

Check against delivery

Mr Chairman,

It gives me great pleasure to join you here, as well as our distinguished Discussant, Members and Observers.

Allow me also to thank the Secretariat for its thorough work and excellent collaboration in preparing its report and this meeting. Iceland looks at the Trade Policy Review as an important and useful tool that increases transparency and enhances best practices among WTO Members.

Let me state at the outset that international trade remains at the core of Iceland's economic and foreign policy. Iceland is highly reliant on international trade and one of the primary policy goals is to promote and strengthen the competitiveness of domestic businesses in world markets and abolish barriers to trade by extending Iceland's multilateral and bilateral trade relations.

Mr. Chairman

I think it is even an understatement to say that much has happened in Iceland since the last TPR took place.

During the enduring global crisis Iceland was particularly hard hit. In October 2008 we suffered a dramatic banking crisis with 85 percent of the banking system collapsing within a span of less than a week. This created significant

turmoil in financial markets and in effect closed down the foreign exchange market, which in turn caused a dramatic depreciation of the krona, and wiped out the Icelandic stock market. Public debt rose from less than 30% of the GDP up to 100%. Furthermore, policy rates rose to 18% and inflation to approximately 20%. On top of this, unemployment rate went from 1% to almost 10% in less than a year.

In reaction we successfully implemented an economic policy programme, developed in cooperation with the IMF with additional financing from the other Nordic countries, Poland and the Faroe Islands, and stayed the course.

The General Economic Situation in Iceland

The Icelandic economy is regaining strength after the collapse. We have enjoyed economic growth of approximately 3%, both in 2011 and 2012. Real wages have increased significantly and so has private consumption. Tough fiscal consolidation measures have been taken and a budget surplus is forecasted in 2014. The policies have succeeded in containing poverty problems and softening financial hardship amongst the most vulnerable. As a result of these measures Iceland graduated from the IMF programme last year and re-entered capital markets less than three years after the crisis.

Growth has been driven by private consumption and investment, though from very low levels, as well as rising exports of both goods and services. Increased

exports can be attributed to an improved competitive position following the sharp decline in the real exchange rate following the crisis as well as an increase in total catch by the fishing sector due to stronger stocks. Despite this continued growth, real gross domestic product and purchasing power is forecasted to only reach by the end of 2013 the levels they were at in 2005.

The labour market has started to show real signs of improvement, even though unemployment at 7.2% in the second quarter of 2012 is high by historical standards. Labour market participation has remained relatively strong throughout the crisis and stood at 82.2% in the same period.

Iceland's exports are largely concentrated in primary products and commodities despite significant diversification in the past decade. Marine products and aluminium – which relies heavily on hydroelectric power – each account for around 40% of goods export and 25% of total exports. The share of services in total export revenue has risen to 35% from 26% in 1990. This means that the ratio of services trade to total trade has become one of the highest among OECD countries. The rapid expansion of the tourism sector has played an important role in this respect. In the past decade alone, the number of tourists has risen by 100%.

The on-going challenges in the international economy and financial markets, particularly in Europe, are of grave concern to Iceland. The internal European

market accounts for more than 80% of Iceland's merchandise exports and 60% of merchandise imports.

Despite good progress to date in rebuilding the economy and strengthening the financial sector framework, further important steps need to be taken. Among the most important is the removal of the capital controls imposed during the crisis in 2008, but without endangering economic and financial stability. The main challenge regarding the lifting of capital controls relates to the large foreign assets that entered the economy prior to the crisis and pressures for exit. In March 2011, the Government approved a strategy to lift the capital controls which the Central Bank continues to implement. Importantly, the Icelandic authorities have recently established a working group with participation from the European Commission, the European Central Bank and the IMF tasked *inter alia* with assessing the state of play and prospects for lifting the capital controls.

Main Features of Iceland's Trade Policy

Mr. Chair, now I would like to give a brief overview of Iceland's trade policy.

WTO

Iceland is a founding member of the WTO and a strong supporter of the multilateral trading system, including the full implementation of existing disciplines and commitments. Such a system is of particular importance for

smaller members, like Iceland, and provides for a more level playing field in international trade.

Iceland is disappointed that the Doha Development Agenda has not been concluded. However, it is reassuring that talks continue, for example on trade facilitation, which Iceland believes is beneficial for smaller member states and bigger alike, regardless of the level of development.

EFTA

Iceland has continued through its membership of The European Free Trade Association (EFTA) to establish an extensive network of free trade agreements. Since our last Trade Policy Review, in 2006, Iceland with its EFTA partners has signed 12 free trade agreements. At present, the EFTA network consists of 23 free trade agreements in force and several declarations on co-operation.

EEA and EU Accession Negotiations

With the 1994 EEA-Agreement, Iceland became a party to the single market of the European Union. The Agreement guarantees equal rights and obligations for citizens and economic operators in the EEA. It however does not cover EU common policies for fisheries and agriculture, or the common commercial policy, to take some examples. The EEA has served us well, but Iceland is now taking a step closer in the European integration by its membership application to the EU.

The negotiations are well on track, 21 of 33 negotiating chapters have been opened and 10 of them have already been provisionally closed. A further 7 negotiating positions have been submitted by Iceland.

Development Policy

Last, but certainly not least, I would like to mention development policy. In 2008, the Icelandic Parliament passed a comprehensive legal framework on all aspects of Iceland's official development cooperation. The Development Strategy for 2011-2014 emphasises international agreements and development effectiveness and outlines Iceland's target for official development assistance, with the aim of reaching 0.5% in 2017 and the UN target of 0.7% in 2019. Aid for Trade related activities represents approximately 28% of Iceland's development assistance. These activities are mainly within the priority sectors of fisheries and renewable energy.

Sectoral policies

Mr. Chair, lastly I would like to touch upon Iceland's vision for the near future.

The financial crisis forced us to re-evaluate our economic and political priorities and implement wide ranging – and in many cases painful – reforms. It revalidated the importance of traditional sectors such as fisheries and agriculture, and exposed the notion of speculative finance as the engine of

economic prosperity. A key factor in ensuring successful development is the emphasis on knowledge, welfare and sustainability.

The result is a comprehensive strategy for the future called Iceland 2020. This policy statement, which was rolled out in 2011, incorporates a balanced mix of policy priorities that should sustain responsible growth and provide 21st century opportunities for our citizens. It emphasises social knowledge, welfare and sustainability as the pillars of development. The strategy includes plans for investments in human resources and physical infrastructure, as well as policies to strengthen education and culture, innovation and development, the environment and social infrastructure. This vision, however, is based on open trade relations with partners, including foreign direct investments, as well as the sustainability and success of Iceland's key economic sectors, starting with fisheries.

Fisheries

Although Iceland has been broadening its long-term export base in goods and services, fisheries remain a significantly important sector of our economy, accounting for 10.5% of GDP and 41% of the total export value of goods in 2011.¹ Iceland is the 13th largest fishing nation in terms of volume caught in the world in 2011. The cornerstone of our fisheries policy is the sustainable utilisation of our marine resources.

¹ In the *Report of Iceland* it was said 10.8% of GDP according to Statistic Iceland's preliminary numbers for 2011.

Agriculture

Agriculture is central to Iceland's food security, sustainability and rural viability. Conditions for agriculture in Iceland are however constrained by many external and internal factors, *inter alia* the country's remote location just below the Arctic circle, challenging climate, difficult topography, low population density, long distances and the small home market. These challenges adversely affect the international price and cost competitiveness of the agricultural sector, which is dependent on both direct support schemes and market support measures.

Due to the specific circumstances, it is important that the agricultural sector in Iceland be given a reasonable amount of time to adjust to a changing global environment for trade in agricultural goods. Concerns like food security and rural development have to be taken into account in all negotiations regarding agriculture.

Aluminium

After fish, aluminium is Iceland's second most important merchandise export. It accounted for around 4.5% of GDP and around 38% of the total export value of goods in 2011.² Iceland is now one of the ten largest aluminium producers in the world following the completion of large-scale investment projects in the aluminium and power sectors.

² In the *Report of Iceland* it was said 4.6% of GDP according to Statistic Iceland's preliminary numbers for 2011.

Energy

Iceland has in the last decade increased its production of electricity by continuing to harness its hydro and geothermal energy resources. This has increased the diversification of Iceland's economy, and provided power-intensive industries with a viable option to fossil fuels. A comprehensive Energy Strategy has recently been formulated to better manage this important sector.

Tourism

Tourism has experienced rapid growth and currently provides around 14% of Iceland's foreign currency earnings. In 2011 more than 565,000 tourists visited our island, a 16% increase in the number of visitors from the previous year. So far this year, the increase has been 17% from 2011. A new public strategy for tourism has been established, with the aim to maintain Iceland's unique nature, extend the tourist season, decrease seasonal fluctuations and promote a better distribution of tourists around the country.

Foreign Direct Investment

Foreign Direct Investment has been an important part of the government's policy for the last few years. Iceland has made 12 investment agreements with other states. We are currently negotiating an investment agreement with Turkey and negotiations with Ukraine are expected to take place next year.

Closing remarks

Mr. Chair, Iceland has been through a roller coaster ride in the past six years. Hence, the speech today is very different from the one delivered six years ago. In hindsight we know the ascent was too sudden and the descent much too steep. Today Iceland is a different country than it was six years ago. Four years after the crash we find ourselves back on the track, ascending at a much more gradual and manageable speed; hopefully wiser and better equipped to meet the challenges ahead. We are not alone in this, and we know many WTO members face hurdles much more systemic and challenging than our own. One universal constant, however, is the notion of openness. For our part, Iceland never reverted to protectionist or trade distorting measures. Through these difficult times, we upheld our WTO commitments. These were never in question, any more than other international commitments. Iceland does best in close economic and trade cooperation with its partners, and is committed to advancing the work of the WTO.