

## **Policy Declaration of the Government of the Independence Party and the Social Democratic Alliance 2007**

The Government of the Independence Party and the Social Democratic Alliance reflects a historic cooperation between Iceland's two largest political parties. These parties are committed to forming a liberal, reforming Government for a dynamic economy, a robust welfare system, improved household finances and greater business competitiveness. The Government will continue to strive to unleash the energy in Icelandic cultural activity, since culture is at once a growing industry, a driver of innovation and a vital element of the national identity. The Government emphasises that all its policies shall be guided by the principle of equal rights in practice and aims to create equal opportunities for everyone in Iceland, irrespective of gender, residence, origin or social position. The achievements and prosperity of recent years have created opportunities for even further advances and Iceland should remain in the vanguard of nations with the highest living standards. Issues concerning the youngest and oldest generations will be a priority for the Government, which will focus on achieving greater equality by improving the living standards of disadvantaged groups. It will work towards a broad consensus in society on economic and welfare measures, nature conservation and resource utilisation, and Iceland's position in the community of nations. The Government will seek fruitful cooperation with all parties in Parliament and safeguard the independence of Parliament and its oversight role.

### **Solid and responsible economic policies**

A dynamic economy is a precondition for ongoing advances in education, transport, and health and welfare. One of the most pressing tasks of the new Government is to ensure economic stability for the benefit of households and businesses. Its economic policies will aim to ensure low inflation, low interest rates, better balance in external trade, smooth and robust economic growth and an ongoing solid fiscal position. Major investment projects, tax system reforms and other economic policy measures will be timetabled to reflect these aims. Icelandic companies must be ensured optimal competitive and operating conditions. It is important that Icelandic businesses operate in an environment that ensures their growth and attracts outside activities. A consultative forum representing central Government, the social partners and local authorities will be set up to design measures and long-term economic, employment and social welfare goals.

### **Dynamic business sector**

Iceland's business sector will become increasingly knowledge-based and be driven by expansion abroad. Cooperation between industry and Icelandic universities is the key to improved business performance and innovation. The Government will support culture and the arts as an important aspect of what makes Iceland an attractive country and as a growing source of export revenue. Icelandic businesses face increasingly tougher competition with foreign companies both domestically and internationally, and in the coming years knowhow and technological and practical skills will prove decisive for their success. The Government wants to create optimum conditions for ongoing growth, exports and international expansion by Icelandic companies, i.a. through measures to

boost the hi-technology sector and operating environment of seed companies, for example by strengthening the Icelandic Centre for Research and the Technology Development Fund. One implication of the transformation of Iceland's business sector in recent years has been to increase the importance of various international service activities, including financial services. The Government aims to ensure that such activities can continue to grow in Iceland and break new ground in competition with other market areas, and that companies expanding abroad will continue to see benefits in being headquartered in Iceland. A priority will be to strengthen the Financial Supervisory Authority to enable the Icelandic financial markets to enjoy complete confidence. The time is ripe to unleash the power of private initiative so that the full potential of expertise and knowhow can be realised in overseas expansion by energy companies. It is important that healthy competition and normal price formation should thrive in all sectors of industry and that consumers can benefit from such competition. The competition authorities shall be strengthened to this end. The Government underlines the importance of a strong agricultural sector and quality food production in Iceland. A review of the agricultural system will be undertaken with the aim of liberalising it, improving the position of farmers and reducing prices to consumers. Stability will be ensured in the fisheries sector. A study will be made of the experience of the quota system in fisheries management and its impact on regional development.

#### **An encouraging tax environment**

Further cuts in personal taxation will be aimed for during the Government's term of office, including higher personal tax-free allowances. The Government will undertake a review of the tax system and social security system to improve the position of low- and middle-income groups. The corporate tax environment will be stable and encouraging. During its office the Government will explore ways of reducing corporate taxation even further. Another goal will be to increase the weight of environmental considerations in taxation policy. The system of indirect taxes such as commodity taxes and value-added tax will be reviewed. Stamp duty on housing transactions will be abolished during the Government's office, when conditions in the housing market permit.

#### **Focused Government administration**

The Government will work to simplify and modernise public administration, step up IT use to enhance public services, increase efficiency and simplify communication between citizens and the Government authorities. The division of tasks between ministries will be reorganised and a code of ethics will be introduced for cabinet ministers, members of Parliament and public administration. Pension terms of members of Parliament and cabinet ministers will be reviewed and brought closer into line with those of the general public. The Government emphasises the utmost restraint in public sector operations to make the most effective use of taxpayers' money. A tight and cautious fiscal policy is essential and it is vital that the public sector's share of GDP should not increase from the current level. A four-year budget framework shall be drawn up, presenting the core economic policy and benchmarks for Treasury revenues and expenditures. Central Government projects to provide services and infrastructure will also be prioritised. The division of revenues and tasks between central and local Government will be reviewed with the aim of strengthening the local authority level.

### **Child-friendly society**

The Government will promote systematic measures on behalf of children and families with children in Iceland. To this end, it will draw up a comprehensive action plan on issues concerning children and young people, based among other things on their rights as defined in the United Nations Convention on the Rights of the Child. Dental care for children will be improved with free inspection, preventive measures and increased subsidies of dental repairs for children. Child allowance for low-income earners will be raised and secondary school students will be supported in buying school materials. A particular focus will be on support for children of immigrants within the school system. Support will also be stepped up for children with serious illnesses, behavioural problems, psychological disturbances and development disorders. Immediate action will be taken to tackle waiting lists in this field. Counselling and education for parents will be addressed. Preventive measures against sexual abuse will be strengthened and support for families of young people with drug problems will be stepped up. Parenthood leave will be extended in phases.

### **Financial benefits for senior citizens and the disabled**

The Government emphasises strengthening the position of senior citizens and the disabled. Steps will be taken to simplify the social security system. The interaction of taxation, social security benefits, pension fund payments and employment earnings will be examined in particular to ensure greater fairness and encourage employment and saving. Development of nursing facilities for 400 senior citizens will be expedited and the number of single dwellings increased. Round-the-clock services will be strengthened and individual-based services increased. Means testing and curtailment of social security benefits will be scaled down. The Government aims to raise the tax-free limit for earnings from employment for the 67-70-year group. Means testing of employment earnings against social security pensions will be abolished in full for people aged 70 and older, as will curtailment of benefits due to spouse's earnings. The Government will examine whether a part of the pension income of senior citizens can be exempted from curtailment of insurance benefits. The Treasury will also aim to ensure old-age pensioners a minimum monthly pension of 25 thousand krónur from a pension fund. The general curtailment ratio in the social security system will be reduced to 35%. Proposals by the disability assessment committee for a massive increase in work rehabilitation, and for a new system to assess disability and the ability to work, will be followed through. Concessions will also be made towards those with a permanently impaired ability to work. It is aimed to transfer responsibility for mandatory services for senior citizens and the disabled from the central Government to local authorities.

### **Equality in practice**

A plan will be drawn up to reduce the unexplained gender-based wage differential in the central Government sector with the aim of halving it by the end of the Government's term. The Government seeks to establish cooperation between the social partners and public sector to explore ways to eradicate this wage differential in the private sector. The wage terms of women in the public sector must be reassessed in particular, above all in fields of work where women form the great majority. It shall be aimed to level out the

status of women and men in state committees and management posts. Wage earners will be ensured the right to disclose their wage terms if they choose to do so. Religious associations will be allowed to confirm homosexual relationships.

### **An educational system in the vanguard**

The Government sets itself the goal that the entire educational system, from nursery school to university level, will be in the vanguard internationally. Advances and economic growth in the years to come will be driven by education, science and research. The Government will promote ongoing investment in research and the educational system. Focus will be on quality, flexibility and diversity in supply of courses, to enable all students to find a suitable field of study. The number of courses will be expanded with more emphasis on freedom of choice for students and individual-based study, among other things to reduce the secondary school drop-out rate. Artistic and vocational training will be stepped up at all levels of schooling, together with student and career guidance. New opportunities will be created for those who have completed only compulsory schooling, and adult education boosted within the educational system and labour market. Increased professional and operational independence of schools will be aimed for, and less centralisation. Steps will be taken to extend and diversify teacher training. The Student Loan Fund Act will be reviewed with the goal of improving student living standards even further.

### **A solid health care system and prevention of drug abuse**

The Government's policy is for Iceland to provide health care services of the highest international standard. Preventive action in all fields and the promotion of healthier lifestyles will be emphasised to a much greater extent. Ways to reduce medication costs and simplify public sector participation in payment for them will be explored. A cost analysis of health care services will be made and hybrid funding arrangements introduced for healthcare institutions, whereby funding is earmarked for individual patients. Healthcare institutions will thus receive funding in accordance with the need for and volume of work. Scope will be created for more diverse operational formats in health care, including tenders and service contracts, while still ensuring equal access for all, whatever their means. The increased threat of drug abuse calls for a firm response with vigorous education and preventive measures, support for families facing such problems, diverse rehabilitation options and tougher policing. The Government underlines that sufficient rehabilitation options for addicts should be provided and that such services are integrated, purposeful and beneficial to all who need them. Plans for development of prison facilities must be followed through.

### **Harmonised residence and employment**

It is aimed to ensure that everyone in Iceland has equal access to education, work and services irrespective of residence, and enjoys comparable living standards. Public sector work that can be performed irrespective of place of residence shall be identified, to contribute to more jobs in regional Iceland. The four-year budget framework will underline strengthened transport and communications infrastructure. Improved transport facilities are a key to achieving demographic balance and reducing transport costs. Shorter distances between urban centres and safer roads create potential for larger and

more viable areas to live and work in. A major transport programme will be launched emphasising road safety and public transport. The Government will promote in particular improvements in the transport system in the Greater Reykjavík Area. Everyone in Iceland must be ensured the opportunity to take advantage of the revolution in data transmission. The Government wants to ensure reliable data transmission to and from Iceland with a new submarine cable, and faster transmission speed in line with ongoing developments. Effective digital communication greatly enhances access to education and services, irrespective of geographical location, and presents opportunities for business innovation.

### **In harmony with the environment**

The Government is determined to make Iceland a world environmental leader. Iceland's Government, businesses and educational institutions are uniquely positioned to play an international role in the fight against pollution and squandering of natural resources. The Government aims to achieve a broad consensus on conservation of valuable natural areas in Iceland and deliver a clear plan for reducing greenhouse gas emissions. The Government intends to step up forestation and land reclamation, one aim of which is the binding of atmospheric carbon. Systematic steps will also be taken to increase the use of environment-friendly vehicles, including economic incentives. In order to create an accord on conservation and utilisation of natural sites, it is important to conclude studies of their conservation value and the value of other types of utilisation. A particular focus will be on the conservation value of high-temperature geothermal fields, which will be classified with respect to conservation and harnessing. It is aimed to complete a framework plan by the end of 2009 and present the conclusions to Parliament for formal consideration. Until such conclusions are available, no previously untouched areas will be encroached upon without the approval of Parliament, unless research or harnessing permits have already been issued. Several areas, which are deemed important by agencies within the Ministry for the Environment, will be exempted from harnessing and may not be disturbed until the future classification has been made in accordance with the confirmed conclusions of the reviewed framework plan. These areas are Askja, Brennisteinsfjöll, Hveravellir, Kerlingafjöll, Kverkfjöll and Torfajökull. The catchment area of Jökulsá á Fjöllum will be added to the Vatnajökull national park and Langisjór will not be touched for harnessing purposes. Enlargement of the Þjórsárver nature reserve will be guaranteed to cover the distinctive wetlands of the area.

### **Reforms on issues affecting immigrants**

It is important for the Government authorities, industry and the community as a whole to join forces in fighting prejudices against minorities based on their origin or other considerations. A comprehensive action plan on issues affecting immigrants will be drawn up with the aim of improving the conditions faced by people of other nationalities who move to Iceland and facilitating them in becoming active participants in Icelandic society and fostering their own culture. Foreign nationals in the labour market will be ensured comparable rights to those of Icelandic workers and all contracts of appointment for foreign workers will be consistent with current wage agreements. Social underbidding in the labour market will be prevented. Icelandic teaching for people of other nationalities will be stepped up.

### **International initiatives**

Human rights, increased development cooperation and a focus on peaceful resolution of disputes will be the new cornerstones of Icelandic foreign policy. The new Government regrets the conflict taking place in Iraq and wants to contribute to peace in Iraq and the Middle East, by such means as participation in humanitarian assistance and reconstruction. Iceland should aim for leadership in the campaign against marine pollution and in global work to counter climate change. In other respects the Government's policy rests on the values on which cooperation among the western democracies, Nordic cooperation and global efforts to liberalise world trade have been built. The Government will adhere to the established security and defence policy and establish a cross-party consultative forum on security issues. The Government underlines that all major foreign policy decisions shall be taken in consultation with the foreign affairs committee of Parliament.

### **Candid dialogue on Europe**

The member states of the European Union constitute Iceland's most important market region. Iceland has reaped the benefits of the European Economic Area Agreement, which is one of the pillars of its robust economy. The report by the committee on Europe will form the basis for a closer examination of the best way in the future to safeguard Iceland's interests vis-à-vis the EU. A standing consultative committee will be formed representing the parties in Parliament to monitor developments in Europe and assess changes from the perspective of Icelandic interests. The committee will consult with Icelandic experts and stakeholders as necessary.

### **Constitutional review**

The review of the constitution of the Republic of Iceland will be continued. Priority will be given to resolving the dispute over ownership of natural resources by the nation, in light of the findings of the special committee on constitutional issues during the last Parliamentary session.

Dingvellir 23 May 2007