In our last discussion with this Committee a year ago we had an occasion to discuss quite extensively the reversal of economic trends which took place in Iceland after 1966. As background, the main facts may be recalled very briefly. The years 1962-1966 had witnessed a sustained boom generated by record herring catches and favourable export prices. In 1967 and 1968, however, the herring fisheries failed almost completely, in itself a serious setback but which was aggravated by a decline in fish prices generally on world markets. Between 1966 and 1968 commodity exports fell by 45 per cent and the per capita national income by about 17 per cent. The correction measures to this near calamity entailed a devaluation of the currency of about 25 per cent in November 1967 and a further devaluation of about 35 per cent in 1968. I hope I am correct in interpreting the sense of our discussion last year in saying, that from a GATT point of view, there was general satisfaction from the fact that Iceland as an alternative did not take recourse in restrictions but emerged with an extensive trade liberalization intact.

Our cautious forecast for a slight overall improvement in 1969 turned out to be correct. The gross national product is estimated to have increased by 2 per cent last year. The average terms of trade improved somewhat, so the rise in real gross national income was about 3 per cent. This, of course, is rather disappointing compared with many other countries, but represents nevertheless a turning point from the previous two years' contraction of activity. The main factor contributing to the improvement was a better white fish catch for which export prices also improved. The herring catch, however, failed again, amounting to a mere 54,000 tons as compared with nearly 800,000 tons at the peak in 1965. On the whole the volume of fisheries production increased by about 20 per cent in 1969. Because of exceptionally bad weather conditions agricultural production decreased by some 6 per cent. Manufacturing industry, other than fish processing, on the other hand experienced a revival in 1969, after stagnation in 1968. The volume of industrial production is expected to have increased by some 8 per cent in 1969, not including the new export industries, aluminium and diatomite, which started production in 1969.

In 1967 and 1968 Iceland's balance-of-payments deficits on current account amounted to approximately $50 million each year. The devaluations of 1967 and 1968 and related measures resulted in the elimination of this deficit. In 1969 there was a surplus on current account of about $4 million. The foreign exchange position improved by some $19 million in 1969, a drastic reversal from the two preceding years of depletion.

By the nature of things the forecasting of economic developments in Iceland is subject to a wide margin of errors. Several factors seem, however, to point to continued growth of fishery production, which, together with the recovery of export
prices, could lead to an increase in export value of fishery products by as much as 10 per cent in 1970. The industrial diversification, the incentive effects of the two devaluations, and perhaps to a limited extent the accession to EFTA, are beginning to pay off in a brisk increase in the export of manufactures. Fixed investment is expected to increase by at least 3-4 per cent and the gross national product may rise by some 4 per cent in real terms in 1970.

One of the main objectives of economic policy in Iceland in the past decade has been the removal of quantitative restrictions which prevailed extensively as late as the end of the 1950's. The institutional framework for the carrying out of a more vigorous fiscal and monetary policy has been strengthened. This policy has been successful in providing a basis for the expansion of exports, economic growth and trade liberalization. On the other hand success has so far not been obtained in the field of price stability and in the current year a major policy consideration will be to promote in so far as possible non-inflationary wage settlements due to be made in May.

Those Government measures taken since our last balance-of-payments consultation which are of greatest interest to contracting parties relate to Iceland's accession to EFTA. As members of the Committee will know Iceland's membership in EFTA will be the subject of a study by a special GATT Working Party established by the Council which is convened for a meeting in May. The full details of the EFTA accession agreement need perhaps not concern us here but it should nevertheless be pointed out that as a result of Iceland's EFTA membership important benefits in the trade field will accrue to GATT Members.

Firstly, the remaining quantitative restrictions on industrial imports except petroleum will have been removed globally by the end of 1974. Annex III to our basic document contains an important addition to the free list effective as of 1 March and in Annex II are shown the enlarged global quotas for 1970. As has been explained earlier in this Committee quantitative restrictions on petroleum and petroleum products are essential to maintain Iceland's bilateral trade with Eastern Europe, particularly the Soviet Union.

Secondly, Iceland has in addition to reductions of protective import duties vis-à-vis EFTA countries carried out extensive unilateral most-favoured-nation duty reductions on industrial imports. Protective import duties were reduced by 30 per cent. Duties on imports of raw materials for industry were generally reduced by 50 per cent and those on machinery from 25-30 per cent to 7 per cent. In addition duties on some other commodities were also reduced. According to 1969 imports the total reduction of import duties would amount to IKr 495 million or 17 per cent of the total duties and 7 per cent of total budgetary revenue in 1969.

Iceland's central objective in joining EFTA is to create conditions favourable to a diversification in production and exports. The risk inherent in the present economic structure has never been more obvious than after the collapse of the herring fisheries in 1967-1969 and the poor outlook in general for fish catches in the North Atlantic. It is felt that the accession agreement is favourable to such a development which should put Iceland on a sounder and stronger basis as a member of the international trading community.