

Mr. Chair, Delegates

This trade policy review has been an important and useful exercise for Iceland. We welcome the constructive questions and statements we have received. And I can inform you that written answers to all questions have now been submitted.

My intervention will focus on themes we have identified from your interventions.

First, a few words on our economic recovery. The financial crisis was a wake-up call for us. Iceland is slowly emerging from a financial crisis and we appreciate your words of support. However, the recovery remains vulnerable to both internal and external factors.

Mr. Chair

The **economic situation** in Iceland was the subject of numerous interventions. Many countries raised the question of how Iceland intends to lift **capital controls**. The controls will be lifted as conditions permit in accordance with our international obligations.

The main challenge facing Iceland in lifting the controls relates to an overhang of Icelandic krona that entered the economy prior to the crisis. A sudden outflow of these funds could cause a sharp depreciation of the currency. The funds have since been reduced and are currently just above 20% of GDP, and a strategy to further reduce it by transferring volatile assets to longer-term investments is currently being implemented. The strategy is condition-based rather than time specific, even though a sun-set clause for year-end 2013 is foreseen in the current legislation.

A number of delegations raised the issue of **investment restrictions** in certain sectors. The fact is that Iceland maintains a very open and liberal investment regime for investors. However, we do maintain sector-specific restrictions in a handful of sensitive sectors, namely fisheries, energy, real estate and air transport. There are no plans to further liberalise investments in these sectors beyond the measures currently in place.

The government took over a large share of the banking sector following the financial crisis. It now holds a majority stake in one of three large banks, a minority stake in the other two as well as stakes in smaller savings banks. **State ownership** remains limited in other sectors, with the exception of the energy sector. A parliamentary bill has been put forward which authorises the government to divest part of its holdings in the financial sector. However, the government intends to hold on to a controlling stake in one of the banks.

Regaining **investor confidence** is of utmost importance for the economy. The successful conclusion of the IMF programme in 2011 and fiscal consolidation was important in this regard. The market reaction to these successes was reflected in Iceland's return to international capital markets. Iceland is currently applying measures that facilitate foreign direct investment according to legislation passed in 2010. For such a small economy, however, large-scale foreign direct investments will to a large extent depend on developments in international markets.

The Icelandic authorities and financial institutions have implemented a range of programs to assist highly **indebted households**. As a result, household debt has decreased from 132% of GDP in early 2009 to 109% of GDP in mid-2012.

Household debt will decrease further as illegal foreign exchange linked loans are recalculated. The interest rate rebate has also been increased sharply to alleviate household interest rate costs. It should be noted that the high indebtedness of Icelandic households is reflected in widespread home-ownership. Household net asset positions have increased steadily since 2010 and this development is expected to continue as housing prices rise. Levels of **non-performing loans** have also decreased and are now below 10%.

Mr. Chair

As regards **notifications**, we recognize the importance of timely notifications and are taking active steps in that direction. To mention few examples, in the field of agriculture we aim to make all outstanding notifications, in particular on domestic support, by end-February 2013. We will submit notifications on procurement statistics and the annual questionnaire for import licencing procedures by end-March 2013. In addition, we have been reviewing our procedures in order to better provide for appropriate and timely TBT and SPS notifications. To this extent we have already notified two important SPS regulations and made a TBT notification regarding our labelling and traceability rules on products containing GMOs.

Mr. Chair

Due to the geographic isolation and restricted **imports of live animals** and their genetic material, animals in Iceland are free from many infectious agents known to be endemic throughout the world. Only a small number of known infectious agents found in other parts of the world can be found in Iceland. Therefore, animals in Iceland are highly sensitive to various transmissible agents. Previous disease

outbreaks in Iceland show that the vulnerability of Icelandic stocks to novel pathogens is extremely high. This situation makes Icelandic livestock highly vulnerable.

For these reasons the importation of live animals, raw meat and eggs are restricted. Not by choice but by necessity, in accordance with what we consider to be an appropriate level of protection. The fact remains that the Minister of Industries and Innovation can permit importation according to specific requirements. The importation of pets and fur animals, to mention a few, occurs regularly.

Another theme that emerged in the discussions was **agriculture**. Icelandic agriculture operates under difficult circumstances. As our colleague from Norway pointed out in his intervention last Tuesday, non-trade concerns are an important consideration in our agricultural policy. For these reasons Icelandic agriculture consists of a rather narrow range of products, mainly meat and dairy production. These sectors enjoy both market support and/or direct payments. The current support is considered necessary to maintain agricultural activity in Iceland and at the same time supporting rural viability.

We understand the criticism from some Members that our system of customs duties is complicated, specifically the application of compound duties in certain cases. From 1995 Iceland has applied both ad valorem and specific duty rates well within Iceland's WTO commitments. However, from 1995, the MFN duty rates applied have remained at the same level, despite a significant increase in world market prices and relatively high inflation in Iceland. Thus, the specific component of compound duties has been more beneficial for importers than if only ad valorem duties had been applied. This essentially means that the tariff simplification would

not necessarily favour importers or consumers. The fact remains that around 70% of Iceland's tariffs lines for agricultural products are duty free, making Iceland a fairly liberal market for agricultural products.

Mr. Chair

Finally, there were a number of questions raised on other issues. On the **EU accession process**, without reiterating my previous comments, I can tell you that the process is moving ahead efficiently. Two-thirds of the negotiating chapters have been opened and we are beginning to address the challenging ones, like monetary policy, the environment and the common trade policy. I do not have a crystal ball regarding the timeline but I can tell you that the accession process will not be dictated by artificial dates, but by the quality of the overall process. In the end the Icelandic people will decide their own fate on this issue in a referendum on an Accession Treaty.

We were also reminded of the inherent risks of relying too heavily on a limited number of economic sectors and markets. We agree, and of course we understand the danger of putting all your eggs in one basket. It is true that Iceland's merchandise exports are fairly concentrated both in type and markets. Yet, keep in mind that Iceland has traditionally been a one crop economy, fisheries. That is no longer the case and we have made important strides to **diversify the economy**. Today, the fisheries sector remains a critical pillar of economic vitality and foreign currency earnings. Yet, other sectors such as aluminum and tourism, not to mention the services and high tech sectors, are developing further and will ensure a much more diverse economic base. Much of the jobs of the future will be created in these sectors.

Even though further diversification would be welcome, it is important to note that Iceland's small population may hamper extensive diversification of production given a lack of economies of scale. The Government has, however, taken active steps to support the tourism sector. This is supported by growing funding for research and development with an aim towards strengthening the knowledge based sector, an important avenue for future exports.

With respect to market diversification, the EU is obviously our most important market and will remain so in the foreseeable future. Icelandic exporters have been able to react efficiently to the ongoing crisis in Europe. The simple fact is that we sell our goods and services on the international market for the best price we can get. Of course our job is to create better market conditions for our economic operators wherever we can, and we have been doing exactly that by concluding a relatively high number of free trade and bilateral investment agreements with partners throughout the world.

And to answer the Discussant's question on our ability to manage the growing 'spaghetti bowl' of FTAs, I can tell you that this has not been a significant hurdle in large part because all our free trade agreements complement the multilateral system. Our administration has also gained valuable experience in managing the EEA Agreement. The best scenario, I believe for all of us, would be significant progress in the Doha Development Round.

Mr. Chair

Now that we approach the conclusion of this review, I want to recall that the point of this exercise is to listen - with open ears and an open mind - to constructive criticism and peer review. To understand better the areas where we are doing well; to explain policies others find wanting or unclear; and to consider trade related policies where we can do better. This we have certainly done.

I want to thank the Chair, the Discussant and all of the Delegations which took an active part in scrutinizing our trade policy this week.

Thank you.