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# Iceland's International Trade Policy

—English Summary

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# Free Trade: The Foundation of Iceland's prosperity

Free trade is the foundation of Iceland's prosperity. Safeguarding the institutions and agreements that have enabled us to promote international trade is essential for Iceland's continued prosperity and growth.

Ever since I was a young boy in Borgarnes, a small town in West Iceland, I have understood the importance of doing your homework thoroughly. Although the homework was perhaps not very tempting back then, my adult years have shown me the importance of preparing for the future.



Since assuming this office, I have made it a priority to promote foreign trade and to protect the interests of our export sectors. One of my first tasks as Minister was to streamline the foreign service and better utilise its resources to more efficiently achieve our foreign policy goals, all within the budget.

The publication of the report *Diplomatic Service for the Future* included suggestions to strengthen free trade and make better use of export opportunities, including improvements for business services and support in new markets.

Various reforms were implemented on the basis of the report. A new law on the Promote Iceland Agency entered into force in the autumn of 2018, followed by a reorganisation of the Agency and broad-based consultations on key policy initiatives. An export and marketing committee was established and adopted a forward-looking policy to support export activities. Around 400 people from all of Iceland's main export sectors participated in the policy-making, organised in 13 meetings that were held all over the country.

One of my main goals has been to increase the involvement of the business community in decision-making when it comes to promoting and marketing Iceland's trade interests abroad. The policy making process described above is a good example of an effective collaboration between the business community and the authorities. The policy for the future is based on six key areas, focusing on the strength and uniqueness of the Icelandic business community with sustainability as a unifying factor. The policy remains unchanged despite the Coronavirus pandemic, even though implementation has had to be adapted in certain cases due to changed circumstances.

The changes we have implemented since I assumed this office have provided a robust platform to manage the pandemic situation. The Ministry for Foreign Affairs and the Promote Iceland Agency are stronger than before and better equipped to serve in their role of promoting Iceland and Icelandic exports.

Although the duration and long term impact of the pandemic on the economy is unclear, the impact will be devastating for many export enterprises. The most important issue for the foreign service under these circumstances is to support Icelandic exports in word and deed. A report I commissioned last summer, *Saman á útivelli* (e. *United on the Road*), set forward proposals that are now being used as the basis for supporting Iceland's export businesses. They include setting up a trade monitoring service where enterprises can contact foreign service staff around the clock, 365 days a year, if they encounter problems that must be resolved without delay. In such times of crisis it is more important than ever to stand together as one on the international stage.

Despite the shock of the pandemic, we continue to enjoy the benefits of free trade. Whether in the form of increased variety of available goods and lower consumer prices or increased tax revenues from enterprises that sell goods and services in foreign markets. Up to now, we have taken for granted foreign travel and consider it ridiculous to have to pay taxes in two countries. The Icelandic standard of living is based on free trade in goods and services and the number of jobs connected to external trade in one way or another.

However, there are probably not many people who realise that the work put into constructing the international system has been going on for decades. Since the Second World War, isolationist policies have been abolished little by little via international agreements, the founding of the World Trade Organisation, regional free trade agreements and a network of bilateral trade agreements. Air traffic agreements make international flights possible, double taxation agreements enable individuals and enterprises to operate in more than one country and the protection of investments facilitates foreign investments in Icelandic companies and their outward expansion.

One of the main tasks of the foreign service has always been to create the conditions for ambitious enterprises and innovators to trade abroad. From the time of independence, when the first Icelandic embassy was opened, Icelandic trade representatives have been making trade agreements with other countries.

The increased emphasis on external trade since I assumed this office has been effective. In short, important steps have been taken in Iceland's economic relations with the United States of America, Japan, China and the United Kingdom. Steps have been taken to better harness the benefits of the EEA Agreement and more effort has been put into finalising trade agreements in cooperation with our EFTA partners.

The government have also strived to safeguard Iceland's key trade interests with the United Kingdom when the transition period following Brexit concludes

at the end of the year. Numerous agreements to facilitate more trade in specific agricultural and fish products have also been concluded with China on the basis of our bilateral free trade agreement.

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In the last few years, the management of the EEA Agreement has been strengthened to align its implementation closer with Iceland's interests. This Agreement is the most important trade agreement Iceland has made and has ensured the interests of Icelandic enterprises and citizens for a quarter century.

The benefits of the EEA have been derived without having to sacrifice Iceland's core interests. Iceland's fisheries policy, which is one of the main sources of our prosperity, continues to stand strong on our own terms. Likewise, our agricultural policy takes Icelandic conditions into consideration. Iceland is not a member of the European Union's customs union and we are free to make free trade agreements with whomever we please.

It has now been sixty years since the European Free Trade Association was established, and half a century since Iceland became a member. Let us continue the good momentum that has built up over this time and conclude the agreement with the Mercosur states. At the same time, it appears that some of the negotiations that have been suspended may be re-opened before long.

I have also stressed the importance of looking to opportunities in growth markets, including through the business community's participation in development cooperation projects. The developing states' call for foreign investment and trade is loud and it is obvious that everyone, both the authorities and private bodies, must strive hard to reach the United Nations Sustainable Development Goals. Therefore, a fund has been established for collaborating with businesses on the UN Sustainable Development Goals, as well as a Promote Iceland Agency service desk for enterprises intending to participate in supporting developing states. There will be continued emphasis on ensuring that the benefits of such projects will be useful for communities within developing states and that laws and regulations will be fully respected.

It is undeniable that right now there are dark clouds gathering over international trade. It is therefore important to increase our efforts to prevent isolationism and safeguard the international trade system. The Icelandic government will continue its efforts to promote freedom and cooperation.

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# Summary

Iceland's international trade policy has consistently focused on creating the best possible trade conditions for Icelandic enterprises in foreign markets. The policy advocates for increased liberalisation of trade, both internationally and in individual international agreements Iceland is party to.

The following report summarises the WTO framework and Iceland's policies in the multilateral trade arena. Nearly all trade between countries is based on rules governed by the World Trade Organisation (WTO). Recent frictions in the multilateral trading system can be traced to certain distortions of the WTO's regulatory framework, as shown below. Iceland works actively with like-minded states to support a strong rules-based system.

The report gives an overview of Iceland's free trade agreements and improved market access for Icelandic exporters worldwide. The Agreement on the European Economic Area (EEA), with a population of some 500 million persons, is Iceland's most far-reaching and comprehensive trade agreement to date. The EEA covers more than just trade but ensures tariff free and frictionless trade for most goods and services. Unfettered access to our main market, the European single market, provides stability and predictability for our economic operators along with the freedom to seek new markets for our goods and services further afield.

Free trade agreements with partners outside of the EU and EFTA mainly concern the elimination or reduction of tariffs for trade in goods, the reduction of non-tariff trade barriers and the reduction of barriers or discriminatory practices for service suppliers. Most of Iceland's free trade agreements have been negotiated with the European Free Trade Association (EFTA) partners, Liechtenstein, Norway and Switzerland, but Iceland has also made bilateral agreements with China, the Faroe Islands and Greenland.

Iceland's free trade agreements cover 74 states and regions and nearly 3.2 billion people, or a little over a third of the world's population. This includes the three agreements EFTA has concluded that are awaiting entry into force: with Indonesia, Ecuador and Guatemala. The EFTA free trade agreement with Mercosur, the customs union of Argentina, Brazil, Paraguay and Uruguay, is pending signature.

The population of the Mercosur states is 270 million people and would increase Iceland's free trade network to 77 countries and 3.4 billion people. EFTA is currently in negotiations with India, Malaysia and Vietnam, which have a combined population of almost 1.5 billion.

When the above-mentioned agreements enter into force, and if EFTA's current negotiations are successful, Iceland will have free trade agreements with states

with a combined population of nearly five billion – around two-thirds of the world's population.



### The population of Iceland's free trade network as a percentage of the world's population

Various other agreements serve an important role in ensuring Iceland's foreign trade interests. These include double taxation and investment agreements to reduce risks and costs for enterprises operating abroad. Investment protection measures can also incentivise foreign investments. Air transport agreements ensure that Icelandic air transport companies can operate in the international market and offer wide-ranging air transport services to other countries.

The COVID-19 pandemic has severely impacted various aspects of foreign trade, not the least in the tourism sector. The report highlights the challenges for Icelandic exporters and actions taken by the Ministry for Foreign Affairs to limit the damage and assist Icelandic enterprises during the pandemic.

Finally, the report discusses some key trends impacting the development of international trade in the future. Growth in international trade is expected to continue shifting away from the traditional North-American and Western-European markets to new markets, especially in Asia but also in Africa and South-America.

Iceland's traditional markets nearby will continue to be important but these new markets, with their fast-growing middle classes and new consumer habits, offer Icelandic exporters considerable opportunities going forward. It will be important to closely monitor developments in these markets and to ensure that Iceland's trade network covers market areas with the biggest predicted growth in the coming years.

The report also looks to the Arctic region and actions required to address changes that are taking place there in the next few years. Sustainability is becoming ever more important, not least in the field of trade. Whether we look to the Arctic region or to climate change, the business community and government must work together to put Iceland among the nations at the forefront of those willing to act on their intentions when it comes to sustainability. Iceland is an Arctic country and there are many exciting opportunities for trade and economic activities in this vast region.

