

Investment projects in the aluminium and power sectors are now in full swing. This year's investment volume is estimated at 85 b.kr., or just over one-third of total investment cost for these projects. Construction activity will peak this year. Individual project phases are at various stages of completion relative to schedules. It is estimated that just over 40% of work on the Kárahnjúkar hydropower station has been completed. Work on the smelters – involving the expansion of Norðurál at Grundartangi north of Reykjavík, and construction of the Fjarðaál (Alcoa) smelter in Reyðarfjörður, east Iceland – is at a much earlier stage, but on schedule. The Alcoa smelter is scheduled to go on stream in spring 2007 and the expanded Norðurál plant in autumn 2006. The following summary of projections for these investments describes the changes that have occurred since the last survey of smelter and power station construction in *Monetary Bulletin* 2004/4.

Total cost of all the investments, i.e. the expansion of the Norðurál smelter by 122 thousand tonnes per year (tpy) and related power facilities, the Kárahnjúkar power station and the Alcoa smelter, is somewhat lower in króna terms according to latest estimates than was assumed in the macroeconomic forecast published in *Monetary Bulletin* 2004/4. Construction cost for the smelters and power facilities has been revised downwards in real terms, and the appreciation of the króna has reduced the cost even further when measured in domestic currency. Cost has decreased more in króna terms for the smelters, where foreign cost accounts for a much larger proportion than for power station construction. More than 2/3 of smelter construction cost is foreign-denominated, compared with just over half for the power stations. Nonetheless, these lower costs have little effect on the overall investment picture. A more important consideration is that some investments have been rescheduled from 2004, 2006 and 2007 to 2005. Investment cost in 2005 is heading for the equivalent of almost 10% of last year's GDP, a rather higher share than hitherto assumed.

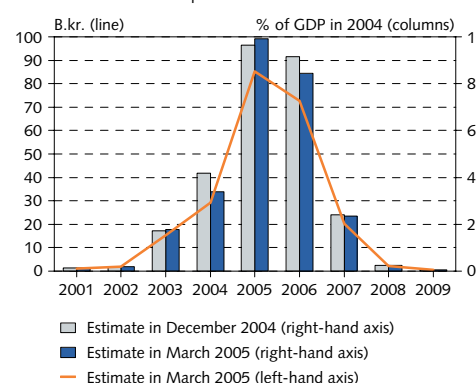
Labour use is also clearly far in excess of earlier assumptions. The labour requirement for the combined investments in the aluminium and power sectors has grown by 800 man-years in all. Imported labour will more than meet this additional requirement. Thus the share of domestic labour employed on the projects is heading lower than previously estimated. Roughly 65% of the labour force is now expected to be imported, compared with the 52% assumed earlier. The largest share of foreign labour use will be at Kárahnjúkar power station, where it is currently close to 4/5 of the labour force. Up to 3/4 of the labour force employed on constructing the Alcoa smelter is expected to be imported. It has proved difficult to recruit Icelandic construction workers and skilled labour for these projects. The projected share of foreign cost has grown to just over 61%, compared with the earlier 57%.

Box 1

The aluminium industry investment projects

Aluminium and power sector investment: total investment cost 2001-2009

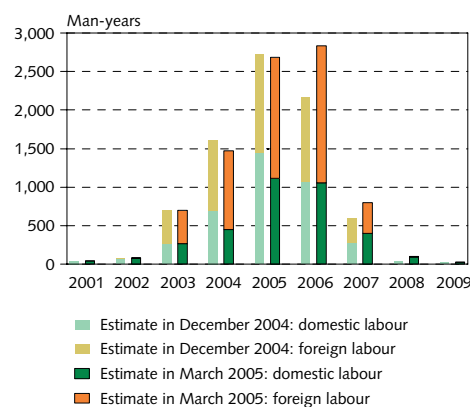
Construction of Fjarðaál smelter, expansion of Norðurál smelter and related power facilities



Source: Central Bank of Iceland.

Aluminium and power sector investments: labour use 2001-2009

Construction of Fjarðaál smelter, expansion of Norðurál smelter and related power facilities



Source: Central Bank of Iceland.