

U.S. Feared Russian Aid for Iceland

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REYKJAVIK, Iceland — Documents released by WikiLeaks reveal that cash-hungry Iceland asked for a \$1 billion loan from the United States in 2008 to stop its economic collapse.

The U.S. Embassy in Reykjavik urged Washington to back the loan, arguing that Iceland might otherwise turn to Russia, with whom it held ultimately unsuccessful talks over a 4 billion euro (\$5.4 billion) bailout.

U.S. diplomatic cables published late last week by the secret-spilling site include an October 2008 letter from Iceland's central bank governor, David Oddsson, to Timothy Geithner, then-president of the U.S. Federal Reserve Bank of New York. It asked for a loan "of a medium-term maturity, preferably in an amount of \$1 billion."

The loan was not granted. Iceland eventually accepted a \$2.1 billion loan from the International Monetary Fund and billions more from individual countries.

Iceland's banks had expanded rapidly over a decade of booming growth, acquiring assets around the world but leaving themselves exposed when the credit crunch took hold. Iceland nationalized its three major banks in October 2008 and warned of a possible national

bankruptcy.

Oddsson's letter, dated Oct. 24, 2008, said Iceland had agreed upon a bailout with the IMF but needed more help.

Iceland and the United States had discussed a currency swap that September, but the United States had been reluctant, in part because of the size of Iceland's banking sector, which had grown to dwarf the tiny nation's gross domestic product.

"As you are no doubt well aware of, the Icelandic banking system has now shrunk significantly," Oddsson wrote.

Other cables show that U.S. officials were concerned about the implications of Iceland accepting a loan from Russia. Officials worried that a loan would give Moscow leverage to use the former U.S. air base at Keflavik, or might give Russia access to Iceland's offshore gas and oil fields.

The U.S. ambassador in Iceland, Carol van Voorst, urged Washington to give Iceland's request "the most careful consideration: We have long-term national interests in the North Atlantic that a negative response would jeopardize."

She said "it may be more important than we can yet suppose to have the Icelanders remember us as the kind of friend who stands by in fair weather and foul."

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