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TRADE POLICY REVIEW MECHANISM
REPUBLIC OF ICELAND
MINUTES OF MEETING

Chairman: Dr. M.M. Zharan (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Trade Policy Review of Iceland was held on 9 and 10 February 1994. The Chairman introduced the review, welcomed members of the Council, the Icelandic delegation headed by Ambassador Gunnar Snorri Gunnarsson, and the discussants, Mr. Janusz Kaczurba of Poland and Mr. Jorge Riaboi of Argentina.

2. The Chairman recalled that the purpose of the Trade Policy Review Mechanism was "to contribute to improved adherence by all contracting parties to GATT rules, discipline and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties" (BISD 36S/403).

3. According to the Decision taken on 12 April 1989, the Council was to base its work on two reports. The report by the Government of Iceland for this review is contained in document C/RM/G/44 and the report by the Secretariat, drawn up on its own responsibility, in documents C/RM/S/44 and Corr. 1. Outlines of the main issues the discussants intended to address were contained in document C/RM/W/16. Copies of written questions submitted by the delegation of Canada were available.

4. The Chairman then offered the floor to the representative of Iceland.
II. OPENING STATEMENT BY THE REPRESENTATIVE OF ICELAND

5. The representative of Iceland noted that his country attached great importance to GATT and the Trade Policy Review Mechanism. Iceland had lagged behind its trade partners in trade liberalization but, once underway, had been rapid. As a result, Iceland had never been better placed to have its polices reviewed. He stated that all of Iceland's trading arrangements would have to confirm with the GATT framework, or the future World Trade Organization (WTO). He noted that the European Economic Area (EEA) had accelerated the liberalization process in capital movements, currency regulations and services, and preparations for implementing the results of the Uruguay Round were well underway.

6. He provided updated statistics that painted a less gloomy picture of the economy than previously anticipated. The latest 1993 estimates indicated a slightly faster rise in GDP and exports, an improvement in the current account, a lower fall in national income and unchanged national expenditure. Forecasts for 1994 were also better: inflation was expected to decline to 2 per cent, national income was to fall in line with the decline of 2 per cent in GDP and exports were to shrink by 4 per cent due to cuts in fishing quotas. Although these forecasts assumed no construction of a new aluminium plant in the immediate future, the project had not been definitely shelved.

7. He emphasized that fisheries and the rational management of fish stocks were questions of national survival. Free and uncontrolled access to the fishing grounds would quickly lead to depletion of stocks and the State had to intervene to ensure optimum yields and fix quotas. This intervention was decisive for the economy: the current recession was rooted on the decision to reduce severely the catch of cod, an action necessary to safeguard the future of the species. This State interference had been sorely debated in Iceland. The existing quota system took as its point of departure that fishing boats and companies had over time acquired fishing rights that could then be transferred; others had advocated auctioning of fishing rights. The transfer of fishing rights outside Iceland was forbidden.

8. He warned that considering fish as a single product was an over simplification. In fact there was a bewildering variety of fish products. Products were sold at the high- and low-price ends of several national markets with little in common; concentrating on fish had thus not necessarily led to over specialization.

9. While recognizing the stringent character of restrictions on agricultural trade, he noted that Iceland was until recently a predominantly rural society and agriculture still played a political rôle out of proportion to its share of GDP. Consumer pressure for trade liberalization in agriculture had been relatively weak and the almost total import ban on many types of agricultural products had gone largely uncontested. The EEA Agreement had resulted in a very limited relaxation of such ban, which had, however, led to problems of legal interpretation and management. The Uruguay Round would imply a radical re-examination of those practices, even if high tariff levels were initially to prevail. Some of those changes were currently underway and it was, thus, difficult to provide details on implementation but in no case did Iceland intend to go back on its commitments.

10. He noted developments since the reports had gone to press: the EEA had entered into force, abolishment of the State Monopoly for Tobacco was proceeding apace, the State Monopoly for Alcohol was under scrutiny by the European Free Trade Area (EFTA) Surveillance Authority, an Act to abolish the State Fertilizer Monopoly was in Parliament, and the State fish meal plant had been sold to private interests. Regarding the future, he indicated that four of Iceland's EFTA partners were negotiating entry to the European Union (EU). Such entry could have some negative consequences for Icelandic trade as it would subject to tariffs some important products currently entering EFTA duty-free; tariffs
on other products would increase. Discussions had been held with the countries concerned but no clear solution found yet.
III. STATEMENT BY THE FIRST DISCUSSANT

11. The first discussant (Mr. J. Kaczurba) said that Iceland presented, among high-income countries, an interesting case for analysis of structural and trade policies. He noted the overwhelming dominance of one, relatively low cost, natural resource sector, the severe constraints to diversification and sectoral resource re-allocation imposed by geographical and natural conditions and, on the other hand, the potential for developing energy-intensive industries. He remarked on the small domestic market and heavy dependence on trade, with exports concentrated in only few tariff lines. This meant that trade-related measures had an unusually large impact on general economic conditions. Iceland had developed a particular blend of market-determined policies and practices, combined with substantial State regulation.

12. He said that structural policies appeared to be traditionally biased in favour of fisheries and agriculture. Noting fisheries' large contribution to GDP and exports, he described that sector as one of the best examples of comparative advantage among high-income economies. These advantages of the sector had been carefully nurtured through certain preferential measures including privileged credit access, tax breaks, restructuring assistance and, more importantly, almost free-of-charge access to marine resources for domestic operators. Foreigners were, in contrast, totally excluded from the sector. The Secretariat's report had suggested that such practices may have encouraged over-investment and over-fishing. The Icelandic authorities appeared to have recognized the risks of excessive support and reliance on only one sector and tightened its regulatory efforts. He encouraged the continuation of structural reforms in fisheries and requested comments on how existing conservation measures might evolve.

13. Support to agricultural production implied a considerable resource misallocation, although efforts appeared to have been made to shift resources to more productive activities. Nevertheless, the total value of agricultural output appeared smaller than the cost of assistance, which was granted through direct payments, administered prices, state-trading and import restrictions. Notwithstanding valid non-economic objectives, agricultural policies were costly and some of their objectives might be achieved by less trade-distorting measures. Such policies, and those directed to the fishing sector, attracted a disproportionate share of Government resources at the expense of manufacturing. The Icelandic representative was invited to comment on this situation, on the impact of the Uruguay Round disciplines, and on how support may be changed or redirected as a consequence of the Round.

14. The preponderance of industrial imports from the EU relative to those from EFTA indicated that regional trading arrangements were not necessarily inward looking. Iceland's long-standing position that regional trading arrangements were merely complementary, and not substitute to multilateral disciplines, were acknowledged, as well as its good record of generally liberal trade policies and active participation in the Uruguay Round. Iceland, perhaps more than other GATT members, faced a difficult adjustments to the post-Uruguay era. Iceland had not fully incorporated GATT into its law, had not formally adhered to any of the MTN Agreements and Arrangements, maintained policies in agriculture which would require major adjustments and restricted foreign capital participation in several sectors. The Icelandic representative was asked to comment on how Iceland intended to prepare itself to meet the new disciplines of the WTO.
IV. STATEMENT BY THE SECOND DISCUSSANT

15. The second discussant (Mr. J. Riaboi) noted Iceland's high per capita income, vulnerability to a narrow export base, large dependency on natural resources, and limited number of trade partners (EFTA, the European Union, the United States and Japan). Iceland's per capita income did not appear to reflect its level of economic development.

16. He noted that m.f.n. tariff rates applied only to a minor proportion of Iceland's trade, of which 75 per cent took place under preferential rules. Trade agreements with EFTA and the EEA had helped fragment trade, raising concerns in other countries about trade distortions. On the other hand, Iceland had striven to strengthen the multilateral trade system during the Uruguay Round. He hoped that Iceland would formalize contractually its position with regard to GATT Rules; thus far it had only partially incorporated the General Agreement in national legislation, had not adhered to the Tokyo Round Codes, and had made little use of other rules and provisions. As technical regulations created no problems to trade, harmonization with the Technical Barriers to Trade (TBT) Agreement would be no problem.

17. He said that Iceland generally followed non-protectionist policies in activities where domestic production was low. Departures from the 3.7 per cent simple average tariff indicated areas where the multilateral trade system was given low priority, for example, cigars, cigarettes and gasoline to which a tariff of 50 per cent applied. Tariff ranges of zero to 30 per cent arose in various sectors; in the food and chemicals the range was zero to 50 per cent. Three quarters of m.f.n. imports were duty-free, but almost all industrial imports from EFTA and the EC faced zero rates of duty, as did a small but expanding number of agricultural products.

18. In addition to tariffs and VAT, 21 per cent by value of imports was subject to non-tariff duties; gasoline and automobiles were, for example, subject to a consumption tax of 90 per cent. To maintain tax revenue following the abolition of tariffs on industrial goods under the EEA Agreement, the scope of excise taxes had been extended, subjecting goods of non-EEA origin to tariffs plus excise equivalents. Many other products, mainly agricultural, were prohibited or subject to licences. Some of these restrictions would undoubtedly be revised as a result of the Uruguay Round Agreement.

19. Concerning agricultural production, the Minister of Agriculture could regulate imports and, by means of domestic subsidies, could also influence the level of exports. Only items not produced in Iceland could be imported. Imports of raw meat, unpasteurized milk and eggs were prohibited on health grounds. Domestic subsidies were increasingly taking the form of direct payments (affecting mostly dairy and sheep production). Tariff protection, direct subsidies and consumer transfers made the value of support higher than that of total output. This explained why Icelandic consumers paid among the world's highest food prices.

20. Other arrangements affecting trade included state trading (covering products such as fertilizers, alcoholic beverages, tobacco, and matches), certain exchange rate restrictions, restructuring financing in agriculture, credit and tax advantages in the fisheries sector, restrictions on foreign direct investment and, until recently, minimum export prices for fish and domestic price controls. It was possible that prohibitions, licences and subsidies would be incorporated in the national schedule, together with tariffication and elimination of subsidies. The same may be true for State trading inconsistent with the provisions on national treatment. The Agreements on Agriculture and on Sanitary and Phytosanitary measures would lead to significant changes in the restrictions in force. However, it was unlikely that changes would occur in the agreements and rules underlying trade segmentation, a problem which did not seem solvable in the near future.
21. Finally, he highlighted Iceland's constructive attitude in discussing the rules of the Uruguay Round and its proposal in market access negotiations. Its support for a zero-for-zero or harmonizing approach for the fisheries sector had reflected a deep understanding and commitment to the multilateral system.
V. STATEMENTS BY MEMBERS OF THE COUNCIL

22. The representative of Sweden speaking for the Nordic countries mentioned that Iceland was a highly valued member of the Nordic group. He noted Iceland's small size and high dependency on foreign trade and on fishing; these factors created both constraints and opportunities. These characteristics had resulted in a liberal trade policy and a very low tariff average. Despite diversity within the fisheries sector, dependency on that sector explained the variability of the economy. Iceland had experienced rapid economic growth accompanied by double-digit inflation and increased foreign indebtedness. Such growth had been fostered by heavy investment and extensions of fishing limits. Since 1988, Iceland was a victim of a recession, underlined by the need for catch reductions following over-fishing.

23. He welcomed the sharp reductions in inflation and the positive trade balance and expressed support for Iceland in its difficult economic adjustments. He also welcomed the forthcoming abolition of the fertilizer monopoly and the intention to abolish the import monopoly on tobacco. He noted the non-tariff measures applying mostly to agricultural imports and Iceland's non-membership to the MTN Codes. He sought an assessment of Iceland's efforts to diversify at a time of sluggish international growth and inquired about plans to reduce the number of non-tariff measures. He also asked how the "Single Undertaking" of the Uruguay Round would affect trade policy and said that Iceland's adherence to the Code on Government Procurement would be welcomed.

24. The representative of Australia recognized the difficult economic circumstances facing Iceland and the challenges of managing an economy largely based on limited, variable marine resources. She noted Iceland's generally low tariff levels, the preponderance of trade conducted under free-trade agreements, and the low support provided to manufacturing. She also noted the high assistance provided to agriculture, where tariffs were supplemented by import charges, import licensing and trading monopolies. She sought assurances that Australia, as an m.f.n. supplier, would not face artificially inflated border barriers to compensate domestic industries for import competition arising from trade agreements. Iceland was encouraged to undertake adjustments to reduce assistance to the fisheries and agricultural sectors; details were requested on plans to reform the latter, particularly post-Uruguay Round. She expressed interest in an assessment of the privatization programme, especially in relation to effects on foreign trade.

25. She also expressed disappointment that Iceland had not been a member of the GATT Codes but welcomed its preparatory work to adhere to those codes in the context of the Uruguay Round outcome. She recognized Iceland's attempts to liberalize its trade practices, specifically in the fiscal sector; however, the outlook for key economic variables was not particularly good. Although supporting Iceland's EEA membership, perceived as reflecting Iceland's objectives in the multilateral context, she was concerned that regional liberalization may be detrimental to multilateral liberalization.

26. She recognized the importance of regulating the fisheries sector, a large sector also in Australia, as over-investment in that sector apparently underlined Iceland's current economic difficulties. She agreed with the Secretariat's conclusion that resources needed to be freed from fisheries and agriculture. Citing Australia's successful experience with the operation of an independent advisory body (the Industry Commission), she asked whether Iceland had given consideration to establishing formal procedures for private sector input into trade and industry policy formulation.

27. The representative of the United States, expressed concern about the unusually high level of protection to agriculture resulting from tariffication at high levels and low market access commitments. He sought clarification on how they had been calculated and thought that Iceland should consider reducing
tariffs to give tariffication a practical effect. He sought comments on a bill submitted to Parliament giving the Minister of Agriculture authority to impose additional restrictions, possibly contravening Iceland’s Uruguay Round commitments. He supported the growth of free trade areas, including Iceland’s membership in the EEA. However, he was concerned that such membership would make the m.f.n. rate the lowest common denominator for non-European countries exporting to Iceland. Recalling the Secretariat’s conclusion that under the new régime goods of non-EEA origin may be subject to higher overall charges, he requested information on when the EEA Agreement would be brought before the Council for review under Article XXIV. Also noting that the advent of the EEA had led Iceland to impose new regulations on food packaging and motor vehicle inspections, he asked whether such regulations would hinder Iceland’s trade with non-EEA members.

28. The representative of Mexico believed that the ongoing structural changes, covering areas such as privatization, competition, exchange rates, and fiscal policies, would help overcome the existing economic imbalances, including a narrow export base, high dependency on fisheries, foreign indebtedness and growing unemployment. He inquired about other changes that might be adopted to meet those challenges and Iceland’s Uruguay Round commitment, and about Iceland’s short-and medium-term objectives. He agreed that the tariff level in general was low, but expressed concern about the high level of protection in the agricultural sector, which also had a negative impact on other sectors such as manufacturing. He stated that Iceland needed to remove subsidies and other import restrictions, especially in the agricultural sector, and asked about related plans. Noting Iceland’s significant offer in the Uruguay Round negotiations which included the acceptance of the "Single Undertaking", he asked about Iceland’s intentions on adherence to other codes, such as Government Procurement. He also sought comments on the linkage between regional trade agreements, particularly those involving Iceland, and the multilateral trading system.

29. The representative of India noted Iceland’s high per capita income and dependency on few natural resources. These characteristics explained Iceland’s well-calculated and measured trade and economic policies. He also noted the high level of tariff bindings as well as the high level of excise taxes, which, in addition to a value added tax (VAT), subjected imports to high taxation levels. He inquired about the rationale for the transport tax on cement and wondered whether its elimination may lead to faster economic growth. He expressed optimism about the future for Iceland.

30. The representative of Canada noted various similarities between the Icelandic and Canadian economies, in particular with respect to fisheries. Iceland’s authorities deserved recognition for restraining access to natural resources and undertaking trade liberalization in the face of economic difficulties. Iceland’s trade and economic régimes had undergone important and positive changes, affecting tariff levels, price controls, agricultural support and access to marine resources. These changes laid the foundations for more sustainable long-term growth. Canada was particularly interested in Iceland’s measures to deal with declining fish stocks because it confronted similar problems. In Canada, a moratorium on cod fishing had been required; he recalled that the Icelandic Marine Research Institute had also found a moratorium would be the best solution in Iceland in terms of resource management, but this would be politically difficult.

31. He noted the generous support provided agriculture and fisheries relative to manufacturing, the steep tariff escalation, and the widespread ban on agricultural imports. Iceland’s acceptance of the "Single Undertaking" and other Uruguay Round results would open up the agricultural market and require Iceland to comply with the agreements on Technical Barriers to Trade and Sanitary and Phytosanitary Measures. He encouraged Iceland to adopt a policy of providing the same level of scientifically-based protection to products of comparable risk. He pointed out that, the previous day, the Director of Customs in Reykjavik had revoked a licence to import Canadian frozen chicken breasts
("chicken nuggets") granted the week before, apparently because of questions as to the applicability of regulations issued in January to shipments that had previously entered the country. The case also related to the question, submitted in writing, about the classification of processed food products as agricultural or manufactured goods; clarifications were requested on these issues from the Icelandic representatives.

32. He mentioned the negative effects related to the use of the exchange rate as a tool to improve international competitiveness, as cited in the Secretariat’s report, and welcomed Iceland’s current monetary policy aimed at price stability. He also welcomed the move to an inter-bank market for the Icelandic currency and relaxation of exchange controls; details on recent changes affecting the latter were requested. He noted the low incidence of tariffs, but also the several non-tariff measures applied; Iceland was encouraged to remove them. He welcomed the decision to allow imports of alcoholic beer, but asked about the rationale for an apparently GATT-inconsistent special tax applying to imported beer but not to local production.

33. The representative of Hong Kong noted Iceland’s low tariff régime but also the variety of non-tariff measures protecting domestic producers. As an example, he mentioned that only Icelandic citizens residing in Iceland could apply for import or export licences; foreign exporters could only direct sales through local agents or importers. Also, Iceland had not joined any of the Tokyo Round Agreements. Despite major EEA-related reforms, much remained to be done in terms of trade liberalization and aligning trade practices with the GATT and the Uruguay Round Agreement. Thus, while customs valuation and standard régimes were generally in line with GATT rules, there was room for further alignment of customs valuation practices and harmonization of technical standards. Noting Iceland’s increasingly close trade and economic relations with Europe, particularly the EU, by virtue of the EEA, he hoped that Iceland would continue attaching importance to its trade links with trading partners outside the EFTA and the EU.

34. The representative of the European Communities noted that the EEA Agreement governed only trade relations between Iceland and the EC. He stressed the positive aspects of Iceland’s participation in that Agreement, which had led to improvements in such areas as competition policy, government procurement, privatization, and direct foreign investment. The general trend was for Icelandic legislation to be brought closer to the Communities’ legislation; this would certainly be beneficial to exporters of third countries which would be able to supply and European market abiding by uniform rules. Noting that the EEA was not the subject of the review, he nevertheless stated that the EEA did not go beyond a mere multilateralization of existing free trade relations between the Communities and EFTA and within EFTA itself; trade in industrial goods was already fully liberalized before the EEA Agreement came into effect. The Agreement did not cover relations with third countries and it did not include a common trade policy; it thus respected Iceland’s liberty to enter into agreements with third countries. Unlike other signatories to that Agreement, Iceland was not a candidate for accession to the EU due to the special rôle of fisheries in Iceland.

35. He referred to the virtually hermetic régime against imports in the agricultural sector but added that the specific difficulties of an isolated agricultural market should be borne in mind. He noted that although the temporary difficulties faced by Iceland might have resulted from unfortunate policy decisions combined with cyclical variations in the fisheries sector, there was a great awareness in Iceland of existing problems. Measures were being introduced to avoid excessive fluctuations and ensure more continuity in economic development. In this respect, links with the EC did offer Iceland important possibilities. He was certain Iceland would not forget that it was also a participant in the multilateral trade system.
36. The representative of Japan noted Iceland's continued deregulatory efforts in areas such as agriculture, fisheries, financial services, and investment. He understood Iceland's economy was inevitably affected from the EU and the EEA given Iceland's location and close trade relation with that region. He hoped that economic and trade policies would continue to be based on the disciplines of the GATT and efforts to further open the economy would persist. He requested details on the first steps to liberalize capital movement, scheduled for January 1994, and on how the government would deal with speculative capital inflows if they arose. He noted the new legislation liberalizing foreign direct investment and supported further liberalization in that area. He said that Iceland had benefited from an open and strong multilateral trading system and hoped that Iceland would continue supporting such system and help strengthen it under the WTO framework.

37. The representative of Austria expressed her appreciation for Iceland's full and active participation in the Uruguay Round and its efforts to liberalize trade in areas currently not covered by the GATT. She noted that the formation of the EEA had led to further economic policy reforms, such as strengthening competition policy and reducing regulatory barriers to trade. She also noted that imports into Iceland of industrial products from EFTA countries had been already liberalized to the largest extent possible.
VI. REPLIES BY THE REPRESENTATIVE OF ICELAND AND ADDITIONAL COMMENTS

(1) General economic situation and outlook

38. The representative of Iceland began by addressing comments on Iceland's general economic background. Compared with earlier estimates, the latest forecasts for 1994 indicated a slightly higher real disposable income and lower interest rates leading to higher consumption and investment; a smaller decline of 3.2 per cent (instead of 4 per cent) in real disposable income per capital; a larger current account deficit as exports fell; a rise to 5 per cent (from around 4.3 per cent in 1993) in unemployment due to weak demand and economic activity; and a lower inflation of around 2 per cent. The fiscal budget would be influenced in 1994 by a continued contraction in domestic demand, by the effect of fiscal concessions made in the Spring of 1993, by reductions in tax revenues due to falling GDP, and by higher unemployment. As a result, expected revenues in the 1994 Budget amounted to ISK 104.1 billion, total expenditures to ISK 113.8 billion, and the Treasury deficit to ISK 9.6 billion. At 2.5 per cent of GDP, this deficit would be marginally higher than in 1993. He said that terms of trade had deteriorated sharply in 1993 when a sharp fall in export prices of marine products had led to a 7.5 per cent fall in the terms of trade for goods; in turn this resulted in a fall of around 6 per cent in the terms of trade for goods and services. Terms of trade were forecast to improve slightly in 1994 as a result of rising fish prices.

39. He stated that fluctuations in the relative exchange rate of major currencies had significantly influenced trade flows; in particular, the strength of the US dollar had increased exports to the US. Exchange rate stability had been the linchpin of the government's monetary policy as experience had shown that a stable nominal exchange rate was the best anchor for the economy. This policy had not precluded adjustments to external developments, such as in November 1992 during the turmoil in European currency markets. The stable exchange rate policy was only sustainable because inflation had been reduced to low levels, even by international standards. In the past, Icelandic governments had faced a vicious circle of wage and price increases and devaluations from persistent high domestic inflation. With the stable exchange rate policy, economic agents now had to use other means to respond to changes in economic conditions.

40. Recalling comments on the lack of diversification in the Icelandic economy, he reiterated that the marine sector was more diversified than one might think at first. Although groundfish (i.e. cod, haddock, saithe and redfish) was the mainstay of the Icelandic marine sector together with capelin (a small fish caught in large quantities), in recent years catches of shrimp, lobster, shellfish and herring had been of substantial value (the later recovering from a temporary setback). He added that in addition to the large variety of products and markets mentioned in his introductory remarks, a number of processing methods had been developed. The marine sector, especially the processing industry, had some of the characteristics of high-technology manufacturing. Production systems were flexible and the three most important processing methods, freezing, salting and drying, largely interchangeable. Thus, it proved relatively easy to divert the raw material to the most profitable processing method, depending on market conditions. The same was true of the technologically advanced fishing fleet, which included vessels that could carry out high-quality processing at sea. Diversification extended not only to the species and methods of processing but also to marketing. Icelandic fish products had been actively marketed in the United States, Europe and Japan and were acquiring brand names. Diversification within the fisheries sector had limited the risks associated with the Icelandic economy's dependence on marine exports.

41. Further export diversification had been high on the agenda in Iceland for a long time. The present government believed that the most profitable course in promoting diversification was to create
the necessary economic preconditions for growth and stability. By continuing the process of liberalization and structural reforms, and by using fiscal and monetary policy instruments to deal with imbalances in the economy, the road was being cleared for a more efficient use of Iceland’s productive resources. The present and previous governments had emphasised the further development of energy resources through power intensive industries, although the current state of the world economy and weak metal markets had held back progress in that area. Through agreements, such as the EEA, free trade agreements with Eastern Europe and the Mediterranean countries and the Uruguay Round, Iceland had achieved greater market access and enhanced possibilities for future developments.

42. Concerning foreign direct investment (FDI) rules and the liberalization of foreign exchange regulations, the representative of Iceland said that before 1991, no general FDI rules applied and sector specific legalisation was rather restrictive. The first comprehensive FDI legislation was enacted in 1991, both simplifying and liberalizing FDI rules. Several restrictions remained, notably the complete ban on FDI in fisheries and energy. These sectors, especially fisheries, were vital to the Icelandic economy and domestic control was considered important to maintain the nation’s economic independence. The EEA Agreement required Iceland to continue the liberalization process and abolish all restrictions on FDI by 1 January 1996, except in fisheries where a permanent derogation applied. A government bill amending the FDI Act of 1991 was before parliament but it was too early to tell when it would be adopted or its final form. According to the bill, liberalization would be on an _erga omnes_ basis, except in energy where liberalization would only be extended to the EEA partners.

43. Liberalization of the foreign exchange regulations had began in earnest in 1990 when the government adopted the current liberalization programme. Restrictions on long-term capital movements were phased out gradually and the last restrictions abolished in early 1994. The complete ban on short-term capital movements was first replaced with financial limits on individual transactions. These limits, to apply only one year, would disappear at the end of 1994, when all capital movements should be fully liberalized except for those under FDI rules. It was stressed that this liberalization had been done on an _erga omnes_ basis. The experience so far had been very positive, with no signs of speculative flows.

44. The _first discussant_, noting that GATT provided a forum for discussing issues irrespective of economic size, raised the problems of diversification and rational resource allocation. He recognized Iceland’s comparative advantage on fisheries and the substantial diversification within that sector, as well as its plans to diversify to other sectors. He requested details on specific areas that might be targeted for diversification, particularly those related to energy-intensive industries. Details were also requested on the measures that might be implemented to achieve such diversification, especially in light of the apparent high level of public support provided fisheries and agriculture at the expense of other activities which might be chosen for alternative development.

45. The _second discussant_ referred to the level of public sector deficit. He stated that when a country like Iceland had a high level of foreign debt, non-programmable expenditures linked to foreign debt generally have a strong impact on financial costs to the business community. He asked about the magnitude and break down of the public deficit and how it was managed. He mentioned countries which had been able to handle large deficits with a degree of balance, which depended on properly managing the financial and equity markets. With respect to foreign exchange policies, particularly nominal rates as an economic anchor, he said that fictitious resource allocations eventually led to major crises. Experience showed that exchange rates needed to reflect not only growth and stability policies but also relative prices to allow for a balance in the foreign sector. Concerning the statement that growth and stability were essential to ensure diversification, he recalled that several central American countries enjoyed stability but not growth or diversification, lagging far behind other countries. Describing
comments on unified exchange rate polices as a post-Uruguay Round issue, he feared that uncompetitive countries might try to use exchange rate policies as a solution, with little regard to conditions in the real economy.

46. In reply, the representative of Iceland stressed that fisheries constituted Iceland's comparative advantage and its economic base. However, the limits to growth in fisheries had been reached and diversification was necessary to maintain growth. This was made difficult, especially in manufacturing, by isolation from foreign markets and a small domestic market. Iceland did offer advantages in energy-intensive industries as actual and potential energy production was high compared with internal demand. Thus, the export potential was considerable and could be exploited by either attracting foreign investment into energy-intensive industries or exporting the energy itself via cable. Despite difficulties relating to the poor state of international markets, the first option offered more immediate possibilities. Aluminium and ferro-silicon processing plants already existed in Iceland and an European-American consortium had plans for a new aluminium plant; implementation was only awaiting improvements in the aluminium market. Possibilities also existed and were being developed in the services sector taking advantage of a well educated population and qualified labour. Tourism had provided an increasing share of foreign currency revenues but faced limitations in the long-term due to climatic considerations and its ability to generate only seasonal employment. He stated that the issue of public debt was complex and a detailed discussion was not possible at the time. He did reiterate Iceland's relative success in diminishing its debt, financing a greater part internally, and spreading it across various currencies (but more than half was still in U.S. dollars).

(2) Trade Policy orientation

47. The representative of Iceland said that the issue of reporting the EEA under Article XXIV of the GATT went beyond the scope of the trade policy review; Iceland could not give in that context an answer on behalf of the other EEA members. Stressing Iceland's awareness of the importance of transparency, he recalled that the EEA signatories had jointly notified the Agreement to GATT in pursuance of paragraph 3 of the 1979 Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance on 1 January 1994 (document L/7048, dated 17 July 1992). He noted that additional, abridged copies of the Agreement would shortly be submitted to the Secretariat. He indicated that signatories to the Agreement would be considering whether additional steps, if any, were needed. Recalling that such signatories had been part of a free trade arrangement since the early seventies, he said that the EEA could be described as a consolidation of an already existing free trade area.

48. Commenting on Iceland's relations with the EU, he said that the relevant trade statistics were impressive and would become more so once other EFTA countries joined the EU. However, the importance of trade with the countries of the EU predated any agreement. Such countries and Iceland were natural trading partners; the agreements with the EU merely reflected this fact. It was a characteristic of all EFTA countries that their trade with the EU was more important than intra-EFTA trade as the EU was a larger and more complementary market. The establishment of regular, secure maritime transport links to EU harbours had also played a positive rôle. He stated that the importance of trade with the EU was not the result of government pressures or neglect of other regions. Iceland would not use artificially inflated border measures to compensate domestic industries for import competition arising from free trade arrangements.

49. He said that the new regulations on food packaging and motor vehicle inspection were set to establish full conformity with EU regulations and they would be applied in a non-discriminatory way. The EEA Agreement tried to ensure full conformity of safety and health requirements to facilitate trade.
The EEA institutions were meant to allow the EFTA states to participate in the elaboration of new rules within the EU. If, however, regulations arose from safety or health considerations but purely as a trade measure, Iceland would not be bound to apply it in trade with third countries, provided the affected product did not enter free circulation in the EU. The EEA Agreement did not cover trade policy or relations with third countries and would not eliminate border controls. In this respect, it offered more flexibility than EU membership.

50. In reply to the question of whether legislative changes associated with the bilateral agricultural agreement with the EU would also allow imports from other sources, he said that the Minister of Agriculture could authorise agricultural imports even if domestic supplies were not exhausted, provided there was a clear contractual obligation. The bilateral agreement with the EU was the only such obligation at the time. In theory there was nothing to prevent similar agreements with other countries to be signed; at any rate, the entry into force of the Uruguay Round would alter the situation completely.

51. He expressed interest in obtaining additional information on Australia’s experience with formal mechanisms to involve the private sector in policy formulation. Iceland had depended on less formal mechanisms which had proven quite effective in a small society. However, the need was felt now for more formal procedures. He said that the Icelandic delegation to the EFTA Consultative Committee brought together representatives of the Chamber of Commerce, the Association of Industry and the Employers’ Federation as well as representatives of trade unions. Individual ministries had also set up special committees with private sector participation on subjects such as banking and trade in securities.

52. In relation to Iceland’s Uruguay Round offers, he noted that other representatives and the GATT Secretariat had easy access to such offers and merely stressed that 94 per cent of Iceland’s’ tariff lines were now bound.

53. The second discussant said that Icelandic legislation allowing the Minister of Agriculture to authorize agricultural imports if there was a clear contractual obligation was inconsistent with the principles underlying the GATT and the future WTO. He welcomed the changes in that approach arising from the Uruguay Round. In a multilateral framework, actual rights and obligations should not emanate from ministerial discretion but from rules and obligations. Unilateral, sovereign decisions might not only misallocate resources domestically but also affect international rights and obligations. Icelandic arrangements governing banana trade was a perfect example of how the system should operate: market access was free, despite local production conditions. The need to respect trade rules was illustrated by soya imports into the EU; although those imports were duty-free the impairment of concessions had delayed the Uruguay Round. The multinational steel agreement also provided for zero tariffs, but the important issue was the rights and obligation in terms of the defence of competition, technical standards, and others. Tariff themselves did not mean much in the GATT framework.

54. The representative of the United States commented that, as under TPRM rules no subject was normally excluded, his question on the notification of the EEA Agreement under Article XXIV could not be said to be out of scope. He said that the EEA was more than a mere consolidation of an already existing free trade agreement but, even if only a consolidation, a new free trade agreement still required notification under GATT rules. Although recognizing that it was not a unilateral matter, he asked again the representative of Iceland for his opinion on whether Article XXIV notification was required.

55. The representative of the European Communities believed that the issue was when Iceland together with the other EEA members planned to observe Article XXIV reporting obligations, if any existed. It was not possible for any one member to give an answer at that time. He noted that, as a transparency exercise, EFTA and the EC countries had notified the EEA Agreement to the Council
in 1992 under the 1979 Understanding on Notification and Surveillance. As no follow up had occurred, he was surprised that the issue was being raised; the best forum to discuss it would be at the Council. He believed that, without committing anything, the EEA signatories would be shortly considering what steps were needed, if any. A consideration was the entry into force in the near future of the WTO, which as the EEA, covered also services.

56. The representative of Iceland confirmed that agriculture was coming under more strict disciplines and reiterated that this represented a radical departure for Iceland. He noted that the current period was a short transitional one. He knew the TPRM rules under which nothing was out of bounds; however, the issue of notification of the EEA under Article XXIV was still under discussion; no clear position had been reached yet.

(3) Sectoral Aspects

57. In answer to the questions raised by a number of representatives concerning resource management, the representative of Iceland said that the quota system applied since 1984 did address the issue of overfishing and overcapacity in the fishing sector, especially after changes in 1991, and the results were encouraging. He recognized that other methods might have achieved results more quickly but at the risk of greater upheaval and unrest in the fishing sector.

58. Concerning agricultural policy, he noted that the most radical change involved abandoning discretionary import licensing and other non-tariff barriers, a central issue of agricultural policy in Iceland for decades. Those barriers would be replaced with general tariffication. The tariff equivalents, calculated according to the GATT guidelines, were high but they would serve only as a maximum. The import of agricultural products would be a practical possibility although the specific rules and administrative procedures regarding imports and tariffication had not yet been finalized. Scientific methods would be applied by the authorities when enforcing the admittedly strict zoo-sanitary requirements. Other aspects of the agricultural policy would not need extensive changes as pre-emptive modifications had been made three years before.

59. He explained that current agricultural policy resulted from work by a committee (including the Farmers' Union, trade unions, employer organizations and the authorities) charged with finding ways to reduce government outlays to the agricultural sector, increase productivity, lower prices to consumers and, ultimately, prepare agriculture to better face increased competition, especially post Uruguay Round. That work set the basis for an unprecedented agreement signed by the Farmers' Union and the Government in 1991 under which: (i) producers of lamb and milk had been offered direct payments instead of subsidies at the wholesale level, (ii) export subsidies had been abolished with part of the savings channelled into projects aimed at rural development, (iii) production had been adjusted to meet only domestic demand by reducing quotas for lamb and milk more than 20 and 5 per cent, respectively, and making producers responsible for surplus production, and (iv) budgetary outlays to agriculture had been reduced by at least 35 per cent between 1991 and 1994. He believed that these measures, taken in 1993, were in line with internal and external pressures to reduce the overall support to agriculture and minimise its distorting effects on trade.

60. He pointed out that the high level of support to agriculture was of interest to GATT as well as having been the subject of lively debate in Iceland. Divergences in support estimates existed but it was clear that support had been reduced substantially during the last few years. The latest estimates by the Ministry of Agriculture showed that the producer subsidy equivalent had been reduced to some 76 per cent in 1993; further falls were expected in coming years. He noted that within a couple of years the OECD would publish, a report on support to Icelandic agriculture.
61. As government expenditure on agriculture had decreased by more than one third, the prices of agricultural products and the number of farmers had fallen. The adjustment had not been painless. Aggregate salaries to lamb producers had fallen by some 45 per cent, due to lower prices and quota cuts, but the number of farmer had decreased by only about 15 per cent, as a result of increased overall unemployment and problems reallocating a not too flexible workforce. It was clear that further, large adjustments in the lamb sector were inevitable. The use of de-coupled income support had been debated and appeared the preferred support mechanism for the future.

62. Increased efficiency in production and processing had taken a central rôle and the Icelandic authorities believed that this would enable agricultural producers to adjust to inevitable increases in foreign competition. Already imported food provided for more than 50 per cent of total consumption. Ecologically clean agricultural products would most likely become of major importance in Iceland, and in international trade. It was clear that Icelandic agriculture would compete in world markets only on the basis of quality, speciality products, not on the basis of price.

63. Concerning questions on the classification of processed food products as agricultural or manufactured goods, he explained that the law on foreign exchange and importation had been replaced in 1992. On the basis of the previous Act, the import of a number of goods, mainly agricultural products, had been prohibited, although the Ministry of Agriculture could grant exceptions if certain conditions were met. In January 1994, the Supreme Court had ruled that a licences from the Ministry of Agriculture were no longer needed for the importation of agricultural goods not subject to sanitary regulations. However, as it had previously been decided that the import régime should be left unchanged until the Uruguay Round Agreement entered into force, the Government introduced a bill to restore the de jure situation to de facto state of affairs before the Supreme Court ruling. According to the latest bill, import licences were needed for a list of products defined by HS headings; the classification of products as agricultural or manufactured was not relevant in such context. The proposed law was an intermediate measure that would in no way impair Iceland's Uruguay Round commitments. The Government had decided to establish a committee, on which four ministries would be represented, charged with preparing all the legislative and administrative changes needed to fulfil those commitments.

64. As to the case of "chicken nuggets", he said that the conclusion of the Director of Customs that an import license was not needed had not been overruled; the merchandise had not been cleared through customs because the required sanitary certificates were lacking. Commenting on the apparent contradiction in allowing processed foods containing less than 20 per cent meat into the country, he reiterated that no product of any kind containing raw meat was allowed.

65. The first discussant remarked on comments that Iceland's pre-Uruguay Round trade policies seemed to be partially explained by limited consumer pressure for more liberal rules. He said that although all countries faced pressures from consumer or producer constituencies, under GATT, compliance with rules should go beyond domestic political concerns. Iceland’s visible and very active commitments to the Uruguay Round was a recognition of the need to balance domestic policy concerns and multilateral rules and disciplines. He noted that problems seemed to exist with the proper conservation of fish resources and, as this had an impact on other fishing nations, he requested details on conservation measures, especially regarding stricter access rules for domestic operators. He expressed satisfaction about Iceland’s commitments to alter drastically agricultural policies and asked what impact the Uruguay Round commitments would have on non-tariff barriers. He also asked whether present domestic support could be considered "green" in all categories and, thus, would require little adjustment.

66. The second discussant commented on the tariffication process, not yet concluded, and the use of scientific methods for Iceland’s admittedly strict zoo- and phyto-sanitary standards. He expressed
concern that the flexibility governing such standards may be used as a mechanism to set up non-tariff barriers. With respect to the use of direct payments to agricultures, he recalled that direct payments in the Uruguay Round framework were conditional on compliance with a number of other conditions. He had reservations on the use of such payments, even when de-coupled and regardless of their legality, as they distorted both the incentives to engage in agricultural activities and production patterns. He described the fall in the producer subsidy equivalent as a step in the right direction. However, at 76 per cent, the producer subsidy equivalent was still high and was nowhere close to reflecting the degree of strict disciplines applying to industrial goods. He found interesting and positive the concept of ecologically clean agricultural production; exporters engaged in such practices should be able to set standards for agricultural trade. He asked for clarification on Iceland’s new law establishing trade in agricultural products and expressed interest in seeing its made available to participants. He commented on a statement by the representative of the European Community apparently justifying agricultural protection in Iceland on the basis of the distance between production and consumption centres. Noting that much greater distances existed in Canada and Argentina, he said that such rationale was questionable.

67. The representative of the European Communities replied that his statement on agricultural protection had been misunderstood. Some exporters to Iceland did face difficulties in that market. The market was, however, narrow and small, and an island economy encountered specific problems.

68. The representative of Canada pursued the issue of "chicken nuggets", asking for confirmation that the sanitary requirements not yet met were already in place at the time of importation.

69. In relation to comments on the lack of consumer pressure for liberalization, the representative of Iceland mentioned a recent opinion poll showing that a majority of the population seemed to be happy with the present import restrictions and the level of protection to agriculture. The Uruguay Round outcome might lead to consumer pressures for further change as minimum access requirements made a greater variety of products available to consumers. Concerning overfishing, he said that each and every fish stock in Icelandic waters was subject to scientifically-based fishing quotas. The Government had also severely reduced the total allowable catch. This was especially true for cod, the allowed catch having fallen drastically (from 300,000 tons to 220,000 in 1993 and to 165,000 in 1994) with serious economic consequences. He expressed appreciation for concerns about fish stocks around Iceland but noted that most of such stocks remained within the Icelandic jurisdiction. In relation to agriculture, he stressed that changes had been underway for some years and that the level of support had decreased dramatically. As a result, the Uruguay Round would not result in dramatic changes. On the use of scientific methods for phyto- and zoo-sanitary controls, he noted the need to set very strict standards due to the isolation of the Icelandic livestock; however, Iceland would bow to scientific evidence and would not try to set an impregnable barrier to imports if no danger existed for Icelandic livestock or agriculture. In relation to the "chicken nuggets" case, he confirmed that there was no new regulation involved; all what was required was compliance with the old rules in force.

(4) Specific Measures Affecting Trade

70. With respect to questions on tax and tariff changes arising from the EEA Agreement, the representative of Iceland explained that the Stockholm Convention and the Free Trade Agreement with the EC stipulated discontinuing gradually custom duties on imports from treaty partners even if fiscal duties were maintained. Also, duties on the same products imported from non-treaty countries had been reduced; a rate of 10 per cent applied for finished products and 5 per cent for raw materials. The last step in this process had been taken on 1 January 1994 when the EEA Agreement entered into force. An amendment of the Custom Act suspended the remaining duties on products covered by the that Agreement. Concurrently, the Minister of Finance, using a provision in the Custom Act, had
reduced most m.f.n. tariffs on corresponding products from other countries to 7.5 per cent. Tariffs on automobiles and gasoline had been eliminated altogether in 1993 and replaced by a special commodity tax. Revenues from customs duties amounted to ISK 1.2 billion, or a 1.25 per cent of total tax revenues, in the 1994 budget.

71. To offset revenue losses incurred by reduced custom duties, excise taxes had been levied on a number of imported and domestically produced goods. The range of goods subject to excise tax had been extended by law from 1 January 1994, and were mainly levied on industrial products (sweets and beverages). Excise taxes, excluding taxes on automobiles and gasoline, accounted for about ISK 2.4 billion, or 2.5 per cent of tax revenue, in the 1994 budget (about 40 per cent of those excise taxes were levied on domestic products). Excise duties were levied on the wholesale price of domestic production and on the c.i.f. price of imports with a 25 per cent wholesale margin. They did not adversely affect imports or discriminate between countries. The VAT was levied on top of tariffs and excise taxes. Although this implied a rather heavy taxation on the corresponding products, he said that there was extensive use of indirect taxation in the Icelandic system, which accounted for about 60 per cent of the Government's revenues, while direct taxes were relatively modest. High excise taxes did not seem to have stopped Icelandic households from investing in durable consumer goods.

72. He confirmed that Iceland levied a special charge on imported beer. He recalled that the sale of beer was not allowed in Iceland until 1989. As Icelandic breweries had limited experience in beer production, the authorities had provided for an adjustment period by levying a special charge on imported beer. This measure was to be phased out in five years starting in 1992, possibly sooner. With reference to the transportation equalization tax on cement, he stated that this tax in no way affected trade; it was only used to equalize prices in different parts of the country as part of housing and regional policies. He clarified the status of importers by indicating that agents engaged in imports, or wholesale or retail trade as a business needed a trading licence. A requirement for such licences was to be an Icelandic citizen residing in Iceland or a foreign citizen residing in Iceland for at least one year. Individuals or companies were not prevented from importing on their own behalf. The computerized system for customs clearance was not obligatory and was open to all investing in the necessary equipment.

73. Although it was still difficult to assess the overall benefits of the privatization programme, the State finances were expected to benefit, since privatized companies, on average unprofitable, would no longer be able to depend on the State to cover their losses. The programme was also expected to bring more flexibility and dynamism to the companies involved. Privatization had previously taken place in an ad hoc manner but, since taking office in 1991, the Government had made privatization one of its major policy goals. Since then, as detailed in Box 1.3 in the Secretariat's Report, privatization had taken place in the areas of coastal shipping, the tobacco monopoly, a printing plant, a geothermal drilling firm and a travel agency. In addition, the Government had sold the publishing unit of the Arts Fund, its 29 per cent shareholding in a venture capital firm, its one-third shareholding in a reinsurance company and its 100 per cent shareholding in the State Fishmeal Plants (the largest single privatization so far). He accepted that the State still played an unusually large rôle in the financial sector and, even though one bank had been privatized in the late 1980s, plans to further reduce State holding had so far not materialized. He pointed out, however, that the rôle of the Icelandic State in manufacturing and transportation was minimal, unlike many other countries.

74. In relation to Iceland's accession to the Tokyo Round Codes, he said that old excuses of technical delays and administrative difficulties were no longer valid. As part of the implementation of the Uruguay Round, Iceland would incorporate the Standards Code, the Subsidies Code, the Customs Valuation Code, the Agreement on Import Licensing Procedures and the Anti-dumping Code. Work to prepare Iceland's participation in the Government Procurement Code had started but had been held up.
Preparations were again underway and he express confidence that this time they would be brought to a successful conclusion. As for free trade zones in Iceland, he said that the committee studying the issue had produced an interim report pointing out the limits to the tax reductions possible in practice. Generally speaking, it would be difficult to justify fiscal incentives, aimed to attracting foreign investment, not available to Icelandic firms. Such incentives would also have to be in line with EEA obligations and, thus, submitted to the EFTA Surveillance Authority.

75. The first discussant expressed his appreciation of assurances that arrangements had been made to adapt to the post Uruguay Round environment, or were under active consideration, and that Iceland was ready to take on board all successor arrangements to the Tokyo Round Codes. He noted the collective GATT wisdom in making those arrangements obligatory, describing this as one of the best ways to harmonize economic and trading national systems.

76. The representative of Sweden welcomed Iceland’s plans for accession to the Government Procurement Code.
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

77. These closing remarks, made, as is customary, on my own responsibility, aim to give my assessment of the discussion that has taken place at this Trade Policy Review of Iceland. The full debate will be reflected in the Minutes.

(1) General economic situation and outlook

78. Participants noted Iceland’s high per capita income, high dependency on external trade and narrow economic foundation based mainly on the exploitation of marine resources. Iceland was highly vulnerable to external shocks, especially from declines in fish stocks. These, together with external economic and financial constraints, had resulted in disappointing economic growth since 1988, notwithstanding the great success in cutting inflation.

79. Members commended the adoption, in the same period, of wide-ranging structural reforms, including the relaxation of exchange and some investment controls, a privatization programme and the strengthening of competition policy. Further information was sought on progress in these areas, especially in relation to effects on foreign trade.

80. In reply, the representative of Iceland noted that economic performance in 1993 and the outlook for 1994 were better than previously expected. However, unemployment reached almost 5 per cent in 1993 and real disposable incomes would continue to decline in 1994. This would have an adverse effect on the domestic deficit. The current account deficit, exports and terms of trade were also expected to decline in 1994.

81. There was continued dependency on fisheries, but developments in processing and diversification of overseas markets and species harvested had reduced some of the risks associated with such dependency. Structural reforms aimed at broadening the industrial base, especially to energy-intensive industries, and market diversification were also being pursued.

82. Foreign investment in fisheries would remain prohibited; most other sectors had been substantially liberalized. Investment opportunities would be further extended to all partners except in the energy sector, where liberalization would be limited to EEA partners. Restrictions on long-term capital movements had been eliminated and limits on short-term movements would be phased out during 1994.

(2) Trade policy orientation

83. Iceland’s generally liberal trade policies were recognized. Members welcomed Iceland’s active participation in the Uruguay Round and its support for sectoral negotiations for fisheries.

84. Some participants expressed concern about adverse effects on third countries of the differential treatment granted by Iceland to the EU and EFTA countries, which had led to trade diversion. Iceland’s intention to maintain and develop trade links with countries outside preferential trade areas was noted.

85. Iceland was encouraged to consider establishing a formal procedure for private sector input into trade and industry policy.

86. In reply, the representative of Iceland noted that the EEA Agreement had been notified to GATT in 1992. The importance of trade with the European Union reflected the size of the Union, which
was also a natural trading partner. However, Iceland was anxious to open up new avenues for trade. Artificially inflated border measures would not be used to compensate domestic industries for import competition arising from free trade arrangements.

87. New regulations on food packaging and motor vehicle inspection were being established in conformity with European Union regulations and would be applied on a non-discriminatory basis. At present, agricultural imports could be authorized from other partners only if there was a contractual obligation, but this would change with the implementation of the Uruguay Round results.

88. Iceland's process of informal consultations with the private sector had worked well, but Iceland felt a need for a more formal structure and would be interested in learning more about others' experiences.

89. As a consequence of the Uruguay Round, 94 per cent of tariff lines would be bound.

(3) Sectoral aspects

90. A number of participants noted Iceland's policy bias in favour of agriculture and fisheries. The farm sector had been supported by direct government finance, administered prices, state-trading practices and import restrictions; Icelandic consumers paid some of the world's highest food prices. Members welcomed the moves towards direct income support contained in the present agricultural reform programme. They asked whether this would bring Iceland closer to the system envisaged in the Uruguay Round.

91. Support to the fisheries sector included almost total exclusion of foreigners from Iceland's fishing activities; fisheries had also benefited from measures such as currency devaluations, restructuring assistance and almost free-of-charge access to the fishing grounds. This had encouraged over-expansion of the fishing fleet and over-fishing. Some participants remarked on Iceland's growing recognition of the need for prudent management of the sector and sought comments on the future evolution of conservation measures.

92. Participants noted the potential of energy-intensive industries. However, manufacturing as a whole appeared to have relatively low priority in sectoral policy. Questions were raised on future plans for sectoral assistance and how this might be affected by the new disciplines adopted in the Uruguay Round. Clarification was also sought on the system used to classify processed food products as agricultural or manufactured goods.

93. In reply, the representative of Iceland said that there had been encouraging results for fisheries resource management stemming from the introduction of the quota system. In agriculture, existing practices would be replaced by general tariffication and scientifically-based, strict SPS regulations. Imports were expected, but procedures had not been finalized. Pre-emptive changes had already been occurring for three years aimed at reducing government support, increasing productivity and lowering consumer prices. The reduction in government support, now in the form of decoupled income support, and consequent painful adjustments were described. It was noted that Iceland already imported 50 per cent of its food requirements; but it was also clear that Iceland could compete internationally only on the basis of the quality of specialized products.

94. It was noted that, as a result of the Supreme Court ruling, imports of agricultural products not subject to sanitary regulations no longer required the permission of the Ministry of Agriculture.
A proposed law would limit items, specified as items classified by HS headings until the Uruguay Round commitments were to be implemented.

(4) Specific measures affecting trade

95. Council members remarked that the incidence of m.f.n. tariffs was low; however, such treatment was the exception, with the high share of trade under free-trade-area rules. Concerns were expressed about the impact on trade of tariff peaks affecting gasoline and other goods not produced domestically, and of the relatively high tariff dispersion. Moreover, one-fifth of imports were affected by non-tariff charges and levies.

96. Comments were requested on the possible elimination of the transportation tax on cement, on the apparently discriminatory levy on beer and on regulations restricting applications for import or export licenses to Icelandic citizens residing in Iceland. Information was also sought on new regulations affecting food packaging and motor vehicle registration.

97. Agricultural tariffs were supplemented by other charges and non-tariff measures, including almost comprehensive prohibitions which significantly distorted trade. Steps to abolish the State monopolies on fertilizers and tobacco were welcomed. However, members were concerned that, to maintain tax revenue following the abolition of tariffs on industrial goods under the EEA Agreement, the scope of excise taxes had been extended, subjecting goods of non-EEA origin to tariffs plus excise equivalents.

98. Several participants noted Iceland’s non-membership in the MTN Agreements and Arrangements. However, Iceland would be bound by the Single Undertaking of the Uruguay Round; members asked what steps Iceland would take to meet its commitments under the Single Undertaking and whether it intended to join the new Agreement on Government Procurement.

99. In reply, the representative of Iceland noted that his country had completed the process of eliminating customs duties from EC partners on products covered by the EEA. MFN tariffs on products covered by the EEA had been reduced in most cases to a rate of 7.5 per cent, while tariffs on automobiles and gasoline had been replaced by a special commodity tax. To offset revenue losses, the range of goods subject to excise taxes had been extended. Iceland relied mainly on indirect taxes, while direct taxes were modest. The special levy on imported beer was due to be phased out by 1997, but possibly earlier. The transportation equalization tax on cement did not affect trade according to the Icelandic reply; it was a part of housing and regional policy.

100. Trading licences were open to foreigners resident in Iceland for over one year and were not needed for those importing on their own behalf. The computerized system for imports was not obligatory and was open to those with the necessary equipment.

101. Further details were provided on recent privatizations; the process was expected to bring more flexibility and dynamism to the companies concerned and reduce the level of public support. Plans to reduce the State’s rôle in the financial sector had materialized only to a limited extent. It would be difficult to provide an assessment of the benefits of privatization.

102. Iceland was committed to signing the Single Undertaking of the Uruguay Round, thus acceding to codes on standards, subsidies, customs valuation, import licensing and anti-dumping. Work was continuing on the question of accession to the Government Procurement Code.
103. The issue of free trade zones was still being studied especially the question of fiscal incentives, which would also have to be cleared by the EFTA Surveillance Authority.

104. Finally, it is my strong impression that the Council has welcomed the recent steps taken by Iceland to liberalize and diversify its economy; it also recognized the importance of the macro-economic measures taken. The important changes already implemented in the agricultural sector were appreciated; however, Iceland has been urged to adopt further trade-liberalization measures in that sector. This will enable Iceland both to benefit from, and to make a strong contribution to, the evolution of the international trading system.