

III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Customs procedures

1. The Minister of Finance is responsible for policy and legislation relating to customs procedures in Iceland while the Directorate of Customs is responsible for implementation.

2. Act No. 88/2005 on Customs Law has been amended several times over the past few years, although customs procedures remain largely the same as reported in Iceland's last Trade Policy Review.¹ Amendments include: the creation, under the Directorate of Customs, of a single customs district for the whole country, which replaced the system of 26 districts; changes to the conditions under which consignments may be released when some essential documentation has not been submitted; and changes to the duty-free limits that individuals are allowed to bring into the country. Regulation No. 1100/2006, as amended, provides details on custody and customs clearance.²

3. Before a consignment of goods reaches Iceland, a cargo manifest must be sent to the customs authorities in the port or airport of entry. The manifest must match the bill of lading/airway bill that accompanies the consignment. The cargo manifest system is computerized and importers provide the information by electronic data interchange for 97% of consignments.

4. To be able to clear goods for free circulation, an entry form has to be filled out, signed, and handed to customs along with:

- the bill of lading/airway bill;
- a commercial invoice, or equivalent;
- bills/invoices covering the costs of delivery other than those stated on the commercial invoice (e.g. freight, packing, insurance and forwarding charges and fees) in order to determine the customs value (c.i.f. for imports, f.o.b. for exports);
- other documentation if necessary, to determine the classification of the goods;
- and permits and certificates, if necessary, according to the legislation covering the respective commodities, such as those necessary to comply with sanitary and phytosanitary measures.

5. Since 1988, customs clearance has been fully computerized, including the submission of electronic documents. The option of clearing goods through customs manually is available but usually requires a few hours, compared with a few minutes for clearance by electronic data interchange (EDI). The EDI system is used for about 98% of consignments cleared through customs (imports and exports). In order to use the EDI system, an importer must obtain a licence from the Directorate of Customs or use a licensed import broker, otherwise customs clearance must be done manually. There is no charge for manual clearance during normal working hours, outside of normal working hours, the charge is based on the time required for the customs officer.

6. All documents submitted to Customs can be inspected electronically but the Customs Directorate has the right to inspect the originals and to ask for additional information and documentation on the consignment. Physical inspections of consignments are based on an assessment

¹ WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

² For the consolidated text of Act No. 88/2005 on Customs, as amended, and Regulation 1100/2006, as amended (in English), see: http://www.tollur.is/displayer.asp?cat_id=918 [July 2012].

by the Analysis Unit in the Directorate of Customs (Table III.1). A breach of the Customs Law may result in confiscation of goods, fines or imprisonment of up to six years.

7. In the case of disputes, written complaints may be submitted to the Director of Customs with supporting arguments and documents within 60 days of customs clearance. The Directorate ruled on an average of 21 complaints each year for 2009-11. The rulings on complaints may be appealed to the State Customs Board for a final decision; an annual average of five appeals were made during 2009-11.

Table III.1
Cases investigated by the Customs Inspectorate, 2009-2011

| | 2009 | 2010 | 2011 |
|-------------------------------|-------|-------|-------|
| Number of cases | 274 | 433 | 324 |
| Finished cases | 176 | 278 | 317 |
| Penalties issues | 1,666 | 1,480 | 1,459 |
| Total penalties (ISK million) | 12.1 | 13.5 | 15.6 |

Source: Icelandic authorities.

8. The storage area used for goods that have not cleared customs depends on the intended destination of the goods:

- clearance warehouses: goods may be stored for up to six months;
- bonded warehouses: individual consignment parts may be withdrawn, and minor processing of goods is permitted, such as repackaging, labelling, assembling, testing, and cleaning, provided there is no change in the tariff classification of the goods;
- warehouses for duty-free supplies: for storage of provisions, equipment, and other supplies for vessels in international journeys, and goods intended for sale aboard such vessels;
- duty-free shops: for sales to passengers and crews of vessels on international journeys, on arrival and departure;
- free zones; uncleared goods may be used in processing or industry of any kind (although legal provision has been made for free zones, none are functioning (section (3)(ii)); and
- transit warehouses: for goods transferred from a vessel or clearance warehouse, before they are transported out of the country.

9. Iceland has notified the WTO that it does not have any laws or regulations relating to preshipment inspection.³

10. It has been reported that, compared with other OECD countries and other countries in the region, importing into Iceland takes longer (14 days compared with 11 in other high income OECD countries), and is more expensive (US\$1,674 compared with US\$1,085). The main reason for the relatively high cost of importing goods is the cost of ports and terminal handling, and of internal transport.⁴

³ WTO document G/PSI/N/1/Add.4, 9 October 1996.

⁴ World Bank (2012).

(ii) Customs valuation and rules of origin

(a) Customs valuation

11. The law on customs valuation was changed slightly during the review period. Under Act No.170/2007, the exchange rate used for customs clearance became the official adjustment rate registered by the Central Bank for the week-day preceding customs clearance. Exchange rates for Iceland's main trading partners are posted on the website of the Directorate of Customs.⁵

12. Under Chapter V of Act No. 88/2005 on Customs Law, which is modelled on Articles 1 and 8 of the Agreement on the Implementation of Article VII of GATT 1994, the primary basis for the customs valuation of goods is the transaction value adjusted to include container, insurance, freight, and other charges. The actual transaction value may be reduced:

- for the cost of transport from the first customs port where they could have been unloaded to the actual port where they were unloaded;
- for the additional cost arising from poor conditions for unloading; or
- for the additional cost arising from unloading at more than one port.

13. Under the Act, the Minister of Finance is required to take into account the Agreement on the Implementation of Article VII of GATT 1994, when issuing further rules on customs valuation. Regulation 1100/2006 lists the alternative methods of valuation to be used when the director of customs doubts the veracity of the information concerning the transaction value. The alternative methods of valuation and their order of priority were modelled on the Agreement on the Implementation of Article VII of GATT 1994.

14. Special provisions apply to the valuation of motor vehicles allowing the valuation for customs purposes to be a reference value, based on the value of a similar vehicle (same type, subtype, and model year) in the country where the vehicle was purchased.

15. Assistance may be sought from customs authorities in the country of export. Where the determination of customs value of imported goods is delayed, Customs may release the goods, against security for border charges. Upon written request, an importer has the right to a written communication from the Director of Customs explaining how the customs value of the imported goods was determined.

16. Iceland has notified the WTO that the Interpretative Notes of the Agreement on Implementation of Article VII of the GATT 1994 have not been included in its respective laws and regulations⁶; the provisions of the Decision on the Treatment of Interest Charges in the Customs Value of Imported Goods have not been implemented; and the provisions of paragraph 2 of the Decision on the Valuation of Carrier Media Bearing Software for Data Processing Equipment have not been implemented.⁷

⁵ Exchange rates. Viewed at: http://www.tollur.is/Tollgengi.asp?cat_id=2844 [July 2012].

⁶ WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

⁷ WTO document G/VAL/N/2/ISL/1, 16 April 1999.

(b) Rules of origin

17. In 1995, Iceland notified the WTO Committee on Rules of Origin that the Minister of Finance would probably issue a regulation on non-preferential rules of origin once the Technical Committee on Rules of Origin had concluded its work on the harmonization of non-preferential rules of origin.⁸ Although this has not happened, as a member of EFTA and a signatory to the EEA Agreement, Iceland is subject to their non-preferential rules of origin.⁹

18. Furthermore, under Article 7 of the Customs Law, preferential rules of origin, including Iceland's GSP scheme, are based on the trade agreements Iceland has concluded. In March 2012, Iceland ratified the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin, which will cover trade among the EU, EFTA¹⁰, the Faroe Islands, the participants in the Barcelona Process¹¹, and participants in the European Union's Stabilisation and Association Process.¹² The Pan-Euro-Mediterranean system is an extension of the existing Pan-European cumulation that applies to the EU, EFTA, and Turkey. Under this system products that originated in one of these countries may be added to products originating in another without losing their originating status.¹³

19. For GSP beneficiaries, the rules of origin are set out in Annex 4 of Regulation No. 119/2002¹⁴ as products wholly obtained in a GSP country or products that have been sufficiently worked or processed to satisfy Annex II to Protocol 4 of the Agreement on the European Economic Area as replaced by the Decision of the EEA Joint Committee No. 136/2005.¹⁵

20. Exporters, importers or other persons may request an advance assessment of origin from the Icelandic authorities. An assessment by a director of customs may be appealed to the State Customs Board by the person who made the request for an advance assessment.¹⁶

(iii) Tariffs

(a) Applied MFN tariff

21. Iceland grants at least MFN treatment to all trading partners. The MFN tariff includes 8,513 lines at the eight-digit HS level (HS2012) in 2012, of which 94.9% are duty free or have *ad valorem* duties (Table III.2 and Chart III.1). Over 70% of all tariff lines are duty free.

⁸ WTO document G/RO/N/5, 1 November 1995.

⁹ Ministry of Foreign Affairs (2011).

¹⁰ Iceland, Liechtenstein, Norway, and Switzerland.

¹¹ Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia, and Turkey.

¹² Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia, as well as Kosovo.

¹³ European Commission online information. Viewed at: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm [July 2012].

¹⁴ Regulation No. 119/2002 (in English). Viewed at: http://eng.fjarmalaraduneyti.is/media/laws_regulations/Regulation_119-2002.pdf [July 2012].

¹⁵ Decision of the EEA Joint Committee No. 136/2005, *Official Journal of the European Union OJ No L 321*, 8 December 2005. Viewed at: <http://eur-lex.europa.eu/en/index.htm> [July 2012].

¹⁶ WTO document G/RO/W/26, 25 March 1998.

Table III.2
Tariff structure of Iceland, 2005 and 2012

| | MFN applied | | EEA |
|---|--------------|--------------|--------------|
| | 2005 | 2012 | 2012 |
| Bound tariff lines (% of all tariff lines) ^a | 94.9 | 94.9 | |
| Simple average rate | 4.3 (5.9) | .. | 1.8 |
| Agricultural products (HS 01-24) | 9.5 (15.8) | 9.0 | 6.2 |
| Industrial products (HS 25-97) | 2.5 | 2.5 | 0.0 |
| WTO agricultural products | 10.9 (18.2) | .. | 8.3 |
| WTO non-agricultural products | 2.5 | 2.5 | 0.0 |
| Duty-free tariff lines (% of all tariff lines) | 70.1 | 70.1 | 94.0 |
| Simple average rate of dutiable lines only | 14.5 (19.8) | .. | 33.3 |
| Tariff quotas (% of all tariff lines) | 1.1 | .. | .. |
| Non- <i>ad valorem</i> tariffs (% of all tariff lines) | 4.7 | 5.2 | 4.6 |
| Domestic tariff "peaks" (% of all tariff lines) ^a | 11.6 (7.8) | .. | 5.4 |
| International tariff "peaks" (% of all tariff lines) ^b | 7.6 (7.9) | .. | 5.3 |
| Overall standard deviation (SD) of tariff rates | 8.7 (21.0) | .. | 7.9 |
| Coefficient of variation (CV) of tariff rates | 2.0 (3.6) | .. | 4.4 |
| Nuisance applied rates (% of all tariff lines) ^c | 0.0 | .. | 0.0 |
| Number of lines | 8,167 | 8,513 | 8,513 |
| <i>Ad valorem</i> | 2,057 | 2,110 | 514 |
| Duty-free lines | 5,728 | 5,965 | 7,999 |
| Non- <i>ad valorem</i> | 382 | 438 | 388 |
| Specific | 50 | 53 | 53 |
| Compound | 332 | 385 | 335 |
| Alternate | 0 | 0 | 0 |

.. Not available/not calculable.

a Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.

b International tariff peaks are defined as those exceeding 15%.

c Nuisance rates are those greater than zero, but less than or equal to 2%.

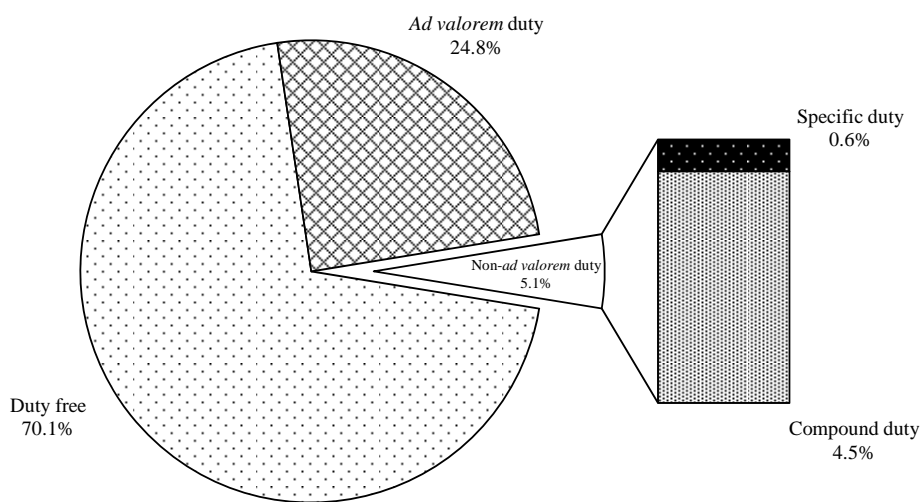
Note: The 2005 tariff is based on HS02 nomenclature and the 2012 tariff is based on HS12. Calculations are based on national tariff line level (eight-digit); calculations for tariff averages, domestic and international peaks, and SD and CV exclude specific rates and include the *ad valorem* part of compound rates. Figures in brackets include AVEs provided by the authorities for the 2005 tariff schedule. For 2005, where no brackets are shown, the figure is the same, including or excluding AVEs. No AVEs were provided by the authorities for 2012 non-*ad valorem* rates.

Source: WTO Secretariat calculations, based on Icelandic Directorate of Customs online information. Viewed at: <http://www.customs.is/upload/files/Customs%20Tariff%202012.pdf> [February 2012].

22. It is not possible to provide an average MFN applied tariff because non-*ad valorem* duties (specific and compound rates) apply to 438 items, representing 5.0% of total tariff lines, and the authorities were unable to provide *ad valorem* equivalents for these lines. However, these non-*ad valorem* tariffs are applied exclusively to agriculture products (WTO definition), which are much more heavily protected than other sectors. The average MFN duty would therefore be higher, and the complex nature of the tariffs also adds to the cost of importing. For non-agricultural products, the average MFN applied tariff was 2.5% in 2012. For non-agricultural products, clothing has the highest average tariff, while the highest duty rate of 20% is applied to chemicals and photographic supplies (Chart III.2).

23. Among the *ad valorem*-only tariffs, more than 90% of tariff lines have MFN duty rates below 15%; excluding duty-free rates, most rates are in the 5% to 10% range (Chart III.2). Duty-free rates account for close to 60% of lines in the manufacturing sector but only 12% in the agriculture sector.

Chart III.1
Tariff distribution by type of duty, 2012
(Share of total tariff lines)



Source: WTO Secretariat estimates, based on Icelandic Directorate of Customs online information.
Viewed at: <http://www.customs.is/upload/files/Customs%20Tariff%202012.pdf> [February 2012].

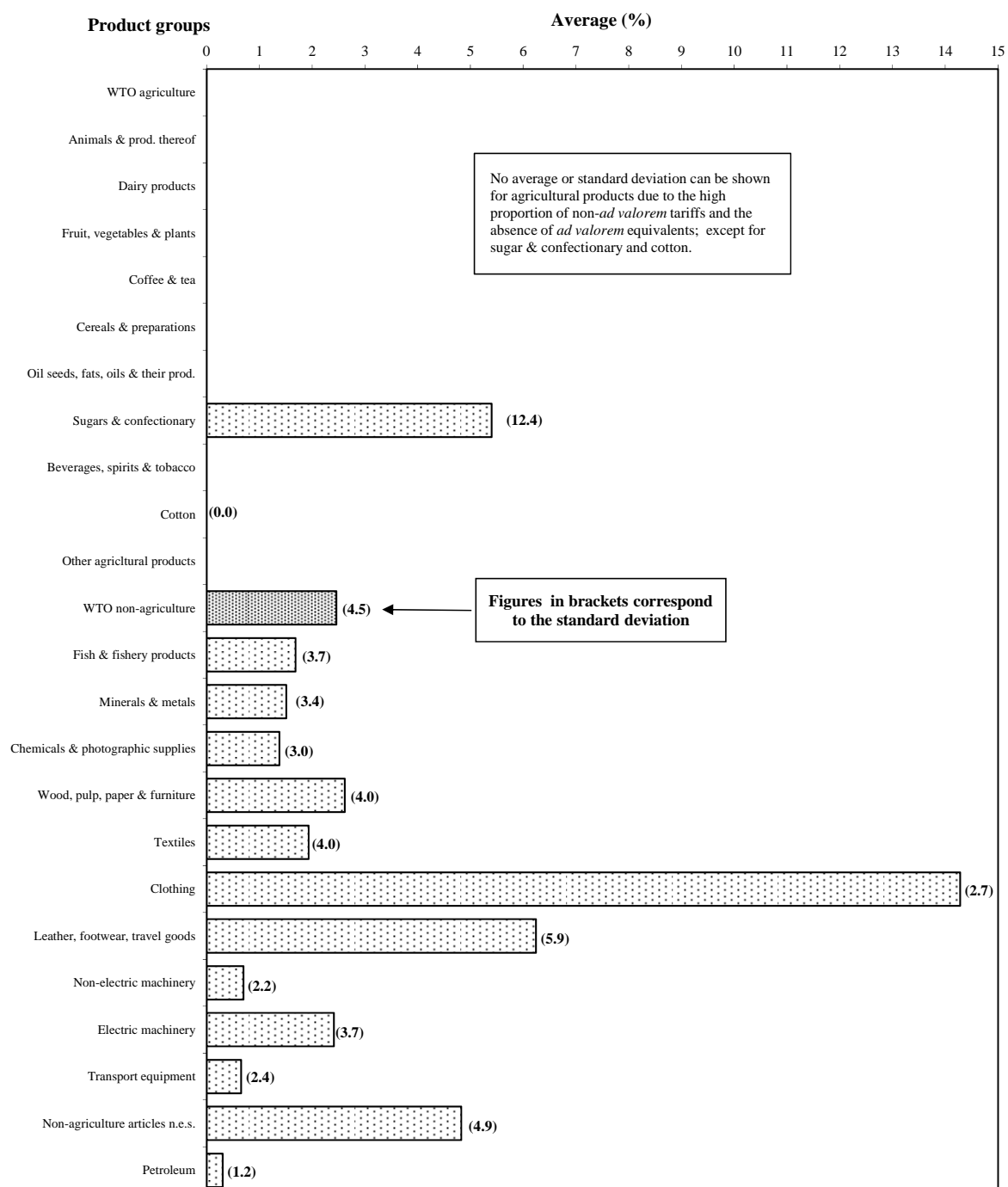
(b) Bound tariff

24. All agricultural tariff lines and some 95% of manufactured lines are bound (using Iceland's schedule based in the HS96 classification). Again, it has not been possible to calculate average tariffs because of the high number of non-*ad valorem* equivalents and the absence of *ad valorem* equivalents. However, the same conclusions can be made as for applied MFN tariffs, i.e. that the non-*ad valorem* bound tariffs pertain to agricultural products.

(c) Tariff preferences

25. Iceland grants tariff preferences to participants in the EEA. The overall simple average preferential tariff is 1.8% (2012). The average rate for agricultural products is 6.2% compared with close to 0% for other products; 99.5% of manufactured products can be imported duty free. In addition to the EEA Agreement, Iceland has several FTAs under which it offers preferential tariffs (Table II.4).

Chart III.2
MFN applied tariff averages and dispersion by product groups, 2012



Source: WTO Secretariat estimates, based on Icelandic Directorate of Customs online information. Viewed at: <http://www.customs.is/upload/files/Customs%20Tariff%202012.pdf> [February 2012].

(iv) Other charges affecting trade (VAT and excise duties)**(a) Value Added Tax**

26. The main legislation covering VAT is Act No. 50/1988 on Value Added Tax.¹⁷ Businesses with annual sales of taxable goods and/or services of less than ISK 1 million are exempt from VAT, as are medical and social services, educational institutions, cultural services, sports activities, passenger transport, postal services, rent of real estate properties, insurance activities, banking services, lotteries and betting pools, works of authors and musical composers, travel agencies, and funeral and church-related services.

27. Exports of goods and services are zero-rated as are several other transactions, including: transportation of goods between countries; design and planning of constructions based abroad; provisioning of inter-country vessels; sale and leasing of aircraft and ships; shipbuilding and maintenance of ships and aircraft; services to foreign fishing vessels related to landing and sale of fish in Iceland; direct payments to farmers; and telecommunications services.

28. VAT is levied at all stages of production and trade on domestically produced goods and services. For imports, VAT is assessed and collected by the Directorate of Customs and is based on the c.i.f. price, plus the tariff and other duties and charges levied on the import. For both imports and domestically produced goods and services, outstanding VAT must be settled on a bimonthly basis, except for tax payers with turnover of less than ISK 3 million per year, who have a one-year settlement period, and farmers, who have a six-month settlement period.

29. The standard rate for VAT in Iceland was increased from 24.5% to 25.5% on 1 January 2010 with a reduced rate of 7% (down from 14% since March 2007) for some goods and services (mainly food, printed materials, electricity, and hot water). Public transport and tourist coach services using vehicles meeting Euro 5 emission standards qualify for a refund of two-thirds of VAT paid, and labour for residential housing qualifies for a temporary refund until 1 January 2013. According to the authorities, the current exemption for cars using hydrogen as fuel is to be replaced by an exemption for electric, hybrid, and hydrogen fuelled vehicles.

(b) Excise duties

30. The main legislative acts for excise duties are: Act No. 97/1987 on Commodity Tax; Act No. 29/1993 on Commodity Tax on Vehicles, Fuel, et al; Act No. 96/1995 on Alcohol and Tobacco Tax; and Act No. 87/2004 on Oil Tax and Mileage Fee. Each of these laws has been amended a number of times since being introduced.¹⁸

31. Excise duties on imports (except commercial imports of alcohol and tobacco) are assessed and collected by the Customs Directorate and paid at the point of import. Excise duties on domestic production and sales are assessed by the Internal Revenue Directorate at the point of leaving the factory, and settled at the end of a two-month settlement period. Excise duties on alcoholic beverages

¹⁷ Act No. 50/1988 on Value Added Tax (in English). Viewed at: <http://eng.fjarmalaraduneyti.is/legislation/> [July 2012].

¹⁸ Act No. 97/1987 on Commodity Tax; Act No. 29/1993 (as amended) on Commodity Tax on Vehicles, Fuel, et al; Act No. 96/1995 (as amended) on Alcohol and Tobacco Tax; and Act No. 87/2004 (as amended) on Oil Tax and Mileage Fee (in English). Viewed at: <http://eng.fjarmalaraduneyti.is/legislation/> [July 2012].

and tobacco products are assessed when they leave the production centre and collected at the end of a 14-day settlement period.

32. The basis for assessment of excise duties on vehicles was changed at the start of 2011 from engine size to carbon dioxide emissions. For vehicles emitting greater amounts of CO₂, the new charges are being phased in, starting in 2011.¹⁹ Duties on taxis and rental cars are subject to lower rates of tax, and commercial and other vehicles not for private use are either exempt or have a simple *ad valorem* excise duty. Vehicles are also subject to a tax based on their weight and CO₂ emissions, a disposal charge, and, for vehicles over 10 tonnes, a tax based on weight and distance driven (Table III.3).

Table III.3
Excise duties and related taxes in Iceland, 2012

| Product | Excise duty rate | | | | | | |
|---|--|-------------------|-------------|-------------|--------------------------------|-------------|-------------|
| Alcohol products | | | | | | | |
| Beer and ale containing more than 2.25% alcohol | ISK 86.90/cl of pure alcohol | | | | | | |
| Wine and fermented beverages up to 15% alcohol | ISK 78.16/cl of pure alcohol | | | | | | |
| Other alcohol | ISK 101.74/cl of pure alcohol | | | | | | |
| Tobacco | | | | | | | |
| For resale | | | | | | | |
| Cigarettes | ISK 347.90/pack of 20 cigarettes | | | | | | |
| Snuff | ISK 4.12/g | | | | | | |
| Cigars and other tobacco | ISK 12.45/g | | | | | | |
| Not for resale | | | | | | | |
| Cigarettes | ISK 437.00/pack of 20 cigarettes | | | | | | |
| Cigars and other tobacco | ISK 21.85/g | | | | | | |
| Excise duties on vehicle fuel | | | | | | | |
| Petrol | ISK 42.23/litre (44.20 for leaded petrol) | | | | | | |
| Diesel | ISK 45/litre | | | | | | |
| Biofuels | Reduction based on the proportion of biofuel | | | | | | |
| Excise duties on private motor vehicles | | | | | | | |
| | Emissions in grams of CO₂/km | Standard % | | | Taxis and rental cars % | | |
| A. | 0-80 | 0 | | | 0 | | |
| B. | 81-100 | 10 | | | 0 | | |
| C. | 101-120 | 15 | | | 0 | | |
| D. | 121-140 | 20 | | | 0 | | |
| E. | 141-160 | 25 | | | 5 | | |
| F. | 161-180 | 35 | | | 10 | | |
| | Categories G, H, I, J phased in as follows: | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| G. | 181-200 | 36 | 41 | 45 | 12 | 14 | 15 |
| H. | 201-225 | 44 | 50 | 55 | 16 | 18 | 20 |
| I. | 226-250 | 48 | 54 | 60 | 20 | 23 | 25 |
| J. | 251 + | 52 | 59 | 65 | 24 | 27 | 30 |

Note: Reduction for methane fuelled cars of up to ISK 1,250,000

Table III.3 (cont'd)

¹⁹ Act No. 156/2010 amending Act No. 29/1993 on Commodity Tax on Vehicles, Fuel, et al; and Act No. 87/2004 (as amended) on Oil Tax and Mileage Fee.

| Product | Excise duty rate | | | | | | | |
|--|---|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|--|
| Excise duties on motor vehicles other than private automobiles | | | | | | | | |
| Large goods vehicles, large special-purpose vehicles, tractors, agriculture trailers, large snow-mobiles, amphibious vehicles, competition cars and motorbikes, vehicles for transport of disabled persons, rescue vehicles, large coaches | Exempt | | | | | | | |
| Small goods vehicles, small special-purpose vehicles, vehicles over 40 years old, motor vehicle bodies | 13% | | | | | | | |
| small coaches, motorbikes, other vehicles | 30% | | | | | | | |
| Semi-annual road tax | | | | | | | | |
| 0 - 3,500 kg | | | | | | | | |
| Emissions 0-120 g of CO ₂ /km | ISK 5,000 | | | | | | | |
| Emissions greater than 120 g of CO ₂ /km | ISK 5,000 + 120/g of CO ₂ / km | | | | | | | |
| More than 3,500 kg | ISK 46,880 + 2/kg over 3,500 kg up to a maximum of ISK 73,800 | | | | | | | |
| Disposal charge | | | | | | | | |
| ISK 350 every six months for 15 years, ISK 15,000 refund when scrapped | | | | | | | | |
| Weight distance tax (payable every six months) | | | | | | | | |
| Vehicle weight | ISK/km | Vehicle weight | ISK/km | Vehicle weight | ISK/km | Vehicle weight | ISK/km | |
| 0-10 tonnes | 0 | 15-16 tonnes | 3.29 | 21-22 tonnes | 6.89 | 27-28 tonnes | 10.49 | |
| 10-11 tonnes | 0.29 | 16-17 tonnes | 3.89 | 22-23 tonnes | 7.49 | 28-29 tonnes | 11.09 | |
| 11-12 tonnes | 0.89 | 17-18 tonnes | 4.49 | 23-24 tonnes | 8.09 | 29-30 tonnes | 11.69 | |
| 12-13 tonnes | 1.49 | 18-19 tonnes | 5.09 | 24-25 tonnes | 8.69 | 30-31 tonnes | 12.29 | |
| 13-14 tonnes | 2.09 | 19-20 tonnes | 5.69 | 25-26 tonnes | 9.29 | Over 31 tonnes | 12.89 | |
| 14-15 tonnes | 2.69 | 20-21 tonnes | 6.29 | 26-27 tonnes | 9.89 | | | |

Source: Customs Directorate of Iceland online information. Viewed at: http://www.customs.is/default.asp?cat_id=61 [July 2012] and European Commission (2011), *Screening Reports, Chapter 16, Taxation*.

(v) Import prohibitions, restrictions, and licensing

33. Under Act No. 88/1992 on Imports, there are no restrictions or prohibitions on imports into Iceland except for those provided for under international agreements to which Iceland is a party and specific products identified under domestic statutes for health, safety, and security reasons.

34. Under international agreements, Iceland follows the resolutions of the United Nations Security Council, and prohibits imports of ozone-depleting chemicals in line with the Montreal Protocol to the Vienna Convention for the Protection of the Ozone Layer. Iceland is also a contracting party to the Convention on International Trade in Endangered Species and Wild Fauna and Flora (CITES).

35. The only major changes to import licence and/or permit requirements are under Regulation No. 448/2012 on Defence Against Animal Diseases, which amended some rules covering imports of animal products (see more details on SPS and TBT-related measures in section (3)(iv)):²⁰

- imports of live animals are prohibited, with the exception of import consignments licenced by the Minister for Industries and Innovation on the basis of recommendations from the Chief Veterinary Officer. Imports of animal products also require the permission of the Minister;

²⁰ WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

- imports of plants and plant products require a licence from the Agricultural Research Institute, and imports of animal fodder, fertilizers, and seeds from the Agricultural Authority of Iceland (MAST);
- narcotics and psychotropic substances require an import licence from the Ministry of Welfare;
- imports of radioactive goods require the permission of the Icelandic Radiation Protection Institute;
- firearms and ammunition imports require a permit from the Commissioner of the Icelandic Police;
- machines for public works must be registered with the Administration of Occupational Safety and Health before import and inspected by the Administration after import; and
- toxic chemicals and other goods with health and environment concerns are subject to a conditional prohibition, with imports only allowed subject to certain conditions and approval from the Ministry for the Environment and the Environmental and Food Agency.

(vi) Contingency measures

36. The law on anti-dumping and countervailing duties is set out in Act No. 88/2005 on Customs, and Regulation No. 351/1994. The competent authority is the Committee on Anti-Dumping and Countervailing Duties in the Ministry of Finance.²¹ There have been no amendments to these laws or to policy since 2006²², and Iceland has not resorted to anti-dumping, or countervailing measures.

37. Under the customs law the Minister of Finance may impose anti-dumping duties of up to the dumping margin or countervailing duties up to the value of the subsidy for a maximum of five years.

38. Under the Regulations, a claim concerning dumping or subsidies must be made to the Minister, who refers it to the Committee on Anti-Dumping and Countervailing Duties. The Committee may make preliminary findings to reject or uphold the claim. If the claim is upheld, the Committee may impose preliminary anti-dumping or countervailing duties for up to twelve months and must notify, in the *Official Gazette*, that it intends to start a full investigation. In addition, the complaining party and other interested persons (including exporters, importers, and the Government of the exporting country) must be directly informed of the investigation. During the investigation, which should not take longer than one year, the Committee may hold hearings and invite interested parties to make submissions. The final decisions of the Committee are published in the *Official Gazette*. If the Committee decides to impose anti-dumping or countervailing duties on imports of a product (cannot be applied simultaneously) the maximum period is five years, renewable if a complaining party can show that removal of the measure would lead to injury.

39. Iceland does not have any law on safeguards, within the meaning of Article XIX of GATT and the Agreement on Safeguards, but it reserved the right to use the Special Safeguard Provisions in

²¹ WTO documents G/ADP/N/14/Add.29 and G/SCM/N/18/Add.29, 22 April 2010.

²² WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

the Agreement on Agriculture for 645 tariff lines, which is reflected in the Customs Law. However, it has never used the SSG.²³

(vii) Government procurement

40. Iceland acceded to the Government Procurement Agreement in 2001 although it has yet to provide the Committee on Government Procurement with the data required under Article XIX:5 of that Agreement. According to the authorities, the process to ratify the revised Government Procurement Agreement is under way. The Minister of Finance is responsible for legislation and policy on public procurement, and the State Trading Centre (*Ríkiskaup*) is responsible for procurement of supplies and services for state agencies and enterprises. Other entities responsible for government procurement are: Government Construction Contracts (*Framkvæmdasýslan*); Public Road Administration (*Vegagerd ríkisins*); and the Icelandic Maritime Administration (*Siglingastofnun*). The Public Procurement Complaint Committee is responsible for investigating complaints.

41. During the review period, Act No. 84/2007 on Public Procurement and several regulations were passed, as Iceland's legislation is being brought into line with EEA rules in this area. According to the authorities, all relevant EU legislation has been transposed into Icelandic law with the exception of Council Directives on remedies²⁴, defence²⁵, and the accession of Bulgaria and Romania to the EU²⁶ (although a regulation should be published in the *Official Gazette* before autumn 2012) (Table III.4).²⁷ In addition, the Government has published policy statements on procurement policy generally and on ecological procurement.²⁸

Table III.4
National legislation on government procurement, 2012

| Icelandic legislation: reference and title | Corresponding EU legislation: reference and title |
|--|---|
| Act No. 84/2007 on Public Procurement | <p>Council Directive 89/665/EEC on the coordination of the laws, regulations and administrative provisions relating to the application of review procedures to the award of public supply and public works contracts</p> <p>Council Directive 92/13/EEC coordinating the laws, regulations and administrative provisions relating to the application of Community rules on the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors</p> <p>Directive 2004/18/EC of the European Parliament and of the Council on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts</p> |

Table III.4 (cont'd)

²³ WTO documents G/AG/N/ISL/27, 27 July 2009, G/AG/N/ISL/23, 29 July 2003, G/AG/N/ISL/21, 30 October 2002, G/AG/N/ISL/18, 23 February 2001, G/AG/N/ISL/13, 26 January 1999, G/AG/N/ISL/7, 15 July 1997, and G/AG/N/ISL/3, 17 October 1996.

²⁴ Directive 2007/66/EC of the European Parliament and the Council amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts.

²⁵ Directive 2009/81/EC of the European Parliament and the Council on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC.

²⁶ Council Directive 2006/97/EC adapting certain Directives in the field of free movement of goods, by reason of the accession of Bulgaria and Romania.

²⁷ The Icelandic Authorities; and Ministry of Foreign Affairs (2011).

²⁸ Government of Iceland (2009).

| Icelandic legislation: reference and title | Corresponding EU legislation: reference and title |
|--|---|
| <p>Regulation No. 411/2008 on the Common Procurement Vocabulary (CPV)</p> | <p>Directive 2005/75/EC of the European Parliament and of the Council correcting Directive 2004/18/EC on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts</p> <p>Regulation (EC) No. 2195/2002 of the European Parliament and of the Council on the Common Procurement Vocabulary (CPV)</p> |
| <p>Act No. 84/2007 on Public Procurement</p> | <p>Commission Regulation (EC) No 213/2008 amending Regulation (EC) No 2195/2002 of the European Parliament and of the Council on the Common Procurement Vocabulary (CPV) and Directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council on public procurement procedures, as regards the revision of the CPV</p> |
| <p>Regulation No 755/2007 as amended by Regulation No. 916/2008 on the procurement procedures of entities operating in the water, energy, transport and postal services sectors</p> | <p>Directive 2004/17/EC of the European Parliament and of the Council coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors</p> |
| <p>Act No. 84/2007 on Public Procurement</p> | <p>Commission Regulation (EC) No 2083/2005 amending Directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council in respect of their application thresholds for the procedures for the award of contracts</p> |
| <p>Regulation No 1300/2007 establishing standard forms for the publication of notices in the framework of public procurement procedures</p> | <p>Commission Directive 2005/51/EC amending Annex XX to Directive 2004/17/EC and Annex VIII to Directive 2004/18/EC of the European Parliament and the Council on public procurement</p> |
| <p>Regulation No. 807/2007 on the application of thresholds for the procedures for the award of contracts</p> | <p>Commission Regulation (EC) No 1564/2005 establishing standard forms for the publication of notices in the framework of public procurement procedures pursuant to Directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council</p> |
| <p>Regulation No. 615/2012 on the application of threshold for the procedures for the award of contracts</p> | <p>Commission Regulation (EC) No 1251/2011 amending Directives 2004/17/EC, 2004/18/EC and 2009/81/EC of the European Parliament and of the Council in respect of their application thresholds for the procedures for the awards of contract</p> |
| <p>Regulation No. 614/2012 on the application of threshold for the procedures for the award of contracts of entities operating in the water, energy, transport and postal services sector</p> | <p>Commission Regulation (EC) No 1251/2011 amending Directives 2004/17/EC, 2004/18/EC and 2009/81/EC of the European Parliament and of the Council in respect of their application thresholds for the procedures for the awards of contract</p> |
| <p>Regulation No. 540/2012 establishing standard forms for the publication of notices in the framework of public procurement procedures</p> | <p>Commission Regulation (EC) No 1150/2009 amending Regulation (EC) No 1564/2005 as regards the standard forms for the publication of notices in the framework of public procurement in accordance with Council Directives 89/665/EEC and 92/13/EEC</p> |

Source: The Icelandic authorities; and Ministry of Foreign Affairs (2011), Intergovernmental Conference on the Accession of Iceland to the European Union, Negotiating Position of Iceland, Chapter 5, Public Procurement Annex 5:1. Viewed at: http://www.mfa.is/media/ees_i/Chapter-5-Draft-Position-Paper-Iceland---FINAL.pdf [July 2012].

42. The Act on Public Procurement states that: "[e]quality and transparency must be maintained during public procurement" and: "[d]iscrimination on grounds of nationality or other similar reasons is prohibited" (Article 14). It also states that the principle of non-discrimination applies to non-government entities that have special or exclusive rights to provide public services (Article 16). The Act requires that all tenders over thresholds set out in the Act (Table III.5) should go to public tender or be made in accordance with the procedures set out in the Act. Tenders over the EEA thresholds (Table III.5) must follow the procedures in Directive 2004/18/EC on public works, supply, and service contracts, and Directive 2004/17/EC on procurement by entities operating in the water, energy, transport, and postal services (utilities) sectors. The WTO GPA applies to contracts over the thresholds set out in Iceland's Annexes to the Agreement.

Table III.5
Public procurement thresholds as of June 2012

| Domestic thresholds (Act No. 84/2007) | Supplies | Services and Works | |
|---|------------------|------------------------------|-------------------|
| | ISK 6,8 million | | ISK 13.6 million |
| EEA thresholds (Directive 2004/18/EC) | Supplies | Services & design | Works |
| Central government: | ISK 21.5 million | ISK 33.1 million | ISK 828.5 million |
| Local government: | ISK 33.1 million | ISK 33.1 million | ISK 828.5 million |
| Thresholds in Annexes 1-3 of Appendix 1 of the GPA | Supplies | Services | Works |
| Central government | SDR 130,000 | SDR 130,000 | SDR 5,000,000 |
| Local authorities | SDR 200,000 | SDR 200,000 | SDR 5,000,000 |
| Other entities | SDR 400,000 | SDR 400,000 | SDR 5,000,000 |

Source: Icelandic authorities and Annexes 1-3 of Appendix 1 of the GPA.

43. To help public authorities apply the laws on public procurement consistently, the Ministry of Finance issued a Guide to Public Procurement (*Handbók um Opinber Innkaup*) in February 2008.²⁹ The Guide sets out the procedures that must be followed, the documentation required, and provisions on eligibility of bidders, submission of tenders, selection procedures, complaints procedures, and the annulment of contracts and damages. It also sets out procedures for procurements below the thresholds (ISK 5 million for supplies and ISK 10 million for services), now at ISK 6.8 million and ISK 13.6 million (Table III.5). Further guidelines have also been prepared on electronic procurement methods and procurement that takes account of its impact on the environment.

44. In general, all tenders must be advertised in the *Official Gazette* as well as on the State Trading Centre's website. Tenders over the EEA thresholds are also published in English in the *Official Gazette* and in the main newspapers. Tendering may be through open, restricted or negotiated procedures, or (in particularly complicated tenders) they may be subject to competitive dialogue. Pre-selection for restricted and negotiated procedures and competitive dialogues requires an initial advertisement, to which all interested parties may respond. This initial advertisement should set out the conditions for pre-selection and the minimum number of candidates being sought.

45. In all cases, selection of the winning tender should be based on the lowest price that best meets the needs of the contracting authority based on the criteria in the tender documents.

46. Complaints about a public procurement contract must be lodged with the Public Procurement Complaints Commission within four weeks from the date the complainant knew, or should have known, of the violation of her/his rights. The complainant is required to pay ISK 50,000 for each complaint. The Commission has the power to suspend or annul contracts and to decide on costs, but, although it can give advisory opinions on liability for damages, the courts to give legally binding decisions and decide on the amount of damages. In the 2006-11 period there were an average of 31 complaints per year.

²⁹ The Guide to Public Procurement (in Icelandic). Viewed at: http://www.rikiskaup.is/media/eplica-uppsætning/HandbokOI_Final.pdf [February 2012].

(2) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Procedures

47. There has been no change to export procedures since the last Trade Policy Review of Iceland.³⁰ Under the Customs Law, an exporter must give the customs authorities a cargo manifest before the consignment can be cleared for export. The manifest must match the bill of lading/airway bill. In general, five documents are required for exports: a packing list; bill of lading; customs export declaration; commercial invoice; and the EUR.1 Certificate. In order to enforce fishing quotas, fishing vessels taking fish directly to ports abroad are required to provide a report on their catch to the relevant customs office in Iceland (Chapter IV(2)(ii)).

48. According to the World Bank, exporting from Iceland takes longer than in other OECD countries and other countries in the region (19 days in Iceland compared with 10 in other high income OECD countries) and is more expensive (US\$1,532 in Iceland compared with US\$1,032 in other high income OECD countries). The main reasons for the relatively high cost of exporting goods are the cost of ports and terminal handling and internal transport.³¹

49. There are no taxes on exports apart from a levy of 5% on exports of whole fish and ISK 500 per horse exported.

(ii) Export prohibitions, restrictions, and licensing

50. Iceland applies restrictions and/or licensing requirements on some exports, in line with its international obligations or for health and security reasons. The principal change to Iceland's regulations over the past six years has been the implementation of EU Council Regulation (EC) No. 428/2009 on dual-use items, Directive 2009/43/EU on defence products, and the European Code of Conduct on Arms Exports (2008/944/CFSP). The EU laws have been implemented through Act No. 58/2010 and Regulation No. 800/2011 on Control of Services and Items that may have Strategic Significance (Table III.6).³² The control lists for defence-related and dual-use items are the same as those of the EU.

Table III.6
Export prohibitions and export licensing requirements, June 2012

| Product | Legislation | Nature of restriction |
|---|--|---|
| Narcotics | Narcotics Act No. 65/1974 | Export prohibition |
| Ozone-depleting substances | Regulation No. 586/2002 on Ozone Depleting Substances | Export prohibition (with some exceptions, e.g., export for the purposes of waste disposal or recycling. Export to non-signatories of the Montreal Protocol (1987) is prohibited in all cases) |
| Consumer goods that are a danger to health | Act on Product Safety No. 134/1995 | Export prohibition |
| Wild animals and parts of wild animals, as well as eggs | Act on Protection and Hunting of Wild Birds and Animals, No. 64/1994 | Minister for the Environment shall in a regulation stipulate on the import and export of wild animals and their parts, as well as eggs |
| Live horses | Law on the Export of Horses No. 55/2002 | Exports require a special certificate from an official veterinarian and from the Farmer's Association |

Table III.6 (cont'd)

³⁰ WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

³¹ World Bank (2012), p.80.

³² WTO document WT/TPR/S/164/Rev.1, 17 August 2006, p.40-41.

| Product | Legislation | Nature of restriction |
|--|---|--|
| Antiques and objects of historical value | Law on Export of Cultural Goods, No. 105/2001 | Exports require a special licence from the Museum's Committee |
| Natural artefacts, micro-organisms and their DNA | Law on the National Institute for National History, No. 60/1992 | Exports require a special licence from the Icelandic Institute for Natural History |
| Dual-use items and defence-related products | Act No. 58/2010 and Regulation 800/2011 on Control of Services and items that may have Strategic Significance | Applies Council Regulation (EC) No. 428/2009 for dual-use items and Directive 2009/43/EC on defence-related products. Exports of dual-use items and defence-related products require licences from the Minister of Foreign Affairs |
| Plants and plant products | Regulation No. 189/1990 | Exports require a special health certificate from the Agricultural Research Institute |

Source: Icelandic legislation.

51. Iceland is a participant in the Australia Group on minimizing the risk of assisting chemical and biological weapon proliferation, the Nuclear Suppliers Group on the non-proliferation of nuclear weapons, and the Missile Technology Control Regime on the coordination of national export licensing efforts on the non-proliferation of unmanned delivery systems capable of delivering weapons of mass destruction as well as several other related organizations. Since 2009, it has been applying the Wassenaar Arrangement on Export Control for Conventional Arms and Dual-Use Goods and Technologies.³³

(iii) Duty and tax concessions

52. Exports of goods and services are zero-rated for VAT, and excise duties are not applied to exported products. However, there are no tax deductions contingent on exports.

53. Under Article 7(3) of the Customs Law, the Minister of Agriculture may authorize the duty on imported agricultural goods to be waived or refunded if such goods are being imported for processing and export. Under Regulation No. 535/2003, the Ministry of Fisheries and Agriculture may authorize an exporter using domestically sourced raw materials to be paid the difference in price between the international and domestic market (Chapter IV(1)(ii)(a)).

54. Under Article 105-108 of the Customs Law, the Director of Customs may grant a licence to operate a free zone where domestic products and goods that have not cleared customs may be processed. The licence is granted to an enterprise providing the services necessary to operate in the free zone; the licence holder must not engage in industrial production, commerce, sale of commissions, wholesale or retail sale in the free zone. As of end-July 2012, no free zones were in operation.

(iv) Export finance, insurance and guarantees, promotion, and marketing assistance

55. In its Uruguay Round Schedule LXII Iceland reserved the right to use export subsidies for sheep meat, and milk. However, according to its most recent notification to the Committee on Agriculture on export subsidies, it did not provide any export subsidies for these products for the 2003-08 period (Chapter IV(1)(ii)(a)).³⁴

³³ Ministry of Foreign Affairs online information, "Export Control". Viewed at: <http://www.mfa.is/foreign-policy/export-control/> [July 2012].

³⁴ WTO document G/AG/N/ISL/28, 27 July 2009.

56. The Export Credit Guarantee Department of the New Business Venture Fund (NSA) was created to provide export credit insurance and guarantees. However, the NSA operates primarily as a venture capital fund that invests directly in start-up companies as well as in other venture capital funds (see section (3)(iii)). According to the authorities, the Export Credit Guarantee Department's guidelines are based on the OECD Arrangement on Export Credits and on the regulations established by members of the Bern Union.³⁵ According to the authorities, the Export Credit Guarantee scheme has been essentially dormant for the past six years, during which the State has provided only insignificant amounts in export credits.

57. Promotion and marketing assistance may be provided through Promote Iceland (*Islandsstofa*), which was established under Act No. 38/2010 on the Promote Iceland Agency, to provide services and consultancy to facilitate exports, attract tourists, and promote investment. Under the Act, Promote Iceland replaced the Trade Council, and Act No. 160/2002 on Assistance with Exports was annulled.³⁶

58. The Promote Iceland Agency is funded by a fee on business companies (which provides about ISK400 million), government support (ISK 300 million), and its own revenue (ISK 200 million). The services provided by the Agency include the organization of trade fairs and business delegations, consulting services, various training programmes, and the provision of market information. The Promote Iceland Agency is a member of Enterprise Europe Network and focuses on helping companies make the most of business opportunities in the European Economic Area.

59. The Innovation Center Iceland provides counselling, training, and information services to SMEs, including export planning, while Iceland Naturally is a programme in the United States and Canada to promote investment and tourism in Iceland and Icelandic exports to these countries.³⁷

(3) MEASURES AFFECTING PRODUCTION AND TRADE

(i) Legal framework for businesses³⁸

60. The legal framework for business has not changed since the last Review (Table III.7). However, some tax rates have been changed, most notably income tax on private and public limited companies, which was increased from 18% to 20%, and the industrial charge (a statutory obligation to contribute to the Federation of Icelandic Industries) of 0.08% on operating income was abolished on 1 January 2011.

61. The main legislation governing business entities is Act No. 138/1994 on Private Limited Companies and Act No. 2/1995 on Public Limited Companies. In addition, some aspects of company law are found in other legislation, including Act No. 3/2006 on Annual Accounts, Act No. 108/2007 on Securities Transactions, Act No. 87/1998 on Official Supervision of Financial Operations, and Act No. 161/2002 on Financial Undertakings. Icelandic law also allows for European companies and European economic interest groupings through Act No. 26/2004 on European Companies, and

³⁵ Ministry of Foreign Affairs online information, "Iceland's application for membership of the EU: Export Credits, Screening Iceland Chapter 30, External Relations - Bilateral." Viewed at: <http://esb.utn.is/media/ESB/samningskaflar/30/4.-30-Export-Credits.ppt> [February 2012].

³⁶ Promote Iceland online information: Viewed at: <http://www.promoteiceland.is/EN/Promote-Iceland/> [February 2012].

³⁷ WTO document WT/TPR/S/164/Rev.1, 17 August 2006, p. 42.

³⁸ For special rules affecting financial services, see Chapter IV(4)(i).

Act No. 159/1994 on the European Economic Interest Grouping, but (as of July 2011) no such companies had been established.³⁹

Table III.7

Principal business structures, responsible agencies, and selected requirements, 2011

| Type of business | Agency of registration | Registration fee | Selected rules and requirements | Income tax |
|-------------------------------|---|--|---|--|
| Private limited company | Register of Limited Companies (<i>hlutafélagaskrá</i>) | ISK 130,500 registration fee, including identity number from Director of Internal Revenue ISK 4,980 (inc. VAT) for publication of notification of registration in <i>Legal Gazette</i> | Act No. 138/1994 on Private Limited Companies A single party may establish a private limited company and be a shareholder Minimum share capital requirement of ISK 500,000; liability is limited to share capital Limitations apply to payment of dividends; granting of loans to shareholders is prohibited | 20% |
| Public limited company | Register of Limited Companies (<i>hlutafélagaskrá</i>) | ISK 265,000 registration fee, including identity number from Director of Internal Revenue ISK 4,980 (inc. VAT) for publication of notification of registration in the <i>Legal Gazette</i> | Act No. 2/1995 on Public Limited Companies Minimum of two founders, two shareholders, one manager and three people on the board of directors Minimum share capital requirement of ISK 4 million; liability is limited to share capital | 20% |
| Branches of foreign companies | Register of Limited Companies | ISK 256,000 registration fee | | 20% |
| Co-operative society | Register of Co-operative Societies ^b (<i>samvinnufélagaskr</i>) | ISK 165,000 registration fee ISK 5,000 (for identity number from Director of Internal Revenue) | Minimum 15 founders Liability of members limited to the payment of a membership fee and share of ownership of society's funds | 20% |
| Partnership | District Commissioner (<i>sýslumanour</i>) | ISK 55,000 fee ISK 5,000 (for identity number from Director of Internal Revenue) ISK 1,868 (inc. VAT) for publication of notification of registration in <i>Legal Gazette</i> | Act No. 50/2007 on Partnerships Liability of members of partnerships is generally unlimited | 36% on the partnership |
| Individual firm | District Commissioner (<i>sýslumanour</i>) | ISK 44,000 registration fee ISK 5,000 (for identity number from Director of Internal Revenue) ISK 1,868 (inc. VAT) for publication of notification of registration in <i>Legal Gazette</i> | Individual's liability is unlimited | Income tax plus municipal rates vary with income from 37.31% to 46.21% |

Source: Invest in Iceland (2011), *Doing Business in Iceland*. Viewed at: http://www.invest.is/resources/Files/DoingBusinessInIceland_April_2011.pdf; and WTO document WT/TPR/S/164/Rev.1, 17 August 2006.

62. The most common type of business structure in Iceland is the public or private limited company. A public limited company normally raises capital from a number of shareholders: it must have at least two shareholders and three members on its board of directors. If it is a publicly listed company, then it is subject to additional rules, including the requirement to have its accounts audited

³⁹ European Commission (2011), *Chapter 6 - Company Law*, p.4.

by an authorized public accountant or audit firm. The audited financial statement and annual report must be filed with the Financial Supervisory Authority within three months of the end of the accounting period. Private limited companies may have only one shareholder, in which case they do not have to hold meetings of the board of directors.⁴⁰

63. Setting up a business in Iceland is quite straightforward. The initial share capital must be deposited in a bank and the company must then be registered with the Register of Limited Companies which requires: a notification of incorporation; an agreement of incorporation; a record of the meeting of incorporation; the articles of association; and an affidavit on payment of share capital from a certified public accountant. Registration also requires payment of the registration fee, the charge for advertising the incorporation in the *Legal Gazette*, and the fee for the company identification number (see Table III.7). If necessary, a VAT number must also be obtained and the tax authorities notified of employment of employees. The whole procedure takes about five days on average with one day for registration.⁴¹

64. Operating licences are required for a number of industries and services and are issued on the basis of various laws and regulations, many of which have been adopted to implement EU rules. Operating licences for polluting activities are required under Act No. 7/1998 on Public Health and Control, and under Regulation No. 785/1999. Operating licences for sanitary and health practices are required under Act No. 7/1998 and Regulation 941/2002. Some services operations also require licences, including public baths, sports halls, schools, kindergartens, guesthouses, bars and night clubs, salons, social and health institutions. Under Act No. 93/1995 on Foodstuffs, operating licences are required for the production and distribution of foodstuffs.⁴²

(ii) Business tax

65. As stated above, in 2011 corporate income tax rate was increased from 18% to 20% for limited liability companies and for branches of foreign resident companies. There are no local corporate taxes, although property taxes and services are paid to local authorities and a market charge of 0.05% of payroll charges is also applied. Income from dividends received by limited liability companies is not taxed. However, dividend payments to individuals and resident companies are subject to a 20% withholding tax, and dividend payments to non-resident companies to a withholding tax of 18%. The rate of withholding tax applied to dividends, royalties, and interest paid to residents of countries with which Iceland has a tax treaty depend on the terms of the treaty.⁴³

66. Capital allowances, based on the acquisition cost, vary depending on the type of asset, and cover some types of buildings as well as goodwill. The rate of capital allowance is set out in the tax

⁴⁰ Invest in Iceland (2011).

⁴¹ World Bank (2012), p.21.

⁴² WTO document WT/TPR/S/164/Rev.1, 17 August 2006, p.44.

⁴³ As of June 2012, Iceland had tax treaties with: Barbados (ratified but not yet in force), Belgium, Canada, China, Croatia, Czech Republic, Estonia, France, Greece, Greenland, Germany, Hungary, India, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Malta, Mexico, Poland, Portugal, Romania, Russian Federation, Slovakia, Slovenia, Spain, Korea, Rep. of, the Nordic countries, United Kingdom, Ukraine, United States, and Viet Nam. In addition, Iceland has initialled draft treaties with Albania, Austria, Bulgaria, Germany (revised treaty), and Qatar and is in negotiations with Cyprus, Chile, Georgia, and the United Kingdom (revised treaty). It also has tax and information-exchange agreements with Aruba, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey, Netherlands Antilles, Anguilla, Cook Islands, Gibraltar, Samoa, Turks and Caicos, San Marino, Andorra, Bahamas, St Kitts and Nevis, St Vincent and the Grenadines, Antigua and Barbuda, Dominica, Grenada, and St Lucia.

regulations, for example the allowance for electric transmission lines is 7.5-10% (Table III.8). Income from capital gains and interest is treated as operating income.

Table III.8
Capital allowances, 2011
(%)

| Asset | Minimum capital allowance | Maximum capital allowance |
|--|---------------------------|---------------------------|
| Ships and aircraft | 10 | 20 |
| Industrial machinery and equipment | 10 | 30 |
| Office equipment | 20 | 35 |
| Machinery and equipment for building and construction, automobiles and other transport conveyances, and other movable property not included above | 20 | 35 |
| Buildings as defined by the Income Tax Act | 1 | 6 |
| Purchased intangibles (e.g. proprietary rights for ideas and trademarks, such as copyrights, publishing rights, information rights, patents and logos) | 15 | 20 |
| Purchased goodwill | 10 | 20 |

Source: Invest in Iceland (2011), *Doing Business in Iceland*, April. Viewed at: <http://www.invest.is/Doing-Business-in-Iceland/Tax-system/> [February 2012].

(iii) Incentives and other government assistance

67. Most incentives for business in Iceland relate to encouraging investment through Act No. 99/2010 on Incentives for Initial Investment in Iceland.⁴⁴ The Act does not apply to investments in financial undertakings, insurance operations, or securities. It covers general aids available throughout the country, and regional aids available anywhere outside Reykjavik and the surrounding municipalities. Before end 2013, a committee appointed by the Minister of Industries and Innovation is to review the Act, and a decision is to be made on extending it. Should the Act expire, any investment agreements made before its expiry will remain in force.

68. Applications for investment incentives must be made to the Ministry of Industries and Innovation, where a committee examines applications taking into account cost-benefit and socio-economic analyses by Invest in Iceland. Based on a proposal from the committee, the Minister may offer an incentives package within the terms of the Act.

69. The Act permits state aids in the categories declared compatible with the common market through EU Commission Regulation (EC) No. 800/2008 for approved investment projects. These aids include:

- training aid up to a maximum of €2 million;
- investment aids for small and medium-sized enterprises up to €7.5 million or 10% or 20% of investment;
- research and development assistance or environmental assistance up to a maximum of €7.5 million.

⁴⁴ See Act No. 99/2010 on Incentives for Initial Investments (in English). Viewed at: <http://www.invest.is/Publications/> [February 2012].

70. Regional aids are available for projects outside of Reykjavik and surrounding municipalities.⁴⁵ The aids may include direct grants but are mostly tax-based incentives along with sales or leasing of land from the State or the municipality at less than the market price. Regional aid is normally limited to 15% of the investment cost but can be 25% for medium-sized enterprises⁴⁶ or 35% for small enterprises.⁴⁷ The tax-based incentives include:

- fixing the rate of income tax at the current rate for 10 years;
- flexibility in applying capital allowances;
- exemptions from:
 - customs duties and excise duties on construction materials, machinery, equipment and other capital goods and spare parts for building and operating the investment project;
 - the market charge; and
 - supervision and inspection charges related to electricity installations and equipment and consumer utilities by the responsible authority (*Löggildingarstofa*); and
- reductions in:
 - stamp duties to 0.15%;
 - property tax by 30% for 10 years; and
 - the social security charge by 20% for 10 years.

71. The New Business Venture Fund (NSA Ventures) (see section (2)(iv)), which is a state-owned venture-capital firm, provides finance for innovation and start-up businesses through equity investment, loans, and creditor guarantees. The Fund uses its profits on investments to invest directly in companies and to invest in new Icelandic venture funds. Founded in 1998, the Fund had an opening balance of ISK 4 billion from the State. In 2005, the fund received an additional ISK 2.5 billion from the proceeds of the privatization of the Iceland Telecom, of which ISK 1 billion was earmarked for direct investment into start-ups and ISK 1.5 billion for investment into other venture funds in Iceland.

72. In addition to investment assistance, Iceland provides support for research and development to the Icelandic Centre for Research (*Rannis*) for various programmes, principally the Research Fund and the Technology Development Fund (Table III.9). Other support is provided through various government agencies to meet different training, development or social goals. Subsidies to agriculture and fisheries are covered in Chapter IV.

⁴⁵ EFTA Surveillance Authority Decision No. 378/06/COL, 6 December 2006, on the maps of assisted areas and levels of aid (Iceland), *Official Journal of the European Union* L 54/28, 28 February 2008.

⁴⁶ An enterprise that employs 50-250 persons, with an annual turnover not exceeding €50 million and/or an annual balance sheet total not exceeding €43 million.

⁴⁷ An enterprise that employs less than 50 persons with an annual turnover and/or annual balance sheet total that does not exceed €2 million.

Table III.9
Support programmes for research, 2007-11
 (ISK million)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Icelandic research fund | 590 | 750 | 815 | 815 | 783 |
| Technology Development Fund | 500 | 600 | 690 | 720 | 720 |
| Equipment Fund | 110 | 115 | 115 | 115 | 111 |
| Research Fund for Graduate Students | 80 | 90 | 100 | 100 | 96 |
| Strategic Research Programmes | 105 | 160 | 315 | 315 | 285 |
| Increased value in fisheries | 235 | 335 | 335 | 306 | 266 |
| Other | 37 | 56 | 39 | 47 | 66 |
| Total | 1,657 | 2,106 | 2,409 | 2,418 | 2,327 |

Source: Rannis (2011), *Research & Development in Iceland 2011*, Reykjavik. Viewed at: http://www.rannis.is/files/Research%20and%20Development%20in%20Iceland%202011_1595715814.pdf [February 2012].

(iv) Standards and other technical requirements

(a) Technical barriers to trade

73. The agencies responsible for policy and legislation on standards and other technical requirements depend on the product or service and include: the Ministry of the Interior; the Ministry of the Environment; the Ministry for Fisheries and Agriculture, the Ministry of Welfare; and the Ministry of Social Affairs and Social Security. Responsibility for preparing standards and other technical requirements and for their implementation is shared among several official agencies, including:

- Icelandic Standards (IST), which is the national standards body of Iceland responsible for the publication of standards and represents Iceland in international and regional standards bodies. The IST has four committees, each responsible for a different sector: BSTR for building; FIF for fishing; FUT for information technology; and RST for electrotechnical industry. IST is a member of the International Organization for Standardization (ISO) and an associate member of the International Electrotechnical Commission (IEC). It is also a member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC), and an associate member of the European Telecommunications Standards Institute (ETSI);⁴⁸
- the Consumer Agency, which is responsible for market surveillance of business operators, good functioning and transparency of the markets in respect to safety and consumers' legal rights as well as enforcement of legislation for the protection of consumer health, legal, and economic rights, and safety of low-voltage electrical consumer appliances. The Agency was established as an independent entity in July 2005 under Act No. 62/2005 on the Consumer Agency and Consumer Spokesman. Under Act No. 91/2006 it assumed responsibility for legal metrology and calibration services;⁴⁹
- the Customs Directorate, which is responsible for checking imports for conformity with product safety rules;

⁴⁸ IST online information. Viewed at: <http://www.stadlar.is/english/> [February 2012].

⁴⁹ The Consumer Agency online information. Viewed at: <http://www.neytendastofa.is/English/The-Consumer-Agency> [February 2011].

- the Icelandic Construction Authority, which is responsible for market surveillance for electrical equipment (except low-voltage consumer appliances), power plants and electrical installations, buildings and construction works. The Authority was established in January 2011 under the Construction Act No. 160/2010 and replaced the Fire Authority⁵⁰; and
- several other agencies, including the Icelandic Medicines Authority, the Environment Agency, and local health authorities, which have specific responsibility for surveillance and enforcement for products for which they have competence.

74. Under the TBT Agreement, Iceland's enquiry point for technical regulations is the Consumer Agency. The enquiry point for standards is Icelandic Standards. In addition, the External Trade Department in the Ministry for Foreign Affairs has been notified as an enquiry point. In July 2000, Iceland notified the TBT Committee⁵¹ that it had implemented the technical regulations and conformity assessment part of the TBT Agreement (Article 15.2) by Act No. 57/2000 on the Exchange of Information on Technical Regulations Regarding Products and Information Society Services. The standards part of the TBT Agreement is implemented by Regulation 534/1995. As noted in Iceland's notification, draft and final technical regulations are published in the *Icelandic Law and Ministerial Gazette (Stjórnartíðindi)*.⁵² Notices of draft and adopted standards are published in the *Standards Bulletin (Stadlatíðindi)*. Iceland generally allows 90 days for written comments on technical regulations and at least 60 days on standards.

75. As of 30 June 2012, Iceland had not made any notifications to the TBT Committee since its last Review.

76. EEA membership requires Iceland to apply the EU's legislation on technical regulations, standards, testing, and certification.⁵³ Under the EEA Agreement, all signatories must notify draft technical regulations prior to their adoption and these are made available on the EFTA Surveillance Authority website.⁵⁴ Draft technical regulations are also notified on the European Commission Enterprise and Industry TRIS database.⁵⁵ From 1 January 2006 to 30 June 2012, Iceland made 25 notifications to the EFTA Surveillance Authority. A "standstill" period of three months is provided for before technical regulations are adopted, giving the opportunity for other EEA signatories, the EFTA Surveillance Authority, and the European Commission to ensure that they do not create new barriers to trade or conflict with secondary EEA legislation in force.

⁵⁰ The Construction Authority online information. Viewed at: <http://www.brunamal.is/brunamalastofnun/forsida/> [February 2012].

⁵¹ WTO document G/TBT/2/Add.55/Suppl.1, 11 July 2000. Regulation 733/2000 implements law 57/2000. Information society services are defined as "fee based and provided (a) from a distance, i.e. without the parties being present at the same place and the same time, (b) electronically, i.e. the service is sent and received with the help of electronic equipment that is intended for processing and storing data and is entirely sent, transported and received through wire, wireless, fibre optic cable or through electromagnet cable, (c) on request of the receiver, i.e. the service is provided in such a way that data is sent at the request of the receiver."

⁵² The Iceland Law and Ministerial Gazette, online information. Available at: <http://stjornartidindi.is/> [February 2012].

⁵³ WTO document WT/TPR/S/164/Rev.1, 17 August 2006, p.36.

⁵⁴ EFTA Surveillance Authority online information <http://www.eftasurv.int/internal-market-affairs/notifications/draft-technical-regulations/> [February 2012].

⁵⁵ European Commission, Enterprise and Industry TRIS database. Viewed at: <http://ec.europa.eu/enterprise/tris/pisa/app/search/index.cfm?lang=EN> [February 2012].

77. All draft European standards are submitted to a public enquiry in Iceland by means of an announcement on the IST website, with a notification by email to those who have expressed a wish to be notified of new drafts. Anyone may submit a comment on a draft European standard; the time-limit for submission is usually five to six months. A formal vote on final drafts also takes place by the same means, but with a time limit of two months.

78. As of 1 December 2010, almost 22,620 European standards (i.e. nearly all standards by CEN, CENELEC, and ETSI) had been transposed in Iceland.⁵⁶ Legislation on technical issues, including conformity assessment, is generally found in the sector-specific law adopted by relevant ministries in order to transpose EU Directives, for example, Act No. 91/2006 on Measurements, National Standards and Official Weighing, and Regulation No. 431/1994 on Construction Products.⁵⁷ Similarly, legislation on conformity assessment is found in sector-specific legislation, which also implements the relevant EU Directives, for example Regulation No. 957/2006 implementing Council Decision 93/465/EEC on a common framework for the marketing of products, which will be updated to reflect Council Decision 768/2008/EC when this is incorporated into the EEA Agreement.⁵⁸

79. Through EFTA, Iceland has mutual recognition agreements with:

- New Zealand (2000) covering pharmaceuticals, medical devices, telecommunications terminal equipment, low voltage equipment, electromagnetic compatibility, machinery, and pressure equipment;
- Australia (2000) covering electromagnetic compatibility, pharmaceuticals, medical devices, telecommunications terminal equipment, automotive products, pressure equipment, machinery, and low voltage equipment;
- Canada (2001) covering telecommunications terminal equipment, electromagnetic compatibility, electrical safety, recreational craft, pharmaceuticals, and medical devices;
- Switzerland (2002) covering machinery, personal protective equipment, safety of toys, medical devices, gas appliances and boilers, pressure equipment, telecommunications terminal equipment, equipment and protective systems intended for use in potentially explosive atmosphere, electrical safety and electromagnetic compatibility, construction plant and equipment, measuring instruments and pre-packages, motor vehicles, agricultural and forestry tractors, good laboratory practice, good manufacturing practice inspection and batch certification;
- United States, the first (2005) covers marine equipment, and the second (2006) covers telecommunications equipment, electromagnetic compatibility, and recreational craft; and
- Turkey (2011) covering all sectors.⁵⁹

80. Under Act No. 24/2006 on Accreditation, the Icelandic Board for Technical Accreditation (ISAC) became an independent department within the Icelandic Patent Office. The Act incorporates the main principles of EU Council Regulation No. 765/2008 into Icelandic law. ISAC is a member of the European Cooperation for Accreditation and has a contract of cooperation with the Swedish Board for Accreditation and Conformity Assessment (SWEDAC).

⁵⁶ European Commission (2011), *Chapter 1 - Free Movement of Goods*, p. 3.

⁵⁷ Ministry of Foreign Affairs (2011), *Chapter 1 - Free Movement of Goods*, p. 3.

⁵⁸ European Commission (2011), *Chapter 1 - Free Movement of Goods*, p. 5.

⁵⁹ EFTA online information. Viewed at: <http://www.efta.int/eea/mras.aspx> [February 2012].

(b) Sanitary and phytosanitary measures

81. The Ministry of Fisheries and Agriculture is responsible for policy and legislation on food safety as well as animal and plant health. The Icelandic Food and Veterinary Authority (*Matvælastofnun* - MAST), under the Ministry of Fisheries and Agriculture, started operations on 1 January 2008 as the competent authority for food safety, animal health and welfare, control of feed, seed and fertilizers, plant health, and water for human consumption. MAST was established by Act No. 167/2007 and took over the work of the Agricultural Authority of Iceland (which had the office of Chief Veterinary Officer (CVO), as well as responsibility for feed, seed and fertilizer services, meat grading, the plant protection service, organic production, and administrative tasks carried out by the Farmers' Association of Iceland), the food division of the Environmental and Food Agency of Iceland, and the food division of the Icelandic Directorate of Fisheries.⁶⁰ Within MAST there is an office for Animal Health and Welfare and an office for Food Safety and Consumer Affairs. The Directorate of Customs and the Icelandic Medicines Agency are also involved in food safety controls.

82. Up to 30 June 2012, Iceland had not made any notifications to the SPS Committee in the WTO since October 2005 when it notified an emergency measure to ban imports of live poultry and poultry products from some countries because of the risk of avian influenza.⁶¹ The notification authority and enquiry point for SPS matters is the Agricultural Authority of Iceland,⁶² whose responsibilities have been absorbed by MAST. Since its last Review, Iceland has used the SPS Committee to raise concerns about Ukraine's conditions for import of animal products.⁶³

83. As a member of the EEA, Iceland has applied EU legislation on SPS matters, with the exception of veterinary issues, which were exempt from the EEA Agreement. However, since November 2011, the exemption has been limited to trade in live animals and animal germplasm, while Iceland also continues restrictive import policies on fresh meat, raw eggs and animal products not for human consumption.⁶⁴ Legislation on SPS matters is covered in several laws,⁶⁵ including:

- Act No. 93/1995 (as amended) on foodstuffs, which provides the legal basis for measures covering the safety and quality of foodstuffs as well as labelling;⁶⁶
- Act No. 22/1994 (as amended) on feed, fertilizers, and seed;
- Act No. 25/1993, Regulation No. 448/2012 on measures to prevent the introduction of animal diseases and contaminated products. The Act bans the import of some animal and plant products on health and safety grounds and provides for conditions under which exceptions to the ban can be made (Table III.10). Regulations 1043/2011 and 1044/2011, passed in November 2011, cover trade in animal products from within and from outside the EEA;

⁶⁰ MAST online information. Viewed at: <http://www.mast.is/index.aspx?GroupId=1258> [January 2012].

⁶¹ WTO document G/SPS/N/ISL/7, 5 October 2005.

⁶² WTO document G/SPS/N/NNA/16 and G/SPS/ENQ/26, 11 March 2011.

⁶³ WTO document G/SPS/R/56, 28 January 2010.

⁶⁴ European Commission (2011), *Chapter 12 - Food safety, veterinary and phytosanitary policy*, p. 3-4.

⁶⁵ Most of these Acts, regulations, and notifications of specific measures are available (in Icelandic) in MAST online information, at: <http://www.mast.is/index.aspx> [February 2012].

⁶⁶ For the consolidated version of the Act, see Ministry for the Environment online information. Viewed at: <http://eng.umhverfisraduneyti.is/legislation/nr/375> [February 2012].

- Act No. 143/2009, which amended several other Acts and extended EU legislation to cover veterinary issues with the exception of live animals, animal germplasm materials, and some other products; and
- several other pieces of legislation that cover SPS matters, including: Act No. 99/1993, which bans animal and plant products that have been given growth-promoting agents; Act No. 96/1997 on Slaughtering and Slaughter Products; Act No. 66/1984 on Veterinarian and Animal Health Services; Act No. 51/1981 on Plant Diseases and Pests; Act No. 80/2005 on the Food and Veterinary Authority; Act No. 7/1998 on Control of Hygiene and Pollution; and Act No. 55/1998 (as amended) on Handling, Processing and Distribution of Marine Products.

84. Iceland is a member of the Codex Alimentarius and the World Organization for Animal Health and a contracting party to the International Plant Protection Convention.

Table III.10
Provisionally prohibited imports, 2012

| | |
|--------------------------------|--|
| Act No. 54/1990 | |
| | All live animals as well as their genetic substances |
| Act No. 25/1993 | |
| | All imports of food of animal origin are forbidden. Imports allowed subject to a positive evaluation by MAST |
| Regulation No. 448/2012 | |
| a. | Raw meat, processed or unprocessed, as well as offal and animal by-products |
| b. | Animal feed containing: (1) fallen stock; (2) animals slaughtered to eradicate animal diseases; (3) animal waste; (4) uninspected animal parts (except hides, skins, blood and similar products); (5) spoiled meat and fish products; (6) meat and fish products not meeting import requirements; (7) animal products and animal wastes containing contaminants dangerous to human and animal health; (8) fish or fish wastes unsuitable for human consumption due to contagious diseases; (9) products from specified risk materials (such as spinal cords, brains, and spleens of cattle or sheep); (10) products contaminated after heat treatment |
| c. | Meat meal, bone meal, feed products processed from products or by-products from mammals and fowl |
| d. | Packaging used in agriculture or that has been in contact with animals, animal products or animal waste |
| e. | Raw eggs and egg products |
| f. | Unpasteurised milk and dairy products processed from unpasteurised milk with the exception of up to 1 kg of cheese from an approved establishment in the EEA for personal use. The Minister may approve larger quantities for import for personal use |
| g. | Hay, straw, manure and compost |
| h. | Blood, serum, and other organic animal products, including bacteria, viruses, blood samples, tissues and animal proteins. |
| i. | Used riding gear, unsterilized riding outfits, equipment that has been used to transport or store animals or animal products |
| j. | Used agricultural machinery and tools |
| k. | Used fishing gear, unless disinfected |

Source: Act No. 54/1990, Act No. 25/1993, and Regulation No. 448/2012.

85. Notwithstanding the prohibition on imports of live animals, the Minister for Fisheries and Agriculture may, based on a recommendation from the Chief Veterinary Office, allow imports to take place. However, in practice only pets are imported, subject to obtaining an import permit, plus strict health requirements, including vaccination and quarantine.⁶⁷ Similarly, imports of raw meat and other products covered by Regulation No. 448/2012 may be permitted by the Minister of Fisheries and Agriculture upon the recommendation of MAST.

86. Imports of chilled and frozen meat and meat products, including meat sausages and salted, dried or smoked meat⁶⁸, must be accompanied by certificates confirming that the frozen foods were

⁶⁷ MAST (2011).

⁶⁸ CN codes 0202, 0203, 0204, 0207, 0208, 0210, 1601, and 1602.

stored for at least one month at -18°C or less, and are free of salmonella and contaminants. Furthermore, products arriving from outside the EEA must be accompanied by certificates showing: origin and health; that the animals from which the products were derived were not given growth-promoting substances; and that the animals were slaughtered in premises authorized in the EEA. Imports of sausage and salted, dried or smoked meats must also be accompanied by certificates showing they meet specific treatment requirements, such as heat treating or curing.

87. In practice, documents must be submitted to MAST, which processes them and makes a recommendation to the Ministry of Fisheries and Agriculture, which must give prior approval for each import consignment of frozen products. MAST approval is not given for imports from countries that have reported outbreaks of diseases previously classified by the OIE under "List A".⁶⁹

88. Animal feed may only be imported by registered importers. Feed imports must be accompanied by documentation showing the ingredients, their chemical composition, and, if any ingredient is of animal origin, a health certificate stating the sanitary procedures used in production, packing, and handling (e.g. method of sterilization, autoclavation, etc.), and the absence of micro-organisms. The health certificate must be signed by an official veterinarian. For imports of feed for pets from another EEA country, a commercial document from the manufacturer may replace the health certificate.

89. Imports of used fishing equipment must be disinfected by a veterinarian in the country of embarkation and accompanied by a certificate to this effect. Imports of some used riding equipment such as saddles, bridles, nosebands, etc. and riding gloves is prohibited. Riding boots and clothes must be washed and/or disinfected before being imported.

90. Imports of plants and plant parts require certificates and are potentially subject to restriction by the Minister for Fisheries and Agriculture under Regulation 189/1990. Imports of certain types of trees and vegetables, soil, cut tree bark, and manure are prohibited.⁷⁰

91. Domestic animals and animal products are also subject to strict controls. Identification and traceability systems apply to cattle, ovines, and pigs and movement without identification and registration is prohibited. Under Act No. 25/1993, immediate culling is required in the event of an outbreak of many diseases and is an option for others. In the event of an outbreak of a disease, the Minister for Fisheries and Agriculture has the authority to stop distribution of products, isolate animals, order culling or impose other measures to prevent the disease spreading and to eradicate it. All businesses involved in primary food and feed production must be approved by MAST (for production and processing of fish, meat, milk, and eggs) or local health inspectors (for control at the retail level and food business operators producing food of non-animal origin).⁷¹

⁶⁹ Diseases notifiable to the OIE under the old classification List A were: foot and mouth disease; swine vesicular disease; peste des petits ruminants; lumpy skin disease; bluetongue; African horse sickness; classical swine fever; Newcastle disease; vesicular stomatitis; rinderpest; contagious bovine pleuropneumonia; Rift Valley fever; sheep pox and goat pox; African swine fever; and highly pathogenic avian influenza. See OIE online information. Viewed at: http://www.oie.int/animal_health-in-the-world/the-world-animal-health-information-system/old-classification-of-diseases-notifiable-to-the-oie-list-a/ [July 2012].

⁷⁰ European Commission (2011), *Chapter 12 - Food safety, veterinary and phytosanitary policy*, p. 9.

⁷¹ European Commission (2011), *Chapter 12 - Food safety, veterinary and phytosanitary policy*, p. 7.

(v) Intellectual property rights

92. Under Article 69 of the TRIPS Agreement, Iceland has notified the Ministry of Education, Science and Culture as the contact point for copyright and related rights, and the Icelandic Patent Office (Einkaleyfastofan) as the contact point for industrial property (other TRIPS-related questions).⁷²

93. Iceland is a member of the World Intellectual Property Organization (WIPO) and a signatory to a number of international agreements on intellectual property rights. In addition, Iceland has acceded to the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs and the European Patent Convention.

94. During the period under review, there have been several changes to the laws on intellectual property and their implementation. Intellectual property is covered by the EEA, and Iceland has indicated that it applies the *aquis communautaire* in this area, to the extent that it has been incorporated into the EEA Agreement.⁷³

(a) Copyrights

95. Copyrights in Iceland are protected under the Act No. 73/1972 on Copyright, which is administered by the Ministry of Education, Science and Culture. The Act was amended several times as EU rules were transposed into Icelandic law (Table III.11). Under the present legislation copyright protection is afforded to literary and artistic works for 70 years, the author's, producer's or creator's life plus.

Table III.11
National legislation on copyright, 2012

| Icelandic legislation | Corresponding EU legislation |
|--|--|
| Act No. 73/1972 on Copyright | |
| Terms of Protection | |
| Act No. 145/1996 | Directive 2006/116/EC on the term of protection of copyright and certain related rights |
| Act No. 9/2006 | |
| Protection of semiconductor topographies, databases and computer programs | |
| Act Nos. 78/1993 & 78/1993 | Council Directive 87/54/EEC on the legal protection of topographies of semiconductor products |
| Act No. 60/2000 | Directive 96/9/EC on the legal protection of databases |
| Act Nos. 57/1992, 145/1996, 60/2000, & 9/2006 | Directive 2009/24/EC on the legal protection of computer programs |
| Resale rights | |
| Act No. 97/2006 | Directive 2001/84/EC on the resale right for the benefit of the author of an original work of art |
| Satellite and cable transmission | |
| Act 145/1996 | Council Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission |

Table III.11 (cont'd)

⁷² WTO document IP/N/3/Rev.7, 19 August 2003.

⁷³ European Commission (2011), *Chapter 7 - Intellectual property law*, p. 3.

| Icelandic legislation | Corresponding EU legislation |
|--|---|
| Copyright in the information society Act No. 9/2006 | Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society |

Source: European Commission (2011), Screening report Iceland, Chapter 7 - Intellectual property law, pp. 3-4. Viewed at: http://ec.europa.eu/enlargement/candidate-countries/iceland/index_en.htm [July 2012].

96. Iceland works with other Nordic countries to coordinate a common policy through a working group made up of copyright experts from Denmark, Norway, Finland, Sweden, and Iceland. It also participates in the EFTA working group on intellectual property and has observer status in the EU contact committees for Directive 2001/29 on the harmonization of certain aspects of copyright and related rights in the information society, and Directive 2001/84 on the resale right for the benefit of the author of an original work of art.

97. In October 2009, the authorities launched the copyright reform initiative, which foresaw a new draft Copyright Bill in 2012. However, this has been delayed till 2014 due to lack of funds. The main focus of the reform initiative is to:

- maintain Nordic legal unity;
- promote respect for copyright with regard to cultural and economic importance for society;
- promote efficient and preventive enforcement procedures;
- promote legal alternatives for users;
- promote balance between right holders and users;
- launch information and awareness initiatives for right holders and users; and
- stress the importance of international co-operation.

98. Between 2006-09, there were 25 infringement actions at the District Court Level and 20 at the Supreme Court level. Penalties may include fines and prison terms of up to two years, although all cases were concluded by awarding damages.

99. The Icelandic Copyright Act neither requires nor offers registration of copyright in line with the Berne Convention for the Protection of Literary and Artistic Works, which explicitly prohibits such formal procedure as prerequisite for copyright protection, cf. Article 5(2): "the enjoyment and the exercise of these rights shall not be subject to any formality...". Thus, there is no public register of copyrights and no delay of protection in the form of registration process.

(b) Patents

100. Patents are protected under the Patent Act of 1991 (as amended by Act 22/2004 and Regulation No. 5747/1991 on patent applications). The Act is administered by the Icelandic Patent Office (IPO), which is part of the Ministry of Economic Affairs and will be transferred to the Ministry of Industries and Innovation in September 2012. Patents are valid for 20 years.

101. In 2011, the Patent Office acknowledged 778 European patents (EP) and approved 65 patents out of 71 applications directed to the Icelandic Patent Office. At end 2011, 2,632 patents were in force.

102. Changes to the Patent Act during the review period included: providing the patent holder with the right to request the limitation of the patent (Article 5 of Act No. 53/2004, which entered into force in 2007); permitting the patent to be cancelled in its entirety rather than its surrender (Article 7 of Act No. 53/2004); and allowing the commercial exploitation by a third party, under certain conditions in good faith, of an invention described in a European application or European patent (Article 9 of Act No. 53/2004).

103. An amendment was also made to allow for greater cooperation between Nordic Patent Offices and enable them to act as one. Compulsory licences are also allowed for the export of pharmaceutical products to developing countries facing severe health problems.

104. A new patent regulation entered into force (Regulation No. 477/2012 on Patents) in May 2012. Under the new regulation:

- the time limit for filing Icelandic translation of claims and abstract is 14 months from the date of application or the priority date;
- the time limit for filing the approved version of the patent claims, the abstract and the drawings text is 8 months from the date when the IPO believes there are material reasons for granting a patent; and
- the time limit for limiting the scope of an application that involves two or more inventions is 3 months from the IPO communication.

105. The fee schedule for patents was amended in 2011.

106. During the period under review, the Supreme Court ruled on three patent disputes. The first case concerned a dispute between two manufacturers of machines used in the fishing industry and whether the defendant was in breach of Icelandic patent No. 1774. The technical method of the two machines used was, according to the evaluation of a specialist not considered to be identical or equivalent, which resulted in the defendant being acquitted.

107. The second case concerned Icelandic Patent No. 2002 and a dispute as to whether a licence agreement had been agreed between the parties, and whether the alleged non-licensee was breaching the patent. Since, according to the Patent Act, licence agreements were not subject to formal requirements, the Supreme Court considered that based on Article 43 of the Act, in conjunction with the agreement between the parties, that the parties had entered into a non-revocable licence agreement. The licensee was therefore not considered to be breaching the patent.

108. The third case concerned a dispute between an applicant of a national and later an international patent application (PCT) and the refusal of one of the inventors to sign the required assignment form in the international phase. Since the application had been altered since the basic application was filed, and with his signature the inventor would have confirmed that he had read and understood documents filed with the application abroad, which were not submitted during the trial, the inventor was acquitted.

(c) Trademarks

109. Trademark protection is afforded under the Trademarks Act of 1997 (as amended) and the Collective Marks Act of 2002. Both Acts are administered by the IPO. Trademarks need to be registered in Iceland. Furthermore, by filing an international application, trademarks can also be protected in all member countries of the Madrid Protocol, of which Iceland is a signatory.⁷⁴ Trademarks are protected for a ten-year term, which is renewable for as long as the owner desires.

110. Various changes were made to the trademark legislation during the period under review including:

- trademark law in the European Union was harmonized, under which regional exhaustion of rights, i.e. within the EEA, applies in Iceland (Act No. 117/2009);
- trademark protection has been extended from the type of product, condition, quantity, use, price, origin or when it was produced, to include services represented by a trademark (Act No. 53/2012, Article 13);
- a trademark may not be registered if it is liable to be confused with a mark that has been used in another country, at the time when the application was filed or from the date of priority and is still being used there for the same or similar goods/services (Act No. 53/2012, Article 14);
- if a trademark application is rejected and the applicant does not make any comments or explain his case within a specified time period, the application may be invalidated (Act No. 53/2012, Article 19);
- opposition to a trademark is now subject to a specific opposition fee of ISK 30,000 (Act No. 53/2012, Article 22);
- the IPO now has the power to invalidate a registration, previously this could only be done through a court verdict (Act No. 53/2012, Article 25); and
- the requirement that the owner of a trademark or their agent must be resident in Iceland has been eased. The owner or the agent now needs to be resident in the EEA (Act No. 53/2012, Article 35).

111. During the period under review, five trademark disputes were decided by the courts. One case concerned a dispute on the trademark ICEAVIA. Company F requested invalidation of the trademark as the proprietor had not used it in Iceland for five consecutive years and thus the mark should be invalidated under Article 25 of the Trademark Act (No. 45/1997). The Court ruled that the referenced article had entered into Icelandic law under the EEA Agreement and therefore the case had to be judged in light of Iceland's EEA obligations. According to the Court, the use of a trademark had to be genuine and in connection to the goods or services mentioned in the registration and that the burden of proof of use lay with the proprietor. The Court ruled that there was no company named ICEAVIA, the proprietor appeared to have used the mark in a personal capacity, and was not able to prove that he had put his services on the market or used the trademark in Iceland in connection with his services. Therefore company's F request for the invalidation of the trademark was accepted by the

⁷⁴ A fee is paid for each designated country, although the decision on whether the trademark can be registered is addressed separately in each country.

Court. A case in 2010, pertained to a dispute on the invalidation of a trademark. The charges were dropped.

112. In another case, a petition was filed requesting the annulment of the Board of Appeals decision rejecting the opposition to the registration of the trademark VINORELSIN. The arguments of the plaintiff were accepted and the Board of Appeals decision was annulled.

113. The schedule of fees for trademarks was also changed in 2011.

(d) Designs

114. During the period under review, there was no material change to the legislation protecting designs. Designs are protected under the Design Protection Act of 2001, administered by the IPO.

115. Under the Act, design rights do not include: certain specified features of the appearance of a product; acts done for private purposes; acts done for experimental purposes, and reproduction for use in citations or teaching, provided that such acts are compatible with fair trade practices, do not unduly prejudice the normal exploitation of the design, and that mention is made of the source; equipment on ships and aircraft registered in another country when these are temporarily located under Icelandic jurisdiction; the import into Iceland of spare parts and accessories for the purpose of repairing ships and aircraft; and execution of repairs on ships and aircraft.

116. Applications for protection of designs by non-residents must be conveyed through a representative domiciled in the EEA. Regional exhaustion applies with respect to parallel imports. There has only been one dispute concerning designs during the review period. The case concerned allegations regarding the wrongful use of maps owned by an advertisement agency, which were protected by copyright, design registrations, and registered trademarks. The maps of the advertisement agency and those of the plaintiff were not considered to be similar, and the defendant was acquitted. The fee schedule for designs was also amended in 2011.

Geographical indications

117. Iceland does not have any specific legislation that covers geographical indications. However, provisions in the Trade Marks Act and the Competition Act provide protection to these indications. The Trade Marks Act contains provisions that prohibit the use of deceptive trademarks, including geographical indications. Furthermore, the registration of a mark that causes confusion regarding its origin, or of a trade mark for wines and spirits that implies a geographical name, unless the product originates at the location in question, is also prohibited. Misleading use of geographical indications is also implicitly forbidden under the Competition Act. The authorities also stated that a few collective marks containing geographical indications have already been registered in Iceland.

(vi) State-trading enterprises, state-owned enterprises, and privatization

(a) State-trading enterprises

118. The only enterprise notified by Iceland to the WTO as a state-trading enterprise under GATT Article XVII is the State Alcohol and Tobacco Company of Iceland (ÁTVR) which was established under Act No. 63/1969 on the Sale of Tobacco and Alcoholic Beverages.⁷⁵ The law establishing the ÁTVR, was changed recently. Under the new legislation (Act No. 86/2011 on Trade in Alcohol and

⁷⁵ WTO document WT/TPR/S/164/Rev.1, 17 August 2006, p. 51.

Tobacco), the ÁTVR remains a wholly owned state enterprise that operates under the supervision of the Minister of Finance and retains its exclusive rights on retail sale and distribution of all alcoholic beverages with an alcohol content of more than 2.25% and exclusive rights to sell tobacco at wholesale level to retailers.

119. Under Act No. 86/2011, the ÁTVR is required to sell alcohol products at the same prices in each of its 49 retail outlets. The mark-up for retail, relative to wholesale prices, is fixed at 18% for beverages with 22% alcohol by volume or less and 12% for beverages with more than 22% alcohol. Similarly, the mark-up for wholesale of tobacco is fixed at 18%. Other regulations set out further details on the terms of purchase and sale by the ÁTVR, such as Regulation No. 755/2011 on Selection and Sale of Alcohol and Trade Terms with Suppliers, and Regulations No. 1159 of 2008 concerning the purchase, product selection, wholesale, and delivery of tobacco products and trade terms with suppliers.⁷⁶

(b) State-owned enterprises and privatization

120. Following the collapse of the main banks in 2008, the Government passed Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances. The domestic functions of the main banks were nationalized (see Chapter IV(4)(i)) with the intention of returning them to the private sector after conditions had stabilized enough for them to operate independently. As of end 2010, the State held 81% in New Landsbanki, 13% in Arion Bank, and 5% in Íslandsbanki, at a cost of €1.4 billion (ISK 184 billion), or 13% of GDP. The creditors owned the remaining shares. Furthermore, the State had to rescue one insurance company, Sjóvá-Almennar tryggingar hf, which resulted in ESÍ (the company set up to administer the assets of the Central Bank) owning 73% of share capital. In July 2011, ESÍ sold most of its stake to SF1 slhf (a limited partnership administered by Stefnir hf, which is a fund management company) leaving the ESÍ with 20.6%.

121. The Icelandic State Financial Investments (ISFI) agency was established in 2010 under Act No. 88/2009 as a state body with an independent board of directors reporting to the Minister of Finance to manage the State's holdings in financial undertakings. A Bill is currently before the Parliament, which sets out the process by which the Minister of Finance may dispose of publicly held bank shares.

122. Outside of the financial sector, the general policy concerning state involvement in the business sector has not changed. Over the ten-year period 1997-2007, the Government applied a programme of privatization. The most recent privatizations were in 2007 when the Government's share in a geothermal water and electricity company in southwest Iceland were sold. The central Government's holdings are now restricted to businesses involved in the production and distribution of electricity company, postal services, the Housing Financing Fund, the Student Loan Fund, and some smaller financial institutions. In addition, Isavia, a wholly government-owned entity under the Ministry of the Interior, owns and operates all airports (see Chapter IV(4)(iii)).

123. Local government holdings are mainly in geothermal production of heating and electricity, as the municipalities own almost all of the geothermal power companies, which supply heating to most homes in Iceland and, on an increasing scale, electricity to the aluminium industry. Several local

⁷⁶ For the laws, regulations, and rules governing pricing, sale, advertising, and other aspects of trade in alcohol and tobacco, see ÁTVR online information (most in Icelandic only). Viewed at: <http://www.vinbudin.is/desktopdefault.aspx/tabid-3/> [March 2012].

governments own operating companies for harbours, in addition to owning their local electricity distributors.⁷⁷

(vii) Competition policy

124. Since October 2009, policy and legislation on competition has been the responsibility of the Ministry of Economic Affairs, which took over most of the functions of the Ministry of Business, including responsibility for the Competition Authority and the Financial Supervisory Authority. These two authorities are responsible for implementing policy in their respective areas. The principle legislation on competition is Competition Law No. 44/2005, as amended by Act Nos. 52/2007, 94/2008, and 14/2011.⁷⁸ As noted earlier, in September 2012, the functions of the Ministry of Economic Affairs are to be divided between the Ministry of Finance and Economic Affairs and the Ministry of Industries and Innovation.

125. Through its membership of the EEA, Iceland's competition policy is aligned with that of the EU. National and EEA rules on competition are applied in parallel: EEA competition rules apply where restrictive practices may affect trade between EEA countries, while national decisions should not interfere with the EEA rules. 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.

126. The Competition Authority in Iceland cooperates with the authorities from other Nordic countries (Norway, Denmark, Sweden, Finland, the Faeroe Islands, and Greenland), including a formal agreement on exchange of confidential competition-related information among the authorities of Denmark, Iceland, Norway, and Sweden.⁷⁹ In addition, the Nordic Cartel Network, established in 2000, is a model for cooperation on cartel investigations.⁸⁰ Working groups comprising the authorities from the Nordic countries publish reports on specific projects, such as: Competition Policy and Green Growth⁸¹, Competition Policy and Financial Crises, Competition Challenges in the Pharmacy/Pharmaceutical Sector, and Capacity for Competition - Investing for an Efficient Nordic Electricity Market.

127. The Competition Authority is an independent body that currently reports to the Minister of Economic Affairs. Under the Competition Law and its Rules of Procedure No. 880/2005, the Authority's Board of Directors sets the priorities for the Authority and has final responsibility for decisions. The Authority is responsible for applying Icelandic law, which includes Articles 53 and 54 of the EEA Agreement on collusion and abuse of a dominant position.

128. Under the Law, anti-competitive agreements and practices by businesses are prohibited, as are abuse of a dominant position and agreements between businesses that restrict competition. The Competition Authority must be notified of mergers where the total turnover of the undertakings in question is ISK 1 billion or more. The Authority may set conditions for mergers, prevent them from

⁷⁷ Central Bank of Iceland (2011), pages 51-52.

⁷⁸ Competition Law No. 44/2005 (in English). Viewed at: <http://eng.efnahagsraduneyti.is/laws-and-regulations/Competition/> [March 2012].

⁷⁹ *Agreement between Denmark, Iceland, Norway and Sweden concerning cooperation in matters of competition*. Viewed at: <http://www.norden.org/en/about-nordic-co-operation/agreements/treaties-and-agreements/industry-trade/agreement-between-denmark-iceland-norway-and-sweden-concerning-cooperation-in-matters-of-competition/> [July 2012].

⁸⁰ OECD (2012a).

⁸¹ Nordic Competition Authorities (2007), (2008), (2009) and (2010).

taking place or annul them after they have been concluded if it determines that they would obstruct effective competition.

129. Between its establishment in July 2005 and the end of 2011, the Authority published 286 decisions.⁸² The Authority has stated that the post-crisis economic conditions have led to increased concentration in some sectors and it deems it likely that firms may abuse dominant positions or collude with competitors to address their financial difficulties. Since the beginning of 2008 it has annulled or prevented 4 mergers and imposed conditions on a further 31, and has fined 21 companies a total of €12.2 million for collusion or abuse of a dominant position.⁸³

130. The 2011 amendment to the Competition Law gives the Competition Authority the power 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 rulings of the Appeals Committee to the courts (in the past only parties opposed to rulings in the Appeals Committee had this right).

131. The general rule for competition cases within the jurisdiction of the EEA is that the European Commission has responsibility for cases falling under EU competition rules affecting trade between EU states; and the EFTA Surveillance Authority has responsibility for cases where only trade between participating EFTA states is affected. In cases affecting trade between the EU and one or more participating EFTA states, responsibility is allocated according to the relative importance of the turnover of the undertakings concerned.

⁸² European Commission (2011), *Chapter 8 - Competition Policy*, p. 4.

⁸³ Icelandic Competition Authority (2011), p. 4.