OPENING STATEMENT BY THE REPRESENTATIVE OF ICELAND

The last consultations with this Committee took place in January 1968 only two months after the devaluation of the Icelandic kröna in November 1967. In the opening statement given by the representative of Iceland here in January 1968 the reasons for that devaluation were explained in detail. The main factors at work were the devaluation of the pound sterling, a heavy decline in fish prices on the world market together with a fall in our fish catches. The hope was expressed in our last consultations that the prices of Iceland's main export products would stabilize and even recover somewhat during the year 1968. Unfortunately, however, this did not prove to be the case and instead we experienced a further sharp deterioration of our export earnings last year. This necessitated a second devaluation of the Icelandic kröna on 12 November 1968. The new parity of IKr 88 to the dollar represented a devaluation 35.2 per cent.

The gross national product fell by 2.8 per cent in volume the year 1967. Preliminary estimates suggest that there was a further fall of 5 per cent last year. But due to the decline in export prices national income has fallen considerably more; about 8 per cent in 1967 and close to 5 per cent in 1968. The value of fish exports decreased in dollars by 32 per cent 1967 and by a further 20 per cent 1968. The volume of the fish catch declined by 15 per cent last year. The total fish catch was about 600,000 tons 1968 or half of the total fish catch 1966. The main reason for this decline has been a fall in the herring catch. In 1967 there was a drop in the volume of the herring catch of 40 per cent compared with the year 1966. And last year the herring catch was only 30 per cent of the catch in 1967 or a sixth of the 1966 catch.

As I said before, the downward tendency of prices of our most important export products continued last year. The average price of frozen fish was 4 per cent lower in 1968 than at the end of the year 1967. The price on herring oil fell by 29 per cent and the fish meal price fell by 12 per cent. However the fish meal price rose somewhat, late in the year. The civil war in Nigeria has been a severe blow to our stockfish exports which normally represent 5 per cent of commodity exports. In the year 1967 about 70 per cent of the production of stockfish had to be stored domestically because of the Nigerian situation. Both production and exports of stockfish declined drastically in 1968.

When the devaluation took place in November 1967 the Government declared that if good results of these measures were to be expected wages would have to be unchanged during the year 1968. But a labour conflict broke out in March 1968 ending with an agreement on 18 March. According to the new agreement the workers received certain wage compensations because of price increases that followed the devaluation. The average increase from March 1968 to the end of that year is about 8 per cent.
Unemployment in Iceland - aside from what is due to seasonal swings in activity - has virtually been unknown for three or four decades. We have now seen the reappearance of the problem and the labour unions have been restive. Seamen on the inshore fishing fleet went on strike in the middle of January 1968 and the strike lasted six weeks. According to the new agreement they received a moderate compensation. Now there is again a danger of new labour conflict with the trade union asking for a cost of living wage compensation as was agreed upon last year.

The external economic development has been disappointing. There was a trade deficit in 1968 of $49.7 million compared with the trade deficit of $55.1 million in 1967. Merchandise imports declined by 21 per cent in 1968, measured in dollars, while at the same time commodity exports declined by 17 per cent. The foreign exchange reserves continued to decline during the year 1968. At the end of 1968 the net foreign exchange assets of the banking system amounted to $3.5 million, the decline during the year having amounted to $15 million. Foreign exchange reserves fell between the beginning of the year 1968 and early November by $24 million but increased as much as $9 million from then until the end of the year. At the end of February 1969 the reserves amounted to $5 million.

Because of the unfavourable development of the balance of payments in 1968 the Government, as was notified to contracting parties, imposed on 3 September 1968 a 20 per cent provisional levy on merchandise imports with certain exceptions as well as on foreign travel. This provisional measure was abolished concurrently with the devaluation on 12 November. With respect to invisibles, it should be mentioned that from August 1968 until the end of the year transfers of inheritances and emigrants' assets, which had not been fully liberalized, were further restricted. Furthermore, from October the chartering of foreign vessels for maritime transport has been made subject to licence.

In spite of the great strain on the foreign exchange position throughout 1968 and unemployment during the wintertime the Government did not reintroduce quantitative restrictions on imports. The degree of liberalization of commodity trade has reached 90 per cent and there are only relatively few commodities licensed. The remaining restrictions are generally not applied in order to restrict the volume of imports but primarily in order to ensure continued trade with our trading partners in Eastern Europe. Of greatest importance in this connexion is the purchase of petroleum products from the Soviet Union, which in return is a large buyer of frozen fish fillets and salted herring.

On 26 August 1968 a new protocol on trade between the Soviet Union and Iceland for the next three years was signed in Reykjavik. According to the new protocol the volume of the trade between the countries will be similar to what it was before. Iceland considers the trade with Eastern Europe very important, and that is one of the main reasons for maintaining import restrictions on certain goods. General balance-of-payments considerations are another main reason for these restrictions.
In October 1968 a new payments agreement between Iceland and Brazil was signed. The new agreement is an important step towards convertibility. Every six months any debit balance shall be liquidated in free convertible sterling pounds. Iceland is now treating all transactions and payments vis-à-vis Brazil in the same manner as payments and transactions vis-à-vis other convertible countries. The only exception is that a single bank account is carried by the Banco Central in Rio de Janeiro in order to regulate mutual credit facilities.

In the beginning of March this year the special levy charged on the f.o.b. price of passenger cars was reduced from 90 per cent to 60 per cent. At the same time the levy on jeeps and taxis decreased from 30 per cent to 15 per cent.

The Government is now proposing to abolish the sole right of the State Import Monopoly for Wine and Liquor to import perfumes, matches and essences. It is expected that the Althing will pass the bill this session.

Iceland has, as you undoubtedly know, applied for membership in the European Free Trade Association. The application was presented in November 1968 and the negotiations opened in January. The EFTA countries are Iceland's most important trading area, accounting for about 40 per cent of its total foreign trade. It is our hope that an eventual membership in EFTA may facilitate sales of our fisheries exports which now meet with discrimination in EFTA markets and induce the development of a more diversified industrial structure and exports. It is the hope of the Icelandic Government that these negotiations may be concluded in the course of this year. An agreement, if reached, will of course be of interest to the contracting parties and will in due course be notified to GATT.

In this statement I have mentioned briefly the major aspects of the economic situation in Iceland. As you have heard we are in serious economic difficulties. The Government has not chosen the policy of restrictions and export subsidies but instead devalued the currency twice in order to restore the external balance.