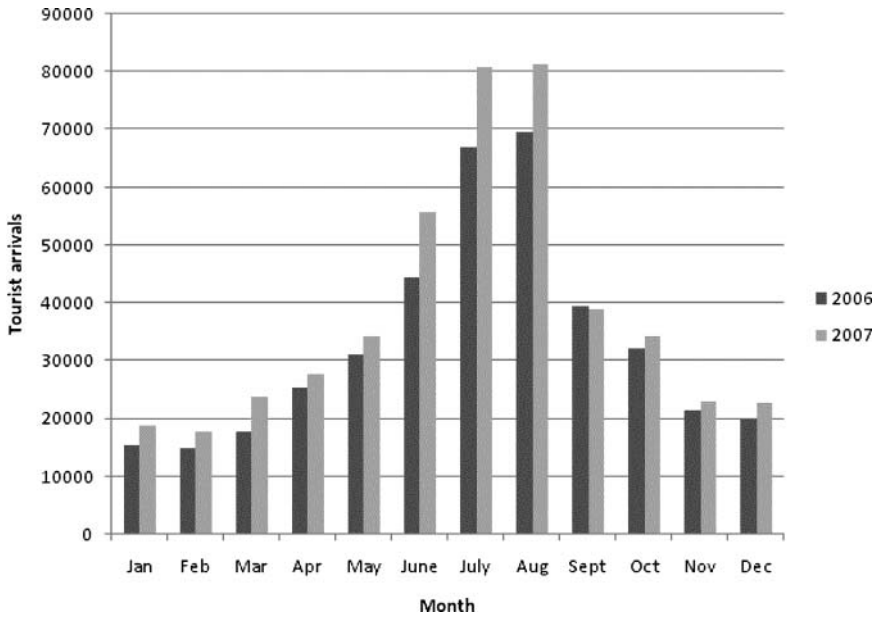

Figure 3. Tourist arrivals by month, 2006 and 2007. *Source*: Ferðamálastofa (2008c).

and the recently popular whale watching trips offered from Húsavík. According to visitor surveys undertaken by the Icelandic Tourist Board, these natural and cultural attractions are cited as the key reasons for visiting the country. Nevertheless, the island offers numerous other sites of similar attraction that remain underdeveloped mainly due to access, seasonality and human resources.

Having identified entrepreneurism as a key driving force of tourism in Iceland, the organization and structure of the industry becomes pertinent as that forms the context for entrepreneurial activity. Early in 2008, tourism was moved from the auspices of the Ministry of Transport to the Ministry of Industry, arguably in recognition of tourism as an industry rather than merely a beneficial side-effect of transport infrastructure development (see Huijbens 2007). The first task of the Minister was to set up a committee to outline how the government should deal with tourism. This committee defined as a priority how to make marketing efforts more coherent and systematic, integrating regional marketing efforts with national marketing and also creating synergies between the marketing of private entrepreneurs and public efforts (Iðnaðarráðuneytið 2008: 9–11). This aspect deserves special attention as it also illustrates some of the general challenges that the tourism sector faces with respect to organization and planning.

There are 78 municipalities in Iceland organized into eight geographical regions of the country. Alongside the national marketing and promotion system, there exists

an association for tourism development in each region. In addition, there are six regional marketing offices operating through various combinations of public, mostly municipal, and private funding. These are run parallel to regional tourist information centres but have no formal ties either with these or with a plethora of smaller information outlets, run by smaller municipalities or privately operated. In terms of what is being marketed, regional specificities have not been defined and it is mostly up to the discretion of private entrepreneurs how they manage to promote themselves via these two channels.

In order to further clarify the complex layout of Icelandic tourism marketing regions, a report was produced in 2002 that sought to define the regions based on the attractions locals would identify. The regions in Figure 4 are not all represented by one of the current six marketing offices. The Westfjords (upper-left corner) has a marketing office (see: www.westfjords.is), as does the North (see: www.nordurland.is). The West, however, (Fig. 4, lower-left corner) has two offices, with a further two planned, one for the Snæfellsnes peninsula, jutting out to the west (see: www.westiceland.is), the other for Reykjavík and the capital region (see: www.visitreykjavik.is), whilst a third has been set up in the South but is not fully operational (see: www.south.is).

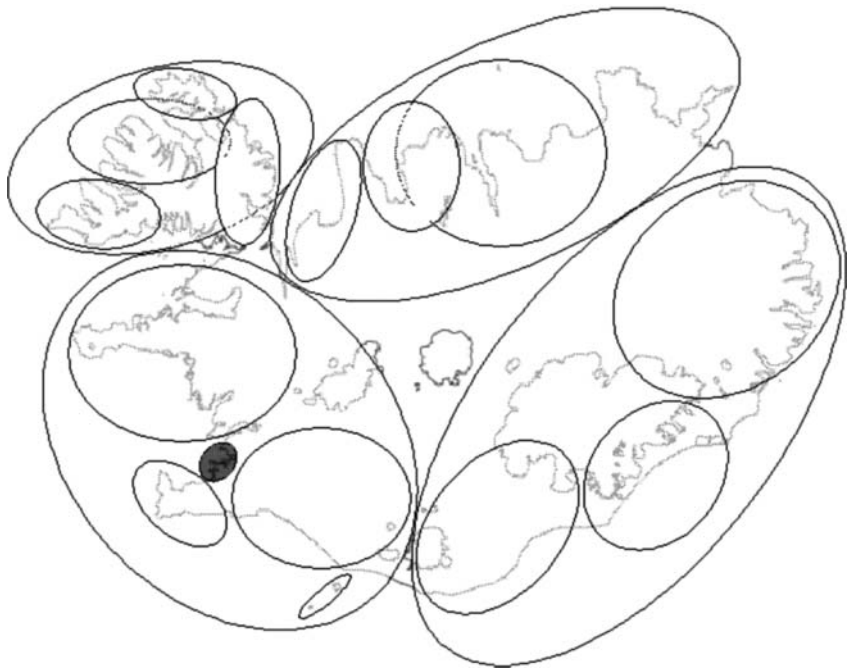

Figure 4. The marketing regions of Icelandic tourism. *Source*: Sigurbjarnason and Gíslason (2002: 15).

In addition, there are plans to create a marketing office for the Reykjanes peninsula. In the eastern half of the country, half of the region is covered by the South's office, but the East fjords and highlands also have a marketing office (see: www.east.is). In the remaining south-east corner, concentrated around the municipality of Höfn, tourism entrepreneurs have joined to form a marketing campaign called *In the Realm of Vatnajökull* (Huijbens and Gunnarsdóttir 2007).

These regional marketing offices and collaborative arrangements are recent phenomena. However, from the 1980s there has been a tradition of co-operating through the regional tourism associations. The associations had a more societal orientation and their projects often revolved around improving infrastructure, such as building trails and trying to set standards of quality. The contemporary marketing offices focus only on regional promotion and marketing. However, issues of quality and licensing are gradually becoming more formalized, the former (quality) through the Icelandic Travel Industry Association (SAF), the latter (licensing) through the Icelandic Tourist Board. At present, tourism is generally operated and developed at the behest of the private entrepreneur. As already observed, the industry is composed of very diverse actors with different views on tourism and its development, a factor which may partly explain the difficulties in organizing effective regional and national promotion. However, further research is needed on the issue.

Future Challenges and Opportunities

Iceland shares many of the downsides of small-island economies, such as economic monoculture, limited local markets and, in particular, the high cost of access to external markets. With a dependence on fish and aluminium production, tourism would appear to be an obvious choice for economic diversification on the island, especially in sustaining the bourgeoning service sector. Nevertheless the rapid tourism growth during the last decades also poses serious challenges and it may be argued that the island has already reached a critical stage in its development as a tourist destination. These challenges both relate to the growing numbers of tourist arrivals and their spatio-temporal concentration as well as the framework for entrepreneurial activity. If these are not tackled effectively, the costs may, in the longer term, outweigh the benefits of expanding the tourism sector. The four central themes of past directions in tourism policy: (1) planning, (2) environment and sustainability, (3) image and marketing and (4) research and education are still critical in the present context when it comes to carving a path for future development.

Planning

Effective planning is fundamental to optimizing the socio-economic potential of tourism and to facilitate entrepreneurship. However, the industry straddles a gap in interests between few large and dominant firms concentrated in the capital and many

small, mostly family-run businesses around the periphery. With the establishment of the Icelandic Travel Industry Association (SAF) in 1998, a forum for the industry to meet and work on common interests was created. Not all tourism operators are members of SAF but, nevertheless, the unified voice of a range of businesses makes it a strong lobby group. This has, without a doubt, made policy making in terms of marketing and promotion more effective, but important challenges still remain unsolved.

In general, there is an urgent need for an overall review of tourism in Iceland with respect to both the country's tourism resources and to tourism as a resource for socio-economic growth. In the case of the former, apart from a pilot project revolving around tourism strategic planning in the north-east of Iceland, concluded at the end of 2008, no coherent mapping of tourism resources in Iceland as a whole has been undertaken. In other words, there is no comprehensive knowledge of the country's natural, cultural and recreational attractions. Similarly, integrated information on service providers and general infrastructure for the benefits of tourism development is absent. Linking the two in a consistent database would provide a solid foundation for policy making in the national context, in particular identifying opportunities for new product development, as well as forming the basis of a land-use plan focused on tourism.

In terms of socio-economic growth, the economic potential and regional impact of tourism is almost totally unaccounted for (the exception being Jónsson *et al*. 2006). Gauging tourism's economic potential at the regional level, potentially based on the newly issued satellite accounts (Statistics Iceland 2008a), would play a pivotal role in the regional development rhetoric so prominent in relation to tourism in Iceland. In addition, such an analysis could form the basis of a more sustained engagement with the social and environmental impacts of tourism.

Environment and Sustainability

From the outset, Icelandic tourism policy has featured environmental issues as important principles, though in practice only lip-service has been paid to the delicate arctic natural environments. The main problem has been that words do not translate easily into action. The ideology of sustainable development was translated into tourism policy documents from 1996 (Samgönguráðuneytið 1996) but, in general, the issue is painted in broad strokes, without concrete examples and measurable indicators of how to reach the objectives of sustainability (see, for example, Samgönguráðuneytið 2005). In the public discourse on sustainability, the notion of carrying capacity is mostly promoted, although it is based on published research in only three places in Iceland from 2000 and 2001 (Sæþórsdóttir *et al*. 2001; Sæþórsdóttir and Ólafsdóttir 2003). Thus, while sustainability has been praised there has been a lack of active engagement by the public authorities.

Private stakeholders have not united in translating the sustainability discourse into practice. The industry association promoted the use of the Green Globe certification scheme and has a working committee on the environmental issues of tourism.

There are, indeed, examples of firms that are greening their businesses but the main hurdle is the fact that no regulation or legislation is in place that requires tourism entrepreneurs to follow best-practice guidelines and thus most companies have no formal international certification recognition (Einarsdóttir *et al*. 2007). Hence, there is a need for a common regulation guiding businesses on their way to sustainable development and that requires principally a concerted effort by the official authorities and private stakeholders. Furthermore, official policy needs to come to terms with what sustainable development means in practice and issue concrete plans of activities that reflect the implications of sustainability.

Image and Promotion

The making and managing of Iceland's image through promotion and marketing has gained ever more attention in the work of the Icelandic Tourist Board. In the general promotion of Iceland as a destination, a constant challenge is how to integrate regional marketing with national marketing and thus make it more coherent and systematic. As implied above, this challenge is duly recognized by authorities and most stakeholders.

In terms of national promotion, a recent step taken by the public authorities to improve the organization of promotion and marketing has been to establish a 'taskforce' to put forward proposals about both the organization and content of Iceland's image. The group consists of stakeholders, officials and academics (although none with expertise in tourism or cultural studies) and is currently developing its initial ideas put forward in spring 2008 (Forsætisráðuneytið 2008a). The main proposal is to draw together existing marketing resources, thus making the control of promotion more centralized than previously. In light of the recent financial crisis, the work of this taskforce has changed considerably and the Ministry of Foreign Affairs has now stepped in with a plan on 'communicative defence strategies', the aim being to limit the damage to the image of the country caused by economic collapse. The Icelandic Tourist Board has joined in with these efforts, offering a series of meetings in Europe to make sure that everyone understands that the country is still open to visitation (Atladóttir 2008b). The results of these efforts remain to be seen.

It is widely recognized that nature is by far the most prominent element in the image of Iceland as destination. The current tourism policy underlines the need to enhance and protect the image of pristine nature as it is the prime resource of the industry (Samgönguráðuneytið 2005). It proves to be a complicated matter as there often seem to be gaps between the interests of the tourism industry and other economic activities, promoted by the state. Examples of the latter are the building of aluminium smelters and the allowing of commercial whaling. Thereby, the challenge remains to align the country's general economic policy with that of tourism development based upon the image of pure and unspoiled nature.

Research and Education

The importance of research and education in tourism has been long recognized by the public authorities (Samgönguráðuneytið 1983; 1996; 2005; Rannís 1995) but, as with the discourse on sustainability, action for enhancing this area has not always followed in equally strong terms.

In terms of tourism education, there has been a long-standing split between vocational training for careers in tourism and tourism studies. Since 1987, the vocational school in Kópavogur has offered a variety of general courses in tourism, including training for careers in airline and travel services. Parallel to this vocational training, a school for those who want to be tourist guides in Iceland is operated. At university level, tourism studies have been offered since 1998 for a BA degree. The first to offer this course was the University of Akureyri (1998), followed the year after by the University of Iceland in Reykjavík and lastly by Hólar University College in 2004. Postgraduate studies are possible and the three institutions are planning a joint Masters programme in tourism administration.

Tourism research in Iceland is only in its infancy, at least compared to research in the other two main contributors to the economy. The Marine Research Institute enjoys by far the greatest standing, reflected in contributions from the national budget (1,432 million ISK) (*Fjárlög fyrir árið 2008* 2007). Energy research in Iceland, mostly for the development of energy resources for heavy industry, also receives considerable funding (580 million ISK). The only official tourism research institute, the Icelandic Tourism Research Centre, jointly operated by the three universities offering tourism studies, does not get any direct financial support from the state (*Fjárlög fyrir árið 2008* 2007).

On the other hand, it could be argued that funding could and should to some extent be procured from research funding bodies. The main public source of research funding, the Icelandic Centre for Research (ICR) has only recently put tourism on their list of subject matters and hitherto very little support for tourism research has been forthcoming. In the period 1996–2008 tourism research received 1.1 percent of the total amount of research funds granted by the ICR (Guðmundsdóttir, personal communication, 26 November 2008).

The Icelandic Travel Industry Association has not been able to actively promote research, due to claimed funding constraints but, in reality, mostly due to the lack of interest in academic research which is often perceived as not being immediately applicable for practical purposes. The lack of interest in research by the stakeholders may be explained partly by the organizational structure of the industry. It is characterized by small entrepreneurial firms, most of which do not have the resources to take part in research and development projects. This makes it all the more important to enhance the supporting framework of the industry and strengthen the channels between academic and applied research and the field.

With the recent move of tourism affairs to the Ministry of Industry, the issue of research has, to some extent, moved up the agenda (Skarphéðinsson 2008). The Ministry's interest was in applied research and the Icelandic Tourist Board has been commissioned to take it on although it still remains to be seen what that entails. Concomitantly, no effort was made to define how applied research was to be separated from other research and where a distinction can be made. With this move, it seems as if the Ministry wanted to address the concern of lack of research but then predominantly through an emphasis on industry-led research initiatives.

In this area the major challenge resides in the lack of knowledge and weak support for research. It is hard to foresee enlightened planning directives or policy in the absence of thorough research.

Conclusion

This paper has critically summarized past directions in Icelandic tourism policy and described the background and current state of affairs in the tourism sector. What emerges clearly is the infancy of tourism operations and policy making, although tourism and visitation has been a prominent part of the Icelandic economy for most of the twentieth century. Iceland shares many of the general challenges of tourism development other island destinations are dealing with (Baldicchino 2006b, 2006c). These are, for instance, costly linkages with external markets, a small domestic market, an economic monoculture and a fragile environment. However, similar to the experience of numerous other island states, Iceland is becoming more dependent on tourism and public authorities are looking towards the industry as a tool of economic diversification (Skarphéðinsson 2008, 2009). To some extent it has been a success as it now is ranked as the third pillar of the national economy when it comes to foreign currency earnings (Statistics Iceland 2008a). However, the rapid growth in tourist arrivals also poses serious challenges that past directions in terms of policy and practice have not dealt with in an adequate manner. The paper has underlined four areas that relate issues from the past to future challenges and opportunities: (1) planning, (2) environment and sustainability, (3) image and promotion and (4) research and education.

A common challenge in all these aspects is a gap in knowledge, which can be addressed only by more effort and resources which, in turn, demands more active engagement by both private and public stakeholders in the tourism sector. While this gap exists, planning and policy making in the sector will remain constrained. A key challenge is thereby to enhance research in the field of tourism in Iceland and other cold-water islands. The theme of research, therefore, relates in one way or another to all other challenges identified in the paper.

The four critical areas mentioned above are closely related and need to be dealt with in a comprehensive way. Although prominent issues of sustainability and notions of carrying capacity have been noted, they have not translated into policy or planning practice in an efficient way. This must, without doubt, be a fundamental challenge to the future development of tourism in an island which is witnessing little less than

a ten percent annual increase in visitor numbers (Ferðamálastofa 2008b). Underpinning sustainable practices is research into the cultural and environmental impact of visitation and, thus, it is worrying that tourism research is not funded through the government. Research into culture and tourism in addition serves to bring coherence and salience to the promoted image of Iceland, not least when it comes to branding exercises like the one currently being undertaken by the government. If the integrity of the image is not rigidly scrutinized on a regular basis it might do more damage than good in marketing the island as a destination. In this respect, the establishment of regional platforms for defining regional attractions that will cohere with what is being promoted nationally is of crucial importance and underpinning that regional marketing effort needs to be a rigorous mapping of the island's tourism resource.

The case of Iceland is interesting not only due to its status as the single sovereign cold-water island state but also because it is one of the largest and most developed cold-water tourist destinations in the world (Baldicchino 2006c). The experience of Iceland may thus be informative for other similar destinations that wrestle with parallel challenges and which are trying to mould an optimal path for the future. The recent global credit crunch is probably the latest common challenge to island tourism. It is likely to underline the importance of tourism for the Icelandic economy as for many other island destinations, as well as highlighting the common, if not classic, role that is given to tourism when it comes to economic development in times of crisis. This should only urge researchers to look more closely into the dynamics of tourism development in (cold-water) islands and thus take part in proposing paths for a sustainable future of tourism in these destinations.

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