OPENING STATEMENT BY THE REPRESENTATIVE OF ICELAND

Since Iceland last consulted with this Committee in May 1965 the economy has continued its rapid expansion while being subject to strong demand pressures resulting in a steep rise in prices and costs. In 1965 the rise of the gross national product is conservatively estimated at 5 per cent, but due to exceptionally favourable development of the terms of trade the national income rose by about 9 per cent. During a five-year period 1961-1965 the national income has increased on the average by 8.3 per cent annually. This unusually favourable development may be coming to an end. Although the national product is expected to increase by 3-4 per cent this year the national income may not rise at all, as the terms of trade have suddenly reversed, due to a sharp fall in export prices.

Success often creates new problems as is evidenced by the recent economic development and the present situation. The rapid expansion of exports and prices has created demand pressures which have been hard to control. Both prices and wages have risen excessively. The level of wages has since 1963 risen by 70 per cent and consumer prices, according to the cost of living index, by 45 per cent. The price increases have been accelerating until this fall. During the twelve months, September 1965 to September 1966, the cost of living index rose by 14 per cent, but wages of unskilled workers rose by about the same per cent, about 4 per cent because of basic wage increase and about 10 per cent because of the price-wage link.

The economy has on the whole been able to absorb the cost increase in recent years due to the large increase in production and prices, although many enterprises not benefiting from the export boom have suffered. It is now generally agreed that with the set-back in export prices, this development cannot continue without resulting in a serious crisis. When agricultural prices were supposed to rise last September, as a result of the annual parity adjustment, the Government decided to increase consumer subsidies in order to absorb the price rise. The Government is determined to keep the present general price level, through
subsidies if necessary, and thus try to avoid a general increase in wages. The cost of living index in November remained the same as in August. The wage compensation will therefore remain unchanged for the first time for two consecutive quarters. Most wage contracts are now up for negotiations as they expired on 1 October. They have not been formally extended, nor have specific wage demands been made by the labour leaders. The situation is still unclear and unpredictable. It is, however, hoped that the critical economic outlook, if not moral persuasion, will convince all parties concerned about the need to follow a responsible and moderate policy under these circumstances.

A factor which has been essential in making possible the Government's price stabilization policy has been the greatly strengthened fiscal position this year. This has enabled the Government to approve additional subsidy payments without incurring any budget deficit. It is agreed that the running down of the budget surplus under present inflationary development is not desirable but the objective of maintaining prices and wages has to be given a priority in view of the present cost position of the export industry. It is further felt that the reduction in the external impulses for expansion and the decline in bank liquidity, which will slow down credit expansion, will help to counteract the effects of the budgetary deterioration.

The strong growth of the economy in recent years has been reflected in the balance of payments. During 1961-1965 the adjusted balance of goods and services has been in surplus every year except 1963. Adjustments have then been made by inserting the average imports of ships and aircraft during the previous four years instead of actual imports and by replacing actual exports by the value of the export production each year. Thus adjusted the current balance was in 1961-1965 as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Adjusted Balance</th>
<th>(In millions of the currency)</th>
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<tbody>
<tr>
<td>1961</td>
<td>US$ 5.2 million</td>
<td>(IKr 223 million)</td>
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<tr>
<td>1962</td>
<td>US$ 3.0 million</td>
<td>(IKr 128 million)</td>
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<tr>
<td>1963</td>
<td>US$ 8.0 million</td>
<td>(IKr 344 million)</td>
</tr>
<tr>
<td>1964</td>
<td>US$ 4.4 million</td>
<td>(IKr 188 million)</td>
</tr>
<tr>
<td>1965</td>
<td>US$13.4 million</td>
<td>(IKr 577 million)</td>
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During these five years the value of exports rose by 81 per cent and value of imports by 83 per cent.
The outlook for the balance of payments this year is not favourable as the rise in imports exceeds the rise in exports and the price of frozen fish and herring oil and meal has dropped. The first nine months imports in 1966 were 17.9 per cent higher than the imports during the same period in 1965 and 22.5 per cent higher if ships and aircraft are excluded, while exports were 6.4 per cent higher. If the increase in export stocks at 30 September 1966, as compared with the same date 1965, were added to exports the rise would be 17.8 per cent.

In 1966 the export price of frozen fish has declined substantially. Frozen fish blocks on the most important market, the United States, are now 18 per cent lower in price than twelve months ago, but frozen fish fillets have not fallen as much. World market price for fish and herring meal is 21 per cent below that of last year and herring oil 27 per cent lower. These categories represented over half of total exports in 1965. The effect of the price decline is, therefore, bound to be far-reaching and serious, if the prices do not take an upward turn soon. The price of salted cod, salted herring and stockfish have, on the other hand, increased considerably from 5 per cent for salted herring, 14 per cent for salted cod to about 20 per cent for stockfish. The increases, however, fall far short of making up for the price decreases, as these commodities amounted to about one quarter of total exports last year.

The balance-of-payments surplus in past years has greatly strengthened the exchange reserves. The exchange reserves amounted to US$37.4 million (IKr 1,609.6 million) on 30 September 1966, and thus correspond to about three months commodity imports. The exchange position has during the first nine months of this year deteriorated by US$7.1 million (IKr 302 million) as compared with an improvement of US$4.5 million (IKr 192 million) during same months in 1965. The reserve position can be expected to deteriorate in the coming months owing to the fall in export prices, although total export production will be higher this year than ever before.

The payments surplus has warranted continued extension of the liberalization of imports. With the measures adopted in January 1966 the liberalization percentage has been calculated to represent 86.2 per cent on basis of 1964 imports but 84.5 per cent on basis of 1965 imports. The exceptionally high 1964 imports of ships and airplanes, which are liberalized, account for the difference. The liberalization measures this year included 7 per cent of the commodity imports in 1964, and was, therefore a major step towards total abolition of quantitative restrictions. The most important categories involved were iron and steel products, lumber, carpets and rugs, various textile products and rubber footwear.
The quantitative effects of these measures on imports have generally been small as overall demand had not been restricted and global quotas were liberal, but some shift in the source of supply has taken place. In order to reduce the excessive demand pressure in the building sector the imports of prefabricated houses and built-in cabinets and closets were also liberalized.

I would now like to say a few words about the remaining quantitative restrictions and the reasons why they are being maintained.

The remaining quantitative restrictions affect now only about 15 per cent of the total imports. In most instances they do not restrict the quantity of imports so it is not literally correct to call them quantitative restrictions, but they do restrict the source of supply to certain countries or imports to certain importers.

The bilateral trade and payments agreements with State-trading countries are still important, although Iceland's dependance on bilateralism has greatly diminished in recent years. A few months ago, in September 1966, new trade agreements were signed with Czechoslovakia and Poland which stipulate for the first time that Iceland's trade with these countries should be conducted on a convertible currency basis instead of a bilateral payments basis. There are still in force bilateral trade and payments agreements with five countries, the Soviet Union, Rumania, Hungary, Eastern Germany and Brazil. The sale of frozen fish and salted and frozen herring to the State-trading countries is vital and in return their products have to be purchased. Many of these products are liberalized and fully competitive, but others are subject to import licence control in order to ensure the maintenance of trade with these countries.

Quantitative restrictions were not originally intended as a protection for domestic industry, although they may have become so in some instances. The abolition of restrictions has, therefore, often adversely affected industrial enterprises but this has not stopped the Government from carrying out its liberalization policy. Presently, there are only a few commodities subject to licence control in order to safeguard the home market industry.

After the basic document for the consultation was submitted there have been two decisions made about which I want to inform the Committee. As of 1 January 1967 the exchange banks will discontinue their control over purchase of all feedgrains, which previously have to some extent been purchased under a Public Law 480 agreement. The second decision is that the Government has announced that it intends shortly to abolish the State monopoly for radio receivers.
The Icelandic Government has successfully carried out its policy of gradually eliminating quantitative restrictions. The few remaining restrictions are presently subjected to a review and some further measures of liberalization can be expected, although the steps naturally become smaller the nearer you reach the stage of complete liberalization. There are, however, many signs which call for caution at the present time. There is the deterioration of the balance of payments, the growing discrimination in the European marketing organizations and the fading hopes which Iceland, as a fish-exporting country, places on the Kennedy Round.