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TRADE POLICY REVIEW

Report by

ICELAND

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Iceland is attached.

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I. INTRODUCTION

1. International trade is at the core of Iceland's economic and foreign policy. One of Iceland's primary policy goals in international trade is to promote and strengthen the competitiveness of domestic businesses in world markets and abolish barriers to trade by extending its multilateral and bilateral trade relations. Iceland is highly reliant on international trade.

2. Economic policy has been oriented towards stabilising the economy from the severe recession that the country experienced following the collapse of the banking sector in 2008. Cooperation with the International Monetary Fund (IMF) and bilateral loans from some European States provided an important anchor for economic stabilisation. The authorities managed to deliver key policies laid down in the IMF programme, which Iceland graduated from in August 2011. The country also managed to re-enter international capital markets with a successful bond issue in mid-2011. There has been a broad political consensus on the key essentials of a market economy and the preservation of the welfare state throughout the process.

3. Several structural reforms have been implemented to adjust to a new economic environment. The banking system has been restructured, household and corporate debt have been adjusted and reforms have been made on tax and customs policies, as well as on competition and state ownership rules.

4. The foundation for longer-term prospects are favourable given Iceland´s abundant energy resources, rich fishing grounds, popularity as a tourist destination, benign demographics and relatively well-funded pension system. Iceland relies on the country's human capital and ability to sustainably harvest the vast marine and land natural resources, such as fish and hydro and geothermal energy.

5. After the contraction of the past years, the economy is picking up again. GDP and economic growth have been positive, private consumption and investment are increasing, unemployment is declining, real wages are rising, real exchange rates are low and the property market has stabilised. The core industries (fisheries, energy and aluminium) have yielded robust growth and the tourist industry has flourished during that time. With renewed confidence in fiscal stability and consumers' growing faith in an economic recovery, a gradual return to stability in the Icelandic economy can be expected.

6. The trade policy of Iceland is shaped by its membership in the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD), the European Free Trade Association (EFTA) and the European Economic Area (EEA) as well as other free trade agreements. Iceland is also strongly committed to the multilateral trading system and trade liberalisation within the WTO framework.

7. Iceland presented its application for membership of the European Union in July 2009. Formal negotiations were launched one year later. As of July 2012, 18 of 33 negotiations chapters have been opened, and 10 have already been provisionally closed. The Icelandic people will decide on the outcome of the negotiations in a referendum on membership.

8. This report addresses key policies and the status of the Icelandic trading regime. It firstly describes economic development, then key sectors of the economy and lastly Iceland´s trading policy.

II. ECONOMIC ENVIRONMENT

(1) ECONOMIC DEVELOPMENTS AND PROSPECTS

9. Iceland's economy suffered a major setback in the autumn of 2008, following consistent economic growth in the years before. An overinflated banking sector collapsed in a week; the exchange rate of the krona dropped 40% against the euro, inflation increased and policy rates jumped to 18%. The standard of living fell sharply and the unemployment rate went from near zero to around 8%. Debt piled up, revenues shrank and expenditure soared. As a response, difficult measures were taken to reduce the fiscal deficit, stabilize the currency and get the wheels of the economy rolling again.

10. Economic recovery has been under way since the second half of 2010. The economy grew by 3.1% in 2011 and domestic expenditure increased by 4.7%. Private consumption grew by 4% and investment by 13.4% while public consumption decreased by 0.6%. At the same time, exports grew by 3.2% and imports by 6.4%. This resulted in a surplus of ISK 154 billion in the balance on goods and services in 2010 (10% of GDP) and a surplus of ISK 133 billion in 2011 (8% of GDP). The terms of trade deteriorated by 1% of GDP in 2011 compared to the previous year. Despite this development the favourable current account balance in 2011 contributed to a 5.4% increase in GNI compared to 1.7% increase in 2010.

11. Private consumption and investment remain low in historic terms but are on the rise again. Both sectors are tackling substantial balance sheet vulnerabilities despite recent progress in private sector debt restructuring, see further the chapter on restructuring of the banks and debt adjustment. Private consumption was 52.3% of GDP in 2011, below the pre-2008 average of 55-60%. Investment has been at historic lows for three years, with its share of GDP standing at 14.1% of GDP in 2011. Increased economic growth will be further driven in the coming years by investment and consumption. Public consumption amounted to 25.2% of GDP in 2011 compared to 26% in 2010.

12. The continued economic growth has allowed for improved labour market conditions after the sharp rise in unemployment in late 2008. The unemployment rate has been falling since 2009, and is currently at 4.7%. Hours worked are increasing again and labour market participation of 80.4% remains high in an international context. Fighting long-term unemployment has been high on the government´s agenda as the share of those unemployed for over a year (long-term unemployment) reached 27% of all unemployed in 2011. In 2003, long-term unemployment was only 7.4% of total unemployment. Statistics Iceland expects unemployment to be on average 6.0% in 2012 and reach below 5% by 2015.

13. Inflation has been high in recent years and peaked at 16.3% in 2009. According to Statistics Iceland, inflation will be 5.4% on average in 2012 and 3.9% in 2013. Wages are expected to increase faster than inflation, thus generating positive growth in real disposable income. This will be a major driver for private consumption growth over the coming years.

14. Returning government finances to balance has been one of the overriding priorities for the authorities since late 2008. Budget measures equalling around 10% of GDP have therefore been enacted with a clear aim of prioritising the welfare system. These include restructuring ministries and other institutions, delaying costly projects and adjusting taxes. The Government is aiming for an overall budget surplus in 2014. Gross general government debt increased from 88.1% of GDP in 2009 to 98.7% at end-2011 and debt levels remain high compared to pre-crisis levels of around 30%. The extensive measures already taken and the improved economic situation have been positively

reflected in Iceland's successful attempts to re-establish the sovereign in international capital markets with long-term bond issuances in 2011 and May 2012. These successful bond auctions have allowed Iceland to repay a substantial part of the bilateral and multilateral funding extended to it following the financial crisis. Moreover, the Icelandic government is once again rated investment grade by all three major credit rating agencies. Statistics Iceland expects public consumption to grow very little in real terms during the next years but will still decline as a percentage of GDP. Public investment will decline in 2012 but will start to grow from 2013.

15. Following the banking and currency crisis in 2008 and in accordance with the joint economic policy agreed by the Icelandic authorities and the IMF in November 2008, exchange rate stability became an interim objective of monetary policy. Temporary capital account restrictions were imposed in November 2008. While the removal of the capital controls is a priority, it will be appropriately sequenced in a gradual manner to preserve the stability of the ISK during capital account liberalization. The first steps in the removal of the capital controls were taken at the end of October 2009, when inflows of foreign currency for new investments and related potential outflows were permitted.

16. In March 2011, the Government approved a revised strategy for the lifting of capital controls developed by the Central Bank of Iceland (CBI), in cooperation with ministries and the Financial Supervisory Authorities (FSA), and in consultation with the IMF. The strategy is in three main phases, with the first two already under way. The speed of capital account liberalization is conditioned on the macroeconomic situation, the strength of balance of payments outlook, reserve adequacy and the need to safeguard financial stability.

(2) FOREIGN TRADE

(i) General

17. As a remote and insular island in the far north, faced with difficult topography and climate, Iceland´s economy depends to a large extent on few sectors. External trade is therefore of vital importance to Iceland. Imports and exports of goods and services amount to around 40% of GDP. Fisheries products have historically accounted for the overwhelming majority of exports and foreign currency income. They still are, but aluminium products have grown to account for a comparable share of export earnings and GDP in recent years. Icelandic exports are becoming more diverse every year due to a growing science and research community and high-tech industry.

18. In 2011, the total exports of goods amounted to ISK 620 billion f.o.b. and the total imports of goods was ISK 562 billion c.i.f. Iceland has had a trade surplus (f.o.b.-c.i.f.) since 2009; the surplus was 9.4% of the export value in 2011, 14.9% in 2010, and 10.9% in 2009.

19. European Economic Area (EEA) free trade partners accounted for 82.7% of Iceland´s exports in 2011, by far the most important export market. Exports to other European countries amounted to 5.7%, the United States 3.7 %, Japan 2.5%, and other countries 5.4%. The share of imports from the EEA was 61.9%. Imports from other European countries amounted to 3.8%, the United States 10.9 %, Japan 1.6%, and other countries 21.8% (Brazil 5.8% and China 6.3% thereof).

(ii) Various sectors

20. The seafood industry is the backbone of the economy and accounted for 9.7% of GDP in 2010 and 10.8% in 2011[1]. Furthermore, fisheries are extremely important for currency reasons, amounting to 41% of the total export value of goods in 2011. Iceland is the 13th largest fishing nation in terms of volume caught in the world in 2011. The fishing fleet and processing facilities are technologically advanced and Icelandic seafood products are sold all over the world, with Europe being the most important market.

21. The aluminium smelting industry is also very important for Iceland´s economy and accounted for 4.1% of GDP in 2010 and 4.6% in 2011[2]. It furthermore constituted 38% of total export value of goods in 2011, thus being a very important source for currency earnings. Iceland is now one of the ten largest aluminium producers in the world following the completion of large-scale investment projects in the aluminium and power sectors. This will have a long-term positive impact on the export base.

22. Agriculture accounted for 1.2% of GDP in 2010 and 2011[3]. Agricultural products were exported in 2011 for approximately ISK 9.9 billion and imported for about three times that amount. Conditions for agriculture in Iceland are constrained by many external and internal factors, *inter alia* the country's remote location just below the Arctic circle, the challenging climate with relatively low summer temperatures, difficult topography, low population density, long distances and the small home market. While central to the country's food security, sustainability and rural viability, the limited range of agricultural production means a sector of high-costs and low-potential activity in an international comparison. These challenges adversely affect the international price and cost competitiveness of the agricultural sector, which is dependent on both direct support schemes and market support measures.

23. The economic recovery of Iceland is fuelled by the outward looking and integrated small to medium sized enterprises. Many of them have adapted well to new economic realities and made necessary changes to become highly competitive. These include companies in sectors such as fisheries, high-tech services, travel and tourism, IT, engineering, food and food processing, biotechnology, consultancy and design. They are supported by strong fundamentals such as good infrastructure, clean energy, rich marine resources, institutes of higher learning and a young and dynamic workforce. Emphasis on innovation, R&D and strategic marketing has led to a number of enterprises emerging in recent years in export oriented manufacturing, in areas such as medical equipment, pharmaceuticals, machinery for fisheries and food processing. Information technology has been growing rapidly and is now around 4% of GDP.

24. Tourism in Iceland has experienced a rapid growth during the last three decades and currently provides a substantial part, around 14%, of Iceland‘s foreign currency earnings.

25. The share of tourism in Iceland's GDP was 5.6% in 2009. The annual increase of visitors to Iceland has been 6.1% on average over the past eleven years. Since 2008, Iceland has seen a considerable increase in overall volume of tourists. In 2011 there was almost 16% increase from the previous year, with just over 565 thousand tourists visiting the island. This increase can be attributed to multiple factors, including the low ISK exchange rate, more frequent flights and targeted promotional outreach. Further marketing campaigns have been launched to boost off-season tourism,

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[1] According the Statistic Iceland's preliminary numbers for 2011.
[2] According the Statistic Iceland's preliminary numbers for 2011.
[3] According the Statistic Iceland's preliminary numbers for 2011.

such as wellness tourism, outdoor adventures and conference type incentives, in order to mitigate the severe seasonal fluctuations that characterises the industry today.

26. A new public strategy for tourism in Iceland was approved by the Parliament in 2011. Its main aims are the following; maintain Iceland's unique nature, broaden the destination base, improve the quality, professionalism and the environmental consciousness of the tourism industry, promote profitability and respect for the industry, extend the tourist season, decrease seasonal fluctuation and promote a better distribution of tourists around the country. The aim is to welcome one million visitors in 2020.

27. Iceland has played an important role in the evolution and utilization of geothermal energy. A vast majority of the nation uses geothermal energy in their daily lives, including for house-heating, industrial fuel and electricity production. The utilization of this natural resource is an integral reason why Icelanders enjoy a relatively high quality modern lifestyle.

28. Due to its relative abundance of natural resources, Iceland is getting less dependent on fossil fuel. In 2010, Iceland produced 85.7% of its energy consumption (around 234 petajoules). Around 19.4% came from hydro energy and 66.3% from geothermal energy. Imported energy (fossil fuel) accounted for 14.3%. Around 90% of imported fuel is used by the fishing fleet and for general transportation (around 600 million tons in 2011). New and promising ways of generating energy for transportation are emerging; in hydrogen, electricity, hybrids (electricity and petrol), ethanol, methanol, buthanol, methan gas, biodiesel and even compressed air. Iceland's vision is to be able to utilize its natural resources, mainly hydro and geothermal power, to replace fossil fuel partly or completely in transportation.

29. Despite Iceland's position in green energy, the prospect of commercial accumulations of oil and gas are also being explored on the continental shelf, in the areas of Bergrisi in the Hatton-Rockall area, in Gammur on the northern insular shelf of Iceland, and in the Dreki area east and northeast of Iceland.

30. An Energy Strategy for Iceland has recently been formulated. The key objectives of the strategy are to reduce the use of fossil fuels as much as possible by reducing the need for imported fuels to the extent possible. In addition, other objectives include increasing the lifetime of fuel stocks and preparing a contingency plan if disruptions in imports should occur.

31. Foreign Direct Investment (FDI) has been an important part of the Government's policy for the last few years. Iceland has made 12 investment agreements with other states. Ten of them are bilateral agreements with Chile, Egypt (awaiting ratification), India, China, Latvia, Lithuania, Lebanon (awaiting ratification), Mexico, Viet Nam and Uganda (initialled). Furthermore, Iceland has within the framework of EFTA concluded an investment agreement with South-Korea and a chapter on investment in a free trade agreement with Singapore. Iceland has lately, with reference to the increased emphasis on investment opportunities, requested to enter into negotiations on investment agreements with States that are close to the EEA market area. Iceland is currently negotiating an investment agreement with Turkey and negotiations with Ukraine are expected to take place next year.

32. In June 2012 Althingi approved a new comprehensive parliamentary resolution on foreign direct investment. This is the first time the government has laid down a policy on FDI with clear and unequivocal goals. Priority is to be given to improving Iceland's competitiveness in attracting foreign investment. The policy stresses the importance of marketing and publicity. Great importance is

attached to ensuring coordination in the public administration. Careful attention will be given to all aspects of administration so as to simplify procedures and achieve transparency.

(3) STRUCTURAL REFORMS

(i) Restructuring of the banks and debt adjustment

33. The restructuring of the banking sector following the financial crisis in 2008 has been largely completed. Further operational and financial restructuring is still required in order to allow for the resumption of bank lending and consolidation. The market remains dominated by the three "new" banks that emerged from the financial collapse in autumn 2008. They have been recapitalized and are now much smaller in size compared to pre-crisis levels, focusing on domestic operations. Domestic banking sector credit to the private sector is estimated at just over 100% of GDP at the end of 2011, down by 5% of GDP over the year and only a fraction of the pre-crisis level. However, the banks are faced with significant vulnerabilities as asset quality is subject to considerable uncertainty and financial imbalances are likely to persist for some time. Private households and businesses are faced with significant operational problems and nonperforming loans are exceptionally high (at around 20% of the book value of loans at end-March 2012).

34. In response, the government has had private sector debt restructuring at the forefront of its economic policy. Various programmes, including debt relief programmes for household' mortgages and a voluntary framework for small and medium sized enterprises, have gained pace. In addition, the use of the Financial Supervisory Authorities' prudential powers is meant to support this process. The operational restructuring of the savings banks has been proceeding but there remains scope for a further consolidation of the sector.

(ii) State ownership

35. Following the financial crisis in the autumn of 2008 and the restructuring of the banking system, the Icelandic government set out a State ownership policy in financial companies. The centerpiece of the policy was the creation of a new agency, the Icelandic State Financial Investments, to manage the State's holdings in financial undertakings.

36. The Government retains majority ownership in one of the banks, Landsbankinn, and minority stakes in other two banks, Arion Banki and Íslandsbanki, with the majority stakes owned by non-residents. The Government currently holds stakes in five saving banks.[4]

(iii) Tax and Customs reforms

37. The Icelandic government introduced a number of measures in mid-2009, including both cutbacks and tax increases, as a reaction to the financial crisis. The corporate and personal income tax percentage to the state and municipalities has increased. In 2008, the personal income tax general rate was 35.72%, the corporate (ltd.) income tax rate was 18%, and tax on capital gains was 10%. In 2012 the personal income tax rate is 37.34%-46.24% (progressive), the corporate (ltd.) income tax rate is 20%, and tax on capital gains is 20%. A new tax of 1.5%-2% has been introduced on personal capital over ISK 75 million. The Value Added Tax percentage (VAT) was increased in 2010 from 24.5% to 25.5%. A new environmental tax was levied on liquid fossil fuels in 2010 in relation to CO2

[4] Bolungarvík Savings bank 90.9%, Vestmannaeyjar Savings bank 55.3%, Svarfdalur Savings bank 90.0%, Norðfjörður Savings bank 49.5% and Þórshöfn Savings bank 75.8%.

emissions (2.6-3.1 ISK per litre). Furthermore, the nine tax agencies around the country were merged in 2010 into one centralised institution, the Directorate of Internal Revenue.

38. The Icelandic Customs Tariff has generally been the same in recent years. However, applied duties on agricultural products were changed to ad-valorem tariffs in 2011, as is permitted by Iceland's commitments under the WTO. Excise duties on oil and gasoline, as well as on alcohol and tobacco, have been increased considerably in recent years. Changes were made to excise duties in January 2010 on various motor vehicles, where duties were levied according to carbon dioxide emission rather than combustion. Therefore, excise duties have been lowered on low emission vehicles, but increased on higher emission vehicles. Furthermore, excise duties have been increased (generally by 2%-2.5%) on various beverages and candy for public health reasons.

(iv) Competition policy

39. As a member of the EEA, Iceland's competition policy is aligned with that of the EU. National and EEA rules on competition are applied in parallel. Iceland has also subscribed to competition provisions within the context of the EFTA Convention and in each of EFTA's free-trade agreements with third countries.

40. The Competition Authority is an independent body under the auspices of the Ministry of Industries and Innovation (as of 1 September 2012). The Authority has published 336 decisions since it was established in 2005 (as of June 2012). The Authority has stated that the post-crises economic conditions have led to an increased concentration in some sectors, which might lead to an increased abuse of dominant position. Since the beginning of 2008, it has annulled or prevented 5 mergers and imposed conditions on a further 41. It has also during the same period fined 24 companies a total of €20.9 million because of collusion or abuse of a dominant position.

41. The 2011 amendment to the Competition Law gave the Competition Authority the power to take action to respond to any market situation or actions by any enterprise that would restrict competition even if there was no breach of any specific part of the law. The amendment also allows the Authority to bring rules of the Appeals Committee to the courts (in the past only parties opposed to rulings of the Appeals Committee had such a right).

III. TRADE POLICY OBJECTIVES AND DEVELOPMENT

(1) THE WORLD TRADE ORGANIZATION

42. Iceland ratified the General Agreement on Trade and Tariff (GATT) in 1968 and is a founding member of the World Trade Organization. With the exception of the Agreement on Trade in Civil Aircraft, Iceland is a party to all current agreements of the WTO, including the Government Procurement Agreement (GPA) since 2001. The majority of Iceland's trade legislation mirrors WTO obligations and is encoded in a number of acts.

43. Iceland is a staunch supporter of the multilateral trading system, including the full implementation of existing disciplines and commitments. Such a system is of particular importance for smaller members, like Iceland, and provides for a more level playing field in international trade. Iceland is committed to the conclusion of the Doha Development Agenda in accordance with its mandate which should provide for a fair and equitable outcome benefitting the entire membership.

44. Under the General Agreement on Trade in Services (GATS), Iceland has undertaken commitments in 9 out of 12 service sectors (business, telecommunications, construction and

engineering, distribution, financial, tourism, environmental, cultural and sporting, and transport services).

(2) THE EUROPEAN ECONOMIC AREA

45. Iceland has been a member of the European Free Trade Association (EFTA) since 1970 and is a party to the Agreement on the European Economic Area. The EEA Agreement, which entered into force on 1 January 1994, brings together the 27 EU member states and the three EEA EFTA states (Iceland, Liechtenstein, and Norway) in a single market. The EEA Agreement also states that when a country becomes a member of the European Union, it shall also apply to become party to the EEA Agreement (Article 128). Thus, Croatia's membership to the EU will lead to an enlargement of the EEA.

46. The EEA Agreement covers the four freedoms; the free movement of goods, services, persons and capital, and provides that the same rules shall apply throughout the internal market of the 30 EEA States. In addition, the Agreement covers cooperation in other important areas such as research and development, education, social policy, the environment, consumer protection, tourism and culture. The Agreement guarantees equal rights and obligations within the internal market for citizens and economic operators in the EEA.

47. The scope of the EEA Agreement does not include the EU Common Agricultural Policy or the EU Common Fisheries Policy, but it contains provisions on various aspects of trade in agricultural and fish products. Furthermore, the EEA Agreement does not entail a customs union or a common trade policy towards third countries.

48. A key feature of the EEA Agreement is its dynamic character. Its common rules are continuously updated by incorporating new EU legislation. Every month, a number of EEA-relevant pieces of EU legislation are incorporated into the Agreement by decisions of the EEA Joint Committee. The EEA EFTA states may ask for consultations on matters of concern and may also seek adaptations to Community legislation in its application to the EFTA states when special circumstances call for it.

(3) FREE TRADE AGREEMENTS

49. Iceland is a party to numerous free trade agreements, which comply with Article XXIV of the General Agreement on Tariffs and Trade (GATT 1994) and Article V of the General Agreement on Trade in Services (GATS).

50. Through Iceland's membership to EFTA, it has concluded 24 FTAs with 33 countries. The FTAs cover trade in industrial products, fish and other marine products, and processed agricultural products. Trade in basic agricultural products is covered through bilateral agreements between individual EFTA States and the free trade partners. The FTAs also contain disciplines on competition policy, state aid and intellectual property rights. Government procurement, services, and investment are generally addressed through "evolutionary clauses", whereby EFTA members and their free trade partners agree to work gradually towards liberalization. The FTAs with Chile, Hong Kong, Mexico, Singapore, the Republic of Korea, Colombia, the Gulf Cooperation Council and Ukraine provide, however, for reciprocal market access in some or all of these three areas upon entry into force. The FTAs between EFTA and Hong Kong, the Gulf Cooperation Council (GCC), Montenegro and Ukraine, as well as bilateral agricultural agreements between Iceland and these free trade partners, have been signed but have not yet entered into force. The free trade agreement between EFTA and

Colombia and the bilateral agricultural agreement have been signed but are yet to enter into force for Iceland.

51. Within the EFTA framework, Iceland is currently negotiating new FTAs with Algeria, Bosnia and Herzegovina, Central American States (Costa Rica, Guatemala, Honduras and Panama), India, Indonesia, Thailand, and the three members forming the Russia/Belarus/Kazakhstan Customs Union. Furthermore, EFTA expects to open free trade negotiations with Viet Nam in 2012. The EFTA framework also establishes trade relations through Joint Declarations on Cooperation, with present partners being Malaysia, Mauritius, MERCOSUR, and Mongolia. This form of cooperation can lead to future FTAs.

52. Iceland has also concluded bilateral free trade agreements. Two agreements have been negotiated with the EU; a FTA from 1972 and an agreement on trade in basic agricultural products, the latter based on Article 19 of the EEA Agreement. The Agreement from 1972 is still in force, although most of the concessions provided there under (with the exception of certain fish products) have been overtaken by concessions under the EEA Agreement. Furthermore, Iceland has free trade agreements with Greenland and also the Faroe Islands (the Hoyvik Agreement). The latter is Iceland's most extensive FTA. Iceland is also engaged in bilateral negotiations on free trade with China.

(4) Development Policy

53. Iceland has a forty year history of participating in official development cooperation. In 2008, Althingi passed a comprehensive legal framework on all aspects of Iceland's official development cooperation, Act No. 121/2008. The Act covers bilateral and multilateral development cooperation as well as humanitarian aid, emergency assistance and peace-building efforts.

54. A Resolution on Iceland's Development Strategy for 2011-2014 was adopted by Althingi in June 2011. It builds on the Millennium Development Goals and emphasises international agreements and development effectiveness, such as the Paris Declaration and the Accra Agenda for Action, as well as other international accords, such as the Monterrey Consensus and Doha Declaration on financing for Development. It also envisages Iceland's full membership to the OECD Development Assistance Committee in mid-year 2014. In accordance with Act No. 121/2008 the Strategy furthermore outlines Iceland's target for official development assistance (ODA), thereby demonstrating Iceland's commitment to the UN target of 0.7% of GNI.

55. Iceland's ODA grew steadily from 2000 and peaked at 0.37% of GNI in 2008. However, due to severe budgetary constraints following the economic crisis, a reduction in ODA could not be avoided. The ODA level was 0.21% of GNI in 2011 and according to budget appropriations ODA will correspond to 0.20% of GNI in 2012. Iceland's Strategy on International Development Cooperation 2011-2014 lays out a gradual increase in ODA over the coming years, with the aim of reaching 0.5% in 2017 and the UN target of 0.7% in 2019. If national income grows faster than predicted, the targets will be revisited.

56. Aid for Trade related activities represents a substantial part of Iceland's ODA, approximately 28%. These activities are mainly within the priority sectors of fisheries and renewable energy, as sustainable use of natural resources is one of three focus areas in the Strategy for Iceland's International Development Cooperation. Within these two sectors, ODA has been targeted towards technical assistance and infrastructure, as well as productive capacity building. The latter includes education and training of government officials from developing countries at the UNU Geothermal- and Fisheries Training programmes in Iceland. In addition, contributions have gone towards

geothermal energy and fishery research and development, as well as policy and administrative management within these sectors. Priority is given to Sub-Saharan Africa and least developed countries, and funds are channelled through multilateral organizations and bilateral partners.

57. A Generalised System of Preferences (GSP scheme) was first introduced in Iceland in 2001 and is not limited in time. Duties on goods originating in the least developed countries of the world, as defined by the UNCTAD/Committee on Enterprise, Business Facilitation and Development, shall be waived in conformity with procedures applicable to duties on goods originating in the European Economic Area according to the EEA Agreement. The rules of origin applied do not provide for the possibility of cumulation. The scheme covers the same products as the EEA Agreement.

58. Icelandic private sector entities have in recent years increased their presence in developing countries and participated more actively in projects promoting progress and prosperity, e.g., in the field of renewable energy. In light of the changed circumstances in the Icelandic economy, analysis is underway within the Ministry for Foreign Affairs on possibilities for promoting private sector engagement in development cooperation.

(5) European Union Accession Negotiations

59. Iceland presented its application for membership of the European Union in July 2009. The Commission gave its Opinion on the application in February 2010 and recommended the opening of accession negotiations to the European Council. The Opinion also noted the good overall level of preparedness to take on the obligations of membership due to Iceland's participation in the European Economic Area. The European Council subsequently decided in June 2012 in favour of opening negotiations.

60. The first Intergovernmental Conference, officially launching accession negotiations, took place on 27 July 2010. Negotiations are on-going. By the end of June 2012, 18 of 33 negotiating chapters have been opened and 10 of them have already been provisionally closed. As of August 2012, a further 10 negotiating positions have been submitted by Iceland.

61. Upon accession to the European Union, Iceland would have to withdraw from EFTA and its network of FTAs. At the same time, Iceland would as a new Member State join the trade agreements of the EU.