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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

ICELAND

This report, prepared for the sixth Trade Policy Review of Iceland, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Iceland on its trade policies and practices.

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Document WT/TPR/G/454 contains the policy statement submitted by Iceland.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Iceland. This report was drafted in English.

CONTENTS

SUMMARY 6
1 ECONOMIC ENVIRONMENT 10
1.1 Main features of the economy 10
1.2 Recent economic developments 10
1.3 Economic governance, policy direction, and reforms 13
1.4 Fiscal policy 13
1.5 Monetary policy 14
1.6 Balance of payments 15
1.7 Developments in trade and investment 16
1.7.1 Trends and patterns in merchandise and services trade 16
1.7.2 Trends and patterns in FDI 20
2 TRADE AND INVESTMENT REGIMES 22
2.1 General framework 22
2.2 Trade policy formulation and objectives 22
2.3 Trade agreements and arrangements 23
2.3.1 WTO 23
2.3.2 Regional and preferential agreements 24
2.3.2.1 European Free Trade Association (EFTA) 24
2.3.2.2 European Economic Area (EEA) 24
2.3.2.3 Other regional agreements 25
2.3.3 Unilateral preferences 27
2.4 Investment regime 27
2.5 E-commerce 30
3 TRADE POLICIES AND PRACTICES BY MEASURE 32
3.1 Measures directly affecting imports 32
3.1.1 Customs procedures, valuation, and requirements 32
3.1.2 Rules of origin 34
3.1.3 Tariffs 35
3.1.4 Other charges affecting imports 40
3.1.5 Import prohibitions, restrictions, and licensing 41
3.1.6 Anti-dumping, countervailing, and safeguard measures 42
3.1.7 Other measures affecting imports 42
3.2 Measures directly affecting exports 43
3.2.1 Customs procedures and requirements 43
3.2.2 Taxes, charges, and levies 43
3.2.3 Export prohibitions, restrictions, and licensing 43
3.2.4 Export support and promotion 43
3.2.5 Export finance, insurance, and guarantees 44
3.3 Measures affecting production and trade 44

3.3.1 Incentives 44
3.3.2 Standards and other technical requirements 47
3.3.3 Sanitary and phytosanitary requirements 49
3.3.4 Competition policy and price controls 51
3.3.5 State trading and state-owned enterprises 54
3.3.6 Government procurement 56
3.3.7 Intellectual property rights 59
3.3.7.1 Domestic IP regime and recent developments 60
3.3.7.2 Enforcement 62
4 TRADE POLICIES BY SECTOR 64
4.1 Agriculture, forestry, and fisheries 64
4.1.1 Agriculture 64
4.1.1.1 Regulatory framework and policy instruments 65
4.1.1.2 Domestic support 66
4.1.1.2.1 Direct payments 66
4.1.1.2.2 Internal market support 70
4.1.1.3 Border measures 70
4.1.1.4 Export subsidies 71
4.1.1.5 WTO notifications 71
4.1.1.6 OECD assessment 72
4.1.2 Fisheries, aquaculture, and fish processing 72
4.1.2.1 Features 72
4.1.2.2 Production and trade 73
4.1.2.3 Policies 74
4.2 Mining and energy 77
4.2.1 Mining 77
4.2.2 Energy 79
4.2.2.1 Fossil fuels 79
4.2.2.2 Electricity 80
4.3 Services 82
4.3.1 Financial services 82
4.3.1.1 Statistical and regulatory overview of the sector 82
4.3.1.2 Banks 84
4.3.1.3 Insurance companies 86
4.3.1.4 Mutuals funds and asset management 87
4.3.1.5 Pension funds 88
4.3.1.6 Stock market and bonds 89
4.3.1.7 E-payments, fintech and crypto-assets 90
4.3.2 Telecommunications services 90
4.3.3 Postal, courier, and express services 95

4.3.4 Transport 96
4.3.4.1 Maritime transport 96
4.3.4.2 Air transport 97
4.3.5 Tourism 101
5 APPENDIX TABLES 105

CHARTS

Chart 1.1 Product composition of merchandise trade by MTN category, 2017 and 2022 17
Chart 1.2 Direction of merchandise trade, 2017 and 2022 18
Chart 1.3 Trade in intermediate goods (IG), by main category, 2017-22 19
Chart 2.1 Policy areas covered by Iceland's notified RTAs 26
Chart 3.1 Tariff distribution by duty and rate of duty, 2023 37
Chart 4.1 Domestic support, 2017-22 71
Chart 4.2 Total energy supply (TES) by source, 2016 and 2021 79

TABLES

Table 1.1 Basic economic and social indicators, 2017-23 10
Table 1.2 Government finance indicators, 2017-23 14
Table 1.3 Balance of payments, 2017-23 15
Table 1.4 Trade in services by sector, 2017-23 19
Table 1.5 FDI inward stock, 2017-22 21
Table 1.6 FDI outward stock, 2017-22 21
Table 2.1 Iceland's RTAs 25
Table 2.2 Sectoral and thematic authorizations, limitations, and prohibitions to foreign investment 28
Table 3.1 Trade facilitation indicators, 2016-23 33
Table 3.2 Structure of MFN tariff in Iceland 35
Table 3.3 Applied tariffs exceeding bound tariffs 37
Table 3.4 Summary table for TRQs open in 2023, by HS heading 38
Table 3.5 Icelandic preferential tariffs, 2023 39
Table 3.6 Tax revenue by source, 2017-23 41
Table 3.7 Imports requiring non-automatic licensing 41
Table 3.8 Items subject to reduced VAT (11%) 45
Table 3.9 State aid, 2017-22 46
Table 3.10 Competition enforcement statistics, 2017-22 53
Table 3.11 Majority state-owned and controlled enterprises at central government level, 2021 55
Table 3.12 Value and share (%) of contracts awarded under different government procurement methods at the central government level, 2017-22 56
Table 3.13 Government procurement, 2017-22 57

Table 3.14 Government procurement contracts awarded to foreign suppliers, 2017-22 58
Table 3.15 Main features of the IPR regime.....60
Table 3.16 IPR protection, by type, 2017-23.....62
Table 4.1 Total production value of agricultural products, 2017-23.....64
Table 4.2 Planned expenditure for domestic support, 2017-26.....67
Table 4.3 Share of GDP in fishing, aquaculture, and fish processing, and employment numbers, 2017-23.....73
Table 4.4 Main fish and aquaculture production and exports, 2017-22 73
Table 4.5 Comparison of catch value and fishing fee collected, 2019-23.....77
Table 4.6 Mineral and metal exports, 2017-22 77
Table 4.7 Structure of the mineral industry, 2019.....78
Table 4.8 Electricity production by source, 2017-22 80
Table 4.9 Main economic indicators of the financial services sector, 2017-22 82
Table 4.10 Types of mutual funds and assets under management, December 2022 88
Table 4.11 Main economic indicators of the telecommunications sector, 2016-22 90
Table 4.12 Telecommunications prices by type of basket, 2022 92
Table 4.13 Volumes from the designated universal service operator, 2019-22.....95
Table 4.14 Employment and share of total GDP of the air transport sector, 2017-22.....98
Table 4.15 Passenger and freight air transport traffic, 2017-22.....98
Table 4.16 Fleet size and turnover of scheduled Icelandic airlines.....98
Table 4.17 List of plurilateral and bilateral air services agreements of Iceland in use, 2023.....99
Table 4.18 Main economic indicators of the tourism sector, 2017-22 102
Table 4.19 Establishments, turnover, and employment of the tourism subsectors, 2022.....102

BOXES

Box 2.1 How to access legislation.....22

APPENDIX TABLES

Table A2.1 Non-exhaustive list of activities subject to licensing requirements 105
Table A4.1 OECD indicators for support to agriculture in Iceland, 2017-22 106

SUMMARY

1. Iceland is a small and open, high-income island economy lying just south of the Arctic Circle. Trade in goods and services as a share of GDP fluctuated over the review period, including during the COVID-19 pandemic when both goods and in particular services trade (primarily travel and transport) declined significantly before recovering. At around 90% during the past two years, this indicator of trade openness remains relatively low considering Iceland's economic size.

2. In 2022, exports consisted primarily of travel services, aluminium (produced from imported alumina using green hydropower), and fish. The share of telecom and IT-related services in total services exports increased significantly during the review period. Imports were dominated by various machinery and equipment, chemicals, petroleum, and also travel services. A trade deficit in goods is more than compensated for by a trade surplus in services, in particular tourism-linked services. Large shares of imports (41%) and exports (58%) are in intermediate products, and such trade was relatively less affected compared to other trade during the initial phase of the COVID-19 pandemic. According to OECD indicators, the integration into international value chains differs significantly across economic sectors, being particularly high in the areas of transport services, and metals.

3. Iceland has abundant renewable geothermal and hydroelectric energy, limiting the impact of the recent energy crisis prior to and during the start of the war in Ukraine. Its economy, which grew on average by 2.9% annually between 2017 and 2023 despite contracteding 6.9% in real terms in 2020, is dominated by services, with manufacturing (fish processing and aluminium in particular), fisheries, and tourism being important pillars of the economy. Tourism was hard-hit by the pandemic as the number of visitors plummeted, but it has since recovered. The geological unrest and volcanic eruption that started in late 2023 and extended into 2024 were primarily local until the time of writing and were not expected to have a major impact on the broad economy.

4. The effects of the 2008 financial crisis have largely dissipated, and the remaining exchange rate restrictions were formally abolished during the review period. Direct investment inflows turned positive from 2021 while portfolio investments continue to flow out. Iceland's central bank was among the first ones globally to start hiking rates in May 2021 as inflation increased temporarily to more than 10% before declining again.

5. International trade remains central to Iceland's economic policy, focusing on increased liberalization of multilateral and bilateral trade. Iceland remains a strong supporter of the multilateral trading system and an active participant at the WTO. During the review period, Iceland deposited its instrument of acceptance for the Agreement on Fisheries Subsidies in May 2023, participated in the four Joint Statement Initiatives, and played active roles in a number of other bodies, with a strong focus on gender issues. As part of a strong and very constructive engagement around the Trade Policy Review exercise, Iceland took the opportunity to update its notification record and indicated that it intends to address a number of remaining notification gaps.

6. Iceland is a member of the European single market via the European Economic Area (EEA), bringing together three of the four EFTA members (Iceland, Liechtenstein, and Norway) and the European Union. Via the EEA Committee, relevant EU legislation is constantly incorporated into the EEA Agreement before being transposed into national legislation. On average during the review period, more than 500 pieces of legislation were added to the EEA Agreement each year, shaping policy developments across most of the economy with certain exceptions such as agricultural policy or fisheries. Iceland concluded additional RTAs within the framework of EFTA, and one with the United Kingdom jointly with the EFTA-EEA members.

7. Iceland's business environment remains open, and most of the limited restrictions apply only to non-EEA investors (e.g. in the energy sector, or regarding legal establishment or residency), with the exception of fisheries, where companies are required to be majority owned by Icelandic citizens. Iceland undertook significant efforts to digitize interactions between the Government and the public, launching the *island.is* portal that provides regulatory information and the provision of government services online. Some temporary changes were made to bankruptcy legislation as a response to the COVID-19 pandemic, but the framework remains overall relatively cumbersome compared with those of other OECD members. Certain rules regarding real estate property were strengthened, making the criteria for granting exemptions more objective.

8. E-commerce continues to grow in importance, accounting for around 4% of GDP in 2023, with consumer protection regulation covering related (distance) contracts and electronic signatures in place, and Iceland transposing the European Union's General Data Privacy Regulation in 2018. While the European Union's Digital Services Act has not yet been included in the EEA Agreement, Iceland has some legislation in place exempting service providers from liability for certain information they host if certain conditions are met (including a requirement to remove illegal data when becoming aware of it). A simplified customs procedure is in place for small non-commercial postal shipments.

9. Customs procedures and other requirements remained largely unchanged during the review period. Most trade (99% of volume and around 85% of value) arrives by sea. Perishable goods arriving early in the morning at the international airport can be cleared using emergency permits for faster release. Since 2020, nearly all import declarations have to be submitted electronically to accelerate customs procedures, and the new AEO system for "customs simplification" has been fully operational since 2020. While digitization of government-related processes and procedures has advanced significantly, launching a full single window has been postponed.

10. Tariffs remain low (on average 4.3%) following significant reforms in 2017, with 89% of tariff lines duty-free and the remaining tariffs only applying to agricultural products (on average 18.1%) as well as some fish and fish products. Around half of tariff lines that are not duty-free (5.4% of all tariff lines) have non-*ad valorem* duties. Iceland applies MFN and autonomous tariff rate quotas (TRQs). As a result of changes during the review period, some tariff lines previously subject to TRQs are now subject to seasonal tariffs. Some fees, such as a complex-to-administer recycling fee, that are applicable throughout Iceland are applied at the border for imports. Iceland expanded the coverage of its GSP scheme in 2018.

11. During the review period, a third tax bracket for personal income tax was introduced to encourage entry of low-wage earners into the labour market. While corporate tax rates remained generally unchanged, Iceland marginally increased them for 2024 to complement monetary policy and help cool the economy. Excise duties include many carbon-emission-related taxes aimed at reducing such emissions. State aid is governed by the EEA's State Aid Framework, with key areas of non-agricultural support in Iceland supporting innovation, the film industry, and green investments, while incentives for "initial investments", previously in place, are no longer granted. Between 2019 and 2021, state aid increased more than five-fold, and the majority of state aid in 2021 was for COVID-19-related objectives.

12. During the review period, the frameworks for TBT and SPS remained in essence unchanged. Standards and technical regulations continue to be governed by the system in place in the European Union and the EEA, where technical regulations can either detail specific technical requirements for a certain product ("old approach") or spell out "essential" requirements while leaving the more detailed technical requirements to harmonized European standards ("new approach"). The new EU Regulation No. 2019/1020, which aims to strengthen the EU market surveillance mechanism, was incorporated into the EEA Agreement in late 2023 and will be transposed into relevant national Acts. Products within the EEA circulate freely.

13. The import of live animals and certain animal products remains subject to a permit system, with certain equipment also subject to phytosanitary measures to avoid the spread of diseases. Imports of certain meat products from within the EEA are no longer subject to permits following amendments in 2019, with the Icelandic Food and Veterinary Authority (MAST) granting import permits for non-EEA raw meat and meat products that have to be derived from animals slaughtered and processed in establishments approved by the European Union or authorized in the EEA. Plant health legislation remains outside the scope of the EEA Agreement. Iceland did not submit any TBT or SPS notifications during the review period.

14. The competition framework, aligned with that of the European Union, remained fundamentally unchanged and continues to focus on prohibiting anti-competitive agreements and practices by businesses as well as the abuse of a dominant position. Since 2020, companies have needed to self-assess whether a planned collaboration would meet the (unchanged) conditions and not be considered as anti-competitive. Between 2017 and 2022, the Competition Authority took decisions on 201 mergers and acquisitions, of which it did not approve four. The oligopolistic nature of many markets in Iceland, largely as a result of its small economic size, continues to be a concern for the Competition Authority, which also conducted research on fair competition in fuel, groceries, and building industries following observed price increases during and after the COVID-19 pandemic.

15. The state-owned State Alcohol and Tobacco Monopoly (ÁTVR), described as a state trading company in the previous Review, has no longer been considered as such by the authorities since 2021. At the central level, the State owns a full or controlling stake in 38 state-owned enterprises (SOEs), active in a number of important sectors of the economy, in particular finance, energy, infrastructure, and services. Municipalities also own many enterprises, including ports. Some, but not all, SOEs receive direct budget support from the annual state budget, and they are subject to a largely similar regulatory and tax treatment as private enterprises.

16. Iceland is a party to the WTO Agreement on Government Procurement 2012, and its legal framework in this area reflects EEA rules and did not change substantially during the review period. Procurement rules are designed to ensure that goods and services are obtained by procuring entities at competitive terms while also promoting fairness and equality among bidders. During the period under review, about 90% of government procurement was conducted using the open procedure. To promote easier participation by suppliers, Iceland introduced various new tools, including regarding electronic tendering. Procurement is done electronically with very few exceptions.

17. Iceland amended some laws in the area of intellectual property rights and adopted a new law on trade secrets. Intellectual property (IP) is covered by the EEA Agreement, and Iceland continued to incorporate relevant EU legislation into its domestic framework. The Icelandic Patent Office changed its name to the Icelandic Intellectual Property Office (ISIPO), under the Ministry of Higher Education, Science, and Innovation. Iceland has been a net exporter of IP since at least 2020. Amendments to the Patent Act addressed supplementary protection certificates in line with new EU legislation while the Trademark Act was amended in 2020 to align Iceland's trademark system to the internal market, and the Copyright Act was amended to align it with relevant EU legislation. Very little information regarding domestic IP enforcement was available to the Secretariat.

18. The agricultural sector remains overall small but continued to grow. As Iceland is a net importer of agricultural products, the trade deficit continued to increase as imports of many agricultural and food items grew significantly faster than exports. In 2023, Iceland adopted comprehensive food and agricultural policies that remain strongly linked with environmental policies and aim to make the agricultural sector carbon neutral by 2040. The framework for policy interventions and support described in the previous Review did not fundamentally change with support, primarily via direct payments, based on multiannual agreements (which were reviewed in 2019 and 2023). Around half of direct payments were for dairy and beef (primarily related to milk, where minimum prices remain in place), a third for sheep, and the remainder for general support and horticulture, a sector whose support increased. Agricultural tariffs remain relatively high with TRQs in place.

19. Iceland remains an important fishing nation, accounting for around 1% of the marine global catch in 2022. Fishing, fish processing, and aquaculture account for nearly 7% of GDP. Fishing continues to be based on a system allocating Total Allowable Catches. The European Union's Common Fisheries Policy does not apply, and investment restrictions in the sector persist. Fishing is essentially reserved for Icelandic nationals and direct ownership is limited to 25% for non-citizens. Aquaculture remains much smaller than fishing but grew faster during the review period. Support to the fishing sector is more than fully funded from fees paid by the private sector.

20. Hydro and geothermal sources supply almost all of Iceland's electricity, and the large majority is consumed by the power-intensive industries (mainly aluminium), usually under long-term confidential agreements. Because Iceland does not have an existing cross-border grid connection, many provisions under the third EU energy package regarding electricity cross-border exchanges and infrastructure did not have to be implemented. There is some mining of pumice, but Iceland exports significant amounts of refined aluminium, manufactured with imported alumina and renewable electricity. The Government states that it will no longer issue any licences for oil exploration. Iceland's 2018 Climate Action Plan, updated in 2020, aims to make the country carbon neutral by 2040.

21. Changes to the regulatory environment in the financial services sector primarily reflected changes in the European Union via the EEA Agreement and were prudential in nature. In 2020, the Central Bank and the Financial Supervisory Authority were merged, bringing all financial supervision and the issue of financial stability under one institution. Prudential measures capping exposure of systemically important banks to certain financial instruments were implemented in 2021. Pension funds play an important role in the housing mortgage, asset, and FX markets, and they are deemed

systemically important by some observers. The role of the State in the banking sector, albeit declining, remains notable.

22. The telecom market is competitive. The penetration rate of fibre Internet more than doubled during the period. 5G was launched in 2021. A new telecommunications law transposed the European Union's European Electronic Communications Code. Iceland fully liberalized its postal services in 2019, abolishing the reserved area from 2020.

23. The important maritime transport sector in Iceland is dominated by two national shipping lines. With the regulatory framework aligned to that of the European Union, Iceland made changes to its Shipping Act to reflect developments regarding the provision of port services and financial transparency. Ports are owned by municipalities, but two ports operate as private companies under this ownership structure.

24. Air transport remains important, closely linked to tourism, and was severely affected by the COVID-19 pandemic, with Icelandair obtaining a temporary state guarantee while other airlines obtained provisional state aid on certain routes. One airline ceased operations prior to the pandemic, while another has been expanding operations following the pandemic. Iceland is part of the EEA Single Aviation Market and participates in the EU-US Open Skies Agreement by adhesion.

25. Tourism was extremely affected by the COVID-19 pandemic with the number of visitors arriving by air 92% lower during the first 12 months of the pandemic compared to the year before, but they recovered to pre-pandemic levels from April 2022 with tourism arrivals in 2023 exceeding those in 2019. In response to the pandemic, the Government established a package tour guarantee fund and suspended the accommodation tax until the end of 2023.

1 ECONOMIC ENVIRONMENT

1.1 Main features of the economy

1.1. Iceland is a high-income developed economy with a GDP of USD 81,700 per capita and a primarily urban and ageing population of 379,000 in the middle of 2023. Lying just south of the Arctic Circle, Iceland has a small, open, island economy dominated by services (72.0% in 2022), in particular real estate, wholesale and retail, and health and social services. Manufacturing (11.3%, an important element being aluminium) and the fisheries sector (6.4% of GDP when including fish processing) are also important pillars. Tourism accounted for 7.8% of GDP in 2022.[1] Trade accounted for 86.8% of GDP in 2023, a relatively low figure given the economy's small size, according to the OECD.[2]

1.2. Iceland has abundant renewable geothermal and hydroelectric energy, a feature that shapes the country's comparative advantage and limited the impact of the recent energy crisis prior to and during the start of the war in Ukraine. Almost all of its electricity comes from renewable energy sources and it imports only 10% of its energy usage in the form of oil, gas, and coal (Section 4.2.2).[3] Low electricity prices have attracted specific sectors such as the aluminium sector, which had led to significant investments at the time. The effects of the financial crisis in 2008 have largely dissipated, with the Government retaining significant ownership in the two largest banks despite ongoing divestments in one of the banks, and the IMF considers the banking sector to be sound (Section 4.3.1).

1.2 Recent economic developments

1.3. The COVID-19 pandemic hit the economy hard at a time it had already been slowing in 2019 due to a global economic slowdown, coupled with the insolvency of an Icelandic low-cost airline and certain supply shocks.[4] The economy contracted 6.9% in real terms in 2020 before recovering starting in 2021 (Table 1.1). Overall, it grew annually by around 2.9% (using the compound annual growth rate) between 2017 and 2023, with economic output above its potential both before and after the pandemic.[5] Labour productivity growth had increased prior to the pandemic, reaching 3% in 2019, but has subsequently remained subdued, in part driven by compositional effects as sectors with lower labour productivity expanded at a faster rate.

1.4. The importance of most sectors remained broadly unchanged during the review period, with the base metal sector (primarily aluminium) increasing its share from 2% in 2017 to 3.3% in 2022; electricity, gas, and steam increasing from 3.6% to 4.0%; health and social services from 8.3% to 9.0%; and that of transportation and storage declining. Tourism was hard-hit by the pandemic, as the number of visitors arriving by air was 92% lower during the first 12 months of the pandemic compared to the year before (although those who came stayed longer), before recovering to pre-pandemic levels from April 2022.[6] As a share of GDP, tourism declined from 8.2% in 2019 to 2.9% in 2020, before recovering to 8.5% in 2023.[7] Tourism arrivals in 2023 exceeded those in 2019.

Table 1.1 Basic economic and social indicators, 2017-23

	2017	2018	2019	2020	2021	2022	2023
GDP at current market prices (ISK billion)	2,642.0	2,844.1	3,026.1	2,929.2	3,276.0	3,882.8	4,279.0
GDP at current market prices (USD billion)	24.7	26.2	24.7	21.7	25.8	28.7	31.0
GDP at current market prices (EUR billion)	21.9	22.3	22.0	19.0	21.8	27.3	28.7

[1] Statistics Iceland, *Tourism Satellite Accounts*. Viewed at: https://statice.is/statistics/business-sectors/tourism/tourism-satellite-accounts/.
[2] OECD (2023), *Economic Surveys – Iceland*, p. 24. Viewed at: https://www.oecd-ilibrary.org/docserver/b3880f1a-en.pdf?expires=1707988507&id=id&accname=ocid195767&checksum=317B93D680E91E1409A6DB05A3D0E8DB.
[3] OECD (2020), *Fossil Fuel Support Country Note – Iceland*. Viewed at: https://stats.oecd.org/fileview2.aspx?IDFile=95c30c34-7d82-4a3d-b5db-bdef2c504a1a%20.
[4] OECD (2019), *Economic Surveys – Iceland*, p. 17.
[5] Central Bank (2023), *Monetary Bulletin Q2*. Viewed at: https://www.cb.is/library/Skraarsafn---EN/Monetary-Bulletin/2023/May-2023/Monetary_Bulletin_2023_2.pdf.
[6] Icelandic Tourism Board, *Tourism in Iceland in Figures – April 2021*. Viewed at: https://www.ferdamalastofa.is/static/files/ferdamalastofa/talnaefni/ferdatjonusta-i-tolum/2021/april-e-2021.pdf.
[7] Statistics Iceland, *Tourism Satellite Accounts*.

	2017	2018	2019	2020	2021	2022	2023
GDP per capita (USD '000)	73.3	75.9	71.1	60.8	71.3	77.5	81.7
GDP per capita (EUR '000)	65.0	64.4	62.7	53.2	60.3	73.7	75.6
Population ('000)	337	346	352	356	362	370	379
Unemployment rate (%)	3.3	3.1	3.9	6.4	6.0	3.7	3.4
Men	3.4	3.2	4.3	6.6	5.6	4.0	3.8
Women	3.2	3.0	3.5	6.3	6.4	3.4	2.9
National accounts (% change at 2015 constant prices)							
Real GDP growth	4.2	4.9	1.9	-6.9	5.1	8.9	4.1
Private final consumption expenditure	8.0	4.8	1.7	-3.1	6.9	8.3	0.5
Government final consumption expenditure	2.9	4.7	3.9	5.2	2.3	2.3	2.2
Gross fixed capital formation	10.6	2.3	-4.1	-7.4	14.1	15.1	-0.6
Gross domestic final expenditure	7.1	4.5	0.5	-1.7	7.1	8.2	1.2
Exports of goods and services	5.1	0.4	-5.3	-30.7	14.6	22.3	4.8
Goods, fob	1.1	3.9	-0.7	-7.2	7.3	1.5	1.1
Services	8.4	-2.3	-9.5	-53.8	28.5	58.3	9.8
Less: Imports of goods and services	11.8	-0.9	-9.1	-20.6	19.9	20.0	-1.4
Goods, fob	11.3	-3.2	-7.7	-11.1	18.9	10.7	-2.6
Services	12.7	3.2	-11.5	-37.7	22.3	42.9	1.2
GDP by type of expenditure (% of GDP at current market prices)							
Private final consumption expenditure	50.1	50.3	50.2	52.0	51.5	50.3	50.0
Government final consumption expenditure	23.7	24.1	24.6	28.1	27.4	25.6	25.7
Gross fixed capital formation	21.8	21.8	20.9	21.2	22.8	24.0	23.7
Changes in inventories	0.0	0.3	-0.2	0.1	0.1	0.2	0.7
Exports of goods and services	45.7	46.0	43.7	33.3	37.3	45.8	43.4
Goods, fob	20.2	21.8	21.7	21.8	23.7	26.2	22.1
Services	25.6	24.3	22.0	11.5	13.6	19.6	21.3
Less: Imports of goods and services	41.2	42.6	39.1	34.7	39.0	45.9	43.4
Goods, fob	26.3	27.3	25.1	24.5	27.8	31.4	28.9
Services	14.9	15.3	14.1	10.1	11.3	14.5	14.6
GDP by economic activity (% of GDP at current basic prices)							
Agriculture, forestry and fishing	4.3	4.4	4.9	5.2	4.9	4.8	..
of which: fishing	3.0	3.2	3.5	3.8	3.6	3.5	..
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	0.1	..
Manufacturing	10.0	9.6	9.4	9.9	10.8	11.3	..
Food products, beverages and tobacco products	4.1	4.3	4.7	4.8	4.3	4.5	..
of which: fish processing	2.4	2.5	2.8	3.0	2.7	2.9	..
Basic metals	2.0	1.2	0.5	1.2	2.7	3.3	..
Electricity, gas, steam and air conditioning supply	3.6	3.7	3.5	3.7	3.9	4.0	..
Water supply; sewerage, waste management and remediation activities	0.8	0.9	0.8	0.8	0.8	0.7	..
Construction	7.5	8.0	7.9	7.9	7.2	7.1	..
Services	73.7	73.4	73.4	72.5	72.3	72.0	..
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.4	8.9	8.9	9.5	9.8	9.7	..
Transportation and storage	6.8	6.9	6.3	3.8	4.2	5.7	..
Accommodation and food service activities	3.9	3.9	3.7	1.6	2.6	3.4	..
Information and communication	4.5	4.5	4.9	5.5	5.3	4.9	..
Financial and insurance activities	6.3	5.9	6.0	6.3	6.2	5.2	..
Real estate activities	11.6	11.3	11.9	12.3	11.4	11.0	..
Professional, scientific and technical activities	4.2	4.5	4.1	4.4	4.7	4.5	..
Administrative and support service activities	4.2	4.4	4.3	2.5	3.2	3.8	..
Public administration and defence; compulsory social security	5.5	5.5	5.5	6.3	6.0	5.6	..
Education	6.3	6.1	6.1	6.9	6.4	6.1	..
Human health and social work activities	8.3	8.4	8.7	10.2	9.5	9.0	..
Arts, entertainment and recreation	1.4	1.4	1.4	1.4	1.4	1.4	..
Other service activities	1.4	1.6	1.5	1.8	1.5	1.7	..
Other	0.1	0.1	0.1	0.1	0.1	0.1	..
External sector							
ISK/EUR (period average)	120.5	127.7	137.3	154.5	150.2	142.3	149.1
ISK/USD (period average)	106.8	108.4	122.7	135.3	127.1	135.5	138.0
Nominal effective exchange rate (percentage change; - depreciation)	12.3	-3.1	-8.1	-9.2	3.1	3.4	0.1
Real effective exchange rate (percentage change; - depreciation)	12.1	-2.6	-7.0	-8.1	4.0	2.8	2.3
Current account (% of GDP)	4.2	4.3	6.5	0.9	-2.7	-1.7	1.0
Trade of goods and services (% of GDP)	87.0	88.6	82.9	67.8	76.3	91.7	86.8
International reserves (USD billion, end of period)	6.6	6.3	6.8	6.4	7.1	5.9	..

	2017	2018	2019	2020	2021	2022	2023
in months of imports of goods and services	7.2	6.5	8.3	10.2	7.9	5.0	..
FDI inflows (% of GDP)	-0.2	-1.5	-0.9	-4.3	2.0	2.9	..
FDI inward stock (% of GDP)	41.0	33.3	34.1	35.4	32.7	31.6	..
FDI outflows (% of GDP)	-0.8	0.3	1.9	-2.0	0.0	-0.8	..
FDI outward stock (% of GDP)	21.3	19.9	21.7	24.9	20.6	16.1	..

.. Not available.

Note: GDP-related figures: preliminary for 2022 and 2023.

Source: Statistics Iceland. Viewed at: https://www.statice.is/; Central Bank of Iceland, Statistics. Viewed at: https://www.cb.is/; World Bank, Databank. Viewed at: https://databank.worldbank.org/home; IMF data. Viewed at: https://data.imf.org/; and information provided by the authorities.

1.5. Aluminium production remains a significant sector in Iceland, the 10th-largest producer worldwide, with three smelters producing around 750,000 metric tonnes in 2022 or around 1% of global production. A particularity of the sector is that smelters use green electricity under long-term contracts, hence this type of aluminium production generates significantly lower GHG emissions per tonne of output compared to that using coal.[8]

1.6. After the pandemic, growth has picked up again, driven mainly by tourism and tourism-linked services (transportation, accommodation, and food services), as well as manufacturing of basic metals[9], although as everywhere, the outlook remains uncertain. Growth is expected to return to 3.6% in 2023, according to the Central Bank of Iceland (CBI).[10] In 2022, the aluminium and fish sectors benefited from terms of trade improvements, with the trend starting to reverse during 2023.[11]

1.7. Labour force participation of the population aged 16-74 remains high but declined overall during the review period, in particular prior to and during the pandemic, although it recovered from the first quarter of 2021 to 81% in the third quarter of 2023. Between 2018 and 2021, the gap in labour force participation between men and women has again declined to 7.2 percentage points. Unemployment spiked in 2020 and 2021 to around 8% on a quarterly basis (higher for women) but by end-2023, it was again at 3.4%, close to where it stood in 2017, and the rate for women was again lower compared to that of men (2.9% and 3.8%, respectively).[12] Youth unemployment (ages 16-24) is higher than overall unemployment (8.6% at the end of 2023), in particular among young men (9.9%).

1.8. Since 2018, entities with an average of 25 or more employees have required an equal pay certification, issued by an accreditation body. Since provisions to work against pay discrimination based on gender (including persons whose gender is registered as neutral) were included in the 2020 Act on Equal Status and Equal Rights Irrespective of Gender, those entities with an average workforce of 25-49 employees require only an equal pay confirmation issued by the Equality Office under the Prime Minister.[13] The gender wage gap was 9.7% in 2021, lower than the OECD average of 11.9%, with the unadjusted gender pay gap increasing with age.[14]

1.9. Given its tight labour market with high participation rates, Iceland benefits significantly from immigration, which continues to grow, with the share of immigrants in the labour force for the first time exceeding 20% following the pandemic (and accounting for more than 40% of employment

[8] Landsvirkjun (2021), *A Sustainable Energy Future*. Viewed at: https://www.landsvirkjun.com/news/a-sustainable-energy-future.

[9] Statistics Iceland, *Production Approach*. Viewed at: https://www.statice.is/statistics/economy/national-accounts/production-approach/.

[10] Central Bank of Iceland (CBI) (2024), *Monetary Bulletin Q1*. Viewed at: https://www.cb.is/library/Skraarsafn---EN/Monetary-Bulletin/2024/February-2024/Monetary%20Bulletin_2024_1%20-%20Copy%20(1).pdf.

[11] IMF (2023), *Iceland: Staff Report for the 2023 Article IV Consultation*, IMF Country Report No. 23/217.

[12] Statistics Iceland (2023), "Little Change in the Labour Market between Years", 11 August. Viewed at: https://www.statice.is/publications/news-archive/labour-market/the-labour-market-2nd-quarter-2023/.

[13] Ministry of Social Affairs and Labor Market Regulation 1030/2017 and Act No. 150/2020.

[14] OECD, *Gender Wage Gap*. Viewed at: https://data.oecd.org/earnwage/gender-wage-gap.htm.

in tourism).[15] However, the OECD points out that certain imbalances, such as skills mismatch and the shortage of certain workers while overall vacancies increase, are on the rise.[16]

1.10. The authorities responded to the COVID-19 pandemic by introducing measures aimed at maintaining demand and preserving the productive capacity of the economy. These included grants to affected companies and municipalities, employment support, household support, increased investment, and guarantees to companies, notably Icelandair. A number of taxes were also temporarily adjusted, or their payments postponed, such as certain property taxes, the accommodation tax (suspended until the end of 2023), bank taxes[17], or a permitted accelerated depreciation of business assets. Total budget expenditures (spending and guarantees) over the period 2020-22 amounted to ISK 450 billion, or 4.5% of that period's GDP.

1.11. While the geological unrest and volcanic eruption that started in late 2023 and extended into 2024 resulted in significant media attention, the large event itself was primarily local and is not expected to have a major impact on the broad economy other than via the real estate market, as the affected population has to find new housing.

1.3 Economic governance, policy direction, and reforms

1.12. Participation in the global economy remains a key pillar of economic policies in Iceland as a small and open economy. As a member of the European Economic Area (EEA), Iceland implements relevant EU legislation, albeit often with a lag until legislation is included in the EEA Agreement and domestic law. The effective implementation of the EEA Agreement remains a priority, with the application for EU accession having been withdrawn in 2015.[18] Iceland overhauled the income tax system between 2020 and 2022 to encourage the entry of low-wage earners into the labour market (Section 3.3.1).

1.13. Addressing climate change and climate change adaptation remains a central element in Iceland's policies. Iceland published a Climate Action Plan in 2018, revising it in 2020, and published its adaptation strategy in 2021. The Action Plan spells out specific actions to allow Iceland to meet (or exceed) its emissions reduction goal by 2030 and make it carbon neutral before 2040.[19] With most energy already renewable, the clean-energy transition focuses on fossil-fuel-based transport as well as changes in land use. A long-term energy policy to 2050 was adopted in 2020 (Section 4.2.2).

1.4 Fiscal policy

1.14. Following a period of mostly pro-cyclical government spending until 2015, fiscal policy was more neutral thereafter until 2019.[20] The country achieved a primary surplus between 2017 and 2019 before government expenditures increased significantly in response to the pandemic and revenues declined (but remained broadly stable as a share of GDP), resulting in a budget deficit of 9% of GDP in 2020. Expenditures as a share of GDP remained similarly high in 2021 and started to decline in 2022, with the budget deficit that year 4.0% of GDP. During 2024, a fiscal response to the magnitude of around 0.5% to 1% of GDP to support those affected by the 2023-24 volcanic eruption is expected to be implemented.

1.15. General gross government debt declined from 72% of GDP in 2017 to 65% in 2023 but increased sharply temporarily in 2020 to 78% as GDP fell in response to the pandemic (Table 1.2). Net government debt, netting out liquid financial government assets, stood lower at 55% at the end of 2023. According to the CBI, the share of government debt issued in foreign currency increased

[15] IMF (2023), IMF Country Report No. 23/217.
[16] OECD (2023), *Economic Surveys – Iceland*.
[17] Iceland (2023*), Countermeasures of the Government Because of Pandemic Corona Virus – Final Report*. Viewed at: https://www.stjornarradid.is/library/02-Rit--skyrslur-og-skrar/M%c3%b3tv%c3%a6gisa%c3%b0ger%c3%b0ir%20stj%c3%b3rnvalda%20vegna%20heimsfaraldurs%20k%c3%b3r%c3%b3nuveiru%20fyrir%20vef.pdf.
[18] Ministry of Foreign Affairs, *Iceland's Policy on Europe: Priorities and Implementation*. Viewed at: https://www.government.is/media/utanrikisraduneyti-media/media/esb/Evropustefna-ENS.pdf.
[19] Iceland (2020), *Iceland's 2020 Climate Action Plan*. Viewed at: https://www.government.is/library/01-Ministries/Ministry-for-The-Environment/201004%20Umhverfisraduneytid%20Adgerdaaaetlun%20EN%20V2.pdf.
[20] OECD (2023), *Economic Surveys – Iceland*.

from around 13% to around 20%, although most of this is hedged. Partially included in this figure are significant contingent liabilities of around 24% of GDP, mostly related to the debt of the Housing Financing Fund (which the Government aims to unwind), that continue to decline.[21]

Table 1.2 Government finance indicators, 2017-23

	2017	2018	2019	2020	2021	2022	2023
General government public finance (% of GDP)[a]							
Total revenue	45.4	44.8	42.0	42.2	41.1	42.5	43.1
Total tax revenue, of which:	33.7	33.0	31.9	33.2	32.8	32.2	32.9
Taxes on income, profits and capital gains	18.3	18.0	17.5	18.5	17.4	18.1	18.7
Taxes on sales and services, of which:	12.5	12.1	11.4	11.4	11.6	11.4	11.5
General taxes on goods and services	9.0	8.8	8.2	8.2	8.7	8.5	8.6
Excises	2.6	2.4	2.2	2.2	2.0	2.0	2.0
Taxes on special services	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on use of goods, etc.	0.7	0.7	0.7	0.8	0.7	0.7	0.6
Customs and other import duties	0.2	0.1	0.1	0.1	0.1	0.2	0.1
Other taxes	0.6	0.6	0.6	0.7	0.4	0.4	0.4
Social contributions	3.4	3.5	3.2	3.0	3.0	3.0	3.0
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	8.2	8.2	6.8	5.9	6.1	7.2	7.1
Total expenditure	44.4	43.8	43.6	51.1	49.4	46.5	45.1
Current expense, of which:	43.4	41.8	42.1	49.7	47.4	44.6	43.5
Compensation of employees	14.1	14.2	14.3	16.1	15.6	14.6	14.4
Use of goods and services	10.6	10.8	10.8	12.0	12.0	11.3	11.5
Overall balance	1.0	1.0	-1.6	-8.9	-8.3	-4.0	-2.0
General government debt	71.8	63.3	66.5	77.6	74.8	67.4	64.7
General government net debt	60.3	50.8	54.3	60.9	59.7	56.1	54.7

a In 2017, the local government's ISK 32 billion contribution to the Pension Fund Brú was included as an expense.

Note: GDP-related figures: preliminary for 2021, 2022, and 2023.

Source: Statistics Iceland. Viewed at: https://www.statice.is/; and information provided by the authorities.

1.16. In March 2023, the Government adopted a new medium-term fiscal strategy for the years 2024-28, focusing on expenditure restraint, revenue generation, and postponing public investments to counter inflation and avoid overheating.[22] It aims to return to a primary surplus in 2023 and includes efforts to reduce state expenditures by using digitization and creating efficiencies, including around government procurement (Section 3.3.6). To complement monetary policy measures, the Government increased corporate taxes moderately for 2024 (Section 3.3.1).

1.5 Monetary policy

1.17. Following the adoption of a new Central Bank Act in 2019[23], the CBI's monetary policy continues to be guided by its main objective of promoting price stability with a target inflation rate of 2.5%.[24] Monetary policy instruments comprise interest rate decisions[25] as a primary tool but also include certain transactions with credit institutions, reserve requirements, and securities and foreign exchange market transactions aimed at achieving price stability. Other objectives include financial stability and safe and sound financial activities.

1.18. During the review period, nominal interest rates declined from 5% at the beginning of 2017 to 3% before the start of the pandemic when they ultimately fell to 0.75%. Following increases

[21] OECD (2023), *Economic Surveys – Iceland*.

[22] Government of Iceland (2023), "Medium-term Fiscal Strategy Plan 2024-2028: To Counter Inflation, Safeguard Living Standards and Support Growth", 29 March. Viewed at: https://www.government.is/news/article/2023/03/29/Medium-term-Fiscal-Strategy-Plan-2024-2028-to-counter-inflation-safeguard-living-standards-and-support-growth/.

[23] Act No. 92/2019 replaces Act No. 36/2001 of the same title.

[24] CBI, *Inflation Target*. Viewed at: https://www.cb.is/monetary-policy/inflation-target/.

[25] These are transmitted via deposits with the Central Bank and collateralized loans it grants.

in inflation rates, which started to exceed 4% by early 2021[26], the CBI started to tighten monetary policy in May 2021, globally among the first to do so, with interest rates increasing by 850 basis points until October 2023. Inflation continued to increase during 2022, being primarily driven by housing and global food and fuel (which is imported) prices following the war in Ukraine, and exceeded 10% at the beginning of 2023 before starting to decline and reaching 6.7% at the beginning of 2024. However, according to the IMF, inflation expectations have de-anchored and tighter monetary policy for an extended time might be appropriate.[27] In May 2023, the CBI increased the reserve requirement for deposit institutions to 2% and increased the counter-cyclical buffer for banks in two steps from 0% to 2.5% by 2024.

1.19. With the new Central Bank Act in 2019, the Government adopted a new macroprudential framework that included merging the Financial Supervisory Authority and the CBI and establishing a Financial Stability Committee with the participation of both the CBI and the Ministry of Finance and Economic Affairs.[28] Building on these efforts, a new Foreign Exchange Act (No. 71/2021) replaced Act No. 87/1992 of the same name and repealed the Offshore Krona Act in 2021. The changes removed all remaining capital account restrictions that had remained in place following the 2008 financial crisis for derivatives and offshore krona. Capital movements remain unrestricted with the Act formalizing certain macroprudential mechanisms in place and introducing certain emergency measures, allowing the CBI to restrict or halt specified categories of capital movements or cross-border payments for up to 60 days in times of extraordinary circumstances.[29]

1.6 Balance of payments

1.20. During the review period, the balance of payments fluctuated. A negative goods balance was more than compensated for by a positive services balance, and this current account surplus funded direct and portfolio investment outflows until 2020. The current account turned into a deficit for the years 2021-22, before recovering, as the service account weakened in 2020 and investment income declined from 2021, while the import of goods outpaced growth in exports. Direct investment inflows became positive from 2021 (portfolio investment continues to flow out).[30] CBI reserves fluctuated without a clear trend, standing at more than five months of imports in 2022 (Table 1.3). Between 2017 and 2022, Iceland's Net International Investment Position increased from close to zero to 24% of GDP, continuing its earlier trend after having stood at -446% of GDP in 2012.[31]

Table 1.3 Balance of payments, 2017-23

(% of GDP)

	2017	2018	2019	2020	2021	2022	2023
Current account	4.2	4.3	6.5	0.9	-2.7	-1.7	1.0
Goods	-6.1	-5.5	-3.4	-2.9	-4.1	-5.2	-6.8
Exports	20.2	21.8	21.7	21.7	23.7	26.2	22.1
Imports	26.3	27.3	25.1	24.5	27.8	31.4	28.9
Services	10.6	9.0	8.0	1.4	2.3	5.1	6.7
Exports	25.6	24.3	22.0	11.5	13.6	19.6	21.3
Imports	14.9	15.3	14.1	10.1	11.3	14.5	14.6
Primary income	0.5	1.7	2.8	3.3	0.1	-0.4	2.2
Compensation of employees (net)	0.1	0.0	0.1	0.2	0.2	0.2	0.1
Investment income (net)	0.4	1.6	2.7	3.1	-0.1	-0.6	2.1
Secondary income	-0.8	-0.9	-0.8	-0.9	-1.0	-1.1	-1.2

[26] CBI, *Inflation*. Viewed at: https://www.cb.is/other/inflation/.
[27] IMF (2023), IMF Country Report No. 23/217.
[28] OECD (2023), *Economic Surveys – Iceland*, Box 1.2; and IMF (2023), *Iceland: Financial Sector Assessment Program – Technical Note on Macroprudential Policy*, IMF Staff Country Report No. 23/279. Viewed at: https://doi.org/10.5089/9798400249457.002. The CBI has a Financial Supervision Committee.
[29] CBI (2021), *Financial Stability Report 2021-2*, Box 4. Viewed at: https://www.cb.is/library/Skraarsafn---EN/Financial_Stability/2021/Financial_Stability_2021_2.pdf.
[30] IMF (2023), IMF Country Report No. 23/217, Table 6. Direct investment inflows in 2022 were heavily affected by large one-off investments in unlisted shares, according to the Chamber of Commerce. Iceland Chamber of Commerce (2023), *The Icelandic Economy Q3 2023*. Viewed at: https://prismic-io.s3.amazonaws.com/vidskiptarad/5135c85a-60b3-4f87-999f-6e7beb2df6b8_The+Icelandic+Economy+Q3+2023.pdf.
[31] IMF (2023), IMF Country Report No. 23/217, Table 7.

	2017	2018	2019	2020	2021	2022	2023
Capital account	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial account (net lending (+)/net borrowing (-))	1.2	6.1	6.1	6.0	-1.0	-1.4	2.6
Direct investment	-0.7	1.7	2.8	2.3	-2.0	-3.4	-1.0
Assets	-28.7	-0.5	0.6	-1.7	-0.2	0.6	0.8
Liabilities	-28.1	-2.2	-2.2	-4.0	1.8	4.0	1.8
Portfolio investment	9.2	4.8	3.0	4.8	0.1	4.3	7.5
Assets	4.0	4.4	4.5	3.2	5.5	3.5	6.7
Liabilities	-5.2	-0.4	1.5	-1.6	5.5	-0.8	-0.8
Financial derivatives, net	0.3	0.1	0.1	0.2	0.3	0.4	-0.4
Other investment	-4.4	-0.7	-2.1	-0.4	-3.8	-0.9	-2.3
Reserve assets	-3.3	0.2	2.2	-0.9	4.4	-1.7	-1.2
Net errors and omissions	-3.0	1.9	-0.4	5.1	1.8	0.4	1.7

Source: CBI, *Balance of Payments Q4/2024*. Viewed at: https://www.cb.is/statistics/data/.

1.7 Developments in trade and investment

1.7.1 Trends and patterns in merchandise and services trade

1.21. Overall, trade in goods and services was equivalent to 93.4% of GDP in 2022 but declined again to 86.8% in 2023, broadly unchanged from the 87% it represented in 2017. In 2022, total goods imports were USD 9.6 billion and total goods exports were USD 7.4 billion. The trade deficit in goods is more than compensated for by a trade surplus for services, in particular tourism-linked services.

Trade in goods and intermediate products

1.22. Between 2017 and 2022, merchandise imports increased by 38% despite a pandemic-related slump in 2020. In 2022, imports were dominated by various machinery and equipment (34.1%) as well as minerals, metals, petroleum, and chemicals (jointly amounting to 39.5%) (Chart 1.1). Metal imports contain certain aluminium inputs (accounting for around slightly less than 2% of imports each year) that are further processed in Iceland (see below).

1.23. In 2022, more than 57% of imports originated in the EEA: more than 45% of imports originating in the EU-27 (a slight decline from its share in 2017) and 12% in Norway (an increase), followed by China (9%, an increase). Imports from "other Europe", including the United Kingdom, declined. Imports from parts of Asia, in particular India, Malaysia, and the State of Kuwait, increased, driven by petroleum oils from India and the State of Kuwait, and measuring instruments from Malaysia (Chart 1.2).

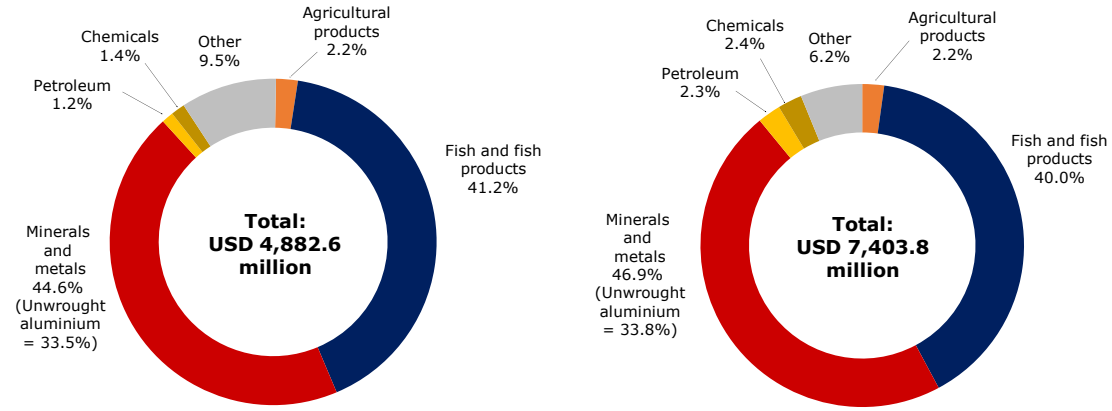
1.24. Merchandise exports grew faster with 52% over the same horizon, also temporarily declining in 2020. In 2022, they were dominated by minerals and metals (primarily aluminium but also some iron and steel) (47%), fish and fish products (40%), followed by chemicals, some petroleum oils, and medical equipment (Chart 1.1).

1.25. As for imports, the EEA, and within it in particular the European Union, is by far Iceland's largest export market. Of all exports, 71.4% went to the EEA, with 66% destined for the EU-27 (up from 64% in 2017), followed by the United Kingdom (9%) and the United States (8%) (Chart 1.2). More than 90% of aluminium exports went to the European Union, while half of the medical equipment was shipped to the United States.

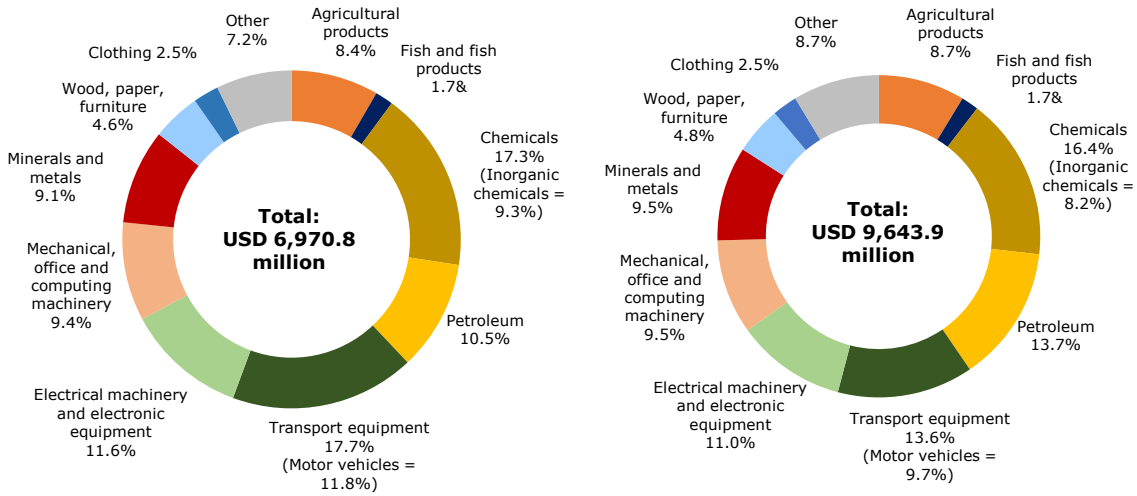
Chart 1.1 Product composition of merchandise trade by category, 2017 and 2022

2017 **2022**

Exports (f.o.b.)



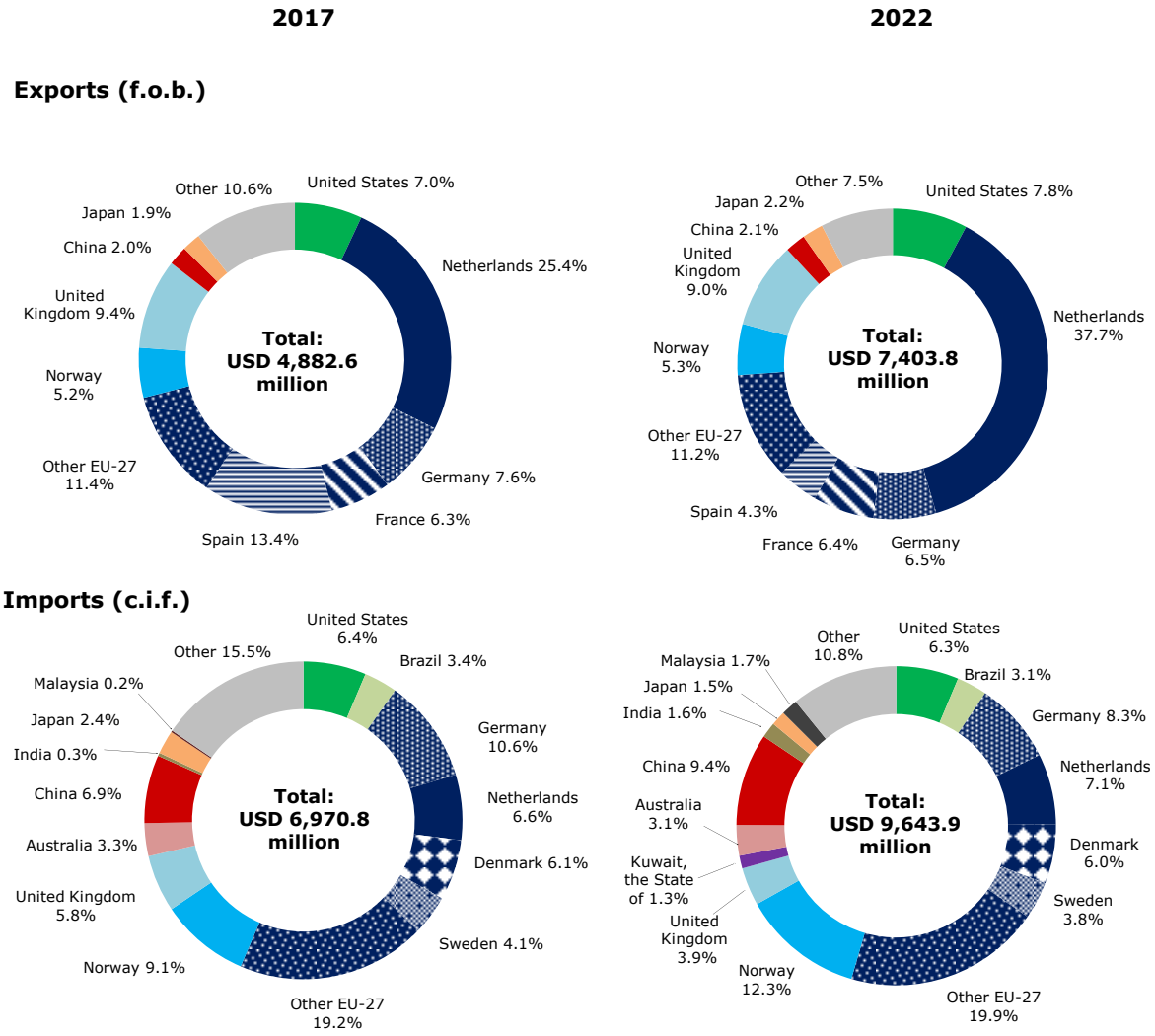
Imports (c.i.f.)



Note: Presented using WTO Multilateral Trade Negotiations categories.

Source: WTO Secretariat calculations, based on UN Comtrade database.

Chart 1.2 Direction of merchandise trade, 2017 and 2022



Source: WTO Secretariat calculations, based on UN Comtrade database.

1.26. According to UN Comtrade data, 41% of non-fuel imports were classified as intermediate goods in 2022, broadly unchanged from 2017. It is noteworthy that trade in intermediate goods was relatively less affected compared to other imports during 2019 and 2020, years of slower growth and the pandemic, when its share increased to 45.7% in 2020 (Chart 1.3). The share of intermediate goods in exports increased from 53% in 2017 to 58% in 2022. According to the latest OECD indicators using the Trade in Value Added database (TiVA), the share of foreign (i.e. originally imported) content in gross exports stood at 27% in 2020, varying significantly across sectors from less than 10% in finance and insurance to nearly 50% in basic metals or other transport.[32]

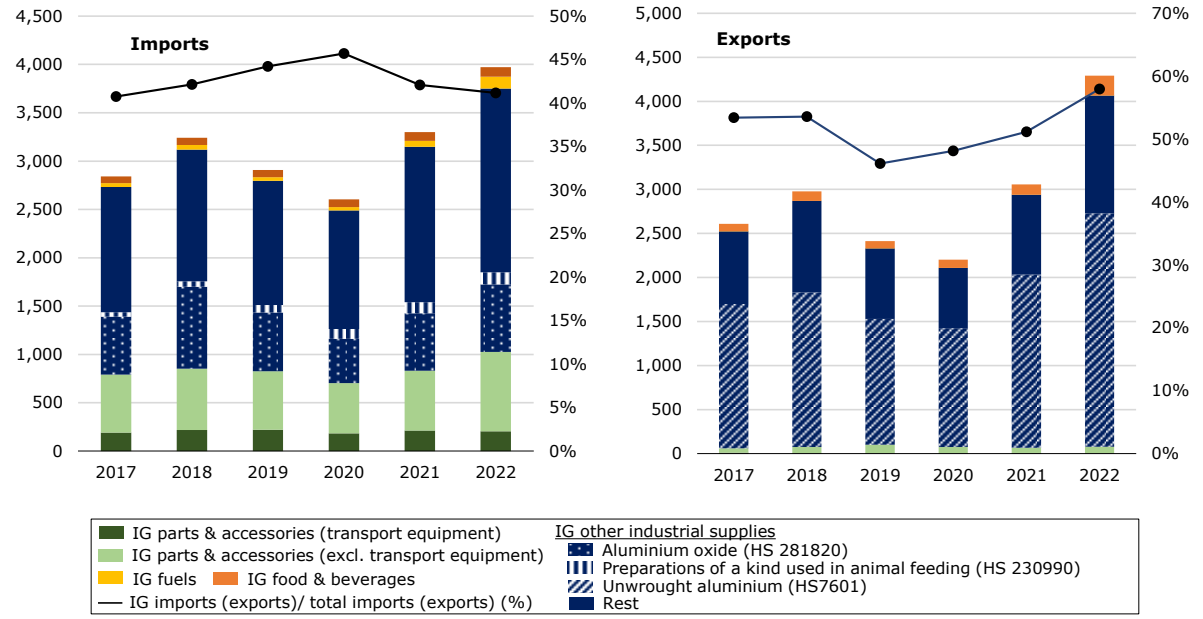
1.27. On the import side, intermediate goods imports are dominated by parts and components as well as aluminium oxide, while exports of intermediate products are dominated by unwrought aluminium, with some final aluminium goods also exported (wire, foil, bars, and rods). Other intermediate industrial supplies are also both imported and exported in significant quantities, but data do not permit an assessment of whether these are the same goods. However, as participation in value chains can include processing from one intermediate to another intermediate stage, or from intermediate goods to final goods, assessing the participation of firms in value chains based on intermediate goods trade data alone and in the absence of detailed and up-to-date input-output tables is challenging. According to the most recent available indicators using the TiVA database

[32] OECD (2023), *ICIO-TiVA Highlights: GVC Indicators for Iceland*. Viewed at: https://www.oecd.org/industry/ind/CN2023_ISL.pdf.

for 2020, the exposure of domestic output to disruptions in foreign upstream or downstream GVCs varies across sectors, being relatively high for certain mining and manufacturing activities.[33]

Chart 1.3 Trade in intermediate goods (IG), by main category, 2017-22

(USD million)



Note: Product classifications are based on BEC Rev. 4.

Source: WTO Secretariat calculations, based on UN Comtrade database.

Trade in services

1.28. Iceland continues to have a positive services trade balance, although it declined as exports fell and imports grew during the review period overall (Table 1.4). In 2020 and 2021, both imports and exports were significantly lower compared to other years, driven primarily by declines in travel and transport services. Services exports are dominated by travel services (47% in 2023) as well as transport services (31%), and a similar yet less pronounced structure characterizes services imports (35% travel services, 19% transport services, and 21% other business services). The share of telecom and IT-related services in total services exports increased significantly during the review period. Services exports are mainly destined for the United States (32%), the United Kingdom (10%), and Germany (7%), while imports primarily originate in the United States (11%), the United Kingdom (11%), and the Netherlands (9%).

Table 1.4 Trade in services by sector, 2017-23

	2017	2018	2019	2020	2021	2022	2023[a]
Trade balance (USD million)	**2,629**	**2,363**	**1,973**	**297**	**598**	**1,452**	**2,090**
Services exports (USD million)	**6,322**	**6,372**	**5,442**	**2,485**	**3,506**	**5,616**	**6,608**
	(% of total services exports)						
Manufacturing services on physical inputs owned by others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maintenance and repair services n.i.e.	1.0	1.0	1.0	1.7	1.2	1.0	0.8
Transport	33.8	34.5	29.5	27.2	27.1	29.5	30.5
Passenger transport by air	26.6	26.4	20.9	7.8	8.5	15.6	19.0
Travel	47.6	49.0	49.5	25.8	37.1	44.3	46.6
Construction	0.4	0.3	0.8	1.6	1.4	0.8	0.8
Insurance and pension services	0.3	0.2	0.2	0.5	0.5	0.3	0.3
Financial services	2.6	2.6	2.1	4.8	3.6	2.4	3.0
Charges for the use of intellectual property n.ie.	4.0	0.9	1.3	3.4	1.9	1.5	1.1

[33] OECD (2023), *ICIO-TiVA Highlights: GVC Indicators for Iceland*.

	2017	2018	2019	2020	2021	2022	2023[a]
Telecommunications, computer and information services	4.8	6.0	7.5	14.0	11.9	8.6	7.7
Other business services	4.6	4.8	6.7	18.6	13.4	9.2	7.6
Research and development services	2.0	1.8	3.8	10.9	5.9	3.5	2.9
Professional and management consulting services	0.9	1.1	1.3	2.7	2.7	1.8	1.6
Technical, trade-related and other business services	1.7	1.8	1.6	5.0	4.8	4.0	3.0
Personal, cultural and recreational services	0.6	0.3	0.9	1.6	1.4	1.9	1.3
Government goods and services n.i.e.	0.4	0.4	0.4	0.8	0.6	0.4	0.3
Services imports (USD million)	**3,693**	**4,010**	**3,469**	**2,188**	**2,907**	**4,163**	**4,517**
	(% of total services imports)						
Manufacturing services on physical inputs owned by others	0.0	0.1	0.0	0.0	0.0	0.2	0.3
Maintenance and repair services n.i.e.	4.5	4.9	4.6	3.9	3.0	3.4	2.3
Transport	22.0	21.9	19.6	20.5	20.3	19.2	19.3
Passenger transport by air	7.2	5.5	4.3	1.0	1.4	2.2	2.1
Travel	41.9	42.2	43.5	23.9	26.1	36.4	35.2
Construction	0.9	0.9	0.9	2.0	2.5	2.2	1.8
Insurance and pension services	1.1	0.7	0.5	0.7	0.8	0.7	0.9
Financial services	1.9	1.7	1.4	2.1	2.7	1.9	1.7
Charges for the use of intellectual property n.ie.	3.1	3.3	2.8	3.0	2.2	1.7	1.4
Telecommunications, computer and information services	7.2	7.4	9.4	15.0	13.6	10.0	10.9
Other business services	14.5	13.6	12.9	21.7	21.7	18.6	20.8
Research and development services	1.3	0.9	1.6	3.7	4.8	4.3	4.3
Professional and management consulting services	4.3	3.8	4.2	6.5	6.8	5.1	5.0
Technical, trade-related and other business services	8.9	9.0	7.1	11.4	10.0	9.2	11.5
Personal, cultural and recreational services	2.3	2.9	3.8	6.5	6.4	5.1	5.0
Government goods and services n.i.e.	0.5	0.5	0.6	0.8	0.7	0.6	0.5

a Preliminary figures.

Source: Statistics Iceland. Viewed at: https://www.statice.is/.

1.7.2 Trends and patterns in FDI

1.29. The inward FDI stock remained broadly unchanged in ISK or USD terms between 2017 and 2021 with the stock increasing in 2022 driven by large increases in the manufacturing, mining, or quarrying sector, as well as in financial services (Table 1.5). The outward FDI stock, measured in ISK, grew between 2017 and 2021 (and remained broadly constant in USD terms) before declining slightly in 2022 (Table 1.6).

1.30. The most important inward FDI sectors remain financial/insurance, manufacturing/mining, and wholesale/retail and tourism-linked activities, with the importance of agriculture, forestry, fishing, manufacturing/mining, real estate, and professional, scientific, technical, administration and support service activities increasing. Most FDI originates in Luxembourg, the Netherlands, and Switzerland.

1.31. Outward FDI remains concentrated in financial services, manufacturing, and trade- and travel-related activities, especially in the Netherlands, the United Kingdom, and the United States. During the review period, the relative importance of outward FDI in the sectors of manufacturing/mining, real estate, and professional services increased.

Table 1.5 FDI inward stock, 2017-22

(ISK billion)

	2017	2018	2019	2020	2021	2022	Growth % (2017 and 2022) (ISK)
Total (ISK billion)	**1,058**	**1,018**	**1,019**	**970**	**1,092**	**1,259**	**19.0**
By sector (% of total)							
Agriculture, forestry and fishing	1.9	1.9	2.3	3.5	4.7	4.4	**177.1**
Manufacturing, mining and quarrying and other industry	14.7	17.9	18.8	18.2	20.2	25.4	**105.0**
Construction	0.5	0.3	0.3	0.9	0.6	0.4	**7.7**
Wholesale and retail trade, transportation and storage, accommodation and food service activities	14.5	12.9	12.0	11.7	9.0	5.5	**-54.6**
Information and communication	3.3	2.0	2.1	2.8	3.4	3.2	**14.0**
Financial and insurance activities	56.4	56.2	56.4	50.5	48.1	49.7	**4.9**
Real estate activities	3.5	3.5	4.3	6.6	7.5	7.3	**149.0**
Professional, scientific, technical, administration and support service activities	3.2	3.6	3.7	5.7	6.3	4.0	**51.6**
Public administration, defence, education, human health and social work activities	0.1	0.0	0.0	0.0	0.2	0.1	**147.2**
Other	2.1	1.5	0.0	0.0	0.0	0.0	**-99.1**

Source: CBI, Data. Viewed at: https://www.cb.is/statistics/data/.

Table 1.6 FDI outward stock, 2017-22

(ISK billion)

	2017	2018	2019	2020	2021	2022	Growth % (2017 and 2022) (ISK)
Total (ISK billion)	**550**	**608**	**647**	**683**	**687**	**642**	**16.8**
By sector (% of total)							
Agriculture, forestry and fishing	3.3	3.0	4.1	1.3	2.2	1.0	**-65.3**
Manufacturing, mining and quarrying and other industry	16.7	22.0	26.2	27.4	25.1	28.5	**99.5**
Construction	0.3	0.3	0.3	0.3	0.5	0.5	**91.6**
Wholesale and retail trade, transportation and storage, accommodation and food service activities	18.4	17.8	17.9	17.2	17.3	10.5	**-33.7**
Information and communication	0.2	0.4	0.3	0.2	0.3	0.5	**198.3**
Financial and insurance activities	54.0	49.6	44.6	45.9	47.3	50.6	**9.4**
Real estate activities	2.5	3.1	3.7	4.0	4.1	4.5	**108.2**
Professional, scientific, technical, administration and support service activities	0.7	0.8	1.7	2.4	2.7	3.5	**474.5**
Public administration, defence, education, human health and social work activities	0.0	0.0	0.0	0.1	0.0	0.0	**n.a.**
Other	3.8	2.9	1.2	1.3	0.4	0.4	**-87.4**

n.a. Not applicable.

Source: CBI, Data. Viewed at: https://www.cb.is/statistics/data/.

2 TRADE AND INVESTMENT REGIMES

2.1 General framework

2.1. Iceland is a democracy where the government is responsible before the Parliament (the *Althingi*) and the independence of the judiciary power is guaranteed by the constitution. The 1944 constitution was not amended during the period under review. Iceland held three general elections during the period under review, in 2016, 2017, and 2021. The coalition of three parties formed after the elections of 2017 was re-conducted in 2021.

2.2. A key feature of the normative framework of Iceland is its membership in the European Economic Area (EEA) (Section 2.3.2). This Agreement, which took effect in 1994, links on the one hand three members (Iceland, Norway, and Liechtenstein) that are also members of the European Free Trade Association (EFTA) and on the other hand the European Union and its member States. This agreement integrates Iceland into the single European market through the transposition of the EU *acquis* save for, *inter alia*, agriculture and fisheries. Box 2.1 provides information on how to access the texts of Icelandic legislation.

Box 2.1 How to access legislation

Icelandic legal instruments can be consulted online. Although available mostly in Icelandic, websites can be easily browsed using translation tools embedded in most web browsers.

Acts are listed on the Parliament website (https://www.althingi.is/lagasafn/), where users can search for any act using the search format *number/year*. For each Act accessed via this website, the most recent, as well as all previous, versions (incorporating amendments over time) can be accessed, with links to all amending Acts, the draft law, and information regarding the legislative procedure. A keyword/phrase search is also available.

All Regulations can be accessed online on the collection of regulations at https://island.is/reglugerdir. Regulations can most easily be accessed by searching for a regulation *number* and selecting from the results list the regulation of the correct year. In addition to the texts, the website also provides direct links to other regulations affected by a particular regulation, as well as regulations that replaced a given regulation (if that was the case).

Source: Compiled by the Secretariat.

2.3. A new court level was introduced in Iceland on 1 January 2018, replacing the former two tiers with a three-tier system. The new court is called the Court of Appeal (*Landsréttur*) and is a court of second instance, situated between the District Court and the Supreme Court. The introduction of the Court of Appeal was the most important part of a major restructuring of the Icelandic judiciary system.[1]

2.2 Trade policy formulation and objectives

2.4. Iceland is a small, open economy, and international trade is central to its economic policy, which is focused on its membership in the EEA, EFTA, and the WTO. Iceland's international trade policy aims at creating the best possible trade conditions for Icelandic enterprises in foreign markets. The policy advocates for increased liberalization of trade, at both the multilateral and bilateral levels. It also aims to increase trade in goods and services as well as foreign investment by engaging in free trade agreements, agreements on investment, and double taxation treaties.

2.5. The Ministry for Foreign Affairs is in charge of the external aspects of trade policy, while the Ministry of Finance and Economic Affairs (MFEA) deals with customs and tax matters. A number of other ministries have various roles in trade and economic matters, such as the Ministry of Higher Education, Science, and Innovation and the Ministry of Food, Agriculture, and Fisheries (MFAF). While a formal trade coordination committee/body is not established within the administration, close consultations take place, e.g. concerning negotiations on trade agreements. The administration also holds regular consultations with the private sector and the relevant industries on trade and economic matters. For example, an open consultation gateway was created specifically when preparing for a

[1] For more information on the judicial system, see: https://www.government.is/topics/law-and-order/the-judicial-system-in-iceland/.

trade negotiation with the United Kingdom after Brexit to facilitate comprehensive mapping of private-sector interests.

2.6. Business Iceland[2], a public-private agency between the Government along with other stakeholders, is in charge of promoting exports of Icelandic goods and services and foreign investment in Iceland (Section 3.2.4). During the period under review, it was given the task by the Ministry for Foreign Affairs to elaborate a long-term strategy for exports that was issued in 2019 after consultation with all interested stakeholders. An Export and Market Council was established by Act No. 94/2018 (amending Act No. 38/2010 on Business Iceland), tasked to oversee the implementation of the strategy. The Council is composed of members from the Government and the private sector.

2.7. This strategy is centred on five sectors: energy and green solutions (data centres and other energy-dependent activities, energy transition in transport, utilization of wind/tides energy, multi-use of energy flows of geothermal plants, and waste heat industry), innovation and technology (in the areas of life and health, IT, fisheries, game, aviation, attraction of researchers, and digital nomads), creative industries (design, visual arts, performing arts, music, literature, and films), tourism (development of new destinations and specialized tourism such as health and wellness, adventure, food and culture, and conference, business, and incentive travel), fisheries, and specialized foods and natural products. Each sector has specific geographical target markets assigned to it.[3] A new strategy is presently being devised.

2.8. The Confederation of Icelandic Enterprises represents the private sector and is composed of six professional industry associations: the Federation of Energy and Utility Companies in Iceland (representing the electricity industry, district heating systems, waterworks, and sewage utilities), the Federation of Icelandic Industries (representing a wide range of industries such as construction, manufacturing, food industry, power-intensive industries, and high-tech and creative industries), Fisheries Iceland (representing the fisheries and aquaculture sectors), the Federation of Trade and Services (representing companies in commerce and services, including private retailers and the consumer cooperative sector), the Icelandic Travel Industry Association (representing travel and tourism companies), and Finance Iceland (representing financial companies, including universal banks, investment banks, savings banks, insurance companies, leasing companies, securities companies, and credit card companies).

2.3 Trade agreements and arrangements

2.3.1 WTO

2.9. Iceland has been a Member of the WTO since its establishment in 1995 and was a GATT Contracting Party as of 1968. It is a member of the revised Agreement on Government Procurement of 2012 and a participant in the Information Technology Agreement II (ITA II). It accepted the Protocol amending the TRIPS Agreement in 2015. It ratified the Trade Facilitation Agreement in October 2016 and deposited its instrument of acceptance for the Agreement on Fisheries Subsidies on 10 May 2023.

2.10. Iceland is a participant in the plurilateral Joint Statement Initiatives on Electronic Commerce, Investment Facilitation for Development, MSMEs, and Services Domestic Regulation.[4] Iceland has played an active role in the Trade and Environmental Sustainability Structured Discussions and is currently chairing the Negotiating Group on Rules. Active in trade and gender issues, Iceland co-chaired the Informal Working Group on Trade and Gender from its inception in December 2020 until June 2023 and in which it submitted a proposal of a framework for an ambitious trade and gender outcome at MC12.[5] It also targeted most of its questions during the trade policies reviews of fellow Members on gender issues.

2.11. During the review period, Iceland made notifications in the areas of agriculture, regional trade agreements, subsidies and countervailing measures, anti-dumping, state trading enterprises,

[2] Islandsstofa website. Viewed at: https://www.businessiceland.is/.
[3] The full text of this strategy is available in Icelandic. Viewed at: https://stefnumotun.islandsstofa.is/.
[4] Iceland submitted its draft schedule on services domestic regulation for certification on 29 October 2021 (WTO document INF/SDR/IDS/ISL/Rev.1, 29 October 2021).
[5] WTO document INF/TGE/W/3, 30 April 2021.

government procurement, customs valuation, and trade facilitation.[6] Iceland did not submit any notifications regarding SPS or TBT measures during the review period.

2.12. While Iceland did submit a large number of notifications, at least 11 notifications remained outstanding at the end of 2023. Of those, Iceland submitted (or was in the process of submitting) four covering subsidies and agriculture in early 2024. The remaining outstanding notifications relate to government procurement (concerning statistics and thresholds), quantitative restrictions (including the questionnaire on import licensing), customs valuation, and rules of origin.[7]

2.13. In terms of dispute settlement, Iceland was not involved as a complainant or as a respondent during the review period. Iceland was a third party to the various *US – Certain Measures on Steel and Aluminium Products* disputes.[8] Iceland is a member of the Multi-Party Interim Arbitration Arrangement.

2.3.2 Regional and preferential agreements

2.3.2.1 European Free Trade Association (EFTA)

2.14. Iceland is a member of EFTA, which currently has four members (Iceland, Liechtenstein, Norway, and Switzerland), three of which (Iceland, Liechtenstein, and Norway) are also members of the EEA.

2.15. EFTA has four areas of activity. The first one is the economic integration among its four members. This consists in amending the 2002 Vaduz Convention, which extended the 1960 EFTA centred on free trade in industrial goods to intellectual property, agriculture, services, investment, public procurement, movement of persons, air and land transport, social security, and mutual recognition of conformity assessments. These activities were somewhat limited during the period under review since only four amendments to the Vaduz Convention have entered into force since 2017 (two on rules of origin, two on air transport).[9] This may be partially explained by the fact that economic integration takes place essentially for EFTA-EEA member States through the adoption of the *acquis communautaire*.

2.16. The second task of EFTA is to negotiate RTAs on behalf of all its members. These agreements are described in Section 2.3.2.3.

2.17. The third and fourth activities of EFTA concern only its EEA members and hence Iceland. The third activity is to participate, together with the European Union, in the EEA Joint Committee so as transpose the *acquis communautaire*, while the fourth is to monitor the national transposition and the implementation of EU legislation adopted by the EEA Joint Committee and to ensure the application of the EU disciplines on state aid and competition, through a specific body, the EFTA Surveillance Authority (Section 2.3.2.2).

2.3.2.2 European Economic Area (EEA)

2.18. Through the EEA Agreement, the *acquis communautaire* relating to the internal market (except, *inter alia*, for the Common Agriculture Policy and the Common Fisheries Policy) is made binding for three of the EFTA States (Iceland, Liechtenstein, and Norway) via the regular incorporation of new EU legislation into the different Annexes to the Agreement by decisions of the EEA Joint Committee.

2.19. The Agreement is updated about eight times a year. Most legislation is incorporated into the Agreement without any significant delay. However, since this process requires the unanimous agreement of the three non-EU member States of the EEA (Iceland, Liechtenstein, and Norway), it

[6] For a complete list of notifications between January 2017 and December 2023, see: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S008.aspx?NotifyingCountryList=%22Iceland%22&IssuingDateFrom=01%2f01%2f2017&IssuingDateTo=31%2f12%2f2023.

[7] The WTO notifications portal provides an overview of recent and outstanding notifications. Viewed at: https://notifications.wto.org/en/status-by-member/iceland.

[8] For details, refer to the Dispute Settlement Gateway on the WTO website. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm.

[9] For the full text of these amendments, see: https://www.efta.int/Legal-Text/EFTA-Convention-1152.

may take up to several years. EU legal acts that are made part of the EEA Agreement only become part of Icelandic legal order by way of implementation into domestic legal order, i.e. either by the adoption by Parliament of an implementing bill or by the issuance by the relevant ministry of an implementing regulation.

2.20. During the review period, on average around 560 legal acts were incorporated into the EEA Agreement annually, ranging from a low of 370 in 2020 to a high of 708 in 2019.[10]

2.21. The monitoring and surveillance of the national transposition and implementation of EU legislation adopted by the EEA Joint Committee are ensured by the EFTA Surveillance Authority (ESA). EEA EFTA States are obliged to notify the ESA of the measures they adopt to implement directives and to inform the ESA of the incorporation of regulations into domestic law if required. The ESA maintains "scoreboards" on the state of play of transposition.[11] If an EEA EFTA State does not implement EEA rules or implements such rules incorrectly, the ESA may initiate infringement proceedings against the EEA EFTA State concerned. This may ultimately be adjudicated by the EFTA Court. Where the ESA has information on any domestic legislation or practices that may not be in compliance with EEA law, it can likewise decide to initiate an investigation.[12]

2.22. The 2015 bilateral agreements on agricultural products and GIs under the auspices of Article 19 of the EEA between Iceland and the European Union entered into force in 2018. These new agreements extend the number of GIs protected and increase market access for agriculture by significantly raising the number of agricultural products granted duty-free status by Iceland to more than 800 tariff lines, and with reduced tariffs on nearly 200 tariff lines (Section 3.3.1).[13]

2.3.2.3 Other regional agreements

2.23. During the review period, Iceland concluded, within the EFTA framework, RTAs with the Republic of Moldova, Indonesia, and Ecuador, as well as a modernized and expanded agreement with Türkiye that replaces their previous agreement from 1992. These agreements have entered into force, except for the agreement with the Republic of Moldova. There are ongoing RTA negotiations within the EFTA framework with India, Kosovo[14], Malaysia, MERCOSUR, Thailand, and Viet Nam.

2.24. Furthermore, Iceland has, in cooperation with the other EEA EFTA States, completed an RTA with the United Kingdom following its exit from the European Union. The agreement, which was signed in 2021, was provisionally applied from September 2022 and entered into force on 1 February 2023. The agreement is a fully fledged FTA covering substantially all trade, including trade in goods, services, and government procurement.

2.25. With these latest additions, Iceland is a party to 35 notified RTAs with a total of 72 partners (Table 2.1). Twenty-two of these RTAs cover services.

Table 2.1 Iceland's RTAs

Regional Trade Agreements	Coverage	Date of entry into force
EFTA – Republic of Moldova	Goods and services	Not yet entered into force
United Kingdom – Iceland, Liechtenstein, and Norway	Goods and services	1 February 2023
EFTA – Indonesia	Goods and services	1 November 2021
EFTA – Türkiye	Goods and services	1 October 2021
EFTA – Ecuador	Goods and services	1 November 2020
EFTA – Philippines	Goods and services	1 January 2020
EFTA – Georgia	Goods and services	1 September 2017
EFTA – Bosnia and Herzegovina	Goods and services	1 January 2015
EFTA – Colombia	Goods and services	1 October 2014

[10] For more information on the EU legal acts transposed into the EEA Agreement, see the EEA-Lex database of the EFTA Secretariat. Viewed at: https://www.efta.int/eea-lex.

[11] For examples of such scoreboards, see: https://www.eftasurv.int/newsroom/updates/internal-market-scoreboard-eea-efta-states-reduce-average-transposition-deficit.

[12] For recent ESA cases on internal market involving Iceland, see: https://www.eftasurv.int/newsroom/updates?theme=27&language=is.

[13] For the full text of the agricultural market access agreement, see: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:22017A1024(02); and for the text of the agreement on geographical indications, see https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:22017A1024(01).

[14] References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999).

Regional Trade Agreements	Coverage	Date of entry into force
EFTA – Central America (Costa Rica and Panama)	Goods and services	5 September 2014
Iceland – China	Goods and services	1 July 2014
EFTA – Gulf Cooperation Council (GCC)[a]	Goods and services	1 July 2014
EFTA – Hong Kong, China	Goods and services	1 October 2012
EFTA – Montenegro	Goods	1 October 2012
EFTA – Ukraine	Goods and services	1 June 2012
EFTA – Peru	Goods	1 October 2011
EFTA – Albania	Goods	1 October 2011
EFTA – Serbia	Goods	1 October 2011
EFTA – Canada	Goods	1 July 2009
EFTA – SACU[b]	Goods	1 May 2008
EFTA – Egypt	Goods	1 August 2007
EFTA – Lebanon	Goods	1 January 2007
Iceland – Faroe Islands	Goods and services	1 November 2006
EFTA – Korea, Republic of	Goods and services	1 October 2006
EFTA – Tunisia	Goods and services	1 June 2005
EFTA – Chile	Goods and services	1 December 2004
EFTA – Singapore	Goods and services	1 January 2003
EFTA – Jordan	Goods	1 September 2002
EFTA – North Macedonia	Goods	1 May 2002
EFTA – Mexico	Goods and services	1 July 2001
EFTA – Morocco	Goods	1 December 1999
EFTA – Palestine	Goods	1 July 1999
European Economic Area (EEA)	Goods and services	1 January 1994
EFTA – Israel	Goods	1 January 1993
EU – Iceland	Goods	1 April 1973
EFTA Convention	Goods and services	1 March 1970 (for Iceland)

a Gulf Cooperation Council: Kingdom of Bahrain, State of Kuwait, Oman, Qatar, Kingdom of Saudi Arabia, and United Arab Emirates.
b Southern African Customs Union: Botswana, Eswatini, Lesotho, Namibia, and South Africa.

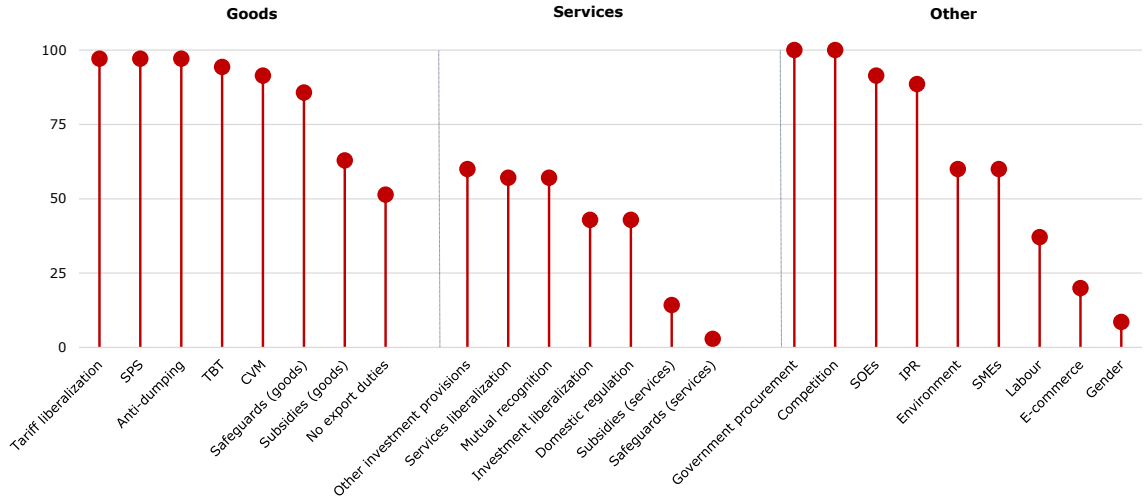
Source: Information compiled by the WTO Secretariat.

2.26. Data from the WTO RTA database[15] show the broad coverage of RTAs. For a subset of 21 policy areas among the 43 areas covered by this database, Chart 2.1 shows the percentage of Iceland's RTAs including them.

2.27. Nearly all of Iceland's RTAs cover tariff liberalization, SPS, anti-dumping, TBT and safeguards, while much fewer cover subsidies and prohibitions of export duties. For services and investment, services liberalization, mutual recognition and "other investment provisions" are most frequently included with subsidies and safeguards covered very seldom. Finally, concerning "other" areas, government procurement, competition, SOEs, and intellectual property rights are covered in the large majority of RTAs, while labour, e-commerce, and gender are only covered in few.

Chart 2.1 Policy areas covered by Iceland's notified RTAs

(% of RTAs)



Source: Compiled by the WTO Secretariat, based on information from the WTO RTA database.

[15] WTO RTA database. Viewed at: https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

2.3.3 Unilateral preferences

2.28. Iceland significantly expanded the coverage of the GSP scheme (through Act No. 76/2018, amending the Customs Act No. 88/2005), by including additional agriculture-related tariff lines, e.g. non-alcoholic beverages, vegetables, cereal preparations, and plants and vegetal material. The act entered into force in June 2018 (Section 3.1.3).

2.4 Investment regime

2.29. In terms of business climate, Iceland was ranked 26th among 141 countries by the World Economic Forum's (WEF) Global Competitiveness Index[16] in 2019, based on 12 "pillars". Iceland performed notably above its average ranking on macroeconomic stability (1st), ICT adoption (7th), skills (8th), business dynamism (8th), labour market (10th), institutions (12th), and innovation capability (23rd). It scores less than average on financial system (36th) and infrastructure (41st). Overall, its ranking is affected by the criteria "market size" (133rd), which has little to do with policies.

2.30. Similarly, Iceland was ranked 16th of 64 economies in 2023 by the International Institute for Management Development (IMD) world competitiveness index[17], which has criteria somewhat similar to those of the WEF (e.g. economic performance) but offers a slightly different picture. There Iceland ranks above its average position on infrastructure (87th) and business efficiency (19th) and less than its average for government efficiency (19th) and economic performance (45th).[18] The OECD, basing its comparison on its members, points to certain challenges in the business environment, in particular regarding barriers to entry, and stresses the benefits of stepping up regulatory reforms.[19]

2.31. During the review period, Iceland undertook significant efforts to improve electronic delivery of government services and provide information online. Set up in 2020, *island.is* was established as a centralized portal of the Government under the responsibility of the Minister of Finance and Economic Affairs. According to the authorities, its content continues to grow as more government agencies move existing and new regulations, general information, and application forms to the portal. Agencies remain responsible for adding and maintaining content with support from Digital Iceland under the MFEA. Meant to be the main channel for communication between the Government and the public, it provides for more efficient and transparent communication and allows individuals and companies access via a mailbox on the portal. So far, services are generally still provided online and offline. According to Act No. 105/2021, any documentation from the national and local authorities to individuals and legal entities shall be submitted via their mailbox on the portal by 2025. The number of page views on the portal increased from 7 million in 2021 to 10.6 million in 2022 and 17.5 million in 2023.

2.32. Companies in Iceland can be established in one of five legal forms[20]: (i) a sole proprietorship firm, (ii) a limited liability company with one of three subforms: public limited company, publicly owned limited company, or private limited company, (iii) a cooperative company, (iv) a partnership, or (v) a self-governing corporate entity, the most popular form being the limited liability company (LLC).

2.33. A number of business activities in certain sectors are subject to licensing, with licences issued by relevant line ministries or institutions and application forms as well as information regarding relevant criteria available on their websites or on the *island.is* portal. Operating licences are not regulated centrally in one piece of legislation but by sector legislation, and a complete list of activities subject to licensing was not readily available but Table A2.1 to this report contains a non-exhaustive list of those activities subject to licensing requirements. The Sanitation and Pollution Prevention Act also affects several industrial and service activities such as energy-related industry, production and

[16] For the methodology of this index, see: https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf, pp. 611-632. The WEF stopped producing the annual rankings in 2020.

[17] IMD, *World Competitiveness Ranking*. Viewed at: https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/.

[18] For the full profile of Iceland in this ranking see: https://worldcompetitiveness.imd.org/countryprofile/IS/wcy. For the methodology, see: https://imd.widen.net/view/pdf/gr3qyxjkbw/Methodology-In-A-Nutshell-2023.pdf.

[19] OECD, *Economic Survey Iceland 2023*, pp. 45-52. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-iceland-2023_b3880f1a-en.

[20] For more information on these legal forms, see: https://island.is/en/category/Business-Owners-and-Independent-Contractors#different-forms-of-businesses.

processing of metals, mineral industry, chemical industry, waste management, farming of animals, slaughtering of animals, food and milk processing, fish meal factories, or gasoline stations.[21] Regulation No. 830/2022 replaced a licensing requirement for some of these activities with a registration requirement. The EU Commission database on regulated professions also covers all EEA member States and therefore Iceland and provides detailed data on regulated professions.

2.34. Bankruptcy is regulated by Act No. 21/1991, with the OECD assessing related processes as relatively cumbersome (compared to most other OECD members) and pointing out various weaknesses.[22] During the review period, the authorities amended the Act temporarily to allow for financial restructuring of certain enterprises in the wake of the COVID-19 pandemic. Amendments in 2022 aimed to make it more difficult for individuals to exploit bankruptcy proceedings to cancel debts and transfer assets to new companies, and it temporarily allowed for banning individuals in certain circumstances from managing LLCs.

2.35. Act No. 34/1991 on Investment by Non-residents in Business Enterprises defines the prohibitions of and limitations to foreign investments in Iceland. It was not amended substantially during the period under review except for Act No. 17/2022. The amendment introduced broader options for the Minister of Culture and Business Affairs to intervene in foreign investment under certain circumstances (e.g. to protect national security or public order, or when there are serious difficulties in certain industries). In addition to the already existing option for the Minister to stop foreign investment in such cases, Act No. 17/2022 introduced the alternative for the Minister to make such investment subject to certain conditions.

2.36. During the period under review, two developments occurred. First, Act No. 19/1966 on the Right of Ownership and Use of Real Property was amended by Act No. 85/2020, which strengthened the pre-existing restriction requiring special permission for non-EEA-EFTA and Faroe Islands citizens by suppressing a "subjective" criteria ("if there was considered to be a reason to grant an exemption") and limiting exemptions to "objective" cases (e.g. the will to conduct business activities in Iceland or to have a close connection to Iceland manifested by numerous and extended visits and friendship links). No changes were introduced regarding the prohibition of foreign states, government authorities, state-run enterprises, or other foreign public bodies to acquire real estate (nor the 3.5 ha limit in case of an exemption), nor regarding the conditions for legal persons.

2.37. Second, Act No. 67/2023 on Disarmament, Arms Control and Export Control and Act No. 68/2023 on the Implementation of International Sanctions and Freezing of Funds have authorized the Minister for Foreign Affairs to control investments in cases where certain disarmament-related agreements apply and to ban investments as required by sanctions regimes.

2.38. Table 2.2 describes the authorizations, limitations, and prohibitions to foreign investment that continue to apply in Iceland and that have not been mentioned in the two paragraphs above on new developments.

Table 2.2 Sectoral and thematic authorizations, limitations, and prohibitions to foreign investment

Activity	Description of the measure	Legal basis
Fishing and fish processing	Foreign ownership is limited to 25%, or in certain cases up to 33%. (See Section 4.1.2)	Act No. 34/1991 Article 4(1)(1)
Energy	Investment and ownership of energy exploitation rights and the production and distribution of energy are limited to Icelandic citizens and individuals resident in "EEA/EFTA/FI".[a] The same applies to Icelandic legal entities as well as legal entities domiciled in EEA/EFTA/FI (see Section 4.2.2). Investment Agreements between Iceland and countries outside the EEA may stipulate the same rights for individuals resident there or legal entities domiciled there, provided that such Agreements have been adopted by a Parliamentary Resolution.	Act No. 34/ 1991 Article 4(1)(2)

[21] Act No. 7/1998.

[22] OECD, *Economic Survey Iceland 2023*, p. 49. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-iceland-2023_b3880f1a-en.

Activity	Description of the measure	Legal basis
Air operation certificate	A condition for an air operation certificate in Iceland is that the Icelandic State or Icelandic nationals own 51% or more of the company and conduct its actual management, whether directly or indirectly, through one or more parties. Foreign States which, through an Agreement with Iceland, have granted an exemption from such a requirement, as well as their nationals, are exempted from the condition of Icelandic nationality. At present, EEA/EFTA/FI benefit from an exemption.	Aviation Act No. 80/2022, Article 85
Foreign public ownership	Investment by a foreign state, municipality, or authority in a business operation is not permitted except with permission granted by the Minister of Culture and Business Affairs.	Act No. 34/1991, Article 4(1)(4)
Business Establishment	Other foreign Public or Private Limited Companies that do not have legal domicile in EEA/EFTA/FI may operate a branch in Iceland only if this is provided for in an international agreement to which Iceland is a party, or with the permission of the Minister of Culture and Business Affairs.	Act No. 2/1995 on Public Limited Companies, Article 137 Act No. 138/1994 on Private Limited Companies, Article 111
Residency requirements for board members and the managing director of financial undertakings and insurance companies	Board members of financial undertakings and insurance companies must be residents of EEA/EFTA/FI, or a member state of the OECD. The managing director of such companies must be resident in EEA/EFTA/FI. Citizens of EEA/EFTA/FI are exempted from the requirement of residency. The Financial Supervisory Authority may grant exemptions from the residency requirement.	Act No. 161/2002 on Financial Undertakings, Article 52(1) Act No. 100/2016 on Insurance Activity, Article 40(5)
Residency requirements for board members and managers	The manager and at least half of the board members of Icelandic private limited companies must be residents of Iceland. If there is only one board member, the residency requirement applies to him/her. This requirement of residency does however not apply to citizens or residents of EEA/EFTA/FI. The Minister of Culture and Business Affairs can grant exemptions for citizens from other states. Managers and at least half of board members in public limited companies must be resident in Iceland, the Minister can however grant an exemption. The requirement of residency does not apply to citizens or residents of EEA/EFTA/FI.	Act No. 138/1994 on Private Limited Companies, Article 42 Act No. 2/1995 on Public Limited Companies, Article 66

a For the purposes of this table, "EEA/EFTA/FI" refers to an EEA member State, an EFTA State, or the Faroe Islands.

Source: Information provided by the authorities.

2.39. A revised schedule of legal bills is expected to be presented in the Parliament during the 2024 spring session[23] and indicates that the Prime Minister was expected to present in February a legal bill on the screening of foreign direct investment in order to protect national security and the public order. It is not yet clear whether the bill will be presented.

2.40. Regarding outward investment, Iceland imposed capital controls following the financial crisis in late 2008, which largely prevented Icelandic investors and pension funds from investing outside of Iceland. The Government lifted those capital controls at the beginning of the period under review, on 14 March 2017.

2.41. Iceland has eight bilateral investment treaties (BITs) in force, with Chile, China, Egypt, Latvia, Lithuania, Lebanon, Mexico, and Viet Nam. BITs with both North Macedonia and Türkiye have been negotiated but are yet to be signed. Within the EFTA framework, Iceland has signed a multilateral investment agreement with the Republic of Korea, and the EFTA-Singapore FTA includes a chapter on investment similar to a BIT, including dispute resolution. Although negotiations were held with several countries, no new BITs were concluded during the review period.

[23] For the complete text of this schedule in Icelandic, see: https://www.stjornarradid.is/library/05-Rikisstjorn/Endursko%c3%b0u%c3%b0%20%c3%beingm%c3%a1laskr%c3%a1%20154.%20l%c3%b6ggjafar%c3%beings.pdf.

2.42. However, some of the FTAs mentioned above include provisions on investments, e.g. the EFTA-Indonesia FTA has stipulations on national treatment, key personnel, and the right to regulate and transfer, but not on dispute resolution. In addition, the EEA Agreement, the EFTA Convention, and the FTA with the Faroe Islands all contain provisions on national treatment, with the possibility of dispute resolution.

2.43. Iceland has concluded agreements on the avoidance of double taxation (DTAs) that apply to 46 countries and territories and tax information exchange agreements (TIEAs) that apply to 38 countries and territories. All of those agreements are currently in force. During the review period, agreements were concluded with Japan and Australia. In addition, negotiations were finalized with Andorra, Brazil, and the Kingdom of Saudi Arabia, but these agreements are not yet in force. Negotiations were ongoing with several other trading partners as of January 2024.

2.44. Iceland is a member state of the International Centre for Settlement of Investment Disputes (ICSID), as well as the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention).

2.45. During the period under review, two investor-state disputes took place. The first case was the challenge by hedge funds of capital controls imposed after the financial crisis, but it was ultimately dropped. The second case was about the grounding of a leased plane because an airline owed fees to the Icelandic airport operator. Iceland lost the case, and the plane was released by the airport operator.

2.46. The Icelandic Chamber of Commerce operates an independent arbitration institute called the Nordic Arbitration Centre. The awards of the Arbitral Tribunals are final and binding for the parties. Furthermore, due to Iceland's ratification of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the Tribunal's awards are enforceable in over 144 countries.[24]

2.5 E-commerce

2.47. E-commerce in Iceland continues to grow, reaching ISK 175 billion in 2023 (4.1% of GDP) up from ISK 150 billion (3.9% of GDP) in 2022, according to the authorities. Using not directly comparable data, e-commerce-related sales were estimated to represent 3.2% of GDP in 2022, a doubling from the 1.6% they represented before the pandemic in 2017.[25] Nearly all (87%) Internet users also did at least some online shopping in 2022[26], up from 66% in 2014.[27] Most (79%) of users bought goods from national sellers and a slightly lower share of 72% from abroad. Around two thirds of the value of online goods shopping was domestic in December 2023.[28]

2.48. While general consumer protection aiming at business conduct is regulated in Act No. 57/2005, the Consumer Contracts Act[29] regulates regular sales as well as distance sales (such as online sales), covering rights to withdraw from contracts and the prohibition of certain sales tactics. Distance sales and sales outside a fixed business premises are subject to certain additional information requirements, with consumers also having 14 days to withdraw from most of such contracts. The Goods and Services Complaints Committee provided an alternative dispute resolution mechanism since 2005.[30] Act No. 30/2002 implements the EU Directive on Electronic Commerce and continues to cover e-commerce (the service provided as such) and the provision of online services, spelling out that electronic contracts are equivalent to written ones and defining certain information requirements for providers of e-commerce or online services generally, and specifically to contracts. No special licence is required to provide online services.

[24] Iceland Chamber of Commerce, *Arbitration*. Viewed at: https://www.chamber.is/arbitration.
[25] Ecommerce Europe (2022), *2022 European E-Commerce Report*. Viewed at: https://ecommerce-europe.eu/wp-content/uploads/2022/06/CMI2022_FullVersion_LIGHT_v2.pdf.
[26] Ecommerce Europe (2023), *2023 European E-Commerce Report*. Viewed at: https://ecommerce-europe.eu/wp-content/uploads/2023/11/European-Ecommerce-Report-2023-Light-Version.pdf.
[27] Statista, *Share of Individuals Who Shopped Online in Iceland from 2005 to 2014*. Viewed at: https://www.statista.com/statistics/623311/online-shoppers-in-iceland/.
[28] Research Center for Trade, *6 Billion in Foreign Online Shopping from China*. Viewed at: https://www.rsv.is/post/6-milljar%C3%B0ar-%C3%AD-erlenda-netverslun-fr%C3%A1-k%C3%ADna.
[29] Act No. 16/2016, transposing EU Directive 2011/83/EU.
[30] Goods and Services Complaints Committee. Viewed at: https://kvth.is/.

2.49. Act No. 30/2002 exempts service providers from liability for information they host, allowing it to be transmitted or cached under usual circumstances (when doing so at the behest of users), as long as they comply with government or court decisions regarding the data (such as an order to remove certain data) or remove data when having knowledge of their illegal nature. The European Union's Digital Services Act, which aims to ensure a transparent, safe, predictable, and trusted online environment, remained under consideration by the ESA at the time of writing with the authorities indicating that transposition would follow once incorporated into the EEA Agreement.

2.50. Electronic signatures have been legal since 2001 but the regulatory framework was revised during the review period and the previous Act was repealed when the new Electronic Authentication and Trust Services for Electronic Commerce Act entered into force in 2020.[31] It aims to ensure secure electronic identification, and authentication is possible for access to cross-border online services within the EEA by expanding the application of the relevant EU Regulation to Iceland.

2.51. Act No. 90/2018 transposes the European Union's General Data Privacy Regulation (GDPR) into national law, spelling out the rules of how companies and other organizations can process private data, and giving users access to such data. No general data localization requirements are in place.

2.52. All commercial small shipments have to pay customs duties as there is no *de minimis* exception in place, but as spelled out in Section 3.1, customs duties for most tariff lines have been removed. A simplified procedure is in place for non-commercial postal consignments not exceeding ISK 40,000. Small gifts (below ISK 13,500) sent to Iceland are exempt from duty and VAT.[32] Small commercial parcels, other than those containing alcohol or tobacco products, are exempt from VAT as long as they are valued at less than ISK 1,500. Persons and legal persons professionally engaged in the exportation of small consignments to individuals via post can obtain a licence allowing them to submit simplified export declarations after exportation. Since 2020, universal service providers can charge a fee for the delivery of international parcels to consumers so deliveries can cover actual costs plus a reasonable profit (Section 4.3.3).[33] No consolidated data (for all companies handling small parcels) regarding trends in the number of small parcels delivered were available.

[31] Act No. 55/2019, incorporating EU Regulation No. 910/2014 into Icelandic legislation.
[32] Customs Act, Article 6; and VAT Act No. 50/1988, Article 36.
[33] Act No. 98/2019, Article 17.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Measures directly affecting imports

3.1.1 Customs procedures, valuation, and requirements

3.1. During the review period, there were no major changes to the Customs Code (Act No. 88/2005) or the secondary Regulation No. 1100/2006 on the Custody and Customs Clearance of Goods. Since January 2019, the Directorate of Internal Revenue (under the Ministry of Finance and Economic Affairs (MFEA)) has administered customs-related matters, as the office of the Director of Customs was merged with the office of the Director of Internal Revenue to improve the cooperation between tax and customs authorities in response to increased online and cross-border electronic commerce as well as changing business practices.[1] As a result, the Directorate of Customs has been abolished.

3.2. In addition to the customs authorities, the Icelandic Food and Veterinary Authority (MAST) and the border guards (police) are active at border crossings. Other regulatory controls and the collection of fees – e.g. for the Environmental Agency, the Icelandic Radiation Safety Agency, the Icelandic Medicines Agency, the Transport Agency, the Directorate of Fisheries, the police, the Consumer Agency, the HMS (the Housing and Construction Authority), or the Administration of Occupational Safety and Health – are delegated to the customs authorities at borders. The Customs Code foresees mutual collaboration among the customs and other authorities without identifying a particular authority responsible for such coordination.[2] An Integrated Border Management Strategy is in place.

3.3. Customs legislation is published on the website of the customs authorities, which also contains MFN tariffs (and preferential tariffs for imports from the European Economic Area (EEA)).[3] An interactive database of customs tariffs in Icelandic also provides all preferential tariffs, information on other charges, and licensing requirements by tariff line.[4]

3.4. The Customs Code foresees the Customs Director to undertake certain analyses in respect of risk management for customs control, but the Code and secondary legislation do not explicitly spell out how the risk management system operates. No information regarding the share of consignments classified by risk channel was available, but clearance times are generally very short. Ninety per cent of all declarations were cleared within less than 18 minutes, around 95% in less than 1 hour, and only around 2% of consignments took more than 17.5 hours to clear. Iceland does not make use of preshipment inspection services.

3.5. To initiate the clearance of goods arriving in Iceland, importers have to submit a customs declaration that includes all information from the manifest, and goods must have physically arrived in port. Goods are usually cleared at the port of entry.

3.6. Goods arriving in Iceland can be cleared directly or they can be placed into clearance warehouses, bonded warehouses, warehouses for duty-free supplies, duty-free shops, free zones[5], or transit warehouses before being cleared or re-exported. The new Single Administrative Document for customs clearance of imports mentioned in the previous TPR[6] was introduced in 2023. Licences for bonded warehouses and other areas of temporary storage are granted to legal persons under certain non-discriminatory conditions, and the overall number of such licences is not *a priori* limited.[7] Board members must be resident either in Iceland or, if they are citizens of EEA members, Switzerland, or the Faroe Islands, in those territories.

3.7. Specific rules for provisional customs clearance in case of missing documentation, or for express consignments, are in place. Such imports can be released before custom documents have been submitted under certain circumstances.[8] Importers or operators storing uncleared goods are

[1] Act No. 141/2019.
[2] Customs Code, Article 45.
[3] Iceland Revenue and Customs, *Importing to Iceland*. Viewed at: https://www.skatturinn.is/english/companies/customs-matters/importing-to-iceland/.
[4] Iceland Revenue and Customs, *Web Customs Register*. Viewed at: https://veftollskra.skattur.is/. Where MFN tariffs are already zero, not all preferential rates are always indicated.
[5] While legislation foresees the establishment of free zones, no such zones currently exist.
[6] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[7] Regulation No. 1100/2006, Article 13.
[8] Act No. 88/2005, Articles 22 and 36.

also eligible to apply for an emergency permit in case of urgent need of delivery.[9] According to the authorities, this mechanism is also used for fast-moving cargo arriving early in the morning at the international airport. No provisions for the pre-release of goods are in place.

3.8. The obligation to submit import declarations electronically was expanded in 2020 to encompass nearly all customs declarations, as the significant number of paper declarations continued to slow down customs procedures. Following the reform, VAT-registered companies have to submit all import declarations electronically, with individuals and non-VAT-registered entities importing more than 12 consignments per year also required to do so.[10] Entities registered in the VAT registry are allowed to defer the payment of import charges by two months. Only individuals and non-VAT-registered entities importing less than 12 consignments per year are now allowed to submit import declarations on paper.

3.9. The AEO system established in 2014 concluded its pilot phase in 2018 and has been fully operational since January 2020. Based on the WCO's SAFE framework, by November 2023, one operator was certified as a full AEO (i.e. in the case of Iceland for "customs simplification"), such certificates being valid for five years. As spelled out in the previous report, the system's parameters are contained in the Customs Code[11] and have not been changed following the pilot phase. A first MRA is being negotiated with China Customs. AEOs benefit from fewer inspections, the ability to request a specific location for customs checks, and easier access to authorizations and permits.[12]

3.10. While the digitization of government-related processes and procedures has advanced significantly, the process of launching a full single window has been postponed without a specific implementation timeframe, partially as a result of the merger between Customs and Internal Revenue.[13] The Single Window aimed to merge already existing portals, add electronic services, simplify procedures, and eliminate paperwork, with a second phase also aiming to integrate other border agencies into the Single Window, improve collaboration, and simplify related procedures. While information and nearly all government services have been available online since 2020 on the island.is portal (Section 2.4) where they can be accessed with a single login, these services are not yet linked to the customs IT system used for submitting important export declarations.

3.11. Individuals and companies can submit customs declarations or interact with the customs authorities directly, or by using a customs broker. They are licensed based on several criteria, such as good reputation, residency in Iceland or the EEA, and previous compliance with customs laws.[14]

3.12. If traders disagree with customs decisions related to clearance, they can complain in writing to the Director of Customs (within 60 days of the date of customs clearance), who will issue a ruling within 30 days. Such rulings (as well as original decisions by the Directorate of Customs regarding binding classification or origin decisions) can then be appealed to the Internal Revenue Board, while other decisions, such as a suspension of customs clearance or decisions taken by other institutions, can be appealed to the relevant line Ministry. Decisions of the Internal Revenue Board can be appealed in court.[15] Traders complained about only a small fraction of customs decisions, and, of those, about a quarter were subsequently appealed to the Internal Revenue Board, which mostly supported the original decision by the customs authorities.

Table 3.1 Trade facilitation indicators, 2016-23

	Iceland 2019	Iceland 2022	OECD high income
OECD Trade Facilitation Indicators (0-2 (best))			
Average trade facilitation performance	1.564	1.663	..
A-Information availability	1.71	1.81	1.85
B-Involvement of the trade community	1.83	1.83	1.81

[9] Act No. 88/2005, Article 37.
[10] Act No. 58/2020 amending Act No. 88/2005.
[11] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[12] Iceland Revenue and Customs, *Transport Safety*. Viewed at: https://www.skatturinn.is/english/companies/customs-matters/transport-safety/.
[13] Initially, the launch of a single window was planned for 2018. WTO document G/TFA/N/ISL/1, 15 February 2018.
[14] Iceland Revenue and Customs, *Transport Safety*.
[15] Iceland Revenue and Customs, *Procedures for Complaint, Appeal and Review on Decisions*. Viewed at: https://www.skatturinn.is/english/companies/customs-matters/procedures-for-complaint/.

		Iceland 2019	Iceland 2022	OECD high income
C-Advance rulings		1.455	1.455	1.806
D-Appeal procedures		1.77	1.77	1.57
E-Fees and charges		1.85	1.85	1.85
F-Documents		1.67	1.89	1.8
G-Automation		1.58	1.58	1.85
H-Procedures		1.64	1.64	1.71
I-Internal border agency cooperation		0.80	1.3	1.62
J-External border agency cooperation		1	1.27	1.6
K-Governance and impartiality		1.89	1.8	1.93
Logistics Performance Index (2016-23)	**2016**	**2018**	**2023**	**2023**
Efficiency of customs and border management clearance (1-5 (best))	3.13	2.77	3.7	3.56

.. Not available.

Source: OECD, *Trade Facilitation Indicators 2022*. Viewed at: https://www.oecd.org/trade/topics/trade-facilitation/; and World Bank, *Logistics Performance Index.* Viewed at: https://lpi.worldbank.org/.

3.13. Following ratification of the Protocol concerning the WTO Agreement on Trade Facilitation (TFA) on 31 October 2016, Iceland submitted a TFA-related transparency notification in 2018 and in 2023 updated the links contained therein following the integration of Customs and Internal Revenue.[16] It has not yet established a National Trade Facilitation Committee.

3.14. As a result of improvements in information availability, the use of documentation, and border agency cooperation, Iceland improved its score in the OECD Trade Facilitation Indicators. Its score in the Logistics Performance Index, while varying, also improved overall, with Iceland ranking higher than the average OECD high-income economy (Table 3.1).

3.15. Importers can request an advance ruling on customs classification and on origin, but no such mechanism is in place for valuation.

Customs valuation

3.16. Customs valuation is primarily based on transaction values, followed by other valuation methods as spelled out in the Agreement on Implementation of Article VII of the GATT 1994 (Customs Valuation Agreement). As previously, Regulation No. 1100/2006 details specific procedures, including those when Customs doubts the valuation information provided, with the special provision on the customs valuation of vehicles contained therein unchanged. While the use of the official exchange rate for purposes of customs valuation remains mandatory, since 2020 it has been updated weekly (each Monday) rather than daily.[17] The authorities indicate that this change aimed to simplify customs clearances and increase predictability. The interpretative notes of the Customs Valuation Agreement have been partially included in the Customs Code and Regulation No. 1100/2006[18], and Iceland notified that regulation in 2021.[19] Iceland has not formally adopted the decision regarding the treatment of interest charges in the customs value of imported goods.

3.17. Regarding vehicles, Customs compares declared values to prices of similar vehicles that have been sold and transported to the country at the same or similar time as the vehicle was purchased. Where Customs doubts the declared value, valuation is based on reference values of list prices in Iceland from which various taxes, a mark-up, transport costs, and depreciation are deducted.[20]

3.1.2 Rules of origin

3.18. While the Customs Code foresees non-preferential rules of origin[21], such rules have not been issued to date and Iceland applies only preferential rules of origin. They are applied under

[16] WTO documents G/TFA/N/ISL/1, 15 February 2018; and G/TFA/N/ISL/1/Rev.1, 20 November 2023.
[17] Act No. 58/2020, amending the Customs Code.
[18] WTO document G/VAL/Q/ISL/4, 29 November 2022.
[19] WTO document G/VAL/N/1/ISL/2, 7 September 2021.
[20] WTO document G/VAL/Q/ISL/4, 29 November 2022.
[21] RoO could use three methods: change in customs classification, a value-added criterion, or specific production or processing steps.

Iceland's FTAs, and defined under such agreements, as well as its Generalized Scheme of Preferences (GSP, Section 2), which are set out in Annex 4 of Regulation No. 119/2002 and follow UNCTAD's conventions for origin determination.[22] Iceland notified the implementation of its GSP scheme in 2003 but has yet to notify preferential rules of origin (RoO) requirements to the Committee on Rules of Origin.

3.19. With the transition of the Regional Convention on pan-Euro-Mediterranean Rules of Origin (PEM Convention), trading partners can use the current or the transitory RoO contained therein until it is adopted by all contracting parties. PEM Convention RoOs apply to the FTA with the Faroe Islands; the one between Iceland, Liechtenstein, and Norway with the United Kingdom; and the EEA Agreement. They also apply to some FTAs concluded as part of EFTA with geographically close trading partners, while those between EFTA and other trading partners usually apply RoO defined for each agreement. The FTA with China contains general RoO based on the concepts of goods wholly obtained or entirely produced in the parties, and specific RoO by tariff heading using various criteria and allowing for cumulation among the parties.[23] Most FTAs foresee self-declaration by all or by authorized exporters, including the use of long-term declarations for some exporters. Customs approves exporters for this and also issues preferential certificates of origin, while the Chamber of Commerce issues non-preferential certificates. The Customs Code foresees the option of requesting advance rulings on origin, with 10 advance rulings on origin issued during the review period, according to the authorities.

3.1.3 Tariffs

3.20. According to its latest certified Schedule (using HS02), Iceland maintains a 95% binding coverage of its tariffs.[24] Unbound tariff lines include (parts and accessories) of motor vehicles, fertilizers, and certain gaseous hydrocarbons. The authorities indicate that they intend to transpose the bound schedule to HS22 with assistance from the WTO Secretariat over the next months.

3.21. Iceland's tariffs have changed only minimally and applied tariffs remain significantly lower than bound rates. Following the elimination of most tariffs described in the previous Review[25], 88.9% (8,278) of the 9,314 tariff lines (using HS22) are duty-free, with the remaining tariffs applying only to agricultural products (WTO definition) and some fish and fish products. While the total number of duty-free lines increased, their share marginally declined, reflecting primarily an unbalanced increase in total tariff lines, not an actual increase in tariff rates (Table 3.2). For 67 tariff lines, tariffs are higher in 2023 compared to 2017 (of these, 7 were duty-free in 2017), and for 11 they are lower.[26] In 2022, 95.2% of trade entered MFN duty-free.

Table 3.2 Structure of MFN tariff in Iceland

(%, unless otherwise indicated)

	Applied MFN	
	2017	2023
Bound tariff lines (% of all tariff lines)	n.a.	n.a.
Simple average rate	4.6	4.3
WTO agricultural products	20.2	18.1
WTO non-agricultural products	0.2	0.2
HS 01-24	15.5	14.2
HS 25-97	0.0	0.0
Duty-free tariff lines (% of all tariff lines)	89.6	88.9
Tariff quotas (% of all tariff lines)	1.6[d]	2.5
Non-*ad valorem* tariffs (% of all tariff lines)	4.4	5.4
Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.0	1.3
Domestic tariff "peaks" (% of all tariff lines)[a]	7.5	8.7
International tariff "peaks" (% of all tariff lines)[b]	7.5	8.5
Coefficient of variation	4.5	4.2

[22] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[23] WTO document WT/REG355/1, 7 July 2016.
[24] WTO document WT/Let/477, 18 October 2004.
[25] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[26] Numbers are estimated by WTO Secretariat, using WCO concordance tables. About 3.5% of tariff lines could not be compared between the 2023 tariff schedule and the 2017 tariff schedule, mainly due to changes in HS nomenclature and in the structure of the tariff schedule.

	Applied MFN	
	2017	2023
Nuisance applied rates (% of all tariff lines)[c]	0.1	0.1
Total number of tariff lines	8,971	9,314
Ad valorem rates	8,580	8,811
Duty-free rates	8,037	8,278
Specific rates	61	57
Compound rates	330	446

n.a. Not applicable.

a Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
b International tariff peaks are defined as those exceeding 15%.
c Nuisance rates are those greater than zero, but less than or equal to 2%.
d Information for 2017 misses certain tariff lines (around 0.3% of total lines) under Chapter 6, so shares in both years are not strictly comparable.

Note: The 2017 tariff is based on HS17 nomenclature, and the 2023 tariff on HS22. Calculations are based on national tariff line level (8-digit), excluding in-quota rates and including *ad valorem* equivalents (AVEs), which were estimated based on 2022 import data at the 8-digit tariff line level. If no import data were available for 2022, 2021 import data were used in calculations. In case of no imports in both years, the *ad valorem* part is used for compound rates.

Source: WTO Secretariat calculations, based on data provided by the authorities through IDB notification.

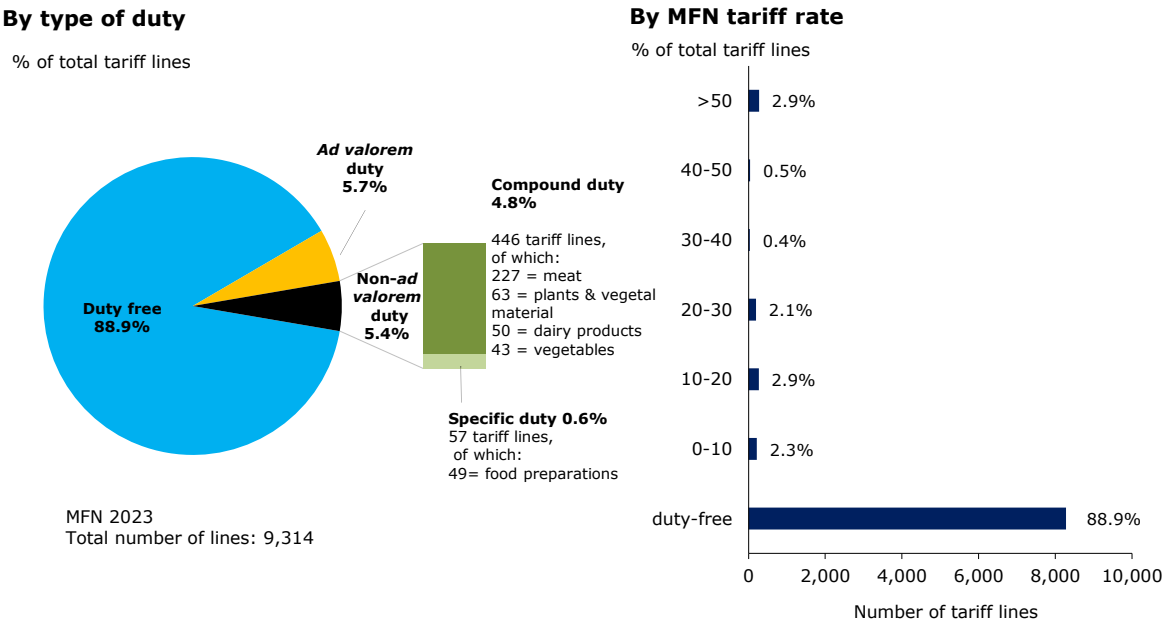
3.22. The simple average of applied MFN tariffs stood at 4.3% in 2023, a decline from the 4.6% in 2017, but this was mainly due to AVEs calculated for the non-*ad valorem* duties, and the number of tariff lines. Average simple applied MFN tariffs for non-agricultural products were on average 0.2% (there are 119 lines with a non-zero tariff), and those for agricultural products stood at 18.1%, a decline from the 20.2% in 2017 that primarily results from changes in AVEs calculated for the non-*ad valorem* duties (Section 4.1). Average bound rates for agricultural products are 103.6%, compared to 10.0% for other products. For 1.3% of all tariff lines, the Secretariat was unable to estimate AVEs.

3.23. Slightly more than half of tariff lines that are not duty-free have an *ad valorem* duty, with the remainder (5.4% of all tariff lines) having non-*ad valorem* duties. Among those are 446 tariff lines with compound and 57 with specific duties (Chart 3.1). In 2023, AVE estimates for these tariffs range from 0.3% to 370%.

3.24. The Customs Code foresees the potential application of compensation charges on imported goods produced from agricultural raw materials where such charges are allowed under Protocol 3 to the EEA Agreement (or under other agreements) provided such taxation remains within bound tariffs.[27] However, these provisions are not applied in practice.

[27] Customs Code, Articles 5 and 139. A similar mechanism was foreseen under Article 84 of Act No. 99/1993 on Agricultural Products before being abolished in 2016 by Act No. 102/2016, as the provisions were not considered applicable under the existing system according to the cabinet bill.

Chart 3.1 Tariff distribution by duty and rate of duty, 2023



Note: 0.03% of total lines are not shown on the right chart due to the nonavailability of AVEs.

Source: WTO Secretariat calculations, based on data provided by the authorities.

3.25. Applied rates (using AVEs) of a small number of tariff lines seem to exceed their corresponding bound rates (Table 3.3). The authorities indicate that they aim to rectify this the next time they amend the customs tariff.

Table 3.3 Applied tariffs exceeding bound tariffs

HS code	Product description	2023 MFN tariff		Bound tariff
		As reported	AVEs[a]	As reported
19052000	Gingerbread and the like	20% + 85 ISK/kg	34.7	31.0
19059051	Pies and pizzas containing meat	20% + 99 ISK/kg	34.7	31.0[b]
19059059	Other pies and pizzas	20% + 68 ISK/kg	34.1	31.0[b]

a Calculations are based on national tariff line level (8-digit), excluding in-quota rates and including *ad valorem* equivalents (AVEs), which were estimated based on 2022 import data at the 8-digit tariff line level.

b Out-of-quota rate.

Note: A full comparison between the 2023 tariff schedule and the bound tariff schedule was not possible; about 6% of tariff lines could not be compared, mainly due to changes in HS nomenclature and in the structure of the tariff schedule.

Source: WTO Secretariat calculations, based on data provided by the authorities and WTO CTS database.

3.26. Iceland also applies MFN tariff rate quotas (TRQs), autonomous TRQs, and preferential TRQs (see below). MFN TRQs are defined in Annexes IIIa and IIIb to the Customs Code, and these did not change during the review period. However, in marketing year 2021/22 only 12 of these quotas were opened, as out-of-quota tariffs were lower compared to in-quota tariffs. Opened quotas (including autonomous ones) covered 235 tariff lines, primarily affecting meat products (Table 3.4). Opened TRQs are published annually by the Ministry of Food, Agriculture and Fisheries Regulations, with those for 2023 published in Regulations No. 337/2023 and No. 1178/2023, and the advertisement of quotas published on the Government's website. Where applications for quotas exceed available quantities, auctions are used once or twice a year depending on the TRQ. Winning bids are selected starting with the highest offer price until full quota allocation, with the lowest selected offer setting the price for all winning bids. The fill rate for all but two of these quotas reached 100% during marketing year 2021/22.[28] The share of tariff lines with opened TRQs in total

[28] WTO document G/AG/N/ISL/66, 26 September 2022. The notification for marketing year 2022/23 was received after drafting of the Review had been completed. WTO document G/AG/N/ISL/69, 6 March 2024.

tariff lines stood at 2.5% in 2023. According to the Customs Act, tariff rates under the MFN TRQs are either 32% of the specific duty of the regular tariff (for Annex IIIA) or 30% (for Annex IIIB, unless the tariff spelled out in Annex IIIB is lower). On average, AVEs for tariff lines in opened TRQs are around 40 percentage points lower compared to MFN AVEs, but for some of these tariff lines, in-quota tariffs seem to exceed out-of-quota tariffs based on AVE estimates.[29]

3.27. Autonomous TRQs are contained in Annexes IVa and IVb to the Customs Code. They include meat, milk and milk products, butter, cheese, eggs, flowers and plants, potatoes, tomatoes, onions, cabbage, lettuce, carrots, cucumbers, leguminous vegetables, and other vegetables. The list of autonomous TRQs that are opened are published jointly with the MFN TRQs under Annex IIIB (Regulation No. 1178/2023, for 2023) by the Minister of Agriculture, and these are set at 45% of the normal specific duty rate unless a tariff line is also included in Annex V (see below).[30] Where applications for quotas exceed available quantities, auctions are also used.

3.28. Some 23 tariff lines included in Annexes IVa and IVb have also been in Annex V of the Customs Act since 2012. Until 2020, more preferential duty rates were applied for tariff lines in opened autonomous quotas under Annex IV, but since then, those goods listed also in Annex V are generally subject to seasonally lower tariffs without quota limitation, often duty-free, which are spelled out in said Annex V.[31] Outside the period where seasonal tariffs apply, they might be subject to the autonomous TRQs at 45% of the specific MFN duty.

Table 3.4 Summary table for TRQs open in 2023, by HS heading

HS code	Product description	Tariff lines at the 8-digit level
0201	Meat of bovine animals, fresh or chilled	7
0202	Meat of bovine animals, frozen	7
0203	Meat of swine, fresh, chilled or frozen	30
0204	Meat of sheep or goats, fresh, chilled or frozen	29
0206	Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen	4
0207	Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen	51
0209	Pig fat, free of lean meat, and poultry fat, not rendered or otherwise extracted, fresh, chilled, frozen, salted, in brine, dried or smoked	1
0210	Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal	10
0405	Butter and other fats and oils derived from milk; dairy spreads	3
0406	Cheese and curd	7
0407	Birds' eggs, in shell, fresh, preserved or cooked	5
0408	Birds' eggs, not in shell, and egg yolks, fresh, dried, cooked by steaming or by boiling in water, moulded, frozen or otherwise preserved, whether or not containing added sugar or other sweetening matter	6
0602	Other live plants (including their roots), cuttings and slips; mushroom spawn	18
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	18
0604	Foliage, branches and other parts of plants, without flowers or flower buds, and grasses, mosses and lichens, being goods of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	4
1602	Other prepared or preserved meat, meat offal, blood or insects	35
TOTAL		235

Source: Regulations No. 337/2023 and No. 1178/2023.

Preferential rates

3.29. Preferential tariffs under Iceland's various FTAs improve on MFN market access in agriculture, and marginally for other tariff lines with nearly all non-agricultural tariff lines already duty-free. On average, an additional 18.2% of all agricultural tariff lines are duty-free as a result of these agreements, with some variance. For the agreements with Canada, Central America, China, the Faroe Islands, Peru, and the United Kingdom, the share of duty-free agricultural lines exceeds 80%. Average tariffs for agricultural goods are also lower under these agreements, again with some variance (Table 3.5). The agreement with the Faroe Islands stands out with full duty- and quota-free market access. The most recent EU-Iceland bilateral trade agreement negotiated on the basis

[29] Using 2023 data, this situation seems to apply to seven tariff lines.
[30] Act No. 88/2005, Article 12.
[31] Act No. 152/2019, amending Article 12 of Act No. 88/2005 and Article No. 65A of Act No. 99/1993.

of Article 19 of the EEA Agreement entered into force on 1 May 2018[32], reducing tariffs in 98 tariff lines (or 17.3% of all dutiable tariff lines) across 10 headings to zero.[33] Preferential TRQs are in place under the FTAs with the European Union, EFTA, Norway, and the United Kingdom covering certain meat (products) and cheese.

3.30. In 2022, more than 94.3% of all imports covered by FTAs and non-reciprocal preferences granted entered under MFN-zero, with the value varying across agreements.[34] While some goods under FTAs remain subject to duties, preference utilization across all FTAs amounted to around 75% in 2022, with the European Union and the United Kingdom accounting for the bulk of eligible preferences and preferences used. Utilization rates by agreement differ significantly, although in many instances imports eligible for preferences are very limited. Excluding agreements where the total potential value of preferences was lower than USD 100,000 in 2022, preference utilization ranged from 4.8% for imports from China to 95% for EFTA imports, with most imports entering MFN duty-free.

3.31. During the review period, new agreements under the EFTA framework entered into force with Indonesia, the Philippines, Georgia, and Ecuador, while the new agreement with the Republic of Moldova had not yet entered into force as of the end of February 2024 (Section 2.3.2.3). The Agreement between the EEA EFTA States and the United Kingdom also entered into force.

Table 3.5 Icelandic preferential tariffs, 2023

	Simple average tariff rate (%)			Duty-free lines as a percentage of total tariff lines (includes MFN duty-free lines) (%)		
	Overall	WTO agricultural products	WTO non-agricultural products	Overall	WTO agricultural products	WTO non-agricultural products
Applied MFN	**4.3**	**18.1**	**0.2**	**88.9**	**57.6**	**98.3**
European Union	2.0	8.7	0	94.3	75.5	100
EFTA	2.6	10.7	0.2	92.5	73.1	98.3
EEA	3.4	14.6	0	94.5	76.2	100
EFTA agreements						
Albania	3.3	14.2	0	94.5	76.2	100
Bosnia and Herzegovina	3.3	14.2	0	94.2	75.2	100
Canada	2.6	11.1	0	95.5	80.8	100
Central America – Costa Rica	2.5	11.0	0	95.5	80.7	100
Central America – Panama	2.5	11.0	0	95.5	80.7	100
Chile	3.4	14.9	0	93.6	72.2	100
Colombia	2.6	11.1	0	94.6	76.5	100
Ecuador	2.6	11.3	0	95.1	78.8	100
Egypt	3.6	15.6	0	92.2	66.5	100
Georgia	2.5	10.8	0	95.0	78.4	100
Gulf Cooperation Council (GCC)[a]	3.3	14.3	0	94.4	75.7	100
Hong Kong, China	3.4	14.6	0	94.3	75.3	100
Indonesia	3.4	14.5	0.003	93.6	72.5	100
Israel	3.6	15.5	0	93.4	71.4	100
Jordan	3.6	15.7	0	92.5	67.8	100
Korea, Rep. of	3.3	14.4	0	93.8	73.5	100
Lebanon	3.4	14.8	0	94.4	75.7	100
Mexico	3.4	14.7	0	93.6	72.3	100
Montenegro	3.4	14.7	0	93.9	73.7	100
Morocco	3.5	15.3	0	93.0	69.6	100
North Macedonia	3.6	15.5	0	92.9	69.6	100
Peru	2.5	10.9	0.04	95.3	81.1	99.6
SACU[b]	3.4	14.5	0	94.3	75.3	100
Philippines	3.0	13.0	0	94.0	74.1	100

[32] Agreement in the Form of an Exchange of Letters Between the European Union and Iceland Concerning Additional Trade Preferences in Agricultural Products. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22017A1024(02).

[33] WTO Secretariat estimates based on data provided by the authorities through IDB notification.

[34] WTO Secretariat estimates based on information provided by the authorities.

	Simple average tariff rate (%)			Duty-free lines as a percentage of total tariff lines (includes MFN duty-free lines) (%)		
	Overall	WTO agricultural products	WTO non-agricultural products	Overall	WTO agricultural products	WTO non-agricultural products
Serbia	3.3	14.2	0.04	94.2	76.3	99.6
Singapore	3.4	14.8	0	93.6	72.5	100
Tunisia	3.6	15.4	0	93.0	69.7	100
Türkiye	3.5	15.0	0	94.1	74.4	100
Ukraine	3.2	14.0	0	94.5	76.2	100
Bilateral agreements						
China	2.2	9.7	0.003	95.4	80.3	100
Faroe Islands	0.0	0.0	0	100	100	100
United Kingdom	1.6	6.8	0	96.7	85.8	100
Temporary customs benefits for Ukraine	0.0	0.1	0	100	99.9	100
Non-reciprocal						
Generalized system of preferences (GSP)	2.0	8.7	0	96.7	85.7	100

a Gulf Cooperation Council: Kingdom of Bahrain, State of Kuwait, Oman, Qatar, Kingdom of Saudi Arabia, and United Arab Emirates.
b Southern African Customs Union: Botswana, Eswatini, Lesotho, Namibia, and South Africa.

Note: Calculations are based on national tariff line level (8-digit), excluding in-quota rates and including *ad valorem* equivalents (AVEs), which were estimated based on 2022 import data at the 8-digit tariff line level. If no import data were available for 2022, 2021 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound rates.

Source: WTO Secretariat calculations, based on data provided by the authorities through IDB notification.

3.32. In June 2022, Iceland abolished all customs duties for goods wholly obtained in Ukraine in response to the war[35], a measure in place until the end of May 2023.

3.33. Iceland applies a GSP that improves over its MFN tariffs with 100% of non-agricultural tariff lines, and 85.7% of agricultural tariff lines duty-free. The coverage of the GSP scheme was expanded significantly in 2018, broadening the scope to include additional agriculture-related tariff lines in the scheme, e.g. non-alcoholic beverages, vegetables, cereal preparations, and plants and vegetal material.[36] For the remaining agricultural lines, the simple average of applied tariffs is 8.7%.

3.1.4 Other charges affecting imports

3.34. Upon importation, the customs authorities collect excise duties and VAT levied on the excise-inclusive amount (Section 3.3.1). The usual VAT rate stands at 24%, with a lower rate of 11% applicable to some goods. Excise duties continue to be levied on most motor vehicles (mostly based on CO_2 emissions), diesel and gasoline, alcohol, and tobacco products, and include carbon taxes (Section 3.3.1). Customs also collects recycling and deposit fees on imports that are also applied to domestic products. Deposit fees on beverages packaged in steel, aluminium, glass, and plastic materials can be reimbursed when re-exported. Complex-to-apply recycling fees cover most tariff lines based on the weight of certain packaging materials, with specific rates applying to 1,613 tariff lines. According to the Customs Code, customs fees are based on the relevant service costs. A list of charges is published on the customs website, although the page does not always load and display the relevant data.[37]

[35] Act No. 54/2022, amending Act No. 88/2005.
[36] Act No. 76/2018, amending Act No. 88/2005.
[37] Iceland Revenue and Customs, *Charges*. Viewed at: https://www.skatturinn.is/english/companies/customs-matters/conditions/charges/charges.

3.35. Overall, taxes collected by at the border accounted on average for 36% of total tax revenue during the review period, slightly increasing as a share. Import duties accounted for less than half a percent of total tax revenues (Table 3.6).

Table 3.6 Tax revenue by source, 2017-23

(ISK)

Collector	Tax	2017	2018	2019	2020	2021	2022	2023
Iceland Revenue and Customs (at the border)	Tariff	3,541	2,852	2,314	2,189	2,293	3,597	..
	VAT	160,374	178,653	175,563	168,167	206,849	275,709	..
	Excise	56,000	57,007	54,187	51,059	50,820	59,934	..
	Other	2,902	4,014	3,681	3,395	5,929	6,797	..
	subtotal	222,816	242,527	235,744	224,811	265,891	346,038	..
Iceland Revenue and Customs (inland)	Income tax	278,830	299,114	300,530	296,804	309,053	402,227	..
	Property tax	10,784	10,519	11,353	16,568	16,553	20,129	..
	VAT	68,913	58,716	66,653	60,402	65,830	35,809	..
	Excise	9,584	10,073	10,183	10,386	11,734	12,822	..
	Other	41,296	43,902	46,635	45,892	41,238	47,731	..
	subtotal	409,407	422,323	435,354	430,051	444,408	518,717	..
Total tax revenue		**632,224**	**664,850**	**671,098**	**654,862**	**710,299**	**864,755**	..

.. Not available.

Source: Information provided by the authorities.

3.1.5 Import prohibitions, restrictions, and licensing

3.36. While some import restrictions are in place, Iceland notified WTO Members that it did not maintain quantitative restrictions as of 2004, the latest notification on the topic.[38] Iceland last replied to the questionnaire on import licensing procedures in 2004.[39] The authorities indicated they plan to update the notification.

3.37. Iceland imposes a number of restrictions and prohibitions on certain imports. Items including narcotics and dangerous drugs, as well as some tobacco articles, are completely prohibited from importation[40], while other products are subject to licensing under defined conditions. These include, in particular, goods covered by various international conventions (Table 3.7). Other products are subject to technical regulations or SPS measures, including live animals and certain plants, uncooked meat and various meat products of certain origin, angling gear, or riding clothing (Section 3.3.3). Act No. 57/2019 amended the Chemicals Act to reflect EEA Rules on mercury.

3.38. The import of laser and intense pulsed light (IPL) devices has to be notified to the Radiation Safety Authority without requiring a response. Similarly, the import of ships and other floating structures has to be notified, and these are inspected upon importation to ensure they meet technical regulations required for registration.[41] Dealing with radioactive materials above certain thresholds is generally subject to an operational licence, including for importing.

Table 3.7 Imports requiring non-automatic licensing

Goods categories/items	Rationale	Legal basis	Controlling authority
Alien organisms	Protection of the environment	Act No. 60/2013 on the Protection of Nature	Ministry of Food, Agriculture and Fisheries (MFAF)
Certain animal and plant species	CITES	Act No. 85/2000 on the Implementation of CITES, MFAF Regulation No. 829/2005	MFAF
Certain chemicals	Rotterdam Convention	Act No. 61/2013 on Chemicals, Regulation No. 888/2013, incorporating the EU REACH Regulation	Ministry of the Environment, Energy and Climate (MEEC)
Substances that deplete the ozone layer	Montreal Protocol	Regulation No. 970/2013	MEEC
Persistent organic pollutants	Stockholm Convention	Regulation No. 635/2022	MEEC

[38] WTO document G/MA/NTM/QR/1/Add.10, 28 March 2006.
[39] WTO document G/LIC/N/3/ISL/3, 28 October 2004.
[40] Iceland Revenue and Customs, *Prohibited Articles*. Viewed at: https://www.skatturinn.is/english/individuals/customs-matters/travelling-to-iceland/duty-free-imports/.
[41] Act No. 66/2021, Article 28.

Goods categories/items	Rationale	Legal basis	Controlling authority
Fluorinated greenhouse gases, their mixtures and concerned products and equipment	Montreal Protocol	Regulation No. 1066/2019	MEEC
Waste	Basel Convention for the Control of Transboundary Movements of Hazardous Waste and their Disposal	Regulation No. 822/2010	MEEC
Mercury, mercury compounds and mercury waste	Minamata Convention	Act No. 61/2013 on Chemicals, Regulation No. 640/2022	MEEC
Cultural objects	Protection against trafficking of such objects	Act No. 57/2011, on the return of cultural objects to other countries	Ministry of Culture and Business Affairs
Firearms, ammunition, explosives, fireworks	Safety	Act No. 16/1998 on Weapons	Ministry of Justice
Medicated feed	Monitoring of production and distribution of medicated feed	Act No. 100/2020 on Medicines	Ministry of Health
Machines for public works (mobile or construction machinery)	Safety	Rule No. 388/1989	Ministry of Social Affairs and Labour

Source: Information provided by the authorities.

3.1.6 Anti-dumping, countervailing, and safeguard measures

3.39. The Customs Code foresees the use of anti-dumping and countervailing duties for both goods and services.[42] When no comparable price under normal business conditions is available in the exporting country, the maximum export price of such goods to some other country can be used to establish dumping. According to the Code, such duties cannot exceed the dumping margin or the payment of relevant subsidies, and cannot be in force for more than five years. They can be imposed temporarily in certain circumstances (not exceeding 12 months) and can be imposed retroactively (until 90 days prior to the complaint having been received) in specific cases, e.g. when goods have been imported in great quantities in a short period of time and caused damage domestically.

3.40. According to its notifications, Iceland did not take any anti-dumping or countervailing duty actions between July 2017 and December 2023. In 2022, Iceland notified that it had not established an authority competent to initiate and conduct anti-dumping or countervailing duty investigations, and that it had not taken, and was not planning to take, any countervailing actions in the foreseeable future.[43]

3.41. Iceland does not have global safeguard legislation in place, but it does include global and bilateral safeguard provisions in most of its FTAs.[44]

3.42. Iceland has reserved the right to use Special Agricultural Safeguards for 36.7% of agricultural tariff lines, with their use spelled out in the Customs Code, but it did not apply the mechanism during the review period.[45]

3.1.7 Other measures affecting imports

3.43. Iceland imposes sanctions in line with (i) the UN Security Council on the basis of Article 41 of the Charter of the United Nations; and (ii) the European Union as part of the EEA Agreement of 1992. According to the authorities, there are no local content requirements for foreign investment or the operation of (foreign) companies in place.

[42] Act No. 88/2005, Articles 133-37.
[43] WTO documents G/ADP/N/193/ISL, 20 September 2022; and G/SCM/N/202/ISL, 20 September 2022.
[44] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[45] Act No. 88/2005, Article 138; and latest available notification for calendar year 2022. WTO document G/AG/N/ISL/67, 5 January 2023.

3.2 Measures directly affecting exports

3.2.1 Customs procedures and requirements

3.44. Procedures for exports are similar to those for imports, with exporters having to electronically submit an export declaration, except individuals and entities exporting 12 or fewer consignments per year. While goods are meant to be cleared prior to departure, they are usually only cleared once loaded on board or have already departed. The Single Administrative Document for exports was introduced in 1992, much earlier than that for imports.

3.45. All exporters can request registration as an authorized exporter (separately for exports to (i) the EEA, EFTA, and under related trade agreements, and (ii) China), allowing for a self-declaration of origin.[46] According to the Customs Code, persons and legal persons professionally engaged in the exportation of small consignments to individuals via post can obtain a licence allowing them to submit simplified export declarations after exportation (Section 2.5).[47]

3.2.2 Taxes, charges, and levies

3.46. Iceland does not charge any export taxes, charges, or levies. The 5% levy on the export of unprocessed fish mentioned in the previous report, and which actually was a mechanism to compensate for the weight loss of unprocessed fish not landed in Iceland but abroad by registering the weight of such catches in the Icelandic quota registry with an additional 5%, has been abolished (Section 4.1.2).[48]

3.2.3 Export prohibitions, restrictions, and licensing

3.47. The export of narcotic drugs is prohibited, and a number of goods are subject to certain export licences. They include animal products, birds and eggs, used refrigerants, antiques, natural treasures, certain microorganisms, firearms, and certain military and dual-use items.[49] Iceland implements coercive measures determined by the UN Security Council and certain coercive measures of the European Union.[50]

3.48. Exports of horses require an export certificate, and fees are payable for the related examination and issuance of this certificate. Plants exported from Iceland need to be accompanied by a phytosanitary health certificate.

3.2.4 Export support and promotion

3.49. There have been no significant changes to Iceland's export support and promotion since the previous Review. Business Iceland, a public-private agency whose board includes representatives of the Government and of the Confederation of Icelandic Enterprises, provides market-based services to companies for entry and expansion in foreign markets. In charge of branding and marketing of Iceland and Icelandic export industries, it can pay for up to half of marketing project costs under certain conditions that include being registered and domiciled in Iceland.[51] Subsidies are financed out of Business Iceland's operating budget, which includes contributions from all Icelandic companies (through a levy on salary expenses) as well as government transfers. It runs an information portal for Icelandic companies looking for business in developing and emerging economies.[52] Some initiatives supporting certain sectors remain in place (including science, sustainability, conference services, horses, the film industry, seafood, and creative sectors), with a new initiative to promote

[46] Iceland Revenue and Customs, *Authorized Exporters*. Viewed at: https://www.skatturinn.is/atvinnurekstur/tollamal/utflutningur/vidurkenndur-utflytjandi/.
[47] Act No. 88/2005, Article 141.
[48] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[49] Iceland Revenue and Customs, *Export License*. Viewed at: https://www.skatturinn.is/atvinnurekstur/tollamal/utflutningur/utflutningsleyfi/.
[50] Cabinet of Iceland, *Coercive Measures*. Viewed at: https://www.stjornarradid.is/verkefni/utanrikismal/lagamal/thvingunaradgerdir/.
[51] Business Iceland, *Clear Path to the World*. Viewed at: https://www.islandsstofa.is/greid-leid-ut-i-heim.
[52] Business Iceland, *Heimstorg*. Viewed at: https://www.islandsstofa.is/heimstorg.

Icelandic tourism added in 2020.[53] These initiatives are linked to a long-term government strategy for marketing and exports, which the Icelandic Export and Marketing Council monitors.[54]

3.2.5 Export finance, insurance, and guarantees

3.50. The state-owned New Business Venture Fund (which invests in start-up companies) contained an Export Credit Guarantee Department to provide export credit insurance and guarantees to start-ups, but with no new credit guarantees issued since 2012, the Department no longer exists since 2021.

3.3 Measures affecting production and trade

3.3.1 Incentives

3.51. Corporate income tax (CIT) continues to be levied at 20% in Iceland (plus a payroll tax of 6.35% for social security) on most enterprises, although the Government increased the CIT temporarily to 21% for 2024 as part of its efforts to slow the expansion in the economy.[55]

3.52. Iceland reformed its personal income tax system during the review period to encourage entry of low-wage earners into the labour market. Since 2020, personal income has been subject to three tax brackets, with the lowest tax rate (consolidating central and local tax rates) for 2023 at 31.45% (significantly below the lower of the two tax brackets that existed previously) and the highest tax rate 46.25% (unchanged). Tax brackets are now adjusted annually.[56] A personal tax credit (of around ISK 720,000 for 2023) remains available to each individual older than 16, which as at 2023 translates into ISK 2.4 million of income tax-free earnings per year, when accounting for the deductible, compulsory pension payments.[57]

3.53. The usual VAT rate stands at 24%, with a lower rate of 11% applicable to some goods (and services) following the VAT reforms outlined in the previous Report (Table 3.8). A number of, primarily service, activities are also zero-rated. Subsequently, some additional adjustments were made. Foreign commercial companies that sell services provided electronically, electronic communications services, and radio and television services to individuals and non-commercial entities can use a simplified registration scheme for VAT on electronic services (VOES) since July 2019. The scheme also applies similarly to paper subscription newspapers and magazines, as well as services subject to VAT in Iceland sold by foreign tourism operators to individuals and non-commercial entities.[58] Under certain conditions, only 75% of income of foreign experts working in Iceland is taxed during the first three years of employment.[59] In response to the COVID-19 pandemic, the Government introduced certain temporary tax relief measures, such as full VAT refunds for certain construction-related activities. The accommodation tax at hotels was also suspended until the end of 2023.

[53] Business Iceland, *Project*. Viewed at: https://www.islandsstofa.is/verkefni.
[54] Business Iceland, *Long-Term Strategy for Icelandic Export Industries*. Viewed at: https://www.islandsstofa.is/en/long-term-strategy-for-icelandic-export-industries.
[55] Income tax for certain partnerships and associations is higher at 37.6%, temporarily increased to 38.4% for 2024. For the temporary changes, see Act No. 100/2023.
[56] Iceland Revenue and Customs, *Tax Brackets 2023*. Viewed at: https://www.skatturinn.is/english/individuals/tax-brackets/2023.
[57] Cabinet of Iceland, *Tax Changes in 2023*. Viewed at: https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2022/12/28/Skattabreytingar-a-arinu-2023/.
[58] Iceland Revenue and Customs, *Value Added Tax*. Viewed at: https://www.skatturinn.is/english/companies/value-added-tax/.
[59] Ministry of Finance and Economy Regulation No. 1202/2016 on Deductions from the Income of Foreign Experts. Viewed at: https://island.is/reglugerdir/nr/1202-2016.

Table 3.8 Items subject to reduced VAT (11%)

HS section	Reduced VAT (11%) (No.)	% of total lines by HS section	Main items
Total tariff lines of reduced VAT (11%)	2,536	27.2[a]	
IV. Prepared food, beverages and tobacco	1,167	92.3	Beverages, spirits and vinegar (HS22); preparations of vegetables, fruit (HS 20); preparations of meat, of fish (HS 16); preparations of cereals, flour, starch or milk (HS 19)
I. Live animals and products	878	90.5	Fish and crustaceans, molluscs (HS 03); meat (HS02)
II. Vegetable products	344	70.1	Edible vegetables, fruits and nuts (HS 07 and HS 08)
III. Fats and oils	69	59.0	Animal, vegetable or microbial fats and oils and their cleavage products (HS 15)
XVI. Machinery, electrical equipment	30	2.5	Electrical machinery and equipment and parts thereof (HS 85)
VI. Chemicals and products thereof	26	2.2	Organic chemicals (HS 29)
Other	22	1.8	Printed books and newspapers (HS 49); plastics and rubber (HS 39 and HS 40)

a The figure refers to a share of total tariff lines (9,314).

Source: WTO Secretariat calculations, based on data provided by the authorities through IDB notification.

3.54. Iceland currently levies excise duties only on motor vehicles, petrol and diesel, alcohol, and tobacco products, and also considers carbon taxes to be excise duties (see below). Excise duties on motor vehicles generally depend on recorded CO_2 emissions (to which a 5% excise duty for vehicles based on value is added), not exceeding 65% of the customs value.[60] For some special-purpose vehicles, excise is levied only on the customs value at varying rates, and that for those solely powered by hydrogen or electricity, it is 5% of the customs value.[61] Rates for taxis and other transport vehicles differ from those of other vehicles. Temporary reductions for excise duties on rental cars were in place between 2016 and 2018 with a new scheme of excise duty reductions in place during 2021-22 for rental companies demonstrating that new vehicles were significantly reducing their fleet emissions. Those benefitting from certain VAT exemptions related to international and bilateral agreements are also exempt from excise duties.

3.55. The Invest in Iceland project implemented by Business Iceland provides general information (including regarding available state aid) and undertakes investment attraction activities to facilitate foreign inward investment, with a varying focus on sectors[62] and aligned with the long-term strategy for exports (Section 3.2.4). The project focuses on Iceland's strengths and uniqueness, promoting diversification and internationally competitive knowledge-based industries, and using best available technologies and environmental criteria.[63]

State aid

3.56. State aid in Iceland is regulated by the State Aid Framework of the EEA, as spelled out in relevant sections of the Treaty on the Functioning of the European Union that are transposed into the EEA Agreement (i.e. all areas except agriculture and fisheries, which are not covered by the Agreement). While generally prohibited, state aid can be granted subject to prior notification to, and approval by, the EFTA Surveillance Authority (ESA).[64] The ESA can accept a proposed scheme, approve it under certain conditions, or prohibit it. The State Aid General Block Exemption

[60] During the review period, the system changed from using emission ranges to one based on more precise emissions estimates.

[61] Act No. 29/1993, Article 4.

[62] Invest in Iceland, *Investment Opportunities in Iceland*. Viewed at: https://www.invest.is/opportunities.

[63] Congressional Resolution on New Investment Policy No. 24/145. Viewed at: https://www.althingi.is/altext/145/s/1032.html.

[64] For additional information on the general EU framework, see WTO document WT/TPR/S/442/Rev.1, 1 September 2023, Section 3.3.1.2.

Regulation (GBER)[65] and the *de minimis* Regulation[66] also form part of the EEA Agreement. Since March 2023, the ESA also applies the European Union's Temporary Crisis and Transition Framework established in response to the war in Ukraine with its amendments from November 2023 not yet incorporated into the EEA Agreement. The ESA updated some of the guidelines for the application of state aid during the review period.[67]

3.57. According to the authorities, there are currently around 24 state aid schemes operational in Iceland with the most prominent ones providing support for innovation companies (Act No. 152/2009) and film production (Act No. 43/1999). A new investment scheme for certain green investments is in place for 2021-25, aiming to promote environmentally sustainable solutions by the private sector.[68] Incentives for "initial investments" under a scheme in place at the time of the previous Review are no longer granted as of July 2020, with already approved incentives continuing until their originally set end date.[69]

3.58. Innovation companies have access to tax credits for research and development (R&D), usually amounting to 20% of R&D expenditures. Temporary provisions introduced in 2020 increased the subsidies to 35% of R&D expenditures of SMEs, and 25% for large companies, up to a total of ISK 1.1 billion annually until 2025[70], of which ISK 200 million can be for external purchases of R&D.[71] Total subsidies granted to business R&D were significant at 0.42% of GDP in 2020 (see also below) with the OECD noting in particular that the temporary provisions under the scheme taken in response to COVID-19 were generous compared to those of the median OECD Member.[72]

3.59. The scheme for temporary reimbursement for film production in Iceland originally established in 1999 continues and is linked to a promotional dimension for Iceland, with a revised end date of 2025. The basic reimbursement amount continues to be 25% of production costs incurred in Iceland, but amendments in 2022 introduced a higher reimbursement share of 35% in case (i) production costs, (ii) working and shooting days, and (iii) the number of workers and trainee-days in Iceland exceed certain thresholds.[73] If more than 80% of production costs are incurred in Iceland, production costs incurred in the EEA (as well as Greenland and the Faroe Islands since end-2019) are also eligible for partial reimbursement.

Table 3.9 State aid, 2017-22

	2017	2018	2019	2020	2021	2022
State aid (ISK million)	10,823	12,720	13,098	32,353	85,633	..
Budgetary expenditures (%)	..	..	..	..	..	..
Forgone budget revenues (%)	..	..	..	..	..	..
Share in GDP (%)	0.4	0.4	0.4	1.1	2.6	..
Non-agriculture state aid (EUR million)	90.3	99.5	95.4	172.7	500.5	..

.. Not available.

Source: Data on total state aid provided by the authorities. Data for non-agricultural state aid from ESA (2022), State Aid Scoreboard 2021.

3.60. Total state aid increased from ISK 11 billion in 2017 to ISK 86 billion in 2021 according to data from the authorities, with EUR 90 million in 2017 and EUR 501 million in 2021 being for non-agricultural schemes according to the ESA annual State Aid Scoreboard, representing 2.3% of GDP (Table 3.9).[74] Beneficiaries of grants are published in the European Union's State Aid Transparency

[65] It exempts certain categories of state aid from the requirements of prior notification under certain conditions. Amendments to the GBER in 2023, aimed at broadening coverage to the areas of environmental protection and energy, have not yet been incorporated into the EEA Agreement.

[66] The regulation allows for exemptions from state aid control for small aid amounts. Amendments to the *de minimis* regulation in 2023 are not yet incorporated.

[67] ESA, *State Aid Guidelines*. Viewed at: https://www.eftasurv.int/state-aid/state-aid-guidelines.

[68] Invest in Iceland, *Incentives and Support*. Viewed at: https://www.invest.is/incentives-and-support.

[69] These were granted under Act No. 41/2015. See WTO document WT/TPR/S/361/Rev.1, 12 January 2018.

[70] Maximum support in 2023 was slightly lower at ISK 1 billion.

[71] Act No. 152/2009, temporary provisions introduced by Act No. 37/2020.

[72] OECD, *Evaluating the Effects of the R&D Tax Credit in Iceland*. Viewed at: https://www.oecd.org/economy/surveys/OECD-Iceland-tax-credit-evaluation-2023.pdf.

[73] Act No. 76/2022, Article 1. There are no nationality requirements for these workers and trainees.

[74] EFTA Surveillance Authority (ESA) (2023), *State Aid Scoreboard 2022*, Figure 1. Viewed at: https://www.eftasurv.int/state-aid/state-aid-scoreboards.

database. No information regarding total forgone budget revenues, or state aid as a share of total budgetary expenditures, was available.

3.61. Between 2019 and 2021, state aid increased more than five-fold and the majority of state aid in 2021 was for COVID-19-related objectives, followed by R&D (see above), environmental protection (excise duty exemption on rental cars, see above), and culture (including film). Half of state aid was in the form of grants or interest rate subsidies, 28% as tax concessions, and 20% as equity participation (a capital injection into the company owning and managing the international airport). In 2020, 32% of state aid expenditures fell under block-exempted schemes, declining to 18% in 2021.[75] According to Iceland's latest full notification[76], total non-agricultural subsides allowed in 2022 amounted to ISK 26.4 billion, with the largest areas of support for R&D (three funds, ISK 16.9 billion combined), film (ISK 3.4 billion), tourism, the labour market, and regional development. Data from notifications confirm the overall increase in subsidies between 2017 and 2022, although the increase is less strong compared to the data from the ESA scoreboard.[77] In addition, Iceland granted compensation to certain undertakings in the fields of housing and wired telecommunications.[78]

Carbon taxes

3.62. Iceland has committed to reducing net greenhouse gas emissions by at least 55% by 2030 compared to 1990, and Iceland's objective is to achieve carbon neutrality and a full clean-energy transition by 2040 and to make it "unreliant" on fossil fuels (Section 4.2.2). Iceland participates in the European Union's Emissions Trading System (ETS), in which Iceland is allocated a certain number of emissions allowances. Since 2019, Iceland has been able to auction its own allowances. According to the authorities, Iceland is currently assessing the Carbon Border Adjustment Mechanism and its possible implementation in Iceland.

3.63. A number of tax schemes directly or indirectly contributing to reducing carbon emissions are in place or are being developed. Some were originally designed for other purposes. According to the authorities, the main schemes are (i) an excise duty in the form of a carbon dioxide tax on all fossil fuels[79]; (ii) an excise duty in the form of a special carbon tax on fluorinated greenhouse gases, amended in 2019; and (iii) a semi-annual road tax based on carbon dioxide emissions. The excise duties on motor vehicles (see above), petrol, and diesel also contribute to this objective. Certain VAT incentives for electronic vehicles originally put in place in 2012 were amended multiple times during the review period and remained in place until the end of 2023.[80] In 2024, they were replaced with direct subsidies in the form of partial grants for the purchase of clean-energy vehicles that cost up to ISK 10 million.[81]

3.3.2 Standards and other technical requirements

3.64. During the review period, there were no significant changes to the legal framework for standards and technical regulations. The framework continues to be primarily spelled out in Act No. 36/2003 on Standards and Icelandic Standards (IST) and Regulation No. 798/2014 for the application of EU Regulation No. 1025/2012 on European Standardization in Iceland as part of the EEA (i.e. the application of the European "new approach" to administering technical regulations).

3.65. The national Icelandic standards body is Icelandic Standards (IST), an independent association tasked to develop, adopt, and publish Icelandic standards, and is supervised by the Ministry of Culture and Business Affairs and Trade Ministry.[82] The Ministry of Foreign Affairs remains the notifying authority and enquiry point for the WTO as Iceland is revising related legislation and expects to update its notification from 2000 in that regard afterwards. IST is a member of the European Committee for Standardization (CEN), the European Committee for Electrotechnical

[75] ESA (2023), *State Aid Scoreboard 2022*.
[76] WTO document G/SCM/N/401/ISL, 18 January 2024.
[77] WTO document G/SCM/N/343/ISL, 20 June 2019.
[78] ESA, *SGEI Reports*, Iceland 2020-21. Viewed at: https://www.eftasurv.int/state-aid/efta-states-reports-application-sgei-decision.
[79] Act No. 129/2009.
[80] Act No. 50/1988, Annex XXIV, introduced by Act No. 154/2019 and subsequently amended.
[81] In 2024, the grant for new passenger cars (including taxis and rental cars) is ISK 900,000 and that for new light goods vehicles is ISK 500,000. Lower grants are awarded for used vehicles.
[82] Icelandic Standards. Viewed at: https://www.stadlar.is/en.

Standardization (CENELEC), and the European Telecommunications Standards Institute (ETSI), as well as the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC).

3.66. Standards are developed in a participatory process to address market needs, with the process undertaken in the five sector committees for the building, fishing, IT, environmental, and electrotechnical sectors, with other standards developed by technical committees under control of the Executive Committee. Draft standards are published for comments on the IST website, but an electronic ID is needed to view and comment on standards.

3.67. Once adopted, Icelandic standards are published in a Standards Bulletin at least quarterly, and IST maintains a register of all standards on its website. Between 2017 and 2023, 12,342 EN standards were adopted, including European Harmonised Standards. Out of the 30,185 existing Icelandic standards at the end of 2023, around 40% are of international origin (i.e. replicating ISO and/or IEC standards) that have been adopted by CEN or CENELEC and therefore are adopted as well in Iceland, 59% are EN standards, and 1% are standards that have been developed in Iceland for special circumstances, such as the building industry. All EN standards are adopted in Iceland in accordance with the EEA Agreement.

3.68. As a member of the EEA, Iceland transposes EU Regulations and Directives into national law, once incorporated into the EEA Agreement. Therefore, the EU system regarding technical regulations and actual technical regulations applicable in the European Union apply in Iceland as well. Technical regulations can detail specific technical requirements for a certain product ("old approach"), or spell out "essential" requirements while leaving the more detailed technical requirements to Harmonized European Standards ("new approach").[83] EEA EFTA States are obliged to notify the ESA of any national legislation containing technical regulations or rules that deviate from the internal market legislation and which they plan to adopt.[84] Between 2017 and 2023, Iceland made 31 notifications to the ESA and these are listed in the European Union's Technical Regulation Information System database.

3.69. For technical regulations based on the "old approach" or on Icelandic standards, products have to demonstrate conformity when imported, which may require the use of conformity assessment bodies for certification. However, under EU Regulation No. 2019/515, incorporated into the EEA Agreement, goods legally marketed in an EEA member can be legally sold in Iceland as well, and therefore goods imported from within the Single Market do not need to demonstrate conformity. Goods subject to technical regulations under the European Union's new approach require CE marking prior to their marketing. Producers benefit in most cases from the presumption of conformity with the essential requirements and are allowed to use the self-certification procedure. EU Regulation No. 2019/1020 requiring, for certain products, the provision of contact details of a responsible economic operator, was incorporated into the EEA Agreement in December 2023 and is expected to be transposed into national law. A new "blue guide" on the Implementation of the Product Rules in the EEA was published in 2022 by the European Commission.

3.70. In addition to demonstrating compliance upon import, a market surveillance system is also in place in accordance with Act No. 134/1995 on Product Safety and Public Market Surveillance. Act No. 114/2014 on Construction Products specifically regulates the marketing and use of construction material, implemented under supervision of the Housing and Infrastructure Agency. The new EU Regulation No. 2019/1020, which aims to strengthen the EU market surveillance mechanism, was incorporated into the EEA Agreement in late 2023 and will be transposed into relevant national acts (Act No. 134/1995 and Act No. 88/2005).[85]

3.71. The Icelandic Board for Technical Accreditation (ISAC) is the single national accreditation body, an independent division within the Icelandic Intellectual Property Office (ISIPO).[86] As spelled out in Act No. 24/2006 on Accreditation, it accredits inspection bodies; testing, calibration, and certification laboratories; and certification agencies. At the end of 2023, there were 12 inspection offices, 4 accredited testing laboratories, and 4 certification agencies (plus 1 in Sweden based on an

[83] WTO document WT/TPR/S/442/Rev.1, 1 September 2023.
[84] ESA, *Draft Technical Regulations*. Viewed at: https://www.eftasurv.int/internal-market/notifications-and-applications/draft-technical-regulations.
[85] For additional information, see WTO document WT/TPR/S/442/Rev.1, 1 September 2023.
[86] ISAC, *About ISAC*. Viewed at: https://faggilding.is/about-isac/.

agreement with the Swedish accreditation agency).[87] ISAC is a member of the European co-operation for Accreditation (EA) and in 2022 signed the EA MLA accepting equivalence of accreditation systems and the reliability of conformity assessment results by accredited Conformity Assessment Bodies (CABs) for the field of inspection.[88] ISAC is not a member of the International Accreditation Forum (IAF) or the International Laboratory Accreditation Cooperation (ILAC). A mutual recognition agreement covering conformity assessment of certain products is in place between Canada, Iceland, Liechtenstein, and Norway.[89]

3.72. The Metrology Act (Act No. 91/2006) did not change significantly during the review period but responsibility for metrology and calibration services was moved from the Consumer Agency to ISAC.

3.73. The labelling of food products continues to be regulated by Ministry of Food, Agriculture and Fisheries (MFAF) Regulation No. 1294/2014 on the Provision of Information About Food to Consumers, reflecting EEA legislation. Cosmetics are labelled in accordance with Act No. 61/2013 on Chemicals and Ministry of Environment, Energy and Climate Regulation No. 577/2013, reflecting EEA legislation.[90] Most information on labels has to be provided in Icelandic, English, or another Nordic language other than Finnish. The labelling of pharmaceutical products also follows relevant EEA legislation, regulated by Ministry of Health Regulation No. 545/2018 on Marketing Authorisations for Medicinal Products, Labelling and Package Leaflets (replacing Regulation No. 141/2011), with products in Iceland requiring a "Nordic commodity number", an indication when a product reduces the ability to drive or operate machines, and under certain circumstances special inscriptions such as prices or information on co-payments.

3.74. In 2023, Iceland also incorporated the updated and amended EU Regulation No. 2018/848 on organic production into national law by MFAF Regulation No. 205/2023. Among other things, it spells out the registration of operators and certification and establishes a rule to ensure words, terms, images, or symbols used on labels, advertising, or other documents are only used when production meets the requirements spelled out in the Regulation and production has been certified.[91] Goods marketed in the EEA are treated as equivalent but importers must notify an accredited certification body when importing such products from other countries.[92]

3.75. During the review period, Iceland did not file any TBT notifications at the WTO.

3.3.3 Sanitary and phytosanitary requirements

3.76. During the period under review, the legal and institutional framework for sanitary and phytosanitary (SPS) requirements in Iceland remained in essence unchanged as only minor changes were introduced. As Iceland is a member of the EEA, relevant legislation is based on EU legislation. MAST, under the MFAF, is the competent authority for food safety; animal health and welfare; control of feed, seed, and fertilizers; and plant health. Local authorities under supervision of MAST monitor food production and distribution. The MFAF is the national notification authority, and MAST is the WTO SPS enquiry point.

3.77. The framework for sanitary measures continues to be primarily spelled out in (i) Act No. 54/1990 on the Importation of Animals, which was amended various times during the review period, including moving some responsibilities regarding import prohibitions and licensing from the Minister level to MAST[93], and (ii) Act No. 25/1993 on Animal Diseases and their Prevention, which was also amended, although not significantly. Amendments to Act No. 25/1993 adjusted the import permit system for goods originating in the EEA[94] and regulated that fees for the supervision,

[87] ISAC, *Inspection Bodies*. Viewed at: https://faggilding.is/faggiltir-adilar/skodunarstofur/.
[88] European Accreditation (2022), *EA MLA Report 2022*. Viewed at: https://european-accreditation.org/wp-content/uploads/2023/05/EA-MLA-report-2022.pdf.
[89] WTO document G/TBT/10.7/N/31, 28 May 2001.
[90] Regulation No. 577 was amended multiple times to update the list of relevant EU legislation.
[91] An exemption from certification for small producers is in place in accordance with EU Regulation No. 2018/848, Article 35.
[92] Imports are only possible from countries with a system of conformity assurance equivalent to that of the European Union, with a list of recognized control authorities spelled out in an annex to Ministry of Food Regulation No. 205/2023. Viewed at: https://island.is/reglugerdir/nr/0205-2023.
[93] Act No. 71/2021.
[94] Act No. 93/2019.

administration, and document inspection for animal by-products may not be higher than actual costs, including personnel, sampling, and testing costs.[95]

3.78. As reflected in the Food Law (Act No. 93/1995, as amended), food imports have to comply with requirements set out in relevant EU legislation with the recent amendments to the EU Food Law incorporated into the EEA Agreement in 2021 and applicable since July 2022.[96] Goods within the EEA circulate freely.[97] A new MFAF No. 735/2017 on Novel Foods replaced the Regulation mentioned in the previous Review.[98] All domestic operators producing primary food and feed continue to have to be registered and approved by MAST. Approved establishments are published on the MAST website.[99]

3.79. Only registered importers are allowed to import feed from outside the EEA, with such shipments having to document ingredients, their chemical composition, and, if any ingredient is of animal origin, a health certificate stating the sanitary procedures used in production, packing, and handling, and the absence of microorganisms. The production, packaging, or marketing of fertilizer, feed additives, and seeds has to be registered with MAST.[100]

3.80. An import permit system regulates the import of live animals and certain animal products. The import of used fishing equipment remains permitted only with a disinfection certificate, and strict measures are in place for the import of used riding equipment or clothes. The permit system for the import of certain meat products[101] from outside the EEA, Switzerland, the United Kingdom, Greenland, and the Faroe Islands remains in place, with such imports from within the EEA no longer subject to permits following amendments by Act No. 93/2019. Ministry of Industry and Innovation Regulation No. 1250/2019 spells out specific requirements for products such as raw meat and meat products, which also include a requirement to be derived from animals slaughtered and processed in establishments approved by the European Union or authorized in the EEA[102], or not to have received growth-promoting substances. Since 2021, MAST (rather than the MFAF) can grant import permits under certain conditions. Imports of live animals from new animal species or foreign populations of existing species, as well as products of animal origin (raw or unsterilized) must undergo a risk assessment and also require a permit from the Environmental Agency (Act No. 54/1990, Article 5). For the first import operation of raw or unsterilized products, MAST has to receive and review relevant information before the product is shipped.

3.81. The framework for phytosanitary measures continues to be spelled out by Act No. 51/1981 on Prevention of Diseases and Pests of Plants and Ministry of Agriculture Regulation No. 189/1990 on Import and Export of Plants and Plant Products, both of which were not amended significantly during the review period. Plant health legislation remains outside the scope of the EEA Agreement. Like for the import of live animals, Act No. 60/2023 also amended Act No. 51/1981 regulating that fees for the supervision, administration, and document inspection for animal by-products may not be higher than actual costs, including personnel, sampling, and testing costs. The import of used agricultural machinery is subject to a permit (requiring a notification to MAST), cleaning, and a veterinary disinfection certificate before it can be granted by MAST.[103] The import of certain plants that can carry harmful organisms is prohibited[104], unless under certain conditions (this also applies to potatoes).[105] The relevant lists have not been amended. Only wood packaging material produced

[95] Act No. 60/2023.
[96] EU Regulation No. 2019/1381 amending EC Regulation No. 178/2002.
[97] The distribution of unpasteurized milk and milk products is prohibited in Iceland, and since 2019 the marketing of untreated poultry slaughter products has been subject to controls of the Campylobacter bacteria.
[98] Ministry of Industry and Innovation Regulation No. 990/2015.
[99] MAST, *Lists of Establishments*. Viewed at: https://skyrslur.mast.is/.
[100] Act No. 22/1994 on the Control of Feed, Fertilizers and Seed Products.
[101] Raw and lightly salted slaughter products, both processed and unprocessed, raw eggs, and unpasteurized milk and milk products. Act No. 25/1993, Article 10.
[102] MAST, *Import of Animal Products from Third Countries*. Viewed at: https://www.mast.is/is/matvaelafyrirtaeki/inn-og-utflutningur/innflutningur-utan-ees#innflutningsskilyrdi-dyraafurda-fra-3-rikjum.
[103] MAST, *Import of Agricultural Machinery*. Viewed at: https://www.mast.is/en/import-export/import-of-agricultural-machinery.
[104] Ministry of Agriculture Regulation No. 189/1990, Annex I and Annex III.
[105] Ministry of Agriculture Regulation No. 189/1990, Annex II and Annex IV. According to Annex IV, potatoes must also undergo a one-month health control prior to shipment.

by a MAST-certified enterprise can be exported to countries that have adopted the related international phytosanitary measure (ISPM 15).

3.82. As Iceland participates in the European Union's Trade Control and Expert System (TRACES), importers have to pre-notify the border control post of first arrival and submit a "common health entry document" for imports of animal products from outside the EEA, and these are subject to health check at the border by MAST. MAST is authorized to carry out inspections when there is a reasonable suspicion that food is harmful to health or unfit for consumption or may cause animal diseases, with the importer bearing the costs. All imported plants and plant parts are subject to phytosanitary checks and phytosanitary certificates are required. Iceland does not participate in the International Plant Protection Convention (IPPC) ePhyto platform for electronic phytosanitary certification.

3.83. The marketing of plant protection products requires authorization from the Environmental Agency, the competent authority in the field. Ministry of Environment, Energy and Climate Regulation No. 544/2015 spells out that products must be labelled according to the relevant EU regulation and that marketing licences are published on the Agency's website.[106]

3.84. The framework regarding genetically modified organisms (GMOs) remains in principle unchanged with two amendments in 2018 and 2019 to EU Directive 2001/18/EC on the Deliberate Release of GMOs into the Environment incorporated into the EEA Agreement. MFAF Regulation No. 1237/2014 on traceability and labelling of GM food and feed continues to apply to food and feed when more than 0.9% of any ingredient is produced from GMOs.[107]

3.85. Iceland is a member of the World Organisation for Animal Health (WOAH, formerly OIE) and the Codex Alimentarius Commission, and a contracting party to the IPPC.

3.86. During the review period, Iceland did not file any SPS notifications at the WTO.

3.3.4 Competition policy and price controls

3.87. As a party to the EEA Agreement and part of the European Union's internal market, the rules and regulations relating to competition are set out in Articles 53 to 60 of the EEA Agreement and its Annex XIV (Competition), in particular, Articles 53 and 54 (which mirror Articles 101 and 102 of the Treaty on the Functioning of the European Union).

3.88. During the period under review, there were no fundamental changes to Iceland's competition legislation. The main legislation governing competition policy continues to be the Competition Act No. 44/2005. It was amended during the review period, in particular regarding the application of individual exemption rules (see below), and provisions governing merger control.

3.89. The Icelandic Competition Act is administered by the Icelandic Competition Authority (ICA), which is an independent agency reporting currently to the Ministry of Culture and Business Affairs, funded from the budget. The ICA's policy objectives are to contribute to secure effective competition at the national level. According to Articles 13 and 71 of the Agricultural Act No. 99/1993, the powers of the ICA are limited with regard to agricultural products.

3.90. The Competition Act prohibits anti-competitive agreements and practices by businesses and the abuse of a dominant position.[108] The ICA can adopt interim measure decisions if it is considered probable that the conduct or circumstances under investigation will infringe on the provisions of the Competition Act and it is likely that waiting for a final ICA decision can lead to distortion of competition, or the matter is urgent in other respects.[109] In the past, the ICA could also grant exemptions from the ban on collusion in Article 10 of the Competition Act (equivalent to

[106] Environmental Agency, *Authorizations*. Viewed at: https://ust.is/english/industry/chemicals/plant-protection-products/authorisation-/.

[107] EU Regulations No. 1829/2003 and No. 1830/2003 on the marketing, labelling, and traceability of genetically modified food and feed remain to be incorporated into the EEA Agreement.

[108] Additional details regarding Iceland's competition policy are available in WTO document WT/TPR/S/361/Rev.1, 12 January 2018, Section 3.3.5.

[109] OECD (2019), *Annual Report on Competition Policy Developments in Iceland, 2018*. Viewed at: https://en.samkeppni.is/media/skyrslur-2019/ICELAND-ANNUAL-REPORT-2018-OECD.pdf.

Articles 53 (EEA) and 101 (EU)) when certain conditions were met, but with the 2020 amendments to the Act, companies now have to self-assess whether a planned collaboration would meet these (unchanged) conditions.[110] During the COVID-19 pandemic, the ICA granted individual exemptions to undertakings wishing to engage in cooperation similar to the approach taken by the European Competition Network, and closely cooperated with other competition authorities within the EEA.[111] For instance, ICA Decision No. 11/2020 granted an exemption regarding cooperation between importers and distributors of important pharmaceuticals, aimed at securing necessary access to these products, subject to the condition that the Icelandic Medicines Agency deemed the cooperation necessary and could monitor the cooperation.[112]

3.91. The ICA operates a leniency programme, which can result in lowered or no fines for undertakings involved in anti-competitive agreements and practices if they assist the ICA during the investigation or report cartel activity, provided that certain conditions for leniency are met. However, according to the authorities, a very effective settlement system is in place resulting in the leniency programme being hardly used. The ICA also has the sole power to decide whether to notify the police or prosecutor regarding the involvement of individuals if they have taken the initiative to come forward and inform the ICA of an infringement.[113] Leniency applications cannot provide full legal certainty for the applicant if Article 53 of the EEA Agreement is applicable in addition to national competition law. Accordingly, to fully protect its position, a leniency applicant would also need to submit an application to the ESA.[114]

3.92. The ICA is also responsible for monitoring mergers of companies according to Article 17 of the Competition Act and the new Rule No. 1390/2020 relating to the notification of mergers. In 2021, the ICA further developed its procedures with regard to merger investigations to increase their effectiveness by promoting pre-notification talks and state-of-play meetings.[115] Mergers must be reported to the ICA if they involve undertakings whose combined turnover will amount to ISK 3 billion or more annually, and at least two of the undertakings involved in the merger have a minimum annual turnover of ISK 300 million each. The ICA may annul a merger, or set conditions for a merger, if it believes that the merger will prevent effective competition by bringing about or strengthening a dominant position.[116] A 2022 decision by the Reykjavik District Court confirmed that the healthcare sector is not exempt from Iceland's merger control regime.[117]

3.93. According to the OECD, in 2021 the ICA received 175 informal complaints and tips, up from 142 in 2020. Within the same time period, the OECD observed that ICA "worked on 124 cases" and concluded 73 of those, in addition to the continual follow-up on earlier interventions and conditions.[118] According to the authorities, the number of decisions on mergers and acquisitions ranged from 22 in 2020 to 45 in 2021, with 4 mergers and acquisitions not approved (Table 3.10). Along with merger review and investigations of cases possibly involving cartels and abuses of dominant position, the ICA proceeded with investigations into possible breaches of the prohibition rules, including possible collusion in maritime and land transportation of goods.[119]

3.94. The ICA regularly collaborates with Nordic and other European competition authorities of the European Competition Network. Iceland also signed a specific cooperation agreement in September 2017 with the competition authorities in Denmark, Norway, Finland, Greenland, the Faroe Islands, and Sweden to strengthen information-sharing and enable them to investigate and

[110] The ICA published guidelines in line with Article 15 of Act No. 44/2015.
[111] WTO document WT/TPR/S/442/Rev.1, 1 September 2023, Section 3.3.4.1.
[112] ICA (2020), "COVID-19: Application of Competition Rules and Competition Enforcement in Crisis", 22 March. Viewed at: https://en.samkeppni.is/published-content/news/covid-19.
[113] Global Competition Review, *Icelandic Competition Authority*. Viewed at: https://globalcompetitionreview.com/insight/enforcer-hub/2023/organization-profile/icelandic-competition-authority.
[114] EFTA, *Leniency*. Viewed at: https://www.eftasurv.int/competition/competition-rules-in-the-eea/leniency.
[115] OECD (2022), *Annual Report on Competition Policy Developments in Iceland*, 2021. Viewed at: https://one.oecd.org/document/DAF/COMP/AR(2022)16/en/pdf.
[116] ICA, *Mergers*. Viewed at: https://en.samkeppni.is/competition-rules/mergers/.
[117] Reykjavik District Court Judgement, 5 December 2022. Viewed at: https://www.heradsdomstolar.is/default.aspx?pageid=347c3bb1-8926-11e5-80c6-005056bc6a40&id=2499006b-5010-44f6-900a-cf4e61e8a176.
[118] OECD (2022), *Annual Report on Competition Policy Developments in Iceland*, *2021*.
[119] OECD (2019), *Annual Report on Competition Policy Developments in Iceland*, *2018*.

take action with respect to anti-competitive practices and mergers, and to carry out inspections or other fact-finding measures for another competition authority.[120]

Table 3.10 Competition enforcement statistics, 2017-22

	2017	2018	2019	2020	2021	2022
1. Initiation of case investigations (number)						
a) Cases concerning anti-competitive agreements	0	0	1	0	2	0
b) Cases concerning abuse of dominance	0	0	1	4	1	0
c) Leniency applications	0	0	0	0	0	0
d) Notifications of mergers and acquisitions (as well as *ex officio* investigations)	32	37	38	24	47	36
2. Completed cases (number of formal decisions)						
a) Anti-competitive agreements	0	0	0	0	0	0
b) Abuse of dominance	0	0	0	2	0	0
c) Settlements[a]	6	0	0	1	1	1
d) Mergers and acquisitions (number of decisions and number of mergers and acquisitions that were not approved)	35	31	38	22	45	30
3. Infringement penalties (EUR '000)	396	0	0	3,630	10,000	133
4. Appeals (number of Appeals Committee Decisions)	6	7	5	4	1	1

a Cases on anti-competitive agreements or abuse of dominance that were resolved through a settlement between the competition authority and the investigated party/parties rather than through findings of violation(s).

Source: Information provided by the authorities.

3.95. Every year, OECD members and selected non-members are invited to submit a report on the latest developments of their competition law and policy.[121] According to the ICA's 2018 annual report to the OECD, the Government of Iceland reached an agreement with the OECD on a competition assessment project to evaluate the regulatory framework of Iceland regarding two sectors, namely tourism and construction.[122] This project was conducted in 2019-20 and reviewed 632 legal texts revealing 676 potential barriers to competition. The OECD estimated that the implementation of its 438 recommendations for both sectors combined could generate more than EUR 200 million in benefits per year, around 1% of Iceland's GDP.[123] Some of these recommendations have been implemented and others are being discussed (Section 4.3.5).

3.96. According to the authorities, a key concern of the ICA relates to the oligopolistic nature of many markets in Iceland as a result of the small size of its economy. In 2022, the ICA conducted research on fair competition in fuel, groceries, and building industries following observed price increases during and after the COVID-19 pandemic. The ICA tracks data related to price increases across all Icelandic markets.[124] Furthermore, a comparative analysis was carried out in the framework of the EEA States. The related publication on the so-called "competition indicators" highlighted market dominance, barriers to entry, and regulatory burdens across certain Icelandic markets compared to those in the other EEA States.[125]

Price controls

3.97. According to the authorities, Iceland has no price controls except in the agricultural and dairy market (Section 4.1). A specific price committee regulates and oversees both minimal and retail prices of certain agricultural products, including those derived from cattle and sheep (Agricultural Act No. 99/1993, Articles 8 and 13). The price committee can decide to exclude certain products from price control if it deems that competition within the field is sufficient to ensure fair and desirable pricing (Article 16). Price controls in this sector are intended to promote efficiency in the production

[120] ICA, *Agreement on Cooperation in Competition Cases*. Viewed at: https://www.samkeppni.is/media/skjol/nordic-agreement-on-cooperation-in-competition-cases.pdf.
[121] OECD, *Annual Reports by Competition Agencies on Recent Developments*. Viewed at: https://www.oecd.org/competition/annualreportsbycompetitionagencies.htm.
[122] OECD (2019), *Annual Report on Competition Policy Developments in Iceland*, 2018.
[123] OECD (2020), *Competition Assessment Reviews: Iceland 2020*. Viewed at: https://web-archive.oecd.org/2020-11-10/564428-competition-assessment-reviews-iceland-highlights.pdf.
[124] ICA, *Price Increases and Competition*. Viewed at: https://www.samkeppni.is/utgafa/i-brennidepli/verdhaekkanir-og-samkeppni/.
[125] ICA, *Competition Indicators of the Competition Authority*. Viewed at: https://www.samkeppni.is/fraedsla/samkeppnisvisar/.

of agricultural products for the benefit of both producers and consumers; ensure that the production is in line with Iceland's demand for the products; ensure that a shortage of agricultural products does not occur; secure the income of farmers; and promote equality among producers of different agricultural products (Article 1).

3.3.5 State trading and state-owned enterprises

3.98. The state-owned State Alcohol and Tobacco Monopoly (ÁTVR), described as a state-trading company in the previous Review, is no longer considered as such by the authorities since 2021.[126] While ÁTVR continues to have the exclusive right to the retail sale and distribution of all alcoholic beverages with an alcohol content of more than 2.25%, as well as the exclusive right to the wholesale of tobacco, individuals can order and import alcohol from foreign online stores for private consumption. According to the authorities, ÁTVR has a legal obligation to guarantee to producers and suppliers of alcohol the possibility of selling their products in ÁTVR retail stores, and it does not engage in nor have influence over the international trade of said products. The authorities consider therefore that Iceland does not maintain state trading enterprises within the meaning of Article XVII of the GATT. Act No. 86/2011 regulating ÁTVR's operation has not been amended in substance during the review period.[127]

3.99. At the central level, the State owns a full or controlling stake in 38 state-owned enterprises (SOEs) that are active in a number of important sectors of the economy, in particular finance, energy, infrastructure (such as the company owning and managing the international airport), and services (Table 3.11).[128] It also owns minority stakes in another six enterprises. Due to Iceland's small market size, many of these enterprises operate in a market environment of monopoly or oligopoly, according to the authorities. The 38 SOEs under government control had assets of ISK 2.9 trillion and employed around 4,500 people in 2022, or around 2.1% of total employment.[129] In addition, municipalities owned 327 entities that were operating in the areas of social housing, homes for the elderly, utilities, ports, and some other sectors.

3.100. Central SOEs are mainly owned by the MFEA with certain exceptions (such financial undertakings, or the ÁTVR) with operational decisions taken by Boards of Management, which are targeted to have equal gender ratios. Currently the ratio of women to men in the boards is 41%. Some, but not all, SOEs receive direct budget support from the annual state budget, either in full or in part, sometimes (such as for Iceland Post) related to universal service obligations. SOEs are subject to a largely similar regulatory and tax treatment as private enterprises.[130]

3.101. Ownership for SOEs is usually justified by one of four rationales: public interest and services, market failure, infrastructure and market development, and defined public projects.[131] The ownership policy for limited companies and partnerships, aiming to separate operational management from the regulatory role of the Government, was updated in 2021[132], with that for financial companies updated in 2020. Consolidated information on SOEs has been available in annual reports since 2020.[133] According to the authorities, efforts are underway to review the SOE portfolio, and to ensure management of SOEs sets measurable targets aligned to operational objectives. A first annual meeting of all SOEs was held at the end of September 2022.

3.102. State presence via SOEs remains particularly strong in the banking sector (remnants from the banking crisis in 2009) and the energy sector. The largest (Landsbankinn) bank remains fully

[126] WTO documents G/STR/N/16/ISL, G/STR/N/17/ISL, 29 January 2018; and G/STR/N/18/ISL, 1 September 2021.
[127] WTO document WT/TPR/S/361/Rev.1, 12 January 2018, p. 64.
[128] Government Council of Iceland, *Annual Report of State Enterprises 2022*. Viewed at: https://www.stjornarradid.is/verkefni/rekstur-og-eignir-rikisins/felog-i-eigu-rikisins/arsskyrsla-rikisfyrirtaekja-2022/.
[129] Government Council of Iceland, *Annual Report of State Enterprises 2022*.
[130] OECD (2021), *Ownership and Governance of State Owned Enterprises – A Compendium of National Practices 2021*.
[131] Government Council of Iceland, *State-Owned Companies*. Viewed at: https://www.stjornarradid.is/verkefni/rekstur-og-eignir-rikisins/felog-i-eigu-rikisins/.
[132] Government Council of Iceland (2021), *The State's General Ownership Policy for State-Owned Companies*. Viewed at: https://www.stjornarradid.is/library/02-Rit--skyrslur-og-skrar/Almenn%20Eigandastefna%20fyrir%20r%c3%adkisf%c3%a9l%c3%b6g.pdf.
[133] Government Council of Iceland, *Annual Report of State Enterprises 2022*. Viewed at: https://www.stjornarradid.is/verkefni/rekstur-og-eignir-rikisins/felog-i-eigu-rikisins/arsskyrsla-rikisfyrirtaekja-2022/.

state-owned, while part of the second-largest bank, then fully state-owned Íslandsbanki, was sold in 2021 and 2022, with Treasury remaining the largest shareholder with 42.5% ownership (Section 4.3.1). Companies in the electricity sector active in generation, transmission (Landsnet, the state acquiring the majority in 2022)[134], and retail are mostly owned and operated by SOEs (Section 4.2.2). Other important SOEs are Isavia (handling the operation and development of Keflavik International Airport), the ÁTVR, and Iceland Post.

Table 3.11 Majority state-owned and controlled enterprises at central government level, 2021

(ISK million)

Company	Type of company	Activity	Ministry	Sales volume	Net profit	State ownership (share %)
Eignarhlutir ehf	LLC	Asset mgmt	Finance and Economic Affairs (MFEA)	..	5	100
Fasteignir Háskóla Íslands ehf	LLC	Asset mgmt	MFEA	2,908	-396	100
Hvanneyrarbúið ehf	LLC	Asset mgmt	MFEA	110	7	100
Leigufélagið Bríet ehf	LLC	Asset mgmt	Infrastructure	390	381	100
Lindarhvoll ehf	LLC	Asset mgmt	MFEA	8		100
Minjavernd hf	LLC	Asset mgmt	MFEA	88	-85	38.3
Nýr landspítali ohf	LLC	Asset mgmt	MFEA	..	..	100
Sítus ehf	LLC	Asset mgmt	MFEA	13	5	54
Tæknigarður ehf	LLC	Asset mgmt	MFEA	30	4	100
Vísindagarðar Háskóla Íslands	LLC	Asset mgmt	Higher Education, Science and Innovation (HESI)	718	940	94.6
Vísindagarðurinn ehf	LLC	Asset mgmt	MFEA	17	-5	52.4
Keilir	LLC	Education	MFEA	1,330	-85	51.3
Rannsókna – og háskólanet Íslands hf	LLC	Education	HESI	81	-5	94
Landsnet hf	LLC	Energy	MFEA	22,047	4,403	93
Landsvirkjun	JSC	Energy	MFEA	70,998	18,877	100
Orkubú Vestfjarða ohf	LLC	Energy	MFEA	3,174	329	100
Rarik ohf	LLC	Energy	MFEA	16,748	2,110	100
Eignarhaldsfélag Suðurnesja hf	LLC	Financial	MFEA	12	1	48.1
Fjárföng	LLC	Financial	MFEA	0	-5	100
Íslandsbanki hf	LLC	Financial	MFEA	52,620	23,725	42.5
Landsbankinn hf	LLC	Financial	MFEA	62,188	28,919	98.2
Nýsköpunarsjóður atvinnulífsins	Fund	Financial	HESI	221	43	100
Sparisjóður Austurlands hf	LLC	Financial	MFEA	296	25	49.5
Auðkenni ehf	LLC	Infrastructure	MFEA	608	182	100
Betri samgöngur ohf	LLC	Infrastructure	MFEA	..	..	75
Farice ehf	LLC	Infrastructure	MFEA	1,992	-76	100
Harpa ohf	LLC	Infrastructure	MFEA	1,567	-162	54
Isavia ohf	LLC	Infrastructure	MFEA	18,987	-1,535	100
Ríkisútvarpið ohf	LLC	Infrastructure	Culture and Business Affairs	7,059	45	100
Vaðlaheiðargöng hf	LLC	Infrastructure	MFEA	603	-885	93
ÁTVR	Government entity	Services	MFEA	45,050	1,631	100
Endurvinnslan hf	LLC	Services	MFEA	1,327	284	17.3
Happdrætti HÍ	Government entity	Services	HESI	2,714	1,497	100
Íslandspóstur ohf	LLC	Services	MFEA	7,453	256	100
Íslenskar orkurannsóknir	Government entity	Services	Environment, Energy and Climate	1,244	-143	100

[134] OECD (2023), *Economic Surveys – Iceland*, p. 48.

Company	Type of company	Activity	Ministry	Sales volume	Net profit	State ownership (share %)
Landskerfi bókasafna hf	LLC	Services	MFEA	188	1	51
Matís ohf	LLC	Services	Food, Agriculture and Fisheries	1,733	32	100
Neyðarlínan ohf	LLC	Services	MFEA	1,500	62	100
Öryggisfjarskipti ehf	LLC	Services	MFEA	442	157	75
Vigdísarholt ehf	LLC	Services	MFEA	2,403	183	100
Icelandic Trademark Holding ehf	LLC	Various	MFEA	151	58	100
Tæknisetur	LLC	Various	HESI	..	..	100
Þjóðarleikvangur ehf	LLC	Various	MFEA	5	-5	42.5
Þróunarfélag Keflavíkurflugvallar ehf	LLC	Various	MFEA	23	-240	100

.. Not available.

Source: Information provided by the authorities.

3.3.6 Government procurement

3.103. Iceland is a party to the WTO Agreement on Government Procurement 2012 (GPA 2012). It is therefore committed to providing non-discriminatory access to suppliers from other GPA Parties for GPA-covered procurement, with respect to covered goods, services, and construction services.[135] In addition, Iceland is a party to the EEA Agreement that unites EU member States and three of the four European Free Trade Association (EFTA) states (Iceland, Liechtenstein, and Norway) into one single market governed by the European Union's basic rules (Section 2.3.2.2). Iceland's FTAs generally have provisions on government procurement, which are largely based on those of the GPA 2012 with some adaptations.

3.104. Iceland's legal framework governing government procurement consists of the 2016 Act on Public Procurement (PPA)[136], reflecting EEA Rules on government procurement based on EU Directives 2014/23/EU, 2014/24/EU, and 2014/25/EU. The PPA was amended in 2018 and 2019, but the changes were not substantial.

3.105. The government procurement regime is governed by principles of public accountability, value for money, transparency, and open and fair competition.[137] The procurement rules are designed to ensure that goods and services are obtained by procuring entities at competitive terms while also promoting fairness and equality among bidders. Suppliers should not be discriminated against on the grounds of nationality, and unreasonable restriction of competition is prohibited (PPA, Article 15). Iceland's procurement system does not allow for preferences for local suppliers.

3.106. Procurement exceeding certain thresholds is to be carried out based on an open or a restricted procedure (PPA, Chapter IV). The use of the competitive procedure with negotiation or of competitive dialogue may nevertheless be permitted under certain circumstances, such as contract complexity. According to the authorities, the open procedure is the most common procurement method used in Iceland. During the period under review, about 90% of government procurement was conducted using the open procedure (Table 3.12).

Table 3.12 Value and share (%) of contracts awarded under different government procurement methods at the central government level, 2017-22

(ISK million)

Procurement method		2017	2018	2019	2020	2021	2022
Negotiated with a call for competition (NIC)	Value	4,240	6,522	4,426	3,963	9,151	3,149
	Ratio	1.59%	2.52%	1.39%	1.60%	1.92%	0.66%

[135] Iceland's market access commitments can be found in the e-GPA Gateway. Viewed at: https://e-gpa.wto.org/en/Agreement/Latest.

[136] Act No. 120/2016. Viewed at: https://www.stjornarradid.is/media/fjarmalaraduneyti-media/media/frettatengt2016/act-on-public-procurment-no.-120-2016.pdf.

[137] Additional details regarding Iceland's government procurement regime are available in WTO document WT/TPR/S/361/Rev.1, 12 January 2018, Section 3.3.7.

Procurement method		2017	2018	2019	2020	2021	2022
Negotiated without a call for competition (NOC)	Value	3,260	1,907	3,747	2,924	3,883	7,299
	Ratio	2.08%	1.82%	3.52%	2.48%	7.21%	1.99%
Open procedure	Value	156,975	181,344	191,218	206,926	242,631	252,495
	Ratio	92.57%	87.04%	92.01%	92.91%	88.94%	90.16%
Restricted procedure	Value	6,569	12,171	7,035	5,198	6,880	14,506
	Ratio	3.31%	8.28%	2.44%	2.30%	1.44%	6.62%
Other[a]	Value	768	988	1.246	1.426	1.366	1,625
	Ratio	0.45%	0.35%	0.,64%	0.71%	0.48%	0.57%
Total value		**171,811**	**202,932**	**207,672**	**220,437**	**263,911**	**279,073**

a Includes procurement methods such as single tender procedures, competitive dialogue, simplified procedures, and contract awards without prior publication of a contract notice.

Source: Information provided by the authorities.

3.107. Contracting authorities may also agree to perform specific procurements jointly in accordance with Article 19 of the PPA. Joint needs for supplies and services may also be examined by Rikiskaup (Central Purchasing Body), which operates under the MFEA. Rikiskaup also coordinates framework agreements.[138]

3.108. According to the authorities, in 2022, GPA-covered procurement amounted to ISK 465 billion, out of a total value of government procurement conducted in 2022 estimated at ISK 584 billion. The majority of GPA-covered procurement contracts were awarded under open and selective tendering for a total value of ISK 435 billion while contracts awarded under limited tendering reached a value of ISK 30 billion. Similar trends were recorded during the entire period under review (Table 3.13).

Table 3.13 Government procurement, 2017-22

(ISK million)

Year	Level	Total value of procurement (GPA-covered and non-covered)		GPA-covered procurement				
				Total value	Awarded under open and selective tendering		Awarded under limited tendering	
		Total value	Ratio (%)		Total value	Ratio (%)	Total value	Ratio (%)
2017	Central government	171,811	47.9	162,137	154,810	95.48	7,327	4.52
	Local government	143,792	40.1	99,733	98,189	98.45	1,544	1.55
	Other	43,276	12.1	33,093	32,018	96.75	1,076	3.25
	Total	**358,879**	100.0	**294,963**	**285,017**	**96.63**	**9,946**	**3.37**
2018	Central government	202,932	47.9	154,275	141,851	91.95	12,423	8.05
	Local government	173,610	41.0	140,890	138,805	98.52	2,085	1.48
	Other	47,023	11.1	36,549	35,251	96.45	1,298	3.55
	Total	**423,565**	100.0	**331,714**	**315,907**	**95.23**	**15,807**	**4.77**
2019	Central government	207,672	47.5	182,551	177,871	97.44	4,681	2.56
	Local government	176,843	40.5	157,426	156,142	99.18	1,284	0.82
	Other	52,650	12.0	46,624	45,452	97.49	1,172	2.51
	Total	**437,165**	100.0	**386,602**	**379,465**	**98.15**	**7,136**	**1.85**
2020	Central government	220,437	47.9	218,926	211,332	96.53	7,594	3.47
	Local government	183,237	39.8	163,031	161,584	99.11	1,447	0.89
	Other	56,440	12.3	54,963	53,018	96.46	1,944	3.54
	Total	**460,114**	100.0	**436,919**	**425,934**	**97.49**	**10,985**	**2.51**
2021	Central government	263,911	49.3	261,995	247,823	94.59	14,172	5.41
	Local government	206,216	38.5	153,056	145,325	94.95	7,731	5.05
	Other	65,245	12.2	63,226	59,722	94.46	3,504	5.54
	Total	**535,372**	100.0	**478,277**	**452,870**	**94.69**	**25,407**	**5.31**

[138] Rikiskaup, *Icelandic Law on Public Procurement*. Viewed at: https://www.rikiskaup.is/is/english-1/about-rikiskaup/english.

Year	Level	Total value of procurement (GPA-covered and non-covered)		GPA-covered procurement				
				Total value	Awarded under open and selective tendering		Awarded under limited tendering	
		Total value	Ratio (%)		Total value	Ratio (%)	Total value	Ratio (%)
2022	Central government	279,073	47.8	277,944	256,600	92.32	21,345	7.68
	Local government	236,081	40.4	126,424	123,345	97.56	3,079	2.44
	Other	69,101	11.8	60,340	55,054	91.24	5,285	8.76
	Total	**584,255**	100.0	**464,708**	**434,999**	**93.61**	**29,709**	**6.39**

Source: Information provided by the authorities.

3.109. Between 2017 and 2021, the majority of government procurement contracts were awarded to national suppliers, i.e. companies registered in Iceland and where the supplier indicated it was an Icelandic entity. The estimated percentage of contracts awarded to foreign suppliers varied between 1% and 11% (Table 3.14).[139]

Table 3.14 Government procurement contracts awarded to foreign suppliers, 2017-22

(%)

Year	2017	2018	2019	2020	2021	2022
Share of contracts	7.83	1.74	2.42	0.51	8.65	10.76

Source: Information provided by the authorities.

3.110. During the reporting period from 2017 to 2022, Iceland introduced various new tools, including multiple electronic tendering systems aiming to promote easier participation by suppliers. Advertisements, notifications, and related communications have to be done electronically with few exceptions. A provision for trusted electronic signatures was added to the PPA in 2019. In addition, the MFEA decided that, as of 1 January 2020, all invoices for the State's purchase of goods, services, and works shall be electronic, with these invoices processed not via tendering but a separate system.[140]

3.111. In 2019 a subcontracting liability, the so-called "chain liability", was introduced in Iceland to prevent illegal abuse of the work force in public work contracts and strengthen the responsibility of the primary contractors with regard to their obligations towards employees, such as salary payments.[141] With regard to equal pay, Iceland has adopted specific rules in 2018, whereby all companies with 25 or more employees must obtain, on an annual basis, the Icelandic Equal Pay Standard (ÍST85). This obligatory equal pay certification may be used in government procurement, and aims to enforce Iceland's legislation prohibiting discriminatory practices based on gender and requiring that women and men shall be paid equal wages and enjoy equal terms of employment for the same jobs or jobs of equal value.[142]

3.112. A new public procurement policy on sustainable procurement was developed by Rikiskaup and published in January 2021.[143] Iceland's Medium-term Fiscal Strategy Plan 2024-2028 places emphasis on reducing state expenditures over the medium term by utilizing opportunities in digitization and coordinated purchasing. In addition, special cost-cutting efforts will be applied to

[139] According to the authorities, data were based on the nationality of the winning supplier, regardless of the fact that they could source their supplies from foreign suppliers.

[140] Rikiskaup, *Transparency and Integrity in Rikiskaup's Procurement Procedures*. Viewed at: https://www.rikiskaup.is/is/english-1/about-rikiskaup/transparency-and-integrity-in-rikiskaups-procurement-procedures.

[141] D. Sigurðardóttir, "Iceland – Sustainable Public Procurement", *European Procurement & Public Private Partnership Law Review*, Vol. 12, Issue 3, 2017, pp. 358-364.

[142] Government of Iceland, *Equal Pay Certification*. Viewed at: https://www.government.is/topics/human-rights-and-equality/equality/equal-pay-certification/.

[143] Environment Agency of Iceland (2023), *Report on Policies, Measures and Projections: Projections of Greenhouse Gas Emissions in Iceland until 2050*. Viewed at: https://ust.is/library/Skrar/loft/NIR/0_PaMsProjections_Report_2023_WITH%20BOOKMARKS.pdf.

avoid lock-in in the future, aiming to have state contracts of longer duration tendered out as provided for in the PPA, and in so doing achieve additional savings of up to ISK 4 billion.[144]

3.113. Iceland notified procurement thresholds in national currency for the periods of 2019-20 and 2021-22.[145] During the review period, Iceland submitted only its statistical report for 2017.[146]

Enforcement

3.114. Suppliers that enjoy rights as provided for by the PPA and have legitimate interests in a certain procurement contract can submit complaints regarding alleged violations of the PPA and related implementing regulations to the Public Procurement Complaints Commission (Article 103). The role of the Public Procurement Complaints Commission, which is an independent body, is to resolve those complaints in an expedient and impartial manner. Its awards and decisions shall be made accessible to the public by further decision of the chairperson of the Commission. If a party to a case wishes that certain parts of an award not be published, it must inform the Commission thereof as soon as possible, citing the reasons.[147]

3.115. From 1 January 2020, the Commission's handling of cases was transferred from the MFEA to the Internal Revenue Board, another complaints agency. Since then, the Internal Revenue Board has dealt with administrative matters for the Commission and accepted documents relating to complaints.[148] All complaints and their outcomes are published online.[149] Between 2018 and 2022, 212 cases were raised. According to the authorities, very few cases per year are subsequently brought to court.

3.3.7 Intellectual property rights

3.116. During the review period, Iceland amended some laws in the area of intellectual property rights (IPRs) and adopted a new law on trade secrets. Intellectual property is covered by the EEA Agreement and Iceland continued to incorporate relevant EU legislation into its domestic framework.

3.117. ISIPO is in charge of patents, trademarks, designs, and related rights, with the Ministry of Culture and Business Affairs in charge of copyrights.[150] The Icelandic Patent Office was renamed ISIPO in 2019.[151] Since February 2022, the Ministry of Higher Education, Science, and Innovation has overseen ISIPO and been responsible for policies regarding most IPRs (taking over the role from the Ministry of Industries and Innovation), with policies on copyright continuing under the oversight of the Ministry of Culture and Business Affairs.

3.118. Iceland is a party to the WIPO Convention as well as to many IP agreements, including the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the European Patent Convention, the Madrid Protocol, the Berne Convention, the International Convention on Copyright, and the Rome Convention.[152] In 2021, Iceland became a member of the

[144] Government of Iceland (2023), "Medium-Term Fiscal Strategy Plan 2024-2028: To Counter Inflation, Safeguard Living Standards and Support Growth", March 29. Viewed at: https://www.government.is/news/article/2023/03/29/Medium-term-Fiscal-Strategy-Plan-2024-2028-to-counter-inflation-safeguard-living-standards-and-support-growth/.

[145] Rikiskaup, *Thresholds and Time-Limits for Receipts of Tenders*. Viewed at: https://www.rikiskaup.is/is/innkaup_og_utbod/innkaup-skref-fyrir-skref/vidmidunarupphaedir-og-tilbodsfrestir.

[146] WTO document GPA/STAT(17)/ISL/1, 26 April 2018.

[147] Government of Iceland, *Regulations for the Public Procurement Complaints Commission*. Viewed at: https://www.government.is/topics/operations-and-state-assets/the-public-procurement-complaints-commission/regulations-for-the-public-procurement-complaints-commission-/.

[148] Government of Iceland (2019), "Handling of Cases by the Public Procurement Complaints Commission Transferred to the Internal Revenue Board", 17 December. Viewed at: https://www.government.is/news/article/2019/12/17/Handling-of-cases-by-the-Public-Procurement-Complaints-Commission-transferred-to-the-Internal-Revenue-Board-/.

[149] Government of Iceland, *Rulings and Opinions*. Viewed at: https://www.stjornarradid.is/gogn/urskurdir-og-alit-/$LisasticSearch/Search/?SortByDate=True&SearchQuery=&Ministries=&Committee=K%C3%A6runefnd+%C3%BAtbo%C3%B0sm%C3%A1la&Year=.

[150] ISAC, an independent division within ISIPO, is in charge of accreditation (Section 3.3.2).

[151] Act No. 32/2019.

[152] For a list, see ISIPO, *International Agreements*. Viewed at: https://www.hugverk.is/en/knowledge/ip-law/international-agreements; and Cabinet of Iceland, *International Obligations and*

Marrakesh Treaty to Facilitate Access to Published Works for Persons Who are Blind, Visually Impaired, or Otherwise Print-Disabled, applicable from March 2022.

3.119. Exports of intellectual property charges ranged between USD 60 million and USD 87 million and imports between USD 65 million and USD 132 million during the period 2018-22. They represented between 0.9% and 3.4% of services exports, and between 1.8% and 3.3% of services imports. A net importer of IP until 2020, when exports increased and imports fell, Iceland became a net exporter of IP in 2020 and remained so until 2022 (Section 1.7.1). Since 2018, data from the authorities on services exports temporarily have not included trade in IP products (particularly in the pharmaceuticals sector), as data are now being reviewed by Statistics Iceland.[153] According to Eurostat, which does not exclude those data, exports of charges for the use of IPRs were much more significant during the review period, amounting to between USD 179 million and USD 382 million per year while imports ranged from USD 69 million to USD 142 million, with Iceland a net exporter of IP charges throughout the period.[154]

3.3.7.1 Domestic IP regime and recent developments

3.120. Acknowledging the important role of IP in the economy, the Government aims to maintain and develop an efficient administrative environment and legal IP framework, which is used by the public, as spelled out in the most recent Intellectual Property Policy covering 2016-22. The framework primarily consists of the Patent Act, the Trademark Act, the Geographical Indications (GI) Act, the Design Act, the Act on the Protection of Layout-Designs of Integrated Circuits (Act No. 78/1993), the Plant Varieties Act (No. 58/2000), and the Copyright Act (Table 3.15). The protection of patents and trademarks applies to national and foreign citizens equally while copyright protection is offered to foreign citizens in accordance with international obligations. A special law regulates rights related to inventions made by employees as part of their work.[155]

Table 3.15 Main features of the IPR regime

IPR	Patents	Trademarks	Industrial designs	GIs	Copyrights and related rights
Object of protection	A new process or product	A distinctive sign, including company logos	Appearance of a product or part thereof	Geographical name designating a product whose specific quality, reputation, or other characteristics can be attributed to geographical origin	Literary, artistic, and scientific works
Term of protection	20 years from date of application	10 years with unlimited possibility of renewal	5 years from filing date, four times renewable up to a maximum of 25 years	Unlimited but can be revoked if not used for 7 years	General term: lifetime of author plus 70 years after death; 25 years following posthumous publication
How to obtain protection	By registration	By registration	By registration	By registration	Automatically with the creation of the work
Who can get protection	Any natural or legal person	Any natural or legal person	Any natural or legal person	A producer group regardless of form, or an individual (under narrow circumstances)	Author (individual), then transferrable to legal entities
Rights conferred	Exclusive right	Exclusive right	Exclusive right	Right of use	Exclusive moral and economic rights
Legal basis	Patent Act No. 17/1991	Trademark Act No. 45/1997	Design Act No. 46/2001	Geographical Indications Act No. 130/2014	Copyright Act No. 73/1972

Co-Operation in the Field of Copyright. Viewed at: https://www.stjornarradid.is/verkefni/menningarmal/hofundarettur/althjodlegar-skuldbindingar/.

[153] Statistics Iceland, *Strong Economic Growth in 2022*. Viewed at: statice.is/publications/news-archive/national-accounts/national-accounts-2022-provisional-estimates/.

[154] Eurostat, International Trade in Services (since 2010) (BPM6). Viewed at: https://ec.europa.eu/eurostat/en/.

[155] Act No. 72/2004.

IPR	Patents	Trademarks	Industrial designs	GIs	Copyrights and related rights
Last amended by	Act No. 57/2021	Act No. 71/2020	Act No. 32/2019	Act No. 32/2019	Act No. 27/2021

Source: Compiled by the Secretariat, based on legislation listed in the table.

3.121. The legal frameworks for designs and GIs did not change significantly during the review period, but the Patent Act, Trademark Act, Copyright Act, and Plant Varieties Act were amended in substance. Iceland adopted a new Act on Trade Secrets (Act No. 131/2020).

3.122. Amendments to the Patent Act addressed supplementary protection certificates (SPCs), transposing the provisions of EU Regulation No. 933/2019, while the Patent Regulation[156] was also amended accordingly. The average time for the granting of a patent is around 2 years and 3.5 months. Industrial designs are only protected following their registration, with designs not protected as "unregistered designs" after having first been made available publicly, as in the EU framework. Decisions by ISIPO can be appealed to the Industrial Intellectual Property Appeal Board within two months of the decision.

3.123. No compulsory licences were granted or requested during the review period, with the Patent Act allowing for them with adequate remuneration to the licence holder, under certain circumstances, and following prior engagement between the proposed user and rights holder. The latter requirement can be waived in the case of national emergency, extreme urgency, or cases of public and non-commercial use. Such licences are approved by the Reykjavik District Court.

3.124. Regarding trademarks, the Trademark Act was amended in 2020 to align Iceland's trademark system with the internal market. As part of the amendments, the Act on Collective Marks (No. 55/2002) was repealed and incorporated into the Trademark Act. In 2020, a new Trademark Regulation[157] also replaced a previous regulation and was subsequently amended in 2023. Well-known trademarks are protected under the Act. Rights to trademarks are exhausted when goods are put on the EEA market by the proprietor or with their consent, applying both in the case of exclusive distribution arrangements and of parallel imports. The average time for a registration of a domestic trademark is 12 weeks.

3.125. Applications for registration of a GI must be submitted in writing to MAST, which must seek an opinion from ISIPO and the Confederation of Icelandic Enterprises. On average, registration of a GI takes around six months. The Agreement with the EU on Protection of Geographical Indications of Agricultural Products and Foodstuffs referred to in the previous Report entered into force on 1 May 2018.[158]

3.126. The Copyright Act was amended three times during the review period to align it with relevant EU legislation: in 2019 regarding cross-border portability of online content services in the internal market and regarding collective management of copyrights, and in 2021 in preparation of accession to the Marrakesh Treaty (i.e. protection of works for the benefit for the blind, visually impaired, or otherwise print-disabled). A separate Act on the collective management of copyrights, transposing the relevant EU Directive, was adopted in 2019, spelling out the management and licensing of rights by Collective Management Organizations.[159] The same provisions apply for the enforcement of copyright regarding online or offline infringements. There is no registration of copyright in Iceland.

3.127. Amendments to the Plant Varieties Act in 2000 discontinued the Plant Variety Committee, and the registration procedure was transferred to MAST, without material change to registration requirements.[160]

[156] Ministry of Higher Education, Industry and Innovation, Regulation No. 477/2012.
[157] Ministry of Higher Education, Industry and Innovation, Regulation No. 850/2020.
[158] EU, Agreement Between the European Union and Iceland on the Protection of Geographical Indications for Agricultural Products and Foodstuffs. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A22017A1024%2801%29; and WTO document WT/TPR/S/361/Rev.1, 12 January 2018.
[159] Act No. 88/2019.
[160] Act No. 101/2020.

3.128. Overall, during the review period the use of IPRs was relatively stable, although registration of industrial designs was lower in 2019 and 2020 before picking up (Table 3.16). The annual number of patents filed was around 1,500 (including validation of European patents in Iceland) except in 2022 where numbers were lower in line with regional trends. While Act No. 78/1993 legislates topographies of integrated circuits, registration is not available but can be relied upon like copyright. During the period 2017-23, 115 IP-related cases were brought before the Board of Appeals, and 1 was appealed to the courts. Information on their outcomes was not yet available.

Table 3.16 IPR protection, by type, 2017-23

	2017	2018	2019	2020	2021	2022	2023
Applications							
Patents	1,498	1,554	1,565	1,496	1,449	1,025	1,053
Industrial designs[a]	170	109	98	92	184	126	125
Topographies of integrated circuits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trademarks[b]	4,210	4,260	4,124	4,160	4,284	4,450	4,043
Of which national	1,327	1,475	1,216	1,306	1,271	1,208	1,231
Geographical indications	1	0	1	0	0	0	0
Plant varieties[c]	3	0	0	0	0	0	0
Registrations							
Patents	1,478	1,487	1,511	1,452	1,420	955	1,000
Industrial designs[a]	159	112	97	84	141	145	115
Topographies of integrated circuits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trademarks[b]	4,517	2,728	2,776	4,010	2,651	3,337	4,398
Of which national	1,183	1,171	958	927	952	992	1,154
Geographical indications	0	1	0	1	0	0	0
Plant varieties[c]	2	0	0	0	0	0	0
Board of Appeals	**15**	**25**	**24**	**17**	**12**	**16**	**5**

n.a. Not applicable.

a Sum of national and international (Hague) applications.
b Sum of national and international (Madrid) applications.
c Information not available by year; approximately one or two registrations per year.

Source: Information provided by the authorities.

3.129. ISIPO publishes advertisements and announcements relating to applications and registrations in the field of patents, trademarks, municipal emblems, and design every month and on its website.[161]

3.130. Iceland did not make any notifications to the WTO on IP during the review period, with the last notification dating from 1998.

3.3.7.2 Enforcement

3.131. No domestic market surveillance mechanism is in place to undertake inspections regarding infringements or violation of IPRs although the Consumer Agency has limited authority to investigate an issue of unfair commercial practice. Where rights holders identify suspected patent, trademark, or copyright infringements, they first can invoke an injunction from a district commissioner.[162] For copyright infringements, holders can file for an injunction against intermediaries such as Internet service providers to block users' access to websites containing infringing material. In general, IP infringement matters are heard before the Reykjavik District Court. Enforcement provisions are included in the relevant IP-related legislation with Act No. 53/2006 on Collection of Evidence Relating to Alleged Violations of Intellectual Property Rights spelling out relevant procedures. Intentional infringement of IPRs can be subject to criminal proceedings but, according to the authorities, no criminal proceedings were initiated between 2017 and 2023. No other statistics regarding domestic IP enforcement were available to the Secretariat.

3.132. As far as imports are concerned, rights holders can request to suspend customs clearance of goods suspected to infringe IPRs when providing adequate evidence, allowing the rights holder to

[161] ISIPO, *Trademark Search*. Viewed at: https://www.hugverk.is/en/search/.
[162] Such procedures are further defined in Act No. 31/1990 on Detention, Injunction, etc.

seek their right via interlocutory procedures and subsequently in court. The Customs Code also allows the custom authorities to seize infringing or possibly infringing material in an *ex officio* capacity, without prior notice from the holder of the IPR. Following notification of the IPR holder by the customs authorities, the goods are released into the Icelandic market unless the holder files a notice on their own accord.[163] In this regard, EU rules on goods in transit, allowing a rights holder to an EU trademark to take measures against counterfeit goods in transit even if the goods are not intended to be sold in the European Union, do not apply in Iceland.

3.133. There were no requests to suspend customs clearance between 2021-23 according to the authorities, while customs undertook 11 *ex officio* procedures during the same time (of which 6 in 2023), which led to 7 detentions (of which 4 in 2023). No information was available regarding the total value of goods customs authorities suspended the release of or the value of counterfeit goods destroyed.

[163] Act No. 88/2005, Article 132.

4 TRADE POLICIES BY SECTOR

4.1 Agriculture, forestry, and fisheries

4.1.1 Agriculture

4.1. The agricultural sector remains overall small in Iceland, accounting for 1.3% of GDP and 1.5% of employment in 2022 (including forestry but excluding fishing), broadly unchanged from 2017. The manufacturing of food products, beverages, and tobacco (less fish processing) added a further 1.6% to GDP in 2022, also broadly unchanged from 2017. The sector is smaller than the growing fisheries and aquaculture sector, which represented 3.5% of GDP and another 2.9% for fish processing in 2022 (Section 4.1.2). Around 20% of the land is suited for agriculture, primarily for fodder and grazing, and only 6% of land is arable.[1] While the sector remains small compared to global markets, it remains highly protected, with total support as measured by the OECD accounting for 50% of gross farm receipts (Section 4.1.1.6).[2]

4.2. The value of agricultural production (in current producer prices) grew 13.3% between 2017 and 2021, reaching ISK 53 million in 2021 (Table 4.1). The increase was driven by the value of production of animals and animal products as well as forage plants, while production volumes of meat and animal products remained broadly unchanged between 2017 and 2022 (except mutton and lamb, which declined), and production volumes for fodder (hay and silage) and potatoes declined. Overall, around 64% of the total agricultural production value in 2021 was for meat and meat products (28% for milk and 8% each for sheep and goats, and poultry), and 23% for forage plants (Table 4.1). Vegetables are primarily cultivated in greenhouses heated with geothermal energy. Yields are generally low due to climatic conditions, the small size of farms, and the limited genetic pool of livestock.

4.3. Crops and vegetables are grown on around 11,500 hectares of farmland, unchanged from 2017, with the size of land under cultivation (grass and other animal fodder) growing by 7%. The composition of land use changed slightly, however, as relatively more farmland was used for cereals in line with changes in production volumes (that of cereal grains increased). The number of farms, 2,322 in 2021, continued to decline during the review period, unevenly across sectors with their number increasing in some areas, e.g. in fruit-bearing vegetables and some other crops, both recipients of direct payments (Section 4.1.1.2.1).[3] As of 2020, average farm size remained generally stable, while that of dairy farms continued to grow at the expense of small to mid-size farms.[4]

Table 4.1 Total production value of agricultural products, 2017-23

(ISK '000 at producer prices of each year's price level)

	2017	2018	2019	2020	2021	2022	2023
All products, of which	**46,820**	**44,834**	**46,885**	**50,968**	**53,296**	..	..
Crops, of which:	16,227	13,621	15,305	17,746	18,760	..	..
Forage plants	11,634	9,297	9,791	11,970	12,445	..	..
Vegetables and horticultural products, of which:	3,449	3,607	4,140	4,648	5,231	..	..
Fresh vegetables	2,204	2,191	2,801	2,911	3,310	..	..
Potatoes	909	659	990	896	799	..	..
Live animals and animal products, of which:	30,440	30,636	31,264	32,777	34,029	..	..
Sheep and goats	3,458	3,758	3,882	4,761	4,500	..	..
Cattle	3,325	3,085	2,984	2,834	2,952	..	..
Pigs	2,093	2,814	2,838	3,094	2,839	..	..
Poultry	3,458	3,758	3,887	3,761	4,500	..	..

[1] OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.
[2] OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.
[3] Statistics Iceland (2023), "Profits in Agriculture Triple while the Number of Farms Continues to Decline", 14 February.
[4] Statistics Iceland (2022), "Total Revenue in Agriculture Nearly Flat and Fewer Operating Farms", 2 June. Viewed at: https://statice.is/publications/news-archive/agriculture/income-statement-and-balance-sheet-for-agriculture-2008-2020/.

	2017	2018	2019	2020	2021	2022	2023
Milk	13,156	13,166	13,430	14,201	14,940	..	..
Eggs	1,656	2,274	2,380	2,028	2,086	..	..

.. Not available.

Source: Information provided by the authorities.

4.4. Iceland remains a net importer of agricultural products but a net exporter of fish and fish products (Section 4.1.2). Since the previous Review, the trade deficit in agricultural products (WTO definition) has continued to increase as imports of a wide variety of agricultural and food items grew significantly faster than exports (covering a more limited range of goods). Valued at USD 840 million in 2022, the share of agricultural imports in total imports reached 8.7%, an increase from 8.4% in 2017, while the share of agricultural exports in total exports remained constant at 2.2% and was valued at USD 161 million in 2022.

4.5. Imports primarily originated in the European Union (61%), followed by Norway (13%) and the United Kingdom (7%). While the United States accounted for 9% of imports in 2017, this share declined to 5.9%. Imports were dominated by cereals and food preparations, fruits and vegetables, and residues of the food processing industry (primarily from Norway). The biggest export products in 2022 were animal and animal products accounting for nearly 50% of agricultural exports, among them meats (26%), live animals (7%), and dairy products (7%). Other important export goods were non-alcoholic beverages, including juices (19%, primarily natural water). Overall, exports were still primarily destined to the European Union but less so than in 2017 (32% compared to 38%), the United States (26%), and Japan (15%), but the largest export market for meat was Japan (54%, a significant increase from 40% in 2017), with 90% of the non-alcoholic beverages sold to the United States.

4.1.1.1 Regulatory framework and policy instruments

4.6. The Ministry of Food, Agriculture, and Fisheries (MFAF) remains in charge of agricultural policies and the provision of domestic support, having changed its name from the Ministry of Fisheries and Agriculture in 2022 (which had been part of the Ministry of Industries and Innovation until then), without significant changes in responsibilities. The Icelandic Food and Veterinary Authority (MAST) is the competent authority for food safety; animal health and welfare; control of feed, seed, and fertilizers; and plant health (Section 3.3). The European Economic Area (EEA) Agreement does not include the European Union's common agricultural and fisheries policies.

4.7. Agricultural policy has historically aimed at strengthening the agricultural sector and diversifying it within the context of the adverse climatic environment. The main goals include meeting domestic demand to the extent realistic; sustainably producing high-quality and healthy products; improving efficiency, competitiveness, farmers' incomes, and job opportunities; and sustaining livelihoods in rural areas.[5]

4.8. In 2023, comprehensive food and agricultural policies were adopted. The comprehensive food policy until 2040, complementing a 2020 policy designed to run until 2030, acts as an umbrella policy and highlights equitable domestic food production, as well as food safety and security, but also emphasizes environmental and climate sustainability.[6] The components of the new agricultural policy include food security, climate change adaptation and mitigation, biodiversity, land use, and the development of and support to agriculture in a sustainable manner with a focus on increased diversification and generational change.[7]

4.9. Agricultural and environmental policies remain strongly linked, especially regarding biodiversity and greenhouse gas (GHG) emissions as the agricultural sector accounts for a significant share

[5] WTO document WT/TPR/S/361/Rev.1, 12 January 2018, Section 4.1.1.3; and OECD (2021), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2021*. Viewed at: https://doi.org/10.1787/2d810e01-en.

[6] Parliamentary Resolution on Food Policy until the Year 2040. Viewed at: https://www.althingi.is/altext/153/s/1913.html; and Government of Iceland, Matvælastefna Íslands til ársins 2040. Viewed at: https://www.stjornarradid.is/library/01--Frettatengt---myndir-og-skrar/MAR/Fylgiskjol/YMI_16041_Matvaelastefna_Skyrsla_Uppfaersla_Juni_Rafraen.pdf.

[7] Parliamentary Resolution on Agricultural Policy until the Year 2040. Viewed at: https://www.althingi.is/altext/153/s/1930.html; and OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.

of Iceland's GHG emissions in 2023, largely from livestock.[8] The Climate Action Plan specifically aims to make beef production carbon neutral while the revision of the sector agreements in 2019 extends this target to all of agriculture by 2040. The Government also established an action plan in 2023 to increase cereal production that includes increased support to infrastructure and plant breeding from 2024.[9]

4.10. Overall, the framework for policy interventions and support described in the previous Review did not fundamentally change during the review period. Act No. 99/1993 on Agricultural Products continues to set out the general policy framework and the legal basis for production management, pricing, and support measures, while Act No. 70/1998 on Agriculture provides the legal basis for production conditions, land improvements, and breeding. The Agricultural Products Act was amended multiple times during the review period with minor impact on the provision of domestic support (see below).

4.11. Support is based on multiannual Agreements on Agricultural Policy and Support for Agriculture negotiated between the Government and the Farmers Association of Iceland[10], with the current one covering the period 2017-26 and described in the previous Review. This agreement was reviewed as planned in 2019 with the revisions of 2023 finalized in early 2024. The revisions in 2019 included a decision to make cattle farming, horticulture, and the whole agricultural sector carbon neutral by 2040 (a similar decision for the sheep sector was included in 2023) and made additional allocations to horticulture (Section 4.1.1.2). The 2023 revisions were less comprehensive and include, among others, a shift towards more advisory services.

4.12. In response to the COVID-19 pandemic, the Government undertook measures that included additional support to the farmers most affected by the pandemic (ISK 970 million).[11] In response to the war in Ukraine, the Government initially provided additional support to farmers to cushion the effect of increasing costs of fertilizer imports (ISK 650 million) and better nutrient use (ISK 50 million) before designing a special support programme to address increased production costs (ISK 2.5 billion), most of which was channelled through existing support programmes.[12] The unilateral preferences granted to Ukraine also cover all agricultural goods (Section 3.1.3).

4.1.1.2 Domestic support

4.13. Support to domestic agriculture continues to be based on the multiannual agreements negotiated between the Government and the Farmers Association, which are implemented via a number of regulations with an Executive Committee for Agricultural Product Agreements functioning as a consultative forum and playing an important role in taking certain decisions.[13] These regulations were all revised multiple times (nearly annually) and while broadly unchanged reflect a number of small changes (see below), mostly based on changes to the agreements in 2019. Support is spelled out in Ministry of Food Regulations No. 430/2021 (general), No. 348/2022 (cattle), No. 1273/2020 (horticulture), and No. 144/2022 (sheep). Domestic support comprises primarily direct payments and some indirect internal market support. The exact impact of the new agricultural policy on domestic support remains to be seen.

4.1.1.2.1 Direct payments

4.14. The eligibility requirements for farmers to receive payments continue to include residency, having a registered farm and a VAT number, undertaking agricultural and forestry activities (excluding certain service activities), and some reporting requirements. Farmers associations can implement certain projects (advisory services to farmers), charging a fee.[14] Support is provided by

[8] OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.
[9] OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.
[10] Members of the Farmers Association are agricultural associations representing farmers of different regions and farming companies, mostly representing specific sectors.
[11] Government of Iceland, *An Action Plan to Strengthen Icelandic Agriculture*, 17 February 2021. Viewed at: https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2021/02/17/Adgerdaaaetlun-til-eflingar-islensks-landbunadar-kynnt/.
[12] OECD (2023), Iceland, in: *Agricultural Policy Monitoring and Evaluation 2023*.
[13] Ministry of Food Regulation No. 430/2021, Article 4. The committee consists of three government representatives and three from the Farmers Association.
[14] Act No. 70/1998, Article 3.

the Treasury. Amounts of support provided to individual farmers are published on a government dashboard.

4.15. Direct payments are organized according to the four multiannual agreements with total disbursed direct payments amounting to ISK 13.2 billion in 2023 (close to the planned amounts) and planned amounts for 2024 are ISK 12.9 billion. Around half of direct payments are for dairy and beef, around a third for sheep, and the remainder for general support and horticulture (Table 4.2). According to the authorities, in 2022, the 100 largest recipients among the 1,550 sheep farms received around 22% of sector payments, the 100 largest of recipients among the 697 cattle and dairy farms received 34% of sector payments, and the largest 20 recipients among the 97 horticultural farms received 72% of total support to horticulture.

Table 4.2 Planned expenditure for domestic support, 2017-26

(ISK million, in 2017 price levels)

	2017[a]	2018[a]	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[c]	2025[c]	2026[c]
Grand total	**13,756**	**13,634**	**13,592**	**13,405**	**13,469**	**13,314**	**13,185**	**13,032**	**12,910**	**12,788**
Dairy and beef cattle										
Support entitlements	1,942	1,934	1,927	1,919	1,919	1,909	1,892	1,875	1,855	1,836
Milk payments	2,629	2,619	2,609	2,297	2,271	2,240	2,219	2,200	2,176	2,154
Headage – dairy cows	1,176	1,171	1,167	1,408	1,407	1,400	1,308	1,296	1,282	1,269
Headage – beef cows	141	141	140	154	154	153	231	229	226	224
Production-demand balance	99	98	98	96	96	95	95	94	93	92
Breeding	197	196	196	192	192	191	189	188	186	184
Investment aid	193	192	191	192	192	191	189	188	186	184
Beef production	173	98	121	141	166	185	183	181	179	177
Total – Dairy and beef cattle	**6,550**	**6,449**	**6,449**	**6,398**	**6,396**	**6,363**	**6,305**	**6,249**	**6,183**	**6,118**
Sheep farming										
Support entitlements	2,506	2,267	2,205	2,185	2,177	2,157	1,708	1,502	1,486	1,470
Quality assurance premiums	1,714	1,679	1,674	1,618	1,612	1,597	1,538	1,479	1,464	1,448
Headage payments[d]	0	0	0	0	0	0	0			
Farm support	0	194	242	187	186	185	518	728	720	713
Utilization of wool	446	437	436	421	420	416	526	523	518	512
Investment aid	0	49	48	46	46	46	69	91	90	89
Regional support	99	146	145	141	139	138	139	137	135	134
Higher value sheep products	148	146	145	95	95	94	93	91	90	89
Total – Sheep farming	**4,913**	**4,916**	**4,896**	**4,694**	**4,675**	**4,633**	**4,592**	**4,550**	**4,503**	**4,456**
Horticulture										
Direct payments (A)[e]	274	273	272	269	294	291	288	286	283	280
Electricity subsidies	278	278	278	278	375	375	375	375	374	374
Direct payments (B)[f]	n.a.	n.a.	n.a.	n.a.	37	37	37	37	37	37
Development projects	n.a.	n.a.	n.a.	n.a.	48	47	47	47	46	46
Breeding projects	n.a.	n.a.	n.a.	n.a.	15	15	15	15	15	15
Land cultivation payments	n.a.	n.a.	n.a.	n.a.	70	70	70	70	70	69
Carbon neutrality projects	n.a.	n.a.	n.a.	n.a.	15	15	15	15	15	15
Organic production	n.a.	n.a.	n.a.	n.a.	10	10	10	10	10	10
Total – Horticulture	**551**	**550**	**549**	**546**	**864**	**860**	**857**	**855**	**851**	**848**
General operating environment for agriculture										
Advisory services	519	503	486	467	344	326	306	286	286	286
Breeding projects	60	59	59	59	19	19	19	19	18	18
Land cultivation payments	369	366	365	361	380	379	376	373	370	367
Agricultural productivity fund	128	128	128	128	0	0	0	0	1	2
Agricultural development projects	92	91	91	90	61	61	60	60	59	58
Organic production	35	35	34	34	37	37	37	10	10	10
Farmland payments	247	246	245	342	378	378	376	375	373	371
Assessment of vegetation resources	30	30	29	29	33	32	32	32	31	31
Recruitment	128	127	126	125	138	137	136	135	134	133
Genetic Resource Council	7	7	7	7	8	8	7	7	7	7
Investment subsidies for pig farming	99	99	98	97	53	0	0	0	1	2
Goat farming	15	15	15	15	16	16	16	16	16	15

	2017[a]	2018[a]	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[c]	2025[c]	2026[c]
Forestry products	15	15	15	15	17	16	16	16	16	15
Farmers association	0	0	0	0	50	50	50	50	50	50
Total – General	**1,743**	**1,719**	**1,699**	**1,767**	**1,534**	**1,459**	**1,432**	**1,378**	**1,372**	**1,366**

n.a. Not applicable.

a Original amounts.
b Planned amounts following first revision in 2019.
c Planned amounts following second revision in 2023.
d Headage payments in 2017 relate to residual payments under an earlier scheme.
e Direct payments for tomatoes, cucumbers, and bell peppers.
f Direct payments for other vegetables.

Source: Information provided by the authorities based on the original and revised agreements on the operating environment for the cattle, sheep, and horticulture sectors.

Dairy and beef

4.16. During the review period, around 50% of total direct payments were for dairy and beef, primarily for milk (Table 4.2). Spelled out in Ministry of Food Regulation No. 348/2022, headage payments for dairy and meat cows remain in place, and these continue to have a certain regressive element as payments per animal are smaller the larger the herd, with both types of animals counted separately.[15] Farmers can also receive payments for breeding, and a slaughter payment for beef meeting certain quality conditions. Investment support, for general breeding facilities, can amount to up to 40% of the cost but not more than 10% of the total national investment support in a given year.

4.17. Following the review of the multiannual agreement in 2019, milk quotas remain in place with the total quota set at 149 million litres for 2023, allocated for use among producers in accordance with the previous year's limits. Direct payment entitlements are linked to these milk quotas, which continue to be transferable on a government-managed market three times a year, with new entrants having priority access to part of such rights. They were to be phased out until 2026, being replaced by separate payments for total milk delivered, regardless of quotas, but the revision of the multiannual agreements in 2019 cancelled the phase-out until at least 2026.

4.18. Milk payments consist in principle of three components. First, payments per payment entitlement (i.e. litre of milk produced within the quota) are determined *ex ante*, while, second, a fixed total payment amount is divided equally among all produced milk for the payment on milk delivered regardless of quota. During the review period, the two components were of similar magnitude per litre, on average ISK 14.8 for each payment entitlement, and ISK 17.8 for the second component, jointly accounting for around a third of the minimum price in 2020.

4.19. In addition, minimum prices for milk remain in place. Producers are required to sell their milk to dairies that pay at least the minimum price for milk within the quota, and a market price for milk exceeding the quota. Dairies have to export excess production unless a specific authorization to sell domestically is granted by the Executive Committee for Agricultural Product Agreements. Payments to farmers are made each month in equal instalments, with payments reduced in case producers do not meet their allowable quantity.

4.20. The Executive Committee of Agricultural Product Agreements can also make proposals for the allocation of funds intended for balancing production, some of which can be made as direct payments or marketing expenses to farmers, with others for support of environmental measures or breeding development.

Sheep

4.21. Support for sheep centre on direct payments, quality control payments, payments for wool, investment aid, farm support, and regional support, as foreseen in the multiannual agreement and spelled out in Ministry of Food Regulation No. 144/2022. During the review period, around a third of total direct payments were for sheep, increasingly for premiums for quality meat.

[15] Ministry of Food Regulation No. 348/2022, Chapter V.

4.22. Direct payments are based on support entitlements that since the beginning of 2021 can only be transferred under very specific circumstances. According to the current multiannual agreement for the sheep sector, these entitlements will lose their validity by the end of 2026 and allocated support for these entitlements has already been declining, although more slowly than originally foreseen (Table 4.2). A premium is paid for sheep meat meeting certain quality conditions, such as those related to animal welfare or sustainable land use, when being sold domestically. The revisions in 2023 increased the share of direct payments at the expense of farm and wool utilization support compared to the 2019 agreement.

4.23. Since 2018, farmers have had access to farm support when holding at least 100 winter-fed sheep. While the current agreement foresaw that farmers had to have a certain share of winter-fed sheep in their herds until 2020 to receive the full direct payment, such requirement was still in force in 2022 according to Regulation No. 144/2022. Support is also paid for the production of wool, regional aid to farmers in regions that are particularly dependent on sheep farming, and investment aid to support improved conditions for sheep and more efficient farming methods. Such investment aid can cover up to 20% of investment costs but not more than 10% of the total national investment support in a given year. While originally foreseen, no headage payments for winter-fed sheep were introduced and planned support was reallocated. An option for sheep farmers to receive financial support for diverting their operations away from sheep farming for four years was put in place in 2019, with limited uptake.

Horticulture

4.24. Per Ministry of Food Regulation No. 1273/2020, farmers can apply for rights to receive direct payments as long as they meet eligibility criteria, and after providing certain information including regarding energy requirements and lighting. Initially, only around 4% of total direct payments went to horticulture. Based on the revision of the multiannual agreement in 2019, allocations to horticulture were increased significantly to around 7% (Table 4.2).

4.25. There are three types of direct payments. Since 2020, no producer can receive more than 10% of total national payments for each category, with the exception of direct payments due to the transmission and distribution costs of electricity.[16]

4.26. As previously, producers of tomatoes, cucumbers, and bell peppers receive direct payments (type A) based on the quantity of first-quality category actually sold, but a second type (B) of direct payments were also added for producers of vegetables (other than these three) grown in greenhouses from 2021 as a result of the revision of the multiannual agreement in 2019. These are based on the area of production and a requirement to cultivate at least nine months in a calendar year.

4.27. Direct payments are also made based on a subsidy for energy consumption that is used only for lighting, with horticultural producers having to pay a minimum of 5% of the electricity costs. According to the Regulation, the maximum support from direct payments for the transmission and distribution costs of electricity per producer is 17.5% of the total contributions to that direct payment category.

4.28. Based on the revisions in 2019, and since 2020, producers aiming to make their production organic[17] can also benefit from support payments of up to 50% of annual adjustment costs. Likewise, those growing vegetables and potatoes for human consumption on open land can also apply for an agricultural grant for soil cultivation (for horticulture), and the Executive Committee can propose certain horticultural breeding projects for support.

Other products and general support

4.29. Ministry of Food Regulation No. 430/2021 spells out support for general support as well as other specific sectors. It foresees general support to activities such as breeding, land cultivation

[16] Act No. 99/1993, Article 58, introduced by Act No. 126/2020.
[17] According to the Regulation on Organic Production of Agricultural Products and Labelling.

(another agricultural grant for grass, grain, and fodder), damage due to swan and geese invasion; to new farmers; and for organic production.

4.30. Sector-specific support programmes are spelled out for goats (headage payments, wool, milk, and breeding), pig farming (until 2021), cattle and sheep breeding (research and development related to Icelandic species), and forestry. Support under these general programmes initially amounted annually to ISK 1.7 billion before declining to around ISK 1.4 billion (or 11% of total direct payments) (Table 4.2) during the review period.

4.1.1.2.2 Internal market support

4.31. As outlined above, minimum prices at dairies for milk under quotas remain in place and frequently changes. For example, they were ISK 92.75 per kg in 2020 and ISK 132.68 per litre at the beginning of 2024.[18] Wholesale prices of other dairy products also continue to be regulated, covering approximately half of milk products on the market based on milk volume, according to the authorities. Dairies are allowed to agree on certain dairy prices among themselves, allowing for potential cross-subsidization among dairy products.[19]

4.32. To establish the minimum price for milk, the price committee can also monitor the price for beef, and the National Association of Cow Farmers is at times authorized to issue reference prices to producers, but these mechanisms are not used.

4.1.1.3 Border measures

4.33. Tariffs on agricultural products remain elevated with simple applied MFN tariffs for agricultural products at 18.1%, a decline from 20.2% in 2017, primarily resulting from changes in AVEs calculated for the non-*ad valorem* duties. The most recent EU-Iceland bilateral trade agreement negotiated on the basis of Article 19 of the EEA Agreement entered into force on 1 May 2018, reducing tariffs on 98 tariff lines (or 17.3% of all dutiable tariff lines) across 10 headings to zero (Section 3.1.3).[20] For comparison, average tariffs on non-agricultural goods are 0.2%.

4.34. Iceland reserved the right to use the special agricultural safeguard but did not invoke it during the review period.[21]

4.35. Iceland applies MFN tariff rate quotas (TRQs), autonomous TRQs, and preferential TRQs (Section 3.1.3), and the MFAF administers them for agricultural products. Auctions are used where applications for quotas exceed available quantities. During the review period, the quota system was further reformed by introducing an online auction system for quotas, with winning bids selected starting with the highest offer price until full quota allocation, with the lowest selected offer setting the price for all winning bids.[22] Since 2020, some TRQs have been converted to seasonal tariffs with their validity defined in Act No. 99/1993. Goods in 23 tariff lines are now generally subject to seasonally lower tariffs without quota limitation, often duty-free, while they can still be subject to autonomous TRQs outside the season.

4.36. In marketing year 2021/22, only 12 MFN quotas were opened as out-of-quota tariffs were lower compared to in-quota tariffs, covering 235 tariff lines, affecting primarily meat products. The fill rate for all but two of these quotas reached 100% during marketing year 2021/22.[23] On average, AVEs for tariff lines in opened TRQs are around 40 percentage points lower compared to MFN AVEs.

[18] WTO document G/AG/N/ISL/57, 31 January 2022.
[19] Act No. 99/1993, Article 13.
[20] WTO Secretariat estimates based on data provided by the authorities through IDB notification.
[21] See WTO document G/AG/N/ISL/67 for 2022, with the authorities confirming this for 2023.
[22] Act No. 99/1993, Article 65, as amended by Act No. 152/2019 and further specified with Act No. 136/2020.
[23] WTO document G/AG/N/ISL/66, 26 September 2022. The notification for marketing year 2022/23 was received after drafting of the Review had been completed. WTO document G/AG/N/ISL/69, 6 March 2024.

4.1.1.4 Export subsidies

4.37. According to its notifications, Iceland did not grant any export subsidies during the review period.

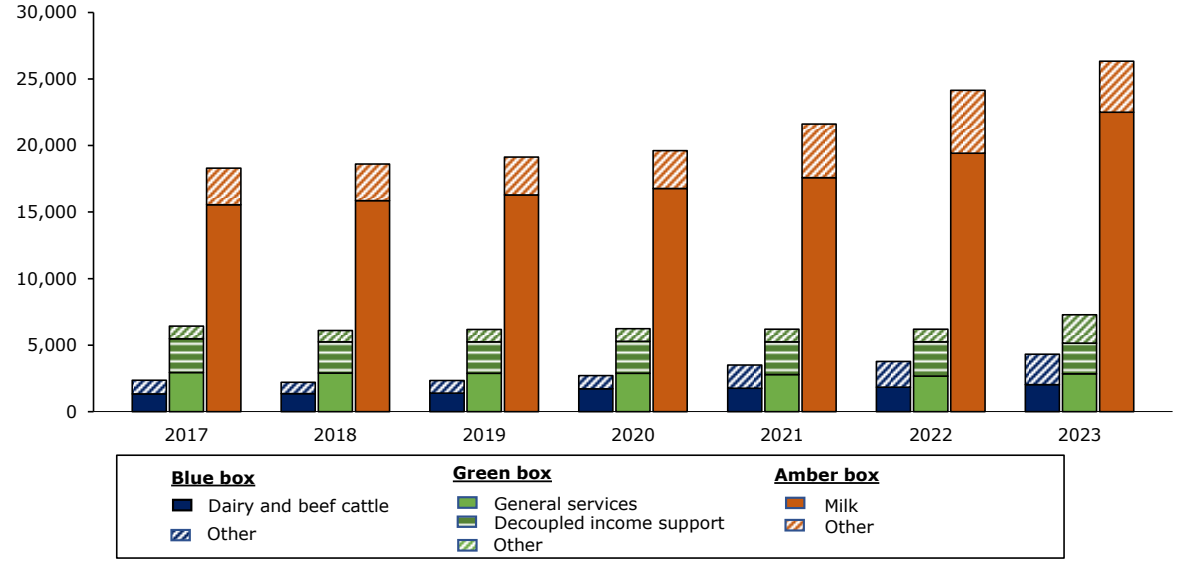
4.38. The volume of milk produced in excess of quota entitlements has to be sold abroad by producers, unless a specific authorization for domestic sales is granted.[24] During the review period, annual milk exports as a result of this requirement were between 2.6 million and 3.6 million litres.

4.1.1.5 WTO notifications

4.39. According to its notifications, Iceland provided total AMS (including *de minimis*) of ISK 19.6 billion in 2020, the year with the most recent submitted notification on agriculture domestic support. At SDR 104.1 million, this was lower than Iceland's total AMS commitment level of SDR 130.1 million. According to estimates provided by authorities for 2021-23 based on notifications under preparation for these years, total AMS continued its trend increase, reaching SDR 145.5 million in 2023. AMS focused on milk, sheep, and horticulture, the areas where multiannual agreements are in place (see above), with milk accounting for 86% of the AMS in 2020 and 85% in 2023 (about one third for non-exempt direct payments and two thirds for market price support).[25] In addition, Iceland provided Green Box support of ISK 6.2 billion in 2020 (ISK 7.3 billion in 2023), primarily for general services and decoupled income support for sheep farmers, as well as Blue Box support of ISK 2.7 billion in 2020 (ISK 4.2 billion in 2023) for livestock payments on a fixed number of heads (predominantly cattle, with such payments for sheep ceasing in 2018) and payments based on fixed areas and yields. The notified level of support increased during the review period from ISK 18.3 billion in 2017, as did Blue Box support (from ISK 2.4 billion) and Green Box support (from ISK 6.4 billion) (Chart 4.1).

Chart 4.1 Domestic support, 2017-23

(ISK million)



Note: The 2021-23 estimates are provided by the authorities.

Source: WTO documents G/AG/N/ISL/54, G/AG/N/ISL/55, G/AG/N/ISL/56, and G/AG/N/ISL/57, 31 January 2022, and estimates provided by the authorities.

[24] Ministry of Food Regulation No. 348/2022, Article 9.
[25] WTO document G/AG/N/ISL/57, 31 January 2022; and estimates provided by the authorities.

4.1.1.6 OECD assessment

4.40. According to the OECD[26], the total support estimate (TSE) (transfers to the agricultural sector in general) remained broadly constant in nominal terms between 2017 and 2020 but declined in the subsequent years. As a share of GDP, it declined throughout the review period from 1.09% in 2017 to 0.68% in 2022. Given the small size of the sector, the TSE represented more than 80% of the total agricultural value of production until 2020, but significantly less (62%) in 2022.

4.41. The OECD estimates overall support to agriculture in terms of market outcomes, by estimating the total effective transfers to producers as a result of market price interventions (including trade restrictions), subsidies, and direct payments, and taking stock of general services provided by the Government. These estimates are therefore not directly comparable with domestic support notified to the WTO.

4.42. Between 2017 and 2022, the producer support estimate (PSE) (capturing gross transfers from consumers and taxpayers to agricultural producers) remained broadly stable in nominal terms while declining as a share of total gross farm receipts from 58.9% to 52% in 2021 and 44% in 2022 as the TSE fell by 11.6% between 2020 and 2022, while the total value of production grew by 15.7%. While continuing its longer-term decline from 66.1% in 2000, the PSE as a share of total gross farm receipts remains significantly higher than that of the OECD average of 12.9% in 2022.[27]

4.43. From 2020, market price support (OECD definition) started to decline in nominal terms and expressed as a share of production from 40.1% in 2019 to 34.6% in 2021 and 24.7% in 2022. In the case of milk, market price support accounted for more than 42% until 2020 but fell to 19.7% in 2022. Estimates for Single Commodity Transfers (SCTs) (transfers to specific commodities) remained broadly constant until 2019 when they were estimated at 77% of the value of production at farm gate, falling to an estimate of 56% in 2022. According to these OECD estimates, the nominal coefficients of protection generally declined over the review period (but increased for wool) and vary significantly across sectors. The sectors with the highest nominal coefficients of protection in 2022 were wool (4.8), poultry meat (2.9), and eggs (2.8) (Table A4.1).

4.1.2 Fisheries, aquaculture, and fish processing

4.1.2.1 Features

4.44. According to the Food and Agriculture Organization (FAO), in 2022 Iceland was the 17th largest fishing nation in the world and the second largest in Europe, fishing approximately 1% of the marine global catch that year.[28] Iceland's 200-mile exclusive economic zone (EEZ) covers a 760,000 km^2 area, seven times the area of Iceland itself. Some of the most extensive fish stocks in the North Atlantic are found within Icelandic waters, including halibut, haddock, and cod, which is Iceland's most valuable stock.[29] Iceland's fishers also make catches in international waters; Faroese, Greenlandic, and Norwegian waters; and the Russian and Norwegian waters of the Barents Sea. Indeed, the cluster constituted by fisheries, aquaculture, and fish processing remains an important economic sector for Iceland and one in which Iceland kept its regulatory autonomy from the European Union.[30]

[26] OECD, *Agricultural Policy Monitoring and Evaluation*. Viewed at: https://www.oecd.org/agriculture/topics/agricultural-policy-monitoring-and-evaluation/.

[27] OECD Data Explorer, Producer Support Estimate (PSE). Viewed at: https://data-explorer.oecd.org/.

[28] FAO (2022), *The State of World Fisheries and Aquaculture: Towards Blue Transformation*. Viewed at: https://www.fao.org/3/cc0461en/cc0461en.pdf.

[29] Statistics Iceland.

[30] Article 8.3 of the EEA Agreement stipulates that, unless otherwise specified, the Agreement only applies to industrial products and to processed agricultural products. Article 20 clarifies that provisions and arrangements that apply to fish and other marine products are set out in Protocol 9. The fact that the provisions of the Agreement, other than those in Protocol 9, do not apply to fish and other marine products is further confirmed in a Joint Declaration by the Parties on the agreed interpretation of Article 4(1) and (2) of Protocol 9. The Joint Declaration states that the EEA EFTA States will not take over the *acquis communautaire* concerning the fishery policy. EFTA, EEA Agreement, Final Act. Viewed at: https://www.efta.int/media/documents/legal-texts/eea/the-eea-agreement/Final%20Act/FinalAct.pdf.

Table 4.3 Share of GDP in fishing, aquaculture, and fish processing, and employment numbers, 2017-23

	2017	2018	2019	2020	2021	2022	2023
Share of fishing in GDP (%)	3	3.2	3.5	3.8	3.8	3.5	..
Share of aquaculture in GDP (%)	0.3	0.2	0.5	0.4	0.3	0.5	..
Share of fish processing in GDP (%)	2.4	2.5	2.8	3	2.7	2.9	..
Employment in fishing and aquaculture	3,700	3,900	3,800	3,700	3,700	3,700	..
Share of fishing and aquaculture in total employment (%)	1.7	1.7	1.7	1.8	1.8	1.6	..
Employment in fish processing	5,600	5,500	5,200	4,900	4,900	4,900	..
Share of fish processing in total employment (%)	2.6	2.5	2.4	2.4	2.3	2.1	..

.. Not available.

Source: Statistics Iceland.

4.45. The fish cluster constituted between 5.7% to 7.2% of the GDP during the period and its relative shares increased during the COVID-19 years due to the fall of services in other sectors. Aquaculture production has increased in the last few years, but fishing and fish processing have stable production due to limits in Total Allowable Catches (TAC) quotas. In recent years, other sectors such as tourism have increased their contribution to GDP significantly, resulting in lower shares of fishing and fish processing in GDP. In terms of share in total employment, the share of the fish cluster slightly declined during the period under review from 4.3% in 2017 to 3.7% in 2022 (Table 4.3).

4.1.2.2 Production and trade

4.46. The value of the total catch was ISK 195 billion in 2022, up from ISK 110 billion in 2017 and the value of catches constantly grew during the period. Cod remains the most important species in terms of value, representing nearly 44% of total value of catches in 2022. Haddock, mackerel, and redfish are the next more valuable catches (Table 4.4). Of the total value of catch of ISK 195 billion in 2022, ISK 172 billion was caught within Iceland's 200-mile EEZ. Catch outside the Icelandic EEZ is based on relevant agreements including access agreements that allow for the catch of the Icelandic TAC in waters outside the EEZ.

4.47. Exports of marine products grew regularly in value from 2017 to 2022, globally and for each species concerned (Table 4.4). Cod, capelin, and haddock remained the top three export items. Exports to the European Union accounted for nearly half of these exports (46.6% in 2017, 44.3% in 2022), followed by the United Kingdom (approximately 15% in both years), Norway, and the United States, which both passed the 10% benchmark in 2022. It is worth noting that exports to China grew by one fourth (from 4% to 5%), Nigeria remains a traditional destination for dried and salted fish, and there are notable exchanges as far away as Japan.

4.48. Aquaculture production more than doubled in volume from 2017 to 2022, increasing from nearly 21,000 tonnes in 2017 to 51,350 tonnes in 2022 (Table 4.4). Exports of aquaculture approximately tripled in volume and value from ISK 14 billion in 2017 to ISK 48.8 billion 2022. Aquaculture exports represent in value about one seventh of exports of fish catches, but only around 6% in terms of volume. The main exports in volume and value are salmon and arctic char and the top 10 importers of Icelandic aquaculture products are located on both sides of the North Atlantic.

Table 4.4 Main fish and aquaculture production and exports, 2017-22

	Unit	2017	2018	2019	2020	2021	2022
Production							
Marine products	**ISK million**	**110,681**	**127,937**	**145,076**	**148,341**	**162,210**	**195,005**
	'000 tonnes	**1,180**	**1,259**	**1,048**	**1,021**	**1,154**	**1,415**
Cod	ISK million	49,437	57,445	69,950	75,860	75,589	85,348
	'000 tonnes	253	275	273	278	272	243
Haddock	ISK million	7,955	10,589	14,429	13,259	15,893	20,638
	'000 tonnes	36	48	58	54	56	57

	Unit	2017	2018	2019	2020	2021	2022
Saithe	ISK million	6,428	7,947	10,430	7,651	9,889	14,470
	'000 tonnes	49	66	65	50	60	62
Capelin	ISK million	3,597	4,730	0	0	6,770	14,302
	'000 tonnes	180	178	0	0	139	441
Redfish	ISK million	8,837	10,208	12,110	12,176	10,825	9,767
	'000 tonnes	59	58	53	52	50	40
Aquaculture products	**'000 tonnes**	**20.9**	**19.2**	**34.1**	**40.6**	**53.1**	**51.4**
Salmon	'000 tonnes	11.3	13.4	27.0	34.3	46.5	44.9
Exports							
Marine products	**ISK billion**	**199.2**	**244.7**	**262.5**	**276.9**	**297.4**	**351.9**
	'000 tonnes	**622.5**	**696.4**	**629.9**	**629.0**	**648.4**	**707.0**
Cod	ISK billion	83.6	100.5	117.6	132.0	131.4	141.3
	'000 tonnes	120.4	132.5	132.8	139.8	140.7	127.9
Capelin	ISK billion	18.5	18.5	8.5	2.7	24.4	48.0
	'000 tonnes	89.1	88.8	16.7	6.8	42.1	158.9
Haddock	ISK billion	10.5	13.9	18.2	19.7	22.2	25.9
	'000 tonnes	14.6	20.5	24.5	23.8	25.9	22.6
Herring	ISK billion	10.4	8.6	13.5	15.8	15.7	22.1
	'000 tonnes	74.3	55.7	91.3	93.4	87.3	90.8
Saithe	ISK billion	8.7	11.8	13.7	11.9	14.3	20.7
	'000 tonnes	22.5	33.3	32.6	28.4	33.0	30.6
Aquaculture products	**ISK billion**	**14.0**	**13.2**	**25.0**	**29.3**	**36.2**	**48.8**
	'000 tonnes	**15.0**	**14.0**	**26.8**	**31.5**	**38.8**	**43.1**
Atlantic salmon	ISK billion	8.6	8.9	18.6	22.6	30.0	43.7
	'000 tonnes	8.8	9.7	20.3	24.3	32.5	38.9

Source: Statistics Iceland, *Fisheries*. Viewed at: https://www.statice.is/statistics/business-sectors/fisheries/.

4.49. The overall number of fishing vessels decreased from 1,620 in 2017 to 1,540 in 2022 for all categories of vessels (trawlers, decked vessels, and undecked vessels), and the overall tonnage grew during the period in particular for decked vessels between 1,500 and 5,000 gross tonnes (GT). In the period from 2017 to 2022, the average age of vessels decreased from 25 to 22 years reflecting the investments and renewal of the fishing fleet. TAC is also allocated on a per vessel basis, hence with the consolidation and the renewal of the fishing fleet the TAC is allocated on fewer vessels regardless of catch capacity.

4.50. Act No. 26/2023 has provided an indirect incentive for the green transition of the sector. For smaller vessels of a length of 15 m or less, the restriction of weight to 30 tonnes maximum for applying for a general fishing permit with a hook-and-line catch quota in the small-scale fisheries sector is waived if these vessels use green fuel.

4.1.2.3 Policies

4.51. The Department of Fisheries in the Ministry of Food, Agriculture and Fisheries (MFAF, formerly part of the Ministry of Industries and Innovation) is responsible for developing policies and preparing legislation. The Directorate of Fisheries, which is an agency of the Ministry, oversees the implementation of laws on marine fisheries management and is responsible for the surveillance of fisheries. The Icelandic Coast Guard is responsible for search and rescue, maritime safety and security surveillance, and law enforcement in the seas surrounding Iceland. The Marine and Freshwater Research Institute (MFRI), a government institute under the auspices of the MFAF, is responsible for research and advising the Government on sustainable use of marine resources. Both the directorate and the MFRI provide information on fisheries to the authorities, the fishing sector, and the public in their respective fields. The main stakeholders in the industry include Fisheries Iceland and the National Association of Small Boat Owners. These stakeholders represent the fisheries and processing industries in policy discussions with the Ministry.

4.52. A revised policy on aquaculture is presently being developed. Its aims are to create better conditions for sustainable development of the aquaculture sector and therefore increase economic growth, supporting job creation and settlements in Iceland. To that effect, a 2023 report titled "The

State and Future of Aquaculture in Iceland" concludes that with "rapid growth in traditional aquaculture over the last decade, Iceland is witnessing the emergence of a large-scale industry" and that the "economic value of aquaculture is likely to grow even further beyond the next decade". It portrays the impact on the environment and sea-based lifeforms as the largest challenge for the industry.[31]

4.53. Based on this, another report by the MFAF in October 2023 sets out a comprehensive policy for aquaculture in Iceland until 2040. The main emphasis is for aquaculture to be managed based on defined parameters that are intended to prevent the industries from negatively impacting the environment and ensure best practices with regard to the management of animal welfare and diseases. The report sets out an action plan for the period up to 2028 to enact the policy. A legal bill based on the policy work is undergoing public consultation with the bill proposing considerable amendments to Act No. 71/2008 on Aquaculture.

4.54. In terms of international obligations, the main change that occurred during the period was the deposit by Iceland of its instrument of acceptance for the WTO Agreement on Fisheries Subsidies on 10 May 2023.

4.55. Iceland remains a member of the following commissions:

- The Northeast Atlantic Fisheries Commission (NEAFC) administers stocks in the international area in the Northeast Atlantic. Icelandic vessels fish blue whiting, Northeast Atlantic mackerel, Atlanto-Scandian (Norwegian spring-spawning) herring, and deep-sea redfish in the NEAFC convention area.

- The International Commission for the Conservation of Atlantic Tuna (ICCAT). Iceland is a contracting party to the ICCAT for East Atlantic bluefin tuna.

- The Northwest Atlantic Fisheries Organization (NAFO) for northern shrimp catch.

4.56. Iceland has a series of bilateral agreements with Norway, the Russian Federation, Greenland, and the Faroe Islands on fishing opportunities for cod, capelin, golden redfish, Greenland halibut, blue whiting, mackerel, and Norwegian spring-spawning herring.

4.57. Trade in fish and other marine products with the European Union is mainly regulated by Protocol 9 of the EEA Agreement. This Protocol does not incorporate any EU legislation. According to the Protocol, customs duties shall be abolished upon imports into the EEA EFTA States for all fish and other marine products originating in the European Union. Customs duties are also abolished or lowered upon imports into the European Union of most fish and other marine products originating in the EEA EFTA States. The Protocol furthermore prohibits quantitative restrictions on trade in such products between the European Union and the EEA EFTA States. It abolishes state aid that distorts competition in the fisheries sector and requires the adjustment of legislation relating to the market organization of the fisheries sector so as to not distort competition. It also states that the Contracting Parties shall endeavour to ensure conditions of competition that will enable the other Parties to refrain from the use of anti-dumping and countervailing duties.

4.58. Protocol 9 furthermore stipulates that the Contracting Parties shall take necessary measures to ensure that all fishing vessels flying the flag of other Contracting Parties receive national treatment for access to ports and first-stage marketing installations together with all associated equipment and technical installations. Notwithstanding, a Contracting Party may refuse landings of fish from a fish stock of common interest over the management of which there is serious disagreement. Article 7 of Protocol 9 stipulates that the provisions of a bilateral FTA between Iceland and the European Union from 1973 prevail to the extent that they grant more favourable trade regimes than the Protocol.

4.59. The domestic regulatory regime of fisheries, which focuses on a system based on TAC, was described in detail in the previous Review[32] and has not substantially changed. Quotas for individual marine stocks are allocated to individual vessels under the individual transferable quota (ITQ)

[31] Boston Consulting Group (2023), *The State and Future of Aquaculture in Iceland*, pp. 11-12. Viewed at: https://www.stjornarradid.is/library/01--Frettatengt---myndir-og-skrar/MAR/Fylgiskjol/The%20State%20and%20Future%20of%20Aquaculture%20in%20Iceland%20(1).pdf.

[32] WTO document WT/TPR/S/361/Rev.1, 12 January 2018.

system. This allocation is based on the advice of the MFRI given to the ministry. Climate change challenges are factored into the advice from the MFRI.[33] Part of the TAC is reserved for fishing companies that have been affected by significant shocks due to a fall in catches or quotas and for vessels from disfavoured areas that are heavily dependent on fishing. The system also contains anti-concentration provisions whereby a fishing company or a group of linked companies is not permitted to hold more than 12% of the value of the combined quota shares for the stocks utilized by TAC allocations.

4.60. The basic acts for the sector – Act No. 116/2006 (last amended 2023) on Fisheries Management, Act No. 71/2008 (last amended 2023) on Aquaculture, Act No. 151/1996 (last amended 2023) on Fishing Outside Icelandic Jurisdiction, Act No. 57/1996 (last amended 2022) on the Treatment of Commercial Marine Stocks, and Act No. 145/2018 (last amended 2023) on Fishing Fees – all predate the period under review save for one Act. The amendments made to these acts, except the fishing fees (Act No. 145/2018), were to a large extent technical in nature with only minor policy changes.

4.61. In addition to these basic acts, Act No. 34/1991 on Investment by Non-Residents in Business Enterprises as amended limits foreign ownership of fishing operations and primary fish processing (defined as salting, freezing, drying, and other processing to protect from decay, and the production of fish oil or fishmeal) to:

- Icelandic citizens and other Icelandic persons; and[34]
- Icelandic legal persons which are wholly owned by Icelandic persons or Icelandic legal persons which (i) are controlled by Icelandic entities; (ii) are not under more than 25% ownership of foreign residents calculated on the basis of share capital or initial capital. However, if the share of an Icelandic legal person in a legal person conducting fishing operations in the Icelandic fisheries jurisdiction or fish processing in Iceland is not above 5%, the share of the foreign resident may be up to 33%; or (iii) are in other respects under the ownership of Icelandic citizens or Icelandic legal persons controlled by Icelandic persons. Hence in the case of a cascade of holding companies, the combination of direct and indirect foreign ownership may go up to 49%.

4.62. In practice, there are a few non-resident shareholders in some of the Icelandic companies engaged in the fishing and fish processing industry; this ownership is however well within the limits.

4.63. While the principle of free movement of capital is contained in the EEA Agreement, Annex XII on the free movement of capital allows for this deviation in the sectors of fisheries and fish processing in Iceland.

4.64. The 5% levy on the export of unprocessed fish not registered in the Icelandic catch system mentioned in the previous report, and which actually was a mechanism to compensate for the weight loss of unprocessed fish not landed in Iceland but abroad (by registering the weight of such catches in the Icelandic quota registry with an additional 5%), has been abolished.

4.65. The calculation of fishing fees also changed (with Act No. 145/2018), including a new calculation basis that is based on profitability of each species based on vessels tax reports. Fishing fees, meant to meet the State's costs of research, management, and supervision of fishing and fish processing by contributing to the general budget, are set before each calendar year based on calculations from Iceland Revenue and Customs. The fishing fee committee, which was involved previously, no longer exists. The fishing fee collected for fishing year 2022 was ISK 7.9 billion, or about 4% of the catch value for 2022 (Table 4.5).

[33] Mitigation and adaptation to address challenges in climate change are in development.

[34] Article 4 of the Act stipulates that "Icelandic person in this Article means the State Treasury and local governments as well as institutions, enterprises and funds in Iceland which are wholly under their ownership, Icelandic citizens resident in Iceland and legal persons domiciled in Iceland which are wholly owned by Icelandic public institutions, Icelandic citizens resident in Iceland or other legal persons domiciled in Iceland and which are wholly owned by Icelandic citizens resident in Iceland".

Table 4.5 Comparison of catch value and fishing fee collected, 2019-23

(ISK billion)

	2019	2020	2021	2022	2023
Catch value	145,076	148,341	162,210	195,005	187,130
Fishing fee	6,629	4,788	7,911	7,898	10,157

Source: Information provided by the authorities.

4.66. Most harbours are run by the municipalities, which decide the harbour fees. Act No. 61/2003 permits the municipalities to set a harbour fee from 1.25% to 3% of landed catch value. The municipality is authorized to set a harbour fee but is not obligated to do so, and can thus negotiate special terms with each individual fishing company. The harbour fee is collected with the purpose of operating the harbours. A recent amendment of Act No. 61/2003 (No. 31/2023) introduced a new provision that allows harbour fees to be adjusted according to an index on environmental performance, i.e. the rate of improvements for ships in reducing greenhouse gas emissions.

4.67. As stated in the OECD Review of Fisheries 2022[35], in contrast with governmental support provided by many other OECD members, Iceland's overall governmental support to the sector (including fish processing) is more than fully funded by the payments made by the fisheries sector, which far exceed[36] the support for services to the sector (SSS)[37] provided by the Government. This left a positive contribution of the fishing sector to the government budget of USD 39.6 million in 2016, USD 12.2 million in 2017, and USD 58.8 million in 2018, the last three years for which data are available.

4.2 Mining and energy

4.2.1 Mining

4.68. The mining and quarrying sector is a small part of the economy but the related industry of refining metals is important as it provides between 37.9% and 46.7% of goods exports due to the low cost of geothermal and hydroelectricity energy (Table 4.6). In 2022, the mining and quarrying sector accounted for 0.1% of GDP (as it did during the whole period under review) and 0.05% of total employment. The refining metal industry accounted for 2.5% of GDP in 2017 before declining to 1.0% in 2019 and recovering to 3.3% of GDP (and 0.9% of total employment) in 2022.

4.69. Iceland has no proven resources of oil, gas, or metals. Its main mineral export is pumice, which is locally refined and whose main clients are Belgium, Denmark, Germany, the Netherlands, Sweden, and the United States. Alumina (or aluminium oxide, an intermediary product refined from bauxite) is an input for aluminium production. It is not produced locally but imported mainly from Australia and Brazil and marginally from Ireland, Jamaica, Singapore, and China. Ferrosilicon ore and silicon metal ore are also imported. Table 4.6 indicates the value of refined metal exports during the period under review. Aluminium has represented about 90% of these exports in value during the whole period with ample variations in value.

Table 4.6 Mineral and metal exports, 2017-22

(USD million)

	2017	2018	2019	2020	2021	2022
Mineral and metal exports of which:	2,176.6	2,469.8	1,979.0	1,787.4	2,581.9	3,473.4
Aluminium (HS 76)	2,005.2 (92.1%)	2,234.3 (90.5%)	1,801.7 (91.0%)	1,609.3 (90.0%)	2,330.1 (90.2%)	3,065.4 (88.3%)
Ferrosilicon (HS 7202.21)	134.8 (6.2%)	167.9 (6.8%)	130.0 (6.6%)	122.5 (6.9%)	189.1 (7.3%)	343.7 (9.9%)

[35] OECD (2023), *OECD Review of Fisheries 2022*, Table 3.A.2. Viewed at: https://one.oecd.org/document/TAD/FI(2022)6/FINAL/en/pdf.

[36] OECD (2023), *OECD Review of Fisheries 2022*, Table 3.A.2.

[37] Defined by OECD as comprising "support to infrastructure; management, monitoring, control and surveillance (MMCS); research and development (R&D); education and training; marketing and promotion; fishing communities; access to foreign waters; and other services to the sector". OECD (2023), *OECD Review of Fisheries 2022*, Box 3.1.

	2017	2018	2019	2020	2021	2022
Pumice (HS 2513.10)	2.8 (0.1%)	3.1 (0.1%)	5.1 (0.3%)	5.1 (0.3%)	3.6 (0.1%)	4.8 (0.1%)
Share of mineral and metal exports in total merchandise exports	44.6%	44.4%	37.9%	39.0%	43.2%	46.9%

Source: WTO Secretariat calculations, based on UN Comtrade database.

4.70. Table 4.7 describes the structure of the metal refining industry in terms of type and capacity of production, nationality, and shareholdings of the operators.

Table 4.7 Structure of the mineral industry, 2019

('000 metric tonnes)

Commodity	Major operating companies and major equity owners	Annual capacity
Aluminium, primary	Alcoa Corp. (United States, 100%)	344
Aluminium, primary	Nordural Grundartangi ehf (Century Aluminum Co., United States, 100%)	317
Aluminium, primary	Rio Tinto Iceland Ltd (Rio Tinto Alcan Ltd, Canada, 100%)	212
Ferrosilicon	Elkem Iceland ehf (Elkem AS, Iceland, 100%)	120
Pumice	BM Valla Ltd (Iceland)	32
Pumice	Jardefnaidnadur ehf (Iceland)	210
Silicon, metal	PCC BakkiSilicon ehf (PCC SE, China, 86.5%, and Bakkastakkur slhf, Iceland, 13.5%)	32
Silicon, metal	Stakksberg ehf (Arion Bank, Iceland, 100%)[a]	23

a Operations have been suspended since September 2017.

Source: United States Geological Survey (USGS), *2019 Minerals Yearbook: Iceland [Advance Release]*, p. 21.4. Viewed at: https://pubs.usgs.gov/myb/vol3/2019/myb3-2019-iceland.pdf.

4.71. The main aspects of mining affairs and metal refining are under the responsibility of two ministries: the Ministry of Higher Education, Science and Innovation, which is responsible for industry in general, including heavy industry and related investment agreements; and the Ministry of the Environment, Energy and Climate, which is responsible for the issuing of licences for the exploitation of resources in the ground and on, in, or under the seabed, as well as for all issues relating to energy and the protection of the environment. The National Energy Authority (NEA, or Orkustofnun) is in charge of granting and monitoring the licences for the exploration and exploitation of geological resources in the ground. It also handles general administration for this matter, which includes reviews regarding the environmental impact assessment process, and other planning issues in cooperation with other organizations, beneficiaries, and other parties that need to be consulted according to the law.

4.72. The main law regulating mining and quarrying is Act No. 57/1998 on Survey and Utilization of Ground Resources. It stipulates that all exploitation from the ground is subject to an NEA exploitation licence except in the case of a private owner of the land (or the person with whom he or she negotiates) who can, without the permission of the NEA, research and use rock, stone, gravel, clay, sand, pumice, or slag and other such igneous and mineral materials, as well as soil, peat, or sorrel, on owned land. For other geological resources, a licence is necessary for private lands, as it is in all cases for public lands or state lands. In addition, the NEA is authorized to take the initiative and/or have research and search for geological resources in the ground anywhere in Iceland, even if the landowner has started such research or search (or authorized others to do so), unless the relevant party has a valid research licence.

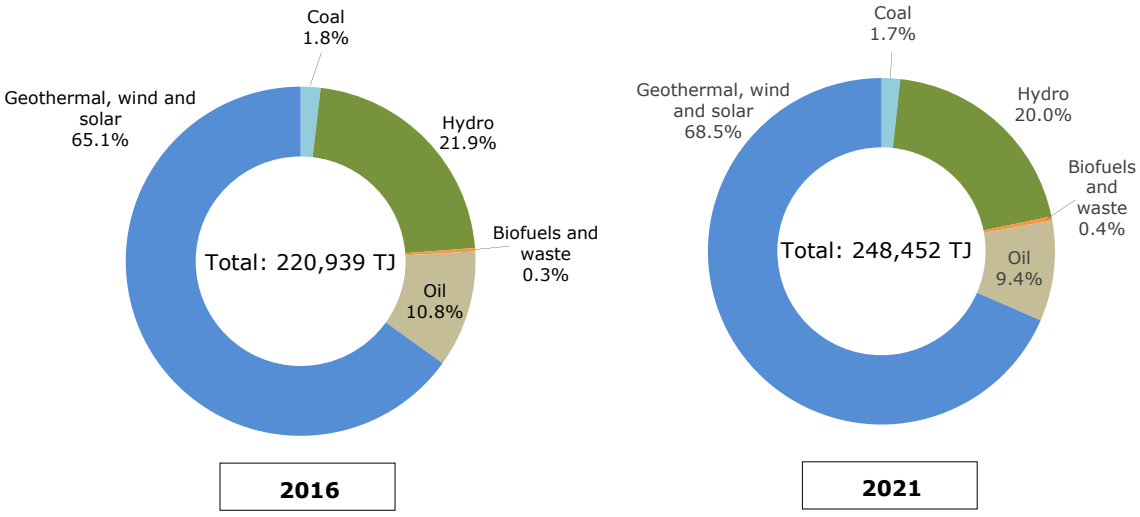
4.73. Seabed quarrying and mining from the ocean floor is regulated by the Sea Bed Act No. 73/1990. This Act stipulates that the State is the owner of all resources on, in, or under the seabed beginning at 115 metres outside Iceland's shoreline, and as far out to sea as its sovereign right reaches according to law, international agreements, or agreements with individual States. The NEA is also the regulator for seabed mining. For the sake of completion, in the early 2000s when there was hope of offshore oil resources, Iceland defined a complete regulatory framework by passing Act No. 13/2001 on Prospecting, Exploration and Production of Hydrocarbons (Hydrocarbons Law). However, these hopes did not materialize and the last oil exploration permits were abandoned by their holders during the period under review. The political emphasis has also shifted and the current Government coalition programme states that it will not issue any licences for oil exploration in Iceland's EEZ.

4.2.2 Energy

4.74. Due to its geothermal and hydroelectric resources, Iceland is the world's largest green energy producer per capita and also has one of the world's highest share of renewable energy in any national total energy mix. Currently, hydro and geothermal sources supply almost all of Iceland's electricity. Also, over 90% of house heating is from geothermal district heating systems, and the remaining 10% is mainly heated with electricity from renewable sources. Energy use for space cooling is negligible. Fossil fuels (refined oil) are mainly used for transport (road, marine, and air), fisheries, and backup power generators.

4.75. Chart 4.2 describes the total primary energy supply of Iceland in 2016 and 2021 by source as computed by the International Energy Agency. Gas is absent from this mix. While overall supply increased during the period, the shares of the various sources are relatively stable. The share of fossil fuels declined slightly (from 10.8% to 9.4%) and that of geothermal, wind, and solar increased (from 65.1% to 68.5%).

Chart 4.2 Total energy supply (TES) by source, 2016 and 2021



Source: International Energy Agency, *Iceland*. Viewed at: https://www.iea.org/countries/iceland.

4.2.2.1 Fossil fuels

4.76. Iceland does not produce coal and imports it in marginal quantities. The activities of storage, wholesale distribution, and retail distribution of coal products are open to the private sector and to foreign operators. The use of coal in Iceland was recategorized in 2020 as material use instead of primary energy use in energy statistics, as in practice coal products are mainly used by smelters as an input to industrial production processes and not for energy purposes.

4.77. Iceland does not produce crude oil and does not have a refinery on its territory. It imports only refined products representing between 10% and 14% of the total imports, save for the COVID-19 years where they were between 5.9% and 6.8%. In 2022, they were valued at USD 1.3 billion.

4.78. The main trade partners of Iceland for these imports were Norway (44.3%), the Kingdom of Saudi Arabia (15.4%) and the United States (13.5%) in 2017, and Norway (52.1%), the State of Kuwait (9.5%), and India (8.3%) in 2022. While Norway remained a major supplier of refined oil products during the period under review, it appears that India and the State of Kuwait emerged as relatively important suppliers.

4.79. The activities of storage, wholesale distribution, and retail distribution of refined oil products are open to the private sector and foreign operators. In practice, aviation fuel is imported by foreign

operators; Costco, an American-owned supermarket and wholesale chain, is an example of a foreign retailer of petrol.

4.2.2.2 Electricity

4.80. Due to the absence of electric interconnection, Iceland does not import or export electricity and it consumes its own production (Table 4.8). Just over 70% of all electricity in Iceland was produced with hydropower in 2022, with geothermal accounting for slightly under 30% and the bulk of the remainder by small-scale wind. Solar and fossil fuel each account for less than 0.1% of production.

Table 4.8 Electricity production by source, 2017-22

	2017	2018	2019	2020	2021	2022
Production (GWh)						
Hydro	14,059	13,813	13,461	13,157	13,827	14,196
Geothermal	5,170	6,010	6,018	5,961	5,788	5,916
Wind	8	4	7	7	6	6
Fossil fuel	2	2	3	3	2	5
Solar	0	0	0	0	0	0
Total	19,239	19,829	19,489	19,127	19,624	20,122
Production (% of total)						
Hydro	73.1	69.7	69.1	68.8	70.5	70.5
Geothermal	26.9	30.3	30.9	31.2	29.5	29.4
Wind	0.04	0.02	0.04	0.04	0.03	0.03
Fossil fuel	0.01	0.01	0.02	0.02	0.01	0.02
Solar	0	0	0	0	0	0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Information provided by the authorities.

4.81. Around 80% of the electricity generated is consumed by power-intensive industries (mainly aluminium). Residential consumption is around 5%, other non-households consume around 10%, and transmission and distribution losses account for the remaining 5%. Around 90% of residential heating is through direct geothermal energy.

4.82. There are three main electricity producers: Landsvirkjun, which is state-owned and has a market share of 71%; Reykjavík Energy, owned by three municipalities (market share 19%); and HS Energy, owned by local municipalities and private investors, some of whom are foreign. Since 2022[38], Landsnet, the network operator, is for the most part owned by the Government (93%, the remaining 7% owned by Reykjavík Energy). Five distribution companies and municipally owned retailers are responsible for getting electricity to households and firms.

4.83. The energy policy of Iceland is determined by an energy policy issued in 2021 and which runs until 2050.[39] The goals of this policy are to make Iceland "unreliant" on fossil fuels; maintain 100% renewable electricity production; promote energy efficiency, smart technology, and energy diversity; ensure that society and consumers benefit from the electricity produced; conserve nature and minimize environmental impacts; promote competitiveness and increase value generation; ensure sound and resilient countrywide infrastructure; secure the energy supply; and support the energy transition and climate matters.

4.84. The main acts regarding energy were adopted prior to the period under review. They include Act No. 57/1998 on Survey and Utilization of Ground Resources, Act No. 65/2003 on Electricity, and Act No. 48/2011 on the Plan for Nature Protection and Energy Utilization. All of these Acts are administered by the NEA under the Ministry of Environment, Climate and Energy. The main responsibilities of the NEA include advising the Government on energy issues and related topics, regulating the operation of the electrical transmission and distribution system, and promoting energy research. Furthermore, administrative decisions made by the NEA with respect to the above-

[38] In 2022, the State bought the 64.7% share retained by Landsvirkjun, thereby raising its participation to 93.2%.

[39] Ministry of Industries and Innovation, *A Sustainable Energy Future: An Energy Policy to the Year 2050*. Viewed at: https://www.stjornarradid.is/lisalib/getfile.aspx?itemid=e36477fd-3bc1-11eb-8129-005056bc8c60.

mentioned Acts can be appealed to the Appeals Committee for Environmental and Resource Matters as per Act No. 130/2011.

4.85. Under the provisions of these laws, investment and/or ownership of energy exploitation rights and the production and distribution of energy are limited to EEA and EFTA residents. Act No. 57/1998 stipulates that resources within the ground belong to the owner of the land. However, a licence from the NEA is required to survey or prospect on the land; additionally, a compensation agreement with the landowner is required. These provisions also stipulate that at least 50% of the transmission system operator (TSO, i.e. Landsnet) and of the distribution operators should be state- or municipality-owned.

4.86. Changes to Act No. 57/1998 on Survey and Utilization of Ground Resources and Act No. 65/2003 on Electricity made in 2008 by Act No. 58/2008 stipulate that the State or municipalities can no longer sell the ownership of resources; however, utilization rights can be leased to a developer for up to 65 years with a possibility of extension. Royalties for the utilization are determined by the Prime Minister. Combined Heat-Power (CHP) plants are obliged to keep separate accounts for heat and power production to prevent cross-subsidization of electricity. This accounting unbundling stems from an EEA obligation (Article 37 of Directive 2009/72/EU) prohibiting cross-subsidies between transmission, distribution, and supply activities.

4.87. As reported in the previous Review, Iceland transposed the European Union's first and second energy packages in September 2013.[40] Regarding the third energy package[41], large parts of the provisions do not apply or have no practical relevance to Iceland due to the absence of cross-border electric connections with EEA member States. Iceland thus negotiated a specific arrangement, a joint understanding that was approved by the EEA Joint Commission Decision No. 93/2017 of 5 May 2017.[42] Under this agreement, if in the future cross-border infrastructure were to be put in place, the EFTA Surveillance Authority (ESA) would be responsible for deciding on cross-border issues concerning Iceland, and not the European Agency for the Cooperation of Energy Regulators (ACER). The adoption of the fourth energy package is under consideration.

4.88. With regard to transmission, the Electricity Act allows third-party access for transmission and distribution networks. Under the provisions of the Electricity Act, only Landsnet (IceGrid), a public company that is 93% state-owned may provide electricity transmission services in Iceland and it also has the exclusive right to construct new transmission infrastructure. The conditions of Landsnet's operations are determined by an Act distinct from the Electricity Act. Landsnet is subject to regulation by the NEA.

4.89. With regard to distribution and retail, the Electricity Act stipulates that a single power company can function as both generator and supplier. While consumers must use the distributor holding the concession (which is a territorial monopoly with an unlimited duration) for their location, they can choose their retail supplier, as the retail market has been fully liberalized as of 2006. Due to their size and their massive energy needs, the smelters are only connected directly to the transmission system, not the distribution one.

4.90. The market is dominated by a few large producers and industrial consumers (notably aluminium smelters). Long-term bilateral agreements – often confidential – govern the relationship between markets.[43] Some large industrial electricity consumers enter direct contractual relations with producers or the network operator instead of with distributors.

4.91. With regard to pricing, generation companies determine the price of electricity that they sell, while transmission and distribution fees are set by the NEA. The NEA sets an upper limit on Landsnet's income, and Landsnet's profits are also bound by an upper limit under the Act. These

[40] WTO document WT/TPR/S/368, 12 January 2018, para. 4.79.

[41] For a detailed explanation of the provisions of the third energy package, see European Commission, *Third Energy Package*. Viewed at: https://energy.ec.europa.eu/topics/markets-and-consumers/market-legislation/third-energy-package_en.

[42] For more elements of this arrangement, see European Commission (2019), "Joint Understanding on the Application of the Third Energy Package Towards Iceland", 22 March. Viewed at: https://commission.europa.eu/news/joint-understanding-application-third-energy-package-towards-iceland-2019-03-22_en.

[43] For a critical view of these confidential contracts, see the 2023 OECD Economic Survey of Iceland, pp. 47-48. Viewed at: https://www.oecd-ilibrary.org/docserver/b3880f1a-en.pdf?expires=1709907388&id=id&accname=ocid195767&checksum=992E1007BFA979B5288030BA1415E57A.

measures indirectly control the tariff that Landsnet may charge. Iceland also operates a policy of equalization of energy prices. Under this policy, homes that are heated by oil and electricity (where no other means of heating are available) are subsidized by the State. The annual subsidy amount is approved by the Parliament in the budget each year; in 2021 the subsidy was over ISK 2.2 billion.

4.92. With a view to promoting a more efficient market for electricity trading, Landsnet has been working on establishing an electronic market for electricity trading. For this purpose, it has founded a new daughter company called Elma. Another potential market is also emerging in the form of a privately owned company called Vonarskarð, which currently functions as more of a broker and has only conducted one round of its sales process. This process, however, does have a form of clearing price that makes it function, in parts, like a market. While Elma intends to set up a day-ahead market, Vonarskarð has brokered long-term contracts; as such, the companies are currently not in direct competition.

4.93. Iceland has issued in 2018 a Climate Action Plan, which was updated in 2020. It is designed to achieve Iceland's national climate goals of making the country carbon neutral by 2040 and to cut greenhouse gas emissions by 55% by 2030 under the Paris Agreement as compared to 1990. This target is to be achieved by acting jointly with the European Union and its member States and Norway. Iceland's joint commitments with the European Union and its member States and Norway are implemented based on the "Fit for 55" climate package. There is an ongoing dialogue with the European Union on the implementation of different legal acts under the Fit for 55 package into the EEA Agreement. Parts of the package have been incorporated into the EEA Agreement and implemented into Icelandic law, e.g. directives that update the EU Emissions Trading System in accordance with the goals under the package, and now include shipping.

4.3 Services

4.3.1 Financial services

4.3.1.1 Statistical and regulatory overview of the sector

4.94. During the period under review, the financial services sector pursued its recovery post-financial crisis, whose effects have largely dissipated. According to the IMF's 2023 Financial System Stability Assessment (FSSA): "Iceland has made solid progress since the 2008 crisis and since the last FSAP [Financial Sector Assessment Program] update in restructuring banks and implementing important financial sector reforms. It has transposed many EU Directives and Regulations into national law, improving the regulatory, supervisory, and crisis management frameworks. Despite global headwinds, Iceland is exiting the pandemic with strong economic growth and highly capitalized banks".[44]

4.95. The share of financial services within total GDP oscillated between 4.5% and 5% with a slightly downwards trend while its share in total employment declined regularly during the period from 2.9% in 2017 to 2.6% in 2022. Table 4.9 provides the main economic indicators of the sector during the period under review.

Table 4.9 Main economic indicators of the financial services sector, 2017-22

(ISK billion)

	2017	2018	2019	2020	2021	2022
Share of financial services in GDP (%)	5.0	4.5	4.6	4.7	4.8	4.5
Share of financial services in total employment (%)	2.9	2.8	2.8	2.7	2.7	2.6
Total financial system assets, of which	10,224	10,575	11,625	13,179	14,985	15,156
Banks of which	3,405	3,681	3,775	4,212	4,700	5,103
Assets of state-owned banks[a]	1,191	1,328	1,425	1,564	1,730	1,787
Non-bank financial and credit institutions (NBFCIs) of which	6,433	6,629	7,375	8,347	9,605	9,460
- Insurance companies	220	232	264	300	319	314
- Pension funds	3,944	4,244	4,974	5,727	6,746	6,631
- Investment funds	844	814	910	991	1,253	1,209

[44] IMF (2023), *Iceland: Financial System Stability Assessment*, IMF Country Report No. 23/220. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2023/06/22/Iceland-Financial-System-Stability-Assessment-535055.

	2017	2018	2019	2020	2021	2022
- Other	1,424	1,337	1,225	1,328	1,285	1,304
Credits, of which	3,738	4,152	4,356	4,569	4,889	5,377
Banks[b], of which:	2,325	2,601	2,679	2,959	3,269	3,644
State-owned banks	876	995	1,082	1,218	1,324	1,427
NBFCIs	1,462	1,551	1,677	1,610	1,620	1,732
Non-performing loans/total loans (%)	..	..	..	..	..	..
Non-performing loans/bank loans (%)	2.20	2.20	2.60	2.92	2.10	1.40
Non-performing loans/NBFCI loans(%)	..	..	..	..	..	..
Credit in foreign currency/total loans of banks	15%	15.8%	16.2%	15.7%	14.2%	14.1%
Credits/GDP (%)[c]	159.8	164.3	158.6	174.9	166.4	156.1
Deposits, of which	1,772	1,894	2,009	2,267	2,469	2,706
Banks, of which:	1,772	1,894	2,009	2,267	2,469	2,706
State-owned banks	639	727	757	843	912	975
NBFCIs	..	..	..	..	..	..
Deposits in foreign currency/total deposits	178	250	266	273	304	337
Deposits/GDP (%)	67	67	66	78	76	72
Interest rate spread (%)[d]	2.85	2.88	2.71	2.56	2.431	2.81

.. Not available.

a Commercial banks only, excluding the CBI.
b Credit to households and non-financial corporations.
c Private sector credit to GDP ratio according to the Basel Committee Banking Supervision (BCBS) guidelines.
d Interest rate spread is defined here as the net interest rate margin, i.e. difference between interest income and interest over one year. Financial institutions included in these calculations are the three largest banks in Iceland, but their assets cover about 93% of the total deposit money of bank assets in Iceland.

Source: Information provided by the authorities.

4.96. Total assets of the financial sector grew during the review period by 48.2% in a relatively constant manner and slightly more than GDP (44%). Bank assets, which represent about one third of total assets (an unusually low proportion by international standards, but which is due to the importance of pension funds), had a similar evolution. Total assets of pension funds and investment funds have also grown each year, except in 2022 where they both regressed due to declining share prices and higher interest rates both domestic and abroad.

4.97. Credit grew each year and in total by 48% between 2017 and 2022, but the ratio of credit to GDP rose during the pandemic from 158.6% to 174.9% and has since then lowered below pre-pandemic levels. Banks account for about 67% of domestic credit. Pension funds account for 18%, including both real estate mortgages and credit to non-financial corporations and public credit institutions account for 8% of the deposits. The ratio of deposits to GDP increased during the period from 67% in 2017 to 72% in 2022. Loans in foreign currency accounted for about 15 % of the total loans, a proportion that remained largely stable over the period.

4.98. The proportion of non-performing loans in the total loan portfolio of banks increased slightly during the COVID-19 pandemic (2.92% in 2020) but declined to 1.40% in 2022 and remained remarkably low during the review period. There are no publicly available data on the non-performing loans of non-bank financial and credit institutions (NBFCIs) and hence on the non-performing loans of the totality of the financial services sector. The interest spread of domestic banks declined during the pandemic due to lower interest rates and stood between 2.85% in 2017 and 2.81% in 2022.

4.99. Iceland was a net financial services exporter during the review period, with a surplus between ISK 10.3 billion (2018) and ISK 5.9 billion (2021). This total surplus hides a structural deficit for pension funds and insurance, largely due to the fact that pension funds invest around one third of their assets abroad.

4.100. Following a merger, the CBI took over the responsibilities of the Financial Supervisory Authority in January 2020 and is now the independent regulator for the totality of the subsectors of financial services, i.e. banks, insurance, pension funds, stock markets, and other financial services. The ministry responsible for the coordination and strategic management of international financial, monetary, and tax matters is the Ministry of Finance and Economic Affairs (MFEA).

4.101. The general strategy for financial services is defined in a 2018 White Paper called "Future Vision for the Financial System" (the 2018 White Paper).[45] It has three "pillars": The first is the definition of good regulatory framework and robust supervision; the second is about efficiency in financial intermediation, particularly in banking operations; and the third is solid ownership of financial undertakings in the context of a future sale by the State of its holdings in the sector.[46] An underlying objective of this strategy is to fully restore the confidence of the citizens in their financial system after the shock of the financial crisis. There has not been a systematic assessment covering all recommendations in the 2018 White Paper.

4.102. The 2018 White Paper mentions the need for a timely transposition of EU legislation while still allowing for the opportunity to study it in order to use flexibilities and adopt specific rules if need be. During the period under review, Iceland transposed through laws a total of 30 EU Regulations and Directives on financial services, some of which dated back to the immediate aftermath of the 2008 financial crisis. Iceland also transposed the relevant delegated regulations and technical standards in the form of other domestic regulations issued by the MFEA or rules issued by the Central Bank of Iceland (CBI).

4.103. Iceland is also in the process of transposing Directive (EU) 2016/2341 of 14 December 2016 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs), which is already incorporated in the EEA Agreement.

4.104. Eleven EU financial services texts are not yet incorporated in the EEA Agreement.[47] For only one of these texts, the reasons are non-technical: Directive 2014/49/EU on Deposit Guarantee Schemes (DGS III). There are discussions about whether the Directive calls for a state guarantee of deposits or only an obligation to establish a deposit guarantee scheme as specified in the Directive. The authorities indicated that, for their part, Iceland is reluctant to introduce a state guarantee for deposits.

4.3.1.2 Banking

4.105. The number of banks increased during the period under review from eight in 2016 to nine in 2023 with the authorization of a new savings bank, Indó sparisjóður. Among them, four are commercial banks and five are savings banks. The three largest commercial banks account for over 95% of banking assets. These banks are not foreign-controlled but there are foreign minority stakeholders in small proportions in some banks. There are no branches of foreign banks present in the market.

4.106. Two banks have state ownership. The first one, Landsbankinn, is 98.2% owned by the State, and represented about 40% of bank assets during the review period. The second, Íslandsbanki, is still partially state-owned after the sale by the State of 57.5% of its shares in two stages. First, the State sold a 37.5% share in Íslandsbanki in an IPO in June 2021 and second, it sold a 22.5% share in an accelerated bookbuild offering in March 2022. The buyers were a diverse set of investors, although domestic pension funds were predominant. The largest foreign owner of shares in Íslandsbanki is Capital Group, an American financial services company, with a 5.55% share.

4.107. Only 6.3% of the lending activities are directed towards foreign customers. Bonds and bills held by all banks amounted at the end of Q3 2023 to ISK 534 billion, nearly all to fulfil CBI liquidity rules.

[45] The full text of the 2018 White Paper is available only in Icelandic but its main conclusions are available in English at: https://www.government.is/library/01-Ministries/Main%20Emphases%20and%20Conclusions%20(002).pdf.

[46] MFEA, *White Paper on a Future Vision for the Financial System*, Main Emphases and Conclusions, p. 1.

[47] Directive 2014/49/EU on Deposit Guarantee Schemes (DGS III); Regulation (EU) No. 2017/2402 laying down a general framework for securitization; Regulation (EU) No. 2019/1238 on a pan-European Personal Pension Product (PEPP); Directive (EU) No. 2019/2034 and Regulation (EU) No. 2019/2033 of 27 November 2019 on the prudential supervision of and requirements of investment firms; Regulation (EU) No. 2020/1503 on European crowdfunding service providers for business; Regulation (EU) No. 2021/23 on a framework for the recovery and resolution of central counterparties; Regulation (EU) No. 2021/1230 on cross-border payments in the Union; Regulation (EU) No. 2022/858 on a pilot regime for market infrastructures based on distributed ledger technology; Regulation (EU) No. 2022/2554 on digital operational resilience for the financial sector; and Regulation (EU) No. 2023/1114 on markets in crypto-assets (MiCA).

4.108. The small size of the banking market, high taxes, and high capital requirements were seen to result in a high interest rate margin of 3%, which has been called "the Iceland premium".[48] To address this problem, the authorities lowered the bank tax whose rate was 0.376% of liabilities over ISK 50 billion in 2018 to 0.145% in 2021. However, a recent report concluded that the lowering of the bank tax had mainly increased banks' profitability rather than decreasing the mark-up on interest rates.[49]

4.109. The 2018 White Paper also advocates for increased cooperation among banks on financial infrastructure to achieve economies of scale, stronger consumer protection, and increased competition. To implement this policy orientation, the Competition Act was amended in 2020 to allow competitors to self-assess whether the criteria for cooperation are fulfilled, rather than requiring an exemption from the Competition Authority beforehand. In 2021, the CBI established the "Future Forum" with representatives from the banks, which serves as a venue for exploring cooperation on financial infrastructure that fulfils the criteria in the Competition Act.

4.110. The main law regulating the banking sector is still the Act on Financial Undertakings, No. 161/2002 of 2002[50], which was described in the 2006 TPR report.[51] The most notable recent change made to this law is Act No. 38/2022[52], which finalizes the implementation of the EU Capital Requirements Directive (CRD) IV[53] and the EU Capital Requirements Regulation (CRR).[54]

4.111. A resolution authority within the CBI was created in 2020, and Iceland transposed the Banking Recovery and Resolution Directive (BRRD). The 2023 IMF Financial System Stability Assessment (SSA) recommends further operationalization of that directive.[55]

4.112. The licensing criteria for banks are those set up by CRD IV and the Act on Financial Undertakings, on Management of Risk and on Qualifications of Management Body.[56] Regarding foreign banks, EEA banks can provide services and establish branches in Iceland without acquiring an additional licence in Iceland after the CBI has received notification from their home authority. Non-EEA banks must establish a branch in Iceland and require authorization from the CBI. To receive such authorization, the non-EEA bank must be authorized to provide the services in question in its home country and be subject to comparable supervision there.

4.113. The licensing organ is the CBI. There are no limitations on the number of licences. The statutory maximum delay to process licence applications is three months from receipt of a completed application. Licences are granted for an indefinite period and are not transferrable. The minimum capital requirement to obtain a licence is the equivalent of EUR 5 million in Iceland krona, except for savings banks with limited authorization for which the minimum capital requirement is the equivalent of EUR 1 million in Iceland krona.

4.114. There is no administrative allocation of financial resources: interest rates and fees are determined by banks themselves.

4.115. The Icelandic prudential banking legislation conforms with EEA banking legislation, which takes into account the Basel Committee's Core Principles for Effective Banking Supervision. An Act on Measures against Money Laundering and Terrorist Financing (AML/CFT) No. 140/2018[57] was

[48] MFEA, *White Paper on a Future Vision for the Financial System*, Main Emphases and Conclusions, p. 9.
[49] Government of Iceland, Fees and Profitability of Commercial Banks. Viewed at: https://www.stjornarradid.is/library/04-Raduneytin/Menningar--og-vidskiptaraduneytid/Gjaldtaka%20og%20ar%c3%b0semi%20vi%c3%b0skiptabankanna.pdf.
[50] Viewed at: https://www.althingi.is/lagas/nuna/2002161.html.
[51] WTO document WT/TPR/S/164, 3 May 2006, paras. 95 and 101-11, p.86.
[52] Viewed at: https://www.althingi.is/altext/stjt/2022.038.html.
[53] Directive 2013/36/EU of 26 June 2013 on Access to the Activity of Credit Institutions and the Prudential Supervision of Credit Institutions and Investment Firms. Viewed at: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32013L0036.
[54] Regulation (EU) No. 575/2013 of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No. 648/2012. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0575.
[55] IMF (2023), IMF Country Report No. 23/220, p. 41.
[56] For more information, see Chapter II.A of Act on Financial Undertakings, particularly Article 7.
[57] Act No. 140/2018 on Measures against Money Laundering and Terrorist Financing. Viewed at: https://www.government.is/library/contentfiles/AML%20Act%20140-2018.pdf.

adopted in 2018, and several specific provisions in the Act on Financial Undertakings provide for the withdrawal of banks' operating licences in cases of serious or repeated violations of Act No. 140/2018. The AML/CFT framework of Iceland was rated "largely compliant".[58]

4.116. The bank deposit insurance scheme is aligned with EEA legislation. In general[59], it guarantees deposits up to EUR 100,000. The deposit insurance scheme was revised when Iceland adopted the BRRD, EU Directive 2014/59/EU. Acts No. 70/2020 and No. 48/2022 introduced a resolution fund that is funded by the deposit guarantee fund. The 2023 IMF FSAP also made several recommendations to reform the deposit insurance scheme.[60] These recommendations are under consideration.

4.117. Act No. 54/2018 introduced major changes to the supervisory framework and the assessment of systemic risk. These changes include, *inter alia*, increased authorization for timely intervention by supervisory authorities.

4.118. The recommendation of the 2018 White Paper to create a so-called "line of defense" was implemented with Act No. 11/2021 amending Act No. 161/2002 on Financial Undertakings. This Act caps systemically important banks' exposures to financial instruments, other than non-trading book bonds, and commodities at a level where capital requirements for the positions equal 15% of the banks' own funds. The provision is autonomous and does not implement provisions of the EU Capital Requirements Directive (CRD IV, Directive 2013/36/EU) or of the EU CRR, Regulation No. 575/2013).

4.119. The 2018 White Paper also recommended the creation of a centralized debt database[61] to improve, notably, the surveillance of macroprudential risks. Work on a centralized debt database, or credit registry, has progressed notably since the merger of the CBI and the Financial Supervisory Authority on 1 January 2020. At that time, the credit registry included bank and Housing Financing Fund (HFF) exposures to corporations if the total exposure was in excess of ISK 300 million. Bank and HFF mortgages to consumers had recently been added in October 2019. In August 2020, mortgages to consumers from the nine largest pension funds in Iceland were added to the credit registry, ensuring over 95% mortgage market coverage. In September 2022, all bank exposures to corporates not previously included due to the ISK 300 million threshold were added to the credit registry.

4.120. At the same time, information on collateral was expanded to better reflect underlying collateral and accommodate many-to-many connections between exposures and collateral. Furthermore, smaller changes have been made to implement new or augmented information on exposures. Recently, emphasis has also been on working with banks, the HFF, and pension funds to promote a common understanding of the data model as well as improving data quality.

4.3.1.3 Insurance

4.121. The number of insurance companies declined during the period under review from 11 in 2016 to 10 in 2023. In 2021, the portfolio of TM hf was transferred into Trygging hf (now TM tryggingar hf) and TM hf merged with Kvika banki hf. There are four domestic non-life undertakings (Sjóvá, TM tryggingar, VÍS, and Vörður), four life insurance companies (wholly owned by their non-life parent undertaking), a reinsurance undertaking in the run-off process, and the natural catastrophe insurance of Iceland. There are two branches of foreign insurance companies operating in Iceland, Allianz Versicherungs AG and Allianz Lebensversicherungs AG. In 2022, non-life insurance represented 90% of the total balance sheet of ISK 205 billion, with life representing the remainder.

[58] Financial Action Task Force (2020), *Anti-Money Laundering and Counter-Terrorist Financing Measures: Iceland*, p. 6. Viewed at: https://www.fatf-gafi.org/content/dam/fatf-gafi/fur/Follow-Up-Report-Iceland-2020.pdf.

[59] The exceptions being deposits relating to money laundering convictions, deposits held by the Government or governmental agencies, deposits held by an unknown party, and certain parties such as pension funds and financial institutions.

[60] IMF (2023), IMF Country Report No. 23/220, p. 412.

[61] MFEA, *White Paper on a Future Vision for the Financial System*, Main Emphases and Conclusions, pp. 6-7.

4.122. The insurance laws are in conformity with EEA legislation. The main regulatory changes during the period under review, essentially of a technical and prudential nature and not having a bearing on market access, included:

- Act No. 100/2016 on Insurance Activities, which was amended in 2018 and 2021 regarding supervision;
- the amendment in 2019 of Act No. 30/2004 on Insurance Agreements in order to incorporate Directive (EU) 2016/97 on Insurance Distribution;
- the amendment in 2018 of Act No. 55/1992 on Iceland Catastrophe Insurance, in order to improve its efficiency by excluding catastrophes due to human causes and minor damage, by making it mandatory to use the insurance compensation to restore the insured asset and by reducing the administrative levels for appeals from two to one;
- a new Act No. 60/2017 on Insurance Groups, incorporating Directive 2009/138/EC (Solvency II);
- a new Act No. 61/2017 on Supplementary Supervision of Financial Conglomerates, incorporating Directive 2002/87/EC (FICOD);
- a new Act No. 30/2019 on Motor Insurance, incorporating Directive 2009/103/EC; and
- a new Act No. 62/2019 on Insurance Distribution, incorporating Directive (EU) 2016/97 on insurance distribution.

4.123. The criteria for granting a licence are based on technical and financial capacities, as well as on reputation and home supervision in the case of a foreign insurance company. They include, notably, the limitation on insurance activities, the fulfilment of minimum capital requirements[62], proof of a stable solvency capital requirement, and proof of stable minimum capital and documentation showing the existence of a management system that meets the legal requirements.

4.124. There are no limitations on the number of providers. The licensing authority is the CBI since 2020. The maximum processing time for applications is six months. If the application is from a subsidiary of a company directly or indirectly domiciled outside the EEA, the processing of the application may be longer. There is no time limit to the validity of a licence. Mergers and changes in operations are subject to authorization by the CBI.

4.125. Regarding foreign insurance companies, EEA companies can provide services and establish branches in Iceland without acquiring an additional licence in Iceland after the CBI has received notification from their home authority. Non-EEA companies must establish a branch in Iceland and require authorization from the CBI. To receive such authorization, the non-EEA bank must be authorized to provide the services in question in their home country and be subject to comparable supervision there.

4.126. Iceland recognizes the home country supervision of foreign insurance companies. There is no administrative allocation of insurance services. No approval is required for the setting of premiums or for insurance products.

4.3.1.4 Mutuals funds and asset management

4.127. At the end of 2022, 243 Undertakings for the Collective Investment in Transferable Securities (UCITS) and alternative investment funds (AIFs) managed assets of ISK 1.15 trillion, with their

[62] The minimum capital requirements are EUR 3.7 million for non-life insurance undertakings with authorization under classes 10 to 15 listed in Part A of Annex 1 in Solvency II, 2009/138/EC, cf. Sections 10 to 15 in Article 20 of the Icelandic Act No. 100/2016 on Insurance Activities, and EUR 2.5 million for non-life insurance undertakings with authorization under other classes. The minimum capital requirements are EUR 3.7 million for life insurance undertakings. The minimum capital requirements are EUR 3.6 million for reinsurance undertakings and EUR 1.2 million for captive reinsurance undertakings. Without prejudice to those requirements, the minimum capital requirement shall neither fall below 25% nor exceed 45% of the undertaking's solvency capital requirement.

numbers (and the number of managers) increasing during the review period (Table 4.10). There are 9 authorized AIF managers (3 additions in 2023), 14 registered AIF managers (all new between 2021 and 2023), and 6 UCITS managers. In addition, 131 managers marketed 1,383 EEA UCITS to retail investors in Iceland, while 42 managers marketed 86 non-EEA AIFs to professional investors in Iceland.

Table 4.10 Types of mutual funds and assets under management, December 2022

	Number	Assets under management (ISK billion)	Number of new funds		
			2021	2022	2023
Undertakings for the Collective Investment in Transferable Securities (UCITS)	38	169	2	1	0
Retail alternative investment funds (AIFs)	75	519	7	3	6
Professional AIFs	130	463	20	14	12
Total	243	1,151			

Source: Information provided by the authorities.

4.128. The subsector of mutual funds and asset management is regulated by two new laws, Act No. 45/2020 on Managers of Alternative Investment Funds (transposing Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMD)) and Act No. 116/2021 on Undertakings for Collective Investment in Transferable Securities (transposing Directive 2009/65/EC on UCITS, with its later amendments). AIFs must take the legal form of a limited liability company. The licensing criteria include sufficient initial capital and own funds, good repute and sufficient experience, suitable qualifying holdings of shareholders, head office and registered office located in Iceland, and the requirement that close links between the manager and other natural or legal persons (whether national or foreign) do not prevent the effective exercise of supervision of the manager.

4.129. Since 2020, asset managers for mutual funds have been supervised by the CBI. There is no time limit for the validity of a licence, and there are no limitations on the number of licences. Changes in operations of managers of AIFs and management companies of UCITS can be subject to authorization by the regulator.

4.3.1.5 Pension funds

4.130. There were 21 pension funds in 2023, compared to 25 in 2016, without any new entrant. They are all domestic entities. They managed total assets of ISK 6,875.6 billion as at the end of April 2023. Pension funds hold 18% of the mortgage market and 25% of bank shares, and they are a major source of financing for non-financial corporates. They are also key players in the FX market, with FX exposures reaching 75% of GDP.[63] The 2023 IMF FSSA deems them "systematically important".[64]

4.131. The basic legislation for pension funds is Act No. 129/1997 on Mandatory Pension Insurance and on the Activities of Pension Funds. The main reform during the period under review was the raising of the minimum contribution to pensions from 12% to 15.5% and of the minimum replacement rate from 56% to 72%[65] by Act No. 55/2022. Another major development is that pursuant to Act No. 12/2023[66], the limit on FX exposures will be raised in steps until it reaches 65% in 2036.

[63] IMF (2022), *Iceland: Staff Report for the 2022 Article IV Consultation*, IMF Country Report No. 22/193, p. 7. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2022/06/27/Iceland-2022-Article-IV-Consultation-Press-Release-and-Staff-Report-519993.

[64] IMF (2023), IMF Country Report No. 23/220, p. 14.

[65] The Act included provisions on a "specified personal pension" (tilgreind séreign), which allows for up to 3.5% of mandatory premiums being allocated to personal pensions rather than mutual insurance. Using this option entails that the minimum replacement rate will be 72% instead of 56%.

[66] Viewed at: https://www.althingi.is/altext/stjt/2023.012.html.

4.132. The legislation on pension funds is still mostly national, with limited influence from EU legislation. Among the IMF's 2023 FSAP[67] recommendations was introducing more detailed provisions on governance, internal controls, and risk management, akin to those in IORP II and Solvency II. The recommendations are currently under review.

4.133. Since 2020, pension funds managers have been supervised by the CBI. Licences are valid until they are suspended. They are not transferrable. There are no limits on the number of licences. The merging of funds has to be notified to the MFEA and to the supervisory authority.

4.3.1.6 Stock market and bonds

4.134. The market value of listed shares on the main list of the Iceland Stock Exchange amounted to ISK 2.2 trillion at the end of May 2023. The gross value of publicly issued bonds at the end of May 2023 was ISK 777 billion for central government bonds and ISK 137 billion for municipal bonds. On the secondary market, at the same date, the value of equities was ISK 785 billion and that of bonds was ISK 1,981 billion.[68]

4.135. Companies can be licensed as investment firms to provide investment services. The criteria for licensing are set by the new Act No. 115/2021[69] on Markets for Financial Instruments, which corresponds to EEA legislation, i.e. EU Directive MIFID II.[70] EEA investment firms can provide services and establish branches in Iceland without acquiring an additional licence in Iceland after the CBI has received notification from their home authority. Non-EEA investment firms require authorization from the CBI to provide services and establish branches in Iceland. To receive such authorization, the non-EEA investment firms must be authorized to provide the services in question in their home country and be subject to comparable supervision there.

4.136. Licences are granted for an indefinite period and are not transferrable. There are no limitations on the number of licences. In general, there are no restrictions on foreigners buying and selling on the stock market, except for particular sectors, notably fisheries and energy pursuant to Act No. 34/1991 on Investment by Non-Residents in Business Enterprises[71] (Section 2.4).

4.137. Shareholders' rights are mainly set out in Act No. 2/1995 on Public Limited Companies.[72] Disclosure requirements for listed companies are those of EEA law, transposed in the new Act No. 14/2020 on Prospectus for Public Offering or Admission to Trading on a Regulated Market, which implemented the EU Prospectus Regulation.[73]

4.138. The 2018 White Paper considers that "the efficiency of Icelandic securities market has been far from acceptable in recent years" and suggests actions aimed at "increasing turnover and liquidity on financial markets and at boosting the significance of independent investment funds in the Icelandic capital market".[74] It proposes to open the way to new independent parties, i.e. funds with different investment strategies to undertake the investment of private pensions savings, which up to now has been done by pension funds themselves. The agenda for the current session of Parliament includes a bill intended to increase supplementary pension savers' say over how supplementary pension savings will be invested. The bill is still being drafted and the exact implementation remains undecided. The 2018 White Paper recommends the exemption of investment in corporate bonds and/or bonds over a certain duration from the reserve requirement on foreign exchange inflows,

[67] IMF (2023), *Iceland: Financial System Stability Assessment*, IMF Country Report No. 23/220. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2023/06/22/Iceland-Financial-System-Stability-Assessment-535055.

[68] For an overview (in Icelandic) of this market see: https://view.news.eu.nasdaq.com/view?id=b5fa608697b7f247977b2ff14f6a78e3d&lang=is&src=notices.

[69] Viewed at: https://www.althingi.is/lagas/nuna/2021115.html.

[70] Directive 2014/65/EU of 15 May 2014 on Markets in Financial Instruments. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065.

[71] Viewed at: https://www.althingi.is/lagas/153b/1991034.html.

[72] Viewed at: https://www.althingi.is/lagas/nuna/1995002.html.

[73] Regulation (EU) 2017/1129 of 14 June 2017 on the Prospectus to be Published when Securities Are Offered to the Public or Admitted to Trading on a Regulated Market. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1129.

[74] MFEA, *White Paper on a Future Vision for the Financial System*, Main Emphases and Conclusions, p. 15.

which, by limiting the participation of non-residents to the markets, limits their efficiency. This was effectively implemented by Act No. 71/2021 on Foreign Exchange.

4.3.1.7 E-payments, fintech, and crypto-assets

4.139. The 2018 White Paper recognizes both the potential and the cyber-risks associated with fintech and, in particular, of separation between lending activities and payment services that they imply in the medium term.[75]

4.140. Since late 2017, the Financial Supervisory Authority has operated a fintech service board for those who have questions related to the supervision of fintech activities. Individuals can submit a checklist regarding their fintech ideas or planned operations, which are reviewed by supervisors, and follow-up communication is made as needed (or requested).

4.141. The sector of Virtual Assets Service Provider (VSAP)/crypto exchanges is still relatively small, but rapidly expanding. Three VSAPs serve an essentially domestic customer base, with an aggregate turnover of ISK 4.3 billion in 2021-22, about 20,000 transactions the same years, and about 7,000 customers. VSAP activities are subject to licences pursuant to CBI Rule No. 151/2023. The 2023 IMF FSSA recommends that the CBI increase its supervision in this regard to prevent the use of virtual assets for the purposes of money laundering and financing terrorism.[76]

4.142. Iceland has transposed all the EU legislation on payment services except for two EU regulations that are currently in the transposition process, namely Regulation (EU) No. 2021/1230 on cross-border payments in the Union (codification) and Regulation (EU) No. 2019/518 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.

4.143. Iceland is planning to transpose Regulation (EU) 2023/1114 on markets in crypto-assets (MiCA) once incorporated into the EEA Agreement.

4.3.2 Telecommunications services

4.144. Table 4.11 provides the main economic indicators of the telecommunications sector during the period under review. It shows that the evolution of the Icelandic telecommunications landscape is similar to those in other developed countries (e.g. decline of fixed lines, stagnation of mobile lines, development of broadband Internet) and that Iceland is a pioneer of the development of fibre.

Table 4.11 Main economic indicators of the telecommunications sector, 2016-22

	2016	2017	2018	2019	2020	2021	2022
Subscriptions (including pre-paid) per 100 inhabitants							
Fixed-line telephony	40	38	35	32	29	27	24
Mobile telephony	116	115	115	114	114	116	118
Internet (fixed broadband)	38	38	39	38	38	37	37
Internet (mobile broadband)	90	94	98	98	99	102	105
Fibre to home/building Internet	12	16	21	24	27	28	29
Overall Internet subscribers per 100 inhabitants	128	133	136	136	137	139	141
Number of active providers							
Fixed-line	7	6	5	5	5	7	8
Mobile	6	6	5	5	6	8	8
Internet	14	17	15	14	14	16	15
Market share of top provider (%)							
Fixed-line	64.1	64.4	66.2	69.4	70.6	70.6	71.0
Mobile	33.1	32.3	35.6	37.0	36.5	36.8	36.0
Internet	47.9	46.6	46.1	47.6	47.0	45.8	45.5
Market share of top three providers (%)							
Fixed-line	95.4	94.1	93.4	97.3	97.1	95.1	92.7
Mobile	95.7	98.2	97.7	97.0	96.1	95.7	95.1
Internet	77.3	88.4	89.9	89.4	88.5	87.6	87.6
Employment (number)	1,582	1,240	1,189	1,360	1,215	1,108	1,045

[75] MFEA, *White Paper on a Future Vision for the Financial System*, Main Emphases and Conclusions, pp. 3-4.

[76] IMF (2023), IMF Country Report No. 23/220, p. 43.

	2016	2017	2018	2019	2020	2021	2022
Revenues							
Revenue from all telecommunication services (USD million)	231.6	242.3	264.3	250.9	217.9	197.7	205.1
Revenue from mobile networks (USD million)	109.2	116	119.8	116	97.1	84.5	90.6

Source: ITU (for employment and revenues); and information provided by the authorities.

4.145. The subscriptions of fixed-line telephony continued to decline as they had during the previous two periods under review, falling from 40 per 100 inhabitants in 2016 to 24 in 2022. Mobile telephony subscriptions remained practically stable during the period at around 115 per 100 inhabitants. Fixed broadband Internet subscriptions remained also quasi-stable and started declining slightly towards the end of the period, falling slightly from 39 per 100 inhabitants in 2018, to 37 in 2021 and 2022, while mobile broadband subscriptions continued their progression (from 90 per 100 inhabitants to 105). As a result of this progression, the number of overall Internet subscribers per 100 inhabitants increased from 128 to 141. Finally, the penetration rate of fibre-to-home/building Internet subscriptions more than doubled during the period under review, passing from 12 per 100 inhabitants in 2016 to 29 in 2022, making Iceland one of the world leaders in terms of optical fibre deployment.

4.146. In terms of providers, the number of fixed-line providers varied notably during the period (7 in 2016, 5 in 2018, 8 in 2022), an evolution that can be explained by the fact that there are opportunities for niche operators in VoIP services that do not require the investments necessary in traditional Public Switched Telephone Network (PSTN) voice telephony. The number of mobile providers followed a quasi-parallel evolution to that of fixed (6 in 2016, 5 in 2018, 8 in 2022). The number of Internet providers varied during the period between 14 and 17 providers.

4.147. The market share of the top provider increased for both fixed and mobile telephony, but declined slightly for Internet. The share of the top three providers had an opposite evolution: It declined slightly for fixed and mobile but increased notably for Internet.

4.148. Fifty-eight companies reported revenue for telecom services in 2022. Of those, 7 account for 95% of revenue and 16 for 99%. The rest are either very small companies (many provide an FTTH (Fiber To The Home) access network in small rural communities) or IT companies for which telecom services are a minor aspect of their operations.

4.149. The market shares of the fixed telephony operators at the end of 2022 are 71% for Siminn, 14.5% for Syn, 7.2% for Nova, 7% for Hringdu 7%, and 0.3% for all other operators. The market shares of the mobile telephony operators at the end of 2022 stood at 36% for Siminn, 33.3% for Nova, 25.9% for Syn, and 4.9 % for all other operators. The market shares of the Internet providers at the end of 2022 were 45.5% for Siminn, 24.4% for Syn, 17.7% for Nova, 9.8% for Hringdu, and 2.8% for all other providers.

4.150. Nova is the only one of those companies to have a proportion of foreign ownership (less than 5%) and Syn has a cooperation agreement and branding licence with Vodafone, but is not owned by Vodafone. During the period under review, some foreign participation operations took place in the sector: the wholesale arm of the former incumbent, Mila, operating an access and trunk network with national coverage, was sold to the French fund management company Ardian, while mobile operators Syn and Nova sold their towers and related real estate to Islandsturnar, which is owned by DigitalBridge, a global infrastructure investment fund that is headquartered in the United States.

4.151. There is no state ownership or participation in the fixed, mobile, and Internet operators. The submarine cable operator FarIce is owned by the Government. ESA handles cases of possible breach of state aid rules regarding FarIce. The national grid operator, Landsnet, and the national power company, Landsvirkjun, operate a fibre network (named Orkufjarskipti) for remote monitoring and control of the power network. The rental of "dark" fibre (i.e. the glass fibre thread itself, without any active equipment connected to it that provides connectivity or service, turning the said fibre to being "lit") by these state-owned companies to third parties is accountable to the Electronic Communications Office of Iceland (ECOI), the independent regulator, but is a marginal activity for it.

4.152. In terms of new entrants, the rural fibre programme 2016-21[77], which was aimed at linking, through fibre, 6,300 isolated households and is financed by the State and municipalities, has led to the creation of 40 to 50 new but very small operators of the fibre access networks at the municipality level. Mila, the wholesale arm of the former incumbent has bought, contracted for hired purchase, or long-term leased a significant portion of these networks. The only consolidation that occurred during the period was the sale by the second-largest operator, Syn, of its trunk operation to the second-largest wholesale access network operator, Ljosleidarinn.

4.153. Employment in the sector declined by a third over the period from 1,582 persons in 2016 to 1,049 in 2022, while its revenues grew in terms of ISK (ISK 55.2 million in 2020, ISK 72.4 million in 2021, and ISK 73.9 million in 2022) but fell in terms of the US dollar due to the depreciation of the Iceland krona compared to the US dollar. Mobile telephony represented a bit less than half of these revenues during the whole period.

4.154. Table 4.12 provides the prices of telecommunications as computed by ITU following its "baskets" methodology and shows that the worldwide ranking, adjusted by power purchasing capacity, of Iceland varies from the 11th place to the 51st.

Table 4.12 Telecommunications prices by type of basket, 2022

	Rank by GNI per capita	as % of GNI per capita	USD	PPP	Monthly data allowance	Tax rate (%)
Fixed broadband Internet (5 GB)	51	1.40	75.40	60.57	50 (Cap per month GB)	24.0
Data-only mobile broadband basket (2 GB)	25	0.36	19.16	15.39	10 GB	24.0
Mobile cellular – low usage basket (70 min, 20 SMS)	24	0.28	15.32	12.31	SMS unlimited; Voice unlimited	24.0
Mobile data and voice low-consumption basket (70 min, 20 SMS, 500 MB)	12	0.28	15.32	12.31	SMS unlimited; Voice unlimited; Data 1,000 MB	24.0
Mobile data and voice high-consumption basket (140 min, 70 SMS, 2 GB)	11	0.36	19.16	15.39	SMS unlimited; Voice unlimited; Data 10 GB	24.0

Source: ITU World Telecommunication/ICT Indicators (WTI) Database 2023, July 2023 Edition.

4.155. The ministry responsible for telecommunications matters is the Ministry of Higher Education, Science and Innovation. During the period under review, the role and the name of the independent sectoral regulator were changed following a new Act (No. 75/2021) from Postal and Telecom Administration (PTA) to ECOI and its functions were modified. First, ECOI is no longer responsible for the regulation of postal services. Second, ECOI has been given the added responsibility of handling the EU Networks and Information Systems (NIS) directive[78], and the computer emergency response team (CERT, the anti-hackers unit) has been markedly strengthened. ECOI is responsible for the administration of electronic communications and network security in Iceland by, *inter alia*, implementing legislation, encouraging competition, and participating in market development.

4.156. Iceland's Electronic Communications Plan (2011-22) set as main objectives for 2022 to reach 100% of homes and places of work with a 30 Mbps fixed connection, 99% of homes and places of work with a 100 Mbps fixed connection, and 99.9 % of home and places with high-speed mobile network. These objectives, which were deliberately set at an ambitious level, were nearly achieved: 98% with access to 30 Mbps, 97% to 100 Mbps, and 99.9% to 3G or better. Two medium- and long-term Parliament resolutions set the telecommunications policy. A 15-year long-term policy (2019-33)[79] puts increased emphasis on fibre and high-speed mobile network rollout and network resilience and also contains provisions on artificial intelligence, postal services, and

[77] In budgetary terms, the Telecommunications Fund provided ISK 3,200 million (competitive grants) and an additional ISK 300 million came from the Ministry (special rural support). Additionally, total own funding from municipalities and individual building owners was around ISK 3,500 million–ISK 4,000 million.

[78] Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning Measures for a High Common Level of Security of Network and Information Systems across the Union.

[79] Viewed at: https://www.althingi.is/altext/149/s/0545.html.

cybersecurity. A 5-year short-term policy (2019-23)[80] contains an action plan that identifies more concrete steps and projects to achieve the objectives of the long-term policy.

4.157. The Government charter, which is the manifesto for the presently ruling coalition, identifies the development of high-speed networks as a national and public priority. It states that "[t]he capacity of and funding for the continued development of high-speed networks will be ensured where private operators do not provide the service or security considerations require it".[81] The financial plan 2024-28, a pluri-annual budgetary document, sets the double goal that every settlement will be offered access to a reliable high-speed optical fibre Internet connection and that all main trunk roads will have a reliable mobile network connection by 2028.[82] A parliamentary resolution on strategic actions to strengthen the knowledge society in Iceland until 2025[83] was voted on 15 December 2023. It sets the goal of Iceland becoming the first gigabit country in the world, i.e. with an Internet connection of at least 1 Gbps.

4.158. 5G deployment is coordinated with other Nordic countries in the framework of the Nordic Council of Ministers.[84] In October 2018, this institution issued a 5G Action Plan (2018-20) encouraging the coordination of allocation of 5G frequency bands in the region. In April 2020, the Icelandic regulator (at that time PTA) allocated three 5G frequency licences in the 3.6 GHz band to Siminn, Nova, and Syn (Vodafone). Those licences, which assign specific geographical coverage and performance obligations to the operators, were valid until the end of 2021. 5G was launched in mid- to late 2020 in Iceland by all three operators. In March 2023, the same three companies were awarded spectrum licences for 20 years in the 800, 900, 1800, 2100, and 3600 MHz ranges. The licences are for high-capacity mobile networks but technologically agnostic/neutral regarding "G", but with stipulations of coverage and capacity per user, both regarding homes and businesses and service to the road network, which will increase over the lifetime of the licences.

4.159. Regarding cybersecurity, Iceland is a member without voting rights of the European Union Agency for Cybersecurity (ENISA). ECOI takes part in the Body of European Regulators for Electronic Communications (BEREC) 5G Cybersecurity Working Group, whose work is based on the recommendations of the European Commission and the resulting "Cybersecurity of 5G networks EU Toolbox of risk mitigating measure".[85]

4.160. The main regulatory change during the period under review was the adoption of a new telecommunications law (Law No. 70/2022)[86] revamping the previous regulatory framework dating back to 2003. This law transposes the latest telecommunications legislation of the European Union, the European Electronic Communications Code (EECC, Directive (EU) 2018/1972).[87]

4.161. The EECC provides for the determination and specific regulation of operators with significant market power, regulates the sharing of active and passive infrastructure as well as radio spectrum, regulates number portability for mobile and fixed lines (but not between them), and regulates universal access to Internet and voice communication services. It also includes provisions on net neutrality. It institutes a regime whereby independent National Regulatory Authorities (NRA) supervise service providers based on a general authorization regime, monitor the market, and auction numbering resources and radio spectrum.

[80] Viewed at: https://www.althingi.is/altext/149/s/1687.html.

[81] For more elements on the ICT policy recommended by this document, see the *Agreement on the Platform for the Coalition Government of the Independence Party, the Left Green Movement and the Progressive Party*, p. 41. Viewed at: https://www.stjornarradid.is/library/05-Rikisstjorn/Agreement2021.pdf.

[82] For more elements on this plan and its intermediary targets, see: https://www.stjornarradid.is/verkefni/efnahagsmal-og-opinber-fjarmal/opinber-fjarmal/fjarmalaaaetlun/fjarmalaaaetlun-2024-2028/.

[83] Viewed at: https://www.althingi.is/altext/154/s/0237.html.

[84] The Nordic Council of Ministers is an intergovernmental forum established after the 1971 Helsinki Treaty.

[85] For the text of this toolbox, see: https://digital-strategy.ec.europa.eu/en/library/cybersecurity-5g-networks-eu-toolbox-risk-mitigating-measures.

[86] Viewed at: https://www.althingi.is/lagas/153c/2022070.html.

[87] For a detailed description of the EECC, see the 2020 TPR Secretariat report of the European Union (WTO document WT/TPR/S/395/Rev.1, paras. 4.310-4.326). For the text of the EECC, see Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018. Viewed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1547633333762&uri=CELEX%3A32018L1972.

4.162. The EECC also introduces the concept of "interpersonal communications services" to also cover services provided through digital messaging. It applies end-user-related regulatory obligations to Internet access and number-based interpersonal communications services, whereas, in the case of number-independent interpersonal communications services, regulatory obligations are mostly limited to security obligations.

4.163. BEREC plays a coordinating and advisory role to the Commission and NRAs. Iceland has for a long time been an observing member of BEREC, but with the implementation of the EECC Iceland will become a full member without voting rights.

4.164. The EECC also encourages the deployment of high-speed networks, extends the scope of the universal services to broadband access, and reinforces consumer protection.

4.165. Iceland transposed the Roam Like At Home (RLAH) regulation (Regulation (EU) No. 531/2012) and reduced, and finally abolished on 1 July 2017, roaming fees with the same glide path as the European Union. Iceland had also capped its termination rates on fixed and mobile so that they correspond in due time to those set by the 18 December 2020 delegated regulation of the EU Commission.

4.166. In 2022, various Acts were amended regarding resilience of electronic communication services and electronic communication networks[88], inspired by the Nordic legal framework for safety on communications. It imposes on telecommunications companies detailed requirements regarding risk management and preparedness, especially in relation to outsourcing of operational aspects outside Icelandic jurisdiction. It also clarifies the regulatory power of ECOI concerning public interest and national security and allows the ministry in charge of foreign investment to impose conditions on foreign investments to prevent them from threatening national security, public order, and public safety.

4.167. Several other ECOI rules were adopted as a follow-up of transposition of the EECC: in 2022-23 on universal service[89], number portability[90], price comparison[91], accounting and cost analysis in the operation of telecommunications companies[92], and market analysis.[93]

4.168. Several other regulations are in the drafting process and should be implemented in 2024, notably on the security of electronic communications networks and electronic communications services, the organization and allocation of frequencies in telecommunications, wireless communications equipment, net neutrality, invoicing, premium services, and obligations without prior market analysis. All of the regulations adopted and planned are aimed at reinforcing the competitive framework and do not have a bearing on market access.

4.169. Regarding universal service, Neydarlinan and its subsidiary Neydarfjarskipti were designated as the universal service operator (USO) in September 2020 until 31 December 2024, replacing Mila, the wholesale arm and daughter company of and fully owned by the former incumbent Siminn. Neydarfjarskipti manages the 112 emergency number and therefore is government-owned. Neydarfjarskipti operates a nationwide communications network for police, fire, ambulance, and other emergency services and first responders and connects singular rural households to public communication networks. As the USO, Neydarfjarskipti only provides the connection and does not provide the consumer with any services; households purchase those on the general market.

4.170. ECOI, the regulator, assesses a request from Neydarlinan each year for a financial contribution due to universal service obligations rendered in the year before. All operators (fixed

[88] Law No. 17/2022 of 16 February 2022. Viewed at: https://www.althingi.is/altext/152/s/0502.html.
[89] Ministry of Higher Education, Industry and Innovation Regulation No. 1100/2022 of 30 September 2022. Viewed at: https://www.stjornartidindi.is/Advert.aspx?RecordID=93d986dd-2328-462e-ba1c-17624b354fdd.
[90] Regulation No. 1112/2022 of 5 October 2022. Viewed at: https://www.stjornartidindi.is/Advert.aspx?RecordID=c1ea3197-6764-467c-904f-d7bfb8ea6008.
[91] Regulation No. 1244/2022 of 2 November 2022. Viewed at: https://www.stjornartidindi.is/Advert.aspx?RecordID=83210802-4a09-4969-90fd-31bae0660a79.
[92] Ministry of Higher Education, Industry and Innovation Regulation No. 555/2023 of 23 May 2023. Viewed at: https://www.stjornartidindi.is/Advert.aspx?RecordID=d57e20eb-6f7a-4582-9a22-e81b4168c36b.
[93] Ministry of Higher Education, Industry and Innovation Regulation No. 556/2023 of 23 May 2023. Viewed at: https://island.is/reglugerdir/nr/0556-2023.

voice line operators, mobile operators, and Internet service providers) pay a fixed percentage (0.10%) of their turnover. The universal service is defined as a connection of minimum usable capability, fixed or mobile.

4.171. There was no dispute regarding interconnection formally resolved during the period under review.

4.172. ECOI Decision No. 5/2021[94] identified Mila as an operator having significant market power (SMP) on markets "3a" (i.e. wholesale markets for local access provided at a fixed location) and "3b" (i.e. central access provided at a fixed location for mass-market product) and imposed as remedies obligations of access, non-discrimination, transparency, separation of accounts, and price control. In 17 municipalities where the competitive pressure on Mila was greater, the obligations on access to ducts and conduits were not imposed.

4.173. Facility sharing and local loop unbundling are practised. In both instances, one company is under regulatory obligations. However, the decommissioning of the PSTN will make the unbundling of copper local loops unnecessary after 2023, while the same will go for the copper access network after its decommissioning in 2028.

4.174. There have been no changes regarding the authorization regime; telecom companies are not licensed but required to register with ECOI and to notify their intended operations.

4.3.3 Postal, courier, and express services

4.175. As part of the telecommunications policy for the years 2019-33[95], which was adopted in June 2019 by the Parliament, Iceland fully liberalized its postal services. It did so by transposing Directive 2008/6/EC of 20 February 2008 on the Full Accomplishment of the Internal Market of Community Postal Services by the Postal Act No. 98/2019. The ESA reviewed the Postal Act in the context of two cases. The first case was about an additional charge for packages from China, which were operated in a non-profitable manner due to UPU rules and to the geographical characteristics of Iceland. ESA accepted the charge. The second case is ongoing and is about the frequency of services, which Iceland has set at two days for the same geographical reasons when the corresponding EU directive sets it at five days.

4.176. The Postal Act abolished the reserved area as of 1 January 2020. Decision No. 13/2020 of the Post and Telecommunications Agency designated Icelandic Post Ltd (Íslandspóstur ohf) as the USO until 2030. Icelandic Post is a public company in which the Ministry of Finance is the only shareholder, and it must provide both domestic and international universal services at a predictable and acceptable cost and at cost-oriented and affordable prices. The universal service includes the delivery of letters and parcels up to 10 kg nationwide. Rates for services within the universal service are subject to approval by Byggdastofnun. Iceland Post is responsible for drawing up a yearly budget. The company does not receive a state subsidy, but its net cost of providing a universal service in rural areas is compensated yearly. Table 4.13 describes the evolution of the traffic of the designated USO.

Table 4.13 Volumes from the designated universal service operator, 2019-22

(Number)

	2019	2020	2021	2022
Reserved	17,627,522	-	-	-
Letters	3,654,017	16,732,338	14,905,473	12,031,418
Parcels	1,116,400	1,639,618	1,651,278	1,439,809
Newsletters	772,709	185,441	-	-
Advertising	22,242,772	7,183,266	3,427,482	2,627,846

- Nil.

Source: Information provided by the authorities.

[94] For the full text of this decision (in Icelandic), see: https://www.fjarskiptastofa.is/library?itemid=35432d1e-cabf-4dbc-ab4f-6c65b55e4534.

[95] The full text of this policy is available at: https://www.althingi.is/altext/149/s/1688.html.

4.177. Iceland has not undertaken commitments regarding postal services under the GATS or under any of its FTAs.

4.178. Act No. 76/2021 transferred the regulatory authority of the sector from the Post and Telecommunications Agency to the Byggðastofnun (Regional Development Institute), an independent institution reporting to the Ministry of Infrastructure.

4.179. Courier and express operators are not subject to a licensing regime. Seven of them, including one major international operator, DHL, are registered as postal private operators.[96] There are about 20 private operators on the package market and none on the letter market.

4.180. Iceland has not undertaken commitments regarding courier services. In one of its FTAs (EFTA-Singapore), it undertook a full commitment of the three first modes and made a reference to the horizontal reservation for the fourth mode.[97] In terms of applied regime, there are no GATS-type restrictions to market access or national treatment applicable to them. They can operate all activities entailed by express and courier – e.g. collection; handling, delivery, and distribution; freight forwarding; consignation; and trucking – without any specific licence. They are not liable for a contribution to a universal service fund. There are no publicly available statistics on their traffic.

4.3.4 Transport

4.3.4.1 Maritime transport

4.181. Maritime transport is essential for Iceland due its insular nature. The quasi-totality of trade in volume (99.4% of the imports in both 2022 and 2023, 99.1% of exports in 2022, and 99.2% in 2023) and a very large part of this trade in value (for imports, 84.9% in 2022 and 85.7% in 2023; for exports, 90.8% in 2022 and 88% in 2023[98]) is carried by sea. Passenger traffic is limited to internal ferries, ferries to Faroe Islands, and cruise vessel calls.

4.182. Only three foreign shipping lines serve Iceland, namely Smyril from the Faroe Islands (passenger and cargo), Wilson ship management from Norway (cargo), and CargoW from the Netherlands (cargo).

4.183. Iceland has two national shipping companies, Samskip (whose holding company is located in the Netherlands) and Eimshkip, both of which carry essential traffic to and from Iceland from and to North America and Scandinavia, the United Kingdom, continental Europe, and the Baltic with foreign-flagged ships. They also ensure coastal services in Iceland. Both companies have developed international freight forwarding systems. Furthermore, these lines operate bulk charter transportation for specific imports and exports, e.g. industrial raw materials (e.g. alumina) and finished products. Their vessels are not deployed on cross-trades. Samskip has a fleet of 18 owned and chartered vessels while Eimskip has a fleet of 16 owned and chartered vessels.

4.184. Iceland is one of the rare countries that undertook maritime cabotage commitments under the GATS, hence cabotage is not reserved to the national flag. However, because of geographical remoteness and isolation and of low volumes, this traffic is not attractive for foreign shipowners. Hence this is where most of the nationally flagged fleet is deployed. Iceland had in 2022 a maritime transport fleet of 39 vessels under the Icelandic national flag representing a total of 14,000 DWT. There is no containership under the national flag.

4.185. The conditions for granting the national flag are regulated by Chapter II of the Shipping Act No. 66/2021, which consolidates pre-existing legislation. Only ships owned by Icelandic citizens, companies with a legal residency in Iceland, citizens within the EEA area, citizens of EFTA states, and citizens of the Faroe Islands can register ships in the Icelandic national registry. In 2007, Iceland

[96] These seven operators are Postage ehf, DHL Express Ísland ehf, Dropp ehf, Kröfumiðlun ehf, Póstdreifing ehf, Póstmarkaðurinn ehf, and Vörumiðlun ehf.

[97] "Unbound except as indicated in the horizontal commitments".

[98] Information provided by the authorities (Icelandic customs). Values are expressed in terms of customs valuation.

attempted creating an international registry. While it did not succeed in attracting vessels and none are registered, the legislation remains in force.[99]

4.186. The Icelandic flag does not give access to subsidies or better port treatment. Iceland has no unilateral cargo reservations nor any bilateral cargo sharing agreement. There was no change during the period under review to the tonnage tax and the 90% income tax rebate for seafarers instituted by Act No. 86/2007 on the taxation of merchant ship operations, as amended by Act No. 61/2008.

4.187. There are no requirements for the captain or other part of the crew to be of Icelandic nationality. Iceland has ratified the 2006 Maritime Labour Convention. The conditions of employment of seafarers are determined by Act No. 35/1985 on Seafarers, which was not amended during the period under review.

4.188. Icelandic shipowners owned beneficially in 2022 a fleet under foreign flags (mostly open registries) of nearly 10 times the tonnage (121,000 tonnes) of the nationally flagged fleet. These figures account, however, for less than 0.01% of the world tonnage.[100]

4.189. The maritime transport legislation of Iceland is aligned via the EEA transposition mechanism of the EU *acquis*. This includes EU competition laws and hence the 2008 withdrawal of the group exemption to maritime conferences and the self-evaluation regime of shipowners regarding competition issues. The Icelandic national competition law (Act No. 44/2005) also fully applies to the maritime transport sector without exemptions. In 2022 the Icelandic Competition Authority (ICA) imposed fines on both Eimskip and Samskip for collusion and abuse of dominant position in the aftermath of the financial crisis (2008-13).[101]

4.190. Icelandic ports are regulated by Act No. 61/2003 on Ports. The Act was amended by Act No. 31/2023, which partially implements the provisions of EU Regulation No. 2017/352, establishing a framework for the provision of port services and common rules on the financial transparency of ports. The amendment to the Act, however, does not fully implement the provisions of the Regulation, and a full implementation is expected to take place in the first half of 2024. Apart from that amendment, no substantial amendments were made to Act No. 61/2003 during the period under review. Limitations on the ownership of real estate to foreign citizens or non-established companies (Section 2.4) also apply to ports.

4.191. Ports are owned by municipalities or groups of municipalities. There is no concession regime in place to operate container terminals or bulk terminals. Article 8.3 of the Port Act stipulates that even though a port is publicly owned, when it takes the form of a limited company, a private limited company, a partnership or operates independently as a private entity, its operations shall not be considered as public operations. Two harbours are in that situation and are considered as private: (i) Associated Icelandic Ports (Flaxafloahafnir), a company created in 2005, which is in charge of the management of five ports (Old Reykjavík Harbour, Sundahöfn, Grundartangi, Akranes, and Borgarnes) and is owned by the corresponding coastal municipalities, and (ii) Ísafjarðarhöfn.

4.192. Associated Icelandic Ports ensure most of the traffic and the quasi-totality of the international traffic. Pilotage is compulsory for any vessel longer than 60 metres (maximum length) and vessels carrying hazardous cargo when navigating into, out of, or in the harbour areas of the Associated Icelandic Ports. However, waivers to that obligation can be granted. Harbour fees are set by Associated Icelandic Ports as authorized under Articles 19 and 20 of the Harbours Act No. 61/2003.

4.3.4.2 Air transport

4.193. Due to its insular nature and the dispersion of part of its population in remote and isolated areas, Iceland relies heavily on aviation to bring in tourists, connect its population internationally,

[99] Act No. 38/2007. Only ships owned by Icelandic citizens, companies with a legal residency in Iceland, citizens within the EEA area, citizens of EFTA states, and citizens of the Faroe Islands could have register ships in this international registry.

[100] UNCTAD, *Maritime Profile: Iceland*. Viewed at: https://unctadstat.unctad.org/CountryProfile/MaritimeProfile/en-GB/352/index.html.

[101] For an English summary of this decision, as well as the full text in Icelandic, see: https://en.samkeppni.is/published-content/news/serious-violation-of-the-icelandic-competition-act-by-samskip.

and serve domestically remote communities. In addition, its location in the middle of the North Atlantic makes it a hub, as it allows the economic usage of smaller, single-aisle planes. In 2023 this transit traffic, which is generated by lower tariffs and by the willingness of passengers to make stopovers in Iceland, accounted for 2.1 million passengers out of a total of 7 million passengers. Such traffic is carried by Icelandair and the low-cost airline Play.

4.194. As illustrated by Table 4.14, employment in the sector was affected by the COVID-19 pandemic but nearly recovered to its pre-pandemic level towards the end of the period under review. The same trend can be observed for the share of air transport employment in total employment and for the share of air transport services in the total GDP.

Table 4.14 Employment and share of total GDP of the air transport sector, 2017-22

	2017	2018	2019	2020	2021	2022
Employees in the air transport sector (number)	3,800	4,600	4,500	3,200	2,500	3,700
Share of air transport employment in total employment (%)	1.9	2.3	2.2	1.7	1.3	1.8
Share of air transport in total GDP (%)	2.2	2.6	2.7	1.0	1.2	2.1

Note: Defined according to division 51 of the nomenclature NACE rev2 "Air transport". This division includes the transport of passengers or freight by air or via space. This division excludes crop spraying, overhaul of aircraft or aircraft engines, operation of airports, aerial advertising (sky-writing), and aerial photography.

Source: Statistics Iceland. Viewed at: https://www.statice.is/statistics/environment/transport/aviation/.

4.195. It is worth noting that IATA, using a wider definition of air transport employees, estimated that airlines, airport operators, airport on-site enterprises (restaurants and retail), aircraft manufacturers, and air navigation service providers employed 11,000 people in Iceland in 2017 i.e. 5% of total employment that year.[102] Unfortunately, there are no similarly defined figures for the rest of the period under review.

4.196. International passenger transport traffic was severely affected by the COVID-19 pandemic, declining by more than 80% in 2020 (Table 4.15). Domestic passenger traffic was, however, less affected (halving in 2020) and recovered more quickly. Freight traffic, whether international or domestic, was barely affected.

Table 4.15 Passenger and freight air transport traffic, 2017-22

	2017	2018	2019	2020	2021	2022
International passengers ('000)	8,806	9,859	7,282	1,381	2,181	6,179
Domestic passengers ('000)	771	737	653	320	556	645
International freight (metric tonnes)	56,480	58,837	54,710	49,258	59,582	55,273
Domestic freight (metric tonnes)	1,348	1,260	1,143	896	1,121	1,383

Source: Isavia, *Aviation Fact File 2022*. Viewed at: https://www.isavia.is/media/1/isavia-aviation-fact-file-2022.pdf.

4.197. Iceland has five scheduled airlines. Table 4.16 provides the name, fleet size, and turnover of these airlines. All airlines are wholly owned by Icelandic interests.

Table 4.16 Fleet size and turnover of scheduled Icelandic airlines

Name	Fleet size (No.)	Turnover (million)	Type of activity
Icelandair	38	USD 1,198.7	Scheduled International passenger transport and charter
Air Atlanta Icelandic	12	USD 232.2	Charter and wet-lease
Bluebird Nordic	11	USD 105.1	Cargo and charter cargo
Fly Play	10	USD 16.4	International low cost scheduled passenger transport
Air Iceland Connect	6	ISK 2,818.6 (2021)	Domestic passenger transport
Norlandair	6	ISK 1,853.4	Domestic passenger transport + Greenland from Akureyi
Myflug	4	ISK 731.1 (2022)	Ambulance transport

[102] IATA (2018), *The Importance of Air Transport to Iceland*. Viewed at: iata.org/en/iata-repository/publications/economic-reports/iceland--value-of-aviation/.

Name	Fleet size (No.)	Turnover (million)	Type of activity
Eagle Air	4	ISK 807.5 (2021)	Domestic passenger transport

Source: Information provided by the authorities.

4.198. The Ministry of Infrastructure is the authority responsible for the regulation and the supervision of the aviation sector. The Icelandic Transport Authority, an agency under the Ministry of Infrastructure, is responsible for air, maritime, and road traffic safety, and the safety and supervision of transport infrastructure and navigation systems.

4.199. During the COVID-19 pandemic, the Icelandair group (Icelandair and Iceland Connect) was granted a state guarantee of ISK 15 billion in September 2020, which was suppressed in February 2022. Other airlines received provisional state aid on routes that had become commercially unviable with the pandemic.

4.200. The national establishment rules are those of Regulation (EC) No. 1008/2008 (consolidating the so-called EU third aviation package of 1992) included in the EEA Agreement. They provide that airlines must be owned and effectively controlled by EEA member States or nationals of EEA member States, and their principal place of business must be located in an EEA member State.

4.201. Table 4.17 describes the characteristics of the plurilateral and bilateral air services agreements signed by Iceland, coded according to the WTO QUASAR[103] methodology, in use in 2023.

Table 4.17 List of plurilateral and bilateral air services agreements of Iceland in use, 2023

	Date	5th	7th	Cabotage	Coop	Designation[c]	Withholding[d]	Pricing[e]	Capacity[f]	Exchange of statistics	ALI ST[g]
EEA member States[a] (Single Aviation Market (SAM))		Y	Y	Y	N	M	CoI	FP	FD	N	43
United Kingdom	09/12/2020	Y	N	N	Y	M	CoI	FP	FD	N	33
United States (EU–US Open Skies I and II via adhesion)[b]	16/06/2011	Y	N	N	Y	M	CoI/ SOEC	FP	FD	N	33
Switzerland		Y	N	N	Y	M	COI	FP	FD	N	33
Greenland	22/03/1950 12/12/2011	Y	N	N	Y	M	SOEC	DA	OL	N	17

a EU member States, Iceland, and Norway (Liechtenstein has no commercial aviation airport).
b For more elements of these adhesions, see: https://eurlex.europa.eu/resource.html?uri=cellar%3ad05681b9-7ec1-4822-9278-f257e73c0cc5.0016.02%2fDOC_1&format=PDF and https://eurlex.europa.eu/resource.html?uri=cellar%3ad05681b9-7ec1-4822-9278-f257e73c0cc5.0016.02%2fDOC_3&format=PDF.
c M=Multiple.
d SOEC=Substantial Ownership and Effective Control; CoI=Community of Interest.
e DA=Double Approval; FP=Free Pricing.
f FD=Free Determination; OL=Other Liberal.
g ALI=Air Liberalization Index (0=no liberalization at all; 50=full liberalization).

Source: WTO QUASAR database; and information provided by the authorities.

4.202. All airlines serving Iceland save six (Delta and United from the United States, British Airways and Jet.2.com from the United Kingdom, Edelweiss from Switzerland, and Air Greenland) emanate from EEA member States and serve destinations in the EEA. Their traffic rights are therefore

[103] For more elements of the QUASAR methodology, see WTO document S/C/W/270/Add.2, 28 September 2007.

regulated by the 1992 EU Single Aviation Market (SAM) as transposed in 2011[104] through the EEA Agreement and are fully liberalized (ALI of 43).

4.203. The post-Brexit air services agreement with the United Kingdom has an ALI of 33. The difference of 10 points with the *ex ante* situation (SAM) can be explained by the disappearance of the seventh, eighth, and ninth freedoms (which, however, were not used in practice) on the one hand and by the addition of a cooperation clause, which is not a built-in provision of the SAM, on the other.

4.204. Relations with Switzerland (ALI of 33) are governed by the combination of three agreements, namely:

- The Vaduz Agreement (EFTA Convention), which allows air carriers established in EU member States to operate from Switzerland to EFTA members and vice versa[105];
- The EEA Agreement, which allows an air carrier established in Switzerland to operate from an EU member State to an EFTA member and vice versa[106]; and
- An agreement between Switzerland and the European Union, which allows air carriers established in an EFTA member to operate from an EU member State to Switzerland and vice versa.

4.205. The relations with the United States are governed by the provisions of the open skies agreement between the European Union and the United States (so-called US–EU Open Skies I and II, 2007 and 2010). This agreement is open to third parties, and Iceland and Norway have adhered to it as a complement to the SAM. The ALI of these two agreements combined is 33.

4.206. Finally, the relations with Greenland are regulated by a 1950 agreement with Denmark updated by a memorandum of understanding of 2011. These provisions are only semi-liberal (ALI of 17), notably due to a clause of dual approval of tariffs and to a clause of substantial ownership and effective control for withholding.

4.207. Iceland is a member of the 2006 European Common Aviation Agreement (ECAA), which extends beyond the EU–EEA borders to Balkan countries (ALI of 43 in its final phase), but so far no airlines use the rights granted by this agreement.

4.208. Iceland has signed 90 other air services agreements that are not in use. They constitute a portfolio of opportunities.[107] They concern all geographical regions and have been frequently signed during the annual ICAO multilateral air services negotiations event (ICANs). Their features, and hence their air liberalization indexes, vary with the partner but a transversal analysis shows the type of liberal policy that the Icelandic aeronautical authorities try to promote: multiple designation, unlimited fifth freedom with intermediary and beyond points, unlimited seventh freedom for all-cargo flights, liberal provisions for the approval of charter flights, acceptance of withholding clauses other than substantial ownership and affective control, free determination of capacity, free pricing, and allowance of code-sharing and other cooperation agreements. In certain instances, though, Iceland conceded fewer liberal provisions to some of its partners, such as pre-determination of capacity, authorization by the aeronautical authorities of fifth freedom right (coded zero points in QUASAR) or dual approval of tariffs. The Transport Policy Plan 2020, adopted by the Parliament

[104] EEA Joint Committee Decision of 6 October 2011.

[105] EFTA, Annex Q, Air Transport (Art. 29). Viewed at: https://www.efta.int/sites/default/files/images/Vaduz_Convention_Annex_Q_Air%20transport.pdf.

[106] EFTA, EEA Agreement, Annex XIII, Transport. Viewed at: https://www.efta.int/media/documents/legal-texts/eea/the-eea-agreement/Annexes%20to%20the%20Agreement/annex13a.pdf.

[107] For a list of these agreements, with an analysis by feature with a slightly different methodology than QUASAR and giving access to the texts of these agreements, see: https://www.government.is/library/01-Ministries/Ministry-for-Foreign-Affairs/External-Trade/Overivew%20ASA%20english%2013.01.2022%20FINAL.pdf.

in November 2019[108], foresees a proactive policy regarding the negotiation of new bilateral air services agreements.

4.209. Iceland has 11 airports, 4 of which are international: Keflavik, Reykjavik, Akureyi, and Egillstaddir. Keflavik is the main international gateway with 21 airlines of 17 nationalities serving 84 destinations in 2023. Reykjavik airport is essentially used for domestic traffic with private/general aviation flights. Akureyi in the north has one flight with Greenland, and Egilsdottir in the east, while having the characteristics of an international airport, does not, so far, receive any international flights. The Government created in July 2016 an Icelandic Route Development Fund to grant subsidies to airlines willing to open such international routes so as to carry foreign tourists directly to these regions.

4.210. All airports are owned, managed, and developed by a state-owned limited liability corporation created in 2009, Isavia, which also provides air navigation services.

4.211. Slot allocation in Iceland obeys the generic IATA rules and to Council Regulation (EEC) No. 95/93 on slots, transposed via the EEA mechanism.

4.212. Ground handling is liberalized according to Council Directive 96/67/EC of 15 October 1996 as transposed through the EEA Agreement. Icelandair operates as ground handler at all main airports and several third-party handlers operate at Keflavik and Reykjavik airports. One third-party handler is also in competition with Icelandair at Akureyi airport. Self-handling and mutual handling among airlines are subject to the clauses of bilateral air services agreements.

4.213. There are no regulations limiting the selling and marketing of air transport services by airlines by physical or electronic channels. The selling and marketing abilities for a given airline are subject to the relevant provisions of the bilateral air services agreement concerned.

4.214. Regarding aircraft repair and maintenance, there is no legislation limiting the establishment of foreign-owned repair stations or legislation imposing the repair and maintenance of aircraft registered in Iceland in a national facility. There are no repair stations certified by the European Union Aviation Safety Agency (EASA) or by the United States Federal Aviation Administration, but the Icelandic Transport Authority has certified 12 EASA Part-145 maintenance organizations and 1 part-CAO organization having their principal place of business in Iceland.

4.3.5 Tourism

4.215. Tourism is a major sector of the Icelandic economy, accounting for about 8% of direct contribution to GDP, nearly 15% of total employment, approximately half of services exports, and approximately one quarter of total exports. The World Tourism and Travel Council (WTTC) estimated that the total (direct and indirect) contribution of tourism to GDP was 22.3% in 2019 and 13.6% in 2021, and the share (direct and indirect) in total employment was 22.3% in 2019 and 17.8% in 2021.[109]

4.216. In 2022 tourism reclaimed its position as Iceland's top foreign exchange-generating export sector. That year the sector accounted for ISK 455 billion, equivalent to 26% of total export revenue. The sector directly contributed 7.8% of the country's GDP, employing around 30 000 people, and representing 12% of the workforce.[110]

4.217. The systemic importance of the tourism sector is a relatively recent phenomenon whose source can be traced to the 2010 marketing campaign through which Icelandic tourism authorities tried to mitigate the negative effects and perception of the eruption of the Eyjafjallajökull volcano. According to the IMF, "concerted efforts by the authorities, supported by a well-executed social media outreach and marketing campaign, and improved connectedness had all contributed to the

[108] For an English summary of this transport policy, see: https://www.althingi.is/altext/150/s/1944.html.
[109] WTTC 2023. Viewed at: https://researchhub.wttc.org/factsheets/iceland.
[110] Statistics Iceland and the Icelandic Tourist Board.

sector's success".[111] Between 2010 and 2018, tourist arrivals increased five-fold, and the sector's value added almost quadrupled, making the whole Icelandic economy vulnerable to an external shock affecting the sector such as the COVID-19 pandemic.

4.218. Tourism sector's main economic indicators (Table 4.18) show that the sector reached a high point in 2018. It had a slightly weaker year in 2019 largely due to the bankruptcy of the local low-cost airline WOW, and then faced the shock of the COVID-19 pandemic. Between the start of the pandemic in April 2020 and March 2021, inbound tourist arrivals fell by 92%[112], while tourism's contribution to total GDP fell to 2.9% at the end of 2020, total service exports contracted by roughly 55%, employment fell to 10,637 people, and the whole economy contracted by 7.2%.[113] The sector then recovered progressively, helped by general support measures and by sector-specific ones. In terms of volume, it has not yet regained pre-pandemic levels, but in value terms, it is close, due to longer stays by tourists and, more important, higher spending per capita.

Table 4.18 Main economic indicators of the tourism sector, 2017-22

	2017	2018	2019	2020	2021	2022
Direct contribution of tourism to GDP (%)	8.2	8.2	8.2	2.9	4.8	7.8
Share of tourism in total employment (%)	14.7	14.7	13.9	10.3	9.6	12.3
Total persons employed by tourism	17,456	18,616	18,528	10,637	11,645	16,095
Trade balance of travel services (USD million)	1,459.2	1,428.7	1,184.8	117.7	543.6	970.4
Travel services share in total services exports (%)	47.6	49.0	49.5	25.8	37.1	44.3
Travel services share in total exports (%)	26.6	23.8	25.0	8.9	13.6	19.0
Foreign visitors ('000)	2,224.6	2,343.8	2,013.2	486.3	638.2	1,715.2
Inbound tourist expenditures (USD million)	2,951.9	3,045.5	2,611.7	561.0	1,194.1	2,400.9

Source: Statistics Iceland. Viewed at: https://www.statice.is/statistics/business-sectors/tourism/.

4.219. In structural terms, the sector is essentially based on leisure tourism, with business tourism accounting for only a marginal part. In terms of origin of inbound tourists, those from the United States account for the largest part (between 25% and 30% depending on the year), followed by those from the United Kingdom (between 10% and 15%). All other origins are under 10% of the total, primarily from seven EU member States (Germany, France, Poland, Italy, Denmark, the Netherlands, and Spain), followed by Canada. China is the first Asian country on this list.[114] Tourism is concentrated in the southern and western parts of Iceland. During the high season in July and August, the country is stretched in terms of infrastructure and room capacity. About 40% of the labour employed in the sector is composed of foreign workers.

4.220. Table 4.19 provides a snapshot of the tourism sector in 2022 by subsector. Data on foreign operators are not available in the Icelandic tourism industry. International hotel chains (Hilton, Radisson, and Marriott) operate in Iceland.

Table 4.19 Establishments, turnover, and employment of the tourism subsectors, 2022

Subsector	Establishments (No.)	Turnover (million)	Employment
Restaurants	934	ISK 12,616/USD 905	3,780
Hotels	263	..	..
Accommodation: Hotels + private rooms/B&B)	..	ISK 121,394/USD 896	5,538

[111] IMF (2023), *Iceland: Staff Report for the 2023 Article IV Consultation*, IMF Country Report No. 23/217, p. 65. Viewed at: https://www.imf.org/en/Publications/CR/Issues/2023/06/21/Iceland-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-535050.

[112] Icelandic Tourist Board (2021), *Tourism in Iceland in Figures, April 2021*. Viewed at: https://www.ferdamalastofa.is/static/files/ferdamalastofa/talnaefni/ferdatjonusta-i-tolum/2021/april-e-2021.pdf.

[113] IMF (2023), IMF Country Report No. 23/217, p. 65.

[114] UNWTO statistics. Viewed at: https://www.e-unwto.org/action/doSearch?ConceptID=2407&target=topic.

Subsector	Establishments (No.)	Turnover (million)	Employment
Travel agencies and tour operators	440 travel agencies 799 day-tour providers	ISK 99,094/USD 732	2,112 (travel agencies only)
Tourist guides	..	..	..

.. Not available.

Source: Statistics Iceland and Icelandic Tourist Board.

4.221. The Ministry of Culture and Business Affairs is responsible for developing tourism policy and coordinating the work of governmental bodies. The Tourism Council, a consultative body to the Minister includes representatives from the Ministries of Finance and Economic Affairs; Environment, Energy, and Climate; and Infrastructure; the Icelandic Association of Local Authorities; and the Icelandic Travel Industry Association. The Icelandic Tourist Board is the national tourism authority. "Visit Iceland" is the official destination marketing organization. Visit Iceland is part of Business Iceland, a public-private partnership overseen by the Ministry for Foreign Affairs.

4.222. The main laws regulating tourism are Act No. 95/2018 on Package Travel and Combined Travel Arrangements, Act No. 85/2007 on Restaurants and Accommodation, and Act No. 75/2011 Establishing the Tourist Site Protection Fund. The strategy for the first part of the period under review was determined by the Parliamentary Resolution on a Tourism Strategy for 2011-20.[115]

4.223. The tourism strategy of Iceland draws on a 2019 policy framework named "Leading in Sustainable Development".[116] Since, as noted by the IMF, Iceland is already among the highest tourist recipients in the world on *per capita* basis[117], this document places profitability above tourist numbers through increased productivity and value creation. It targets in particular high-value tourism markets and aims at longer stays. It also intends to limit the negative externalities of tourism (e.g. pressure on the housing market, overcrowding of sites, environmental damage, and carbon footprint) and spread its benefits in terms of employment and growth throughout the country. Efforts are under way to revise the Tourism Policy Framework 2020-2030, and a Tourism Policy for 2020 with an accompanying Strategy Action Plan is scheduled to be submitted before the Parliament in spring 2024.

4.224. In 2019, the Government asked the OECD to carry out an independent competition assessment of the country's construction and tourism sectors. The assessment, conducted in cooperation with three Ministries, the ICA, and other institutions, involved screening relevant legislation using the OECD's Competition Assessment Toolkit. The OECD estimated that the implementation of its recommendations could generate in excess of EUR 200 million in benefits per year, around 1% of Iceland's GDP.[118] A review of 632 legal texts resulted in 121 recommendations for change in Iceland's tourism sector.

4.225. In 2021, the Ministry responded to all but 3 of the 121 OECD recommendations that are under the Ministry's subject area. That was done with Act No. 90/2021, which made changes to several pieces of legislation, and with changes to Regulation No. 1266/2016. The Ministry responded to one more recommendation recently, with Act No. 36/2023, that made changes to Act No. 65/2015 on car rentals. The impact of these legislative and regulation changes, such as abolishing prescriptive accommodation standards and requirements for car rentals to have fixed establishment, has contributed to a more flexible environment for tourism-related business.

4.226. During the COVID-19 pandemic, in addition to the general measures of support for the economy (Section 3.3.1), the Government took several measures specific to the tourism sector, such as the temporary suspension until the end of 2023 of the accommodation tax (a tax loss equivalent to ISK 0.5 billion) and the establishment of a Package Travel Guarantee fund.

4.227. The former insolvency protection system for package tours (*ex ante* scheme) was based on individual guarantees. The amount was calculated for each party based on the submitted data on

[115] Viewed at: https://www.althingi.is/altext/139/s/1657.html.

[116] Viewed at: https://www.ferdamalastofa.is/static/files/ferdamalastofa/Misc/leading-in-sustainable-development_icelandic-tourism-2030.pdf; and https://www.stjornarradid.is/verkefni/atvinnuvegir/ferdathjonusta/ferdamalastefna/.

[117] IMF (2023), IMF Country Report No. 23/217, p. 19.

[118] OECD (2022), *OECD Tourism Trends and Policies 2022*. Viewed at: https://www.oecd.org/cfe/oecd-tourism-trends-and-policies-20767773.htm.

income from the sale of package tours. Hence there were instances where the guarantee amount was not sufficient to refund the traveller. In the new system the guarantee amount is calculated on the basis of the income from the sale package tours. With this system, travellers receive a full refund from the fund if the trader becomes insolvent.

4.228. Meanwhile, budgetary allotments were made to improve the infrastructure on which the sector depends, as well as to improve its sustainability. They include increased funding for infrastructure at tourist sites, airport extensions and improvements, road and harbour improvements, infrastructure to speed up the electrification of harbours and the rental car fleet, incentives to develop the domestic road network, incentives for airlines to open new lines in gateways outside Reykjavik, additional funding for innovation, and an international marketing campaign.[119]

4.229. The general budget allocated to tourism in 2023 was around ISK 2.4 billion for the Icelandic Tourist Board (ISK 724 million), the Tourist Site Protection Fund (ISK 588 million), and for tourism services (ISK 1,065 million, of which ISK 300 million for marketing and promotion). In 2023 the Minister of Culture and Business affairs contributed ISK 100 million to marketing activities for the promotion of Iceland as a destination in response to the situation that has arisen as a result of the volcanic actions in the Reykjanes peninsula and the earthquakes at Grindavík.

4.230. In terms of regime of foreign tourism operators, Iceland undertook liberal commitments under the GATS in all four sectors of tourism (hotels, restaurants, travel agencies and tour operators, and tourist guides). The only limitations scheduled are a one-year preliminary residency requirement for hotels, restaurants, travel agencies, and tour operators in mode 3 (commercial presence) and the limitation of tourist guide activities to residents (not only nationals) with foreign guides being able to obtain *ad hoc* permits. Iceland undertook broadly similar commitments on tourism in six FTAs: EFTA-Colombia; EFTA-Hong Kong, China; EFTA-Republic of Korea; EFTA-Singapore; EFTA-Ukraine; and Iceland-China.

[119] For a more detailed description of the Icelandic tourism policy, see Iceland in: OECD (2022), *OECD Tourism Trends and Policies 2022*. Viewed at: https://www.oecd-ilibrary.org/sites/12f10c2a-en/index.html?itemId=/content/component/12f10c2a-en.

5 APPENDIX TABLES

Table A2.1 Non-exhaustive list of activities subject to licensing requirements

Activities subject to licensing	Relevant legislation
Fodder production, in certain cases	Act No. 22/1994
Financial services	Notably Acts No. 161/2002, No. 115/2021, and No. 129/1997
Insurance activities	Act No. 100/2016
Rental brokerage services	Act No. 36/1994
Sale of real properties and ships	Act No. 70/2015
Air operating services	Act No. 80/2022
Aquaculture	Act No. 71/2008
Production and sale of medicinal products and medical feed	Acts No. 100/2020 and No. 14/2022
Transport of passengers or freight	Acts No. 28/2017 and No. 66/2021
Veterinary services	Act No. 66/1998
Accounting services	Act No. 94/2019
Audiovisual services	Act No. 38/2011
Car rental services	Act No. 65/2015
Production, wholesale, and retail sale of alcoholic products	Act No. 75/1998
Retail sale of tobacco products	Act No. 6/2002
Tourism services	Acts No. 95/2018 and No. 96/2018
Customs clearance, storage and warehousing	Act No. 88/2005
Hotels and restaurants	Act No. 85/2007
Security services	Act No. 58/1997
Operations in which GMOs are used	Act No. 18/1996
Whaling	Act No. 26/1949
Repair and sale of equipment to prevent and extinguish fire	Act No. 75/2000
Production from animal waste	Act No. 25/1993

Source: Information provided by the authorities.

Table A4.1 OECD indicators for support to agriculture in Iceland, 2017-22

(ISK million, except producer NPC)

	2017	2018	2019	2020	2021	2022
Total						
Value of production (at farm gate)	33,419	34,231	34,374	34,645	35,947	40,084
TSE	28,795	27,981	28,958	28,092	26,591	24,861
PSE	27,538	26,700	27,658	26,782	25,512	23,677
SCT	26,234	25,432	26,390	25,427	24,402	22,536
MPS	14,169	14,517	13,800	12,837	12,437	9,919
Producer NPC	2.06	2.00	1.92	1.82	1.76	1.52
Milk						
Value of production	12,460	12,398	12,773	13,447	14,417	16,143
SCT	12,500	11,857	11,899	11,964	11,811	9,950
MPS	5,422	5,638	5,692	5,757	5,423	3,184
Producer NPC	2.56	2.53	2.46	2.35	2.13	1.62
Sheep meat						
Value of production	4,188	4,503	4,247	4,371	4,644	5,958
SCT	4,190	4,012	4,103	4,103	4,646	4,895
MPS	0	0	0	0	0	0
Producer NPC	1.00	1.00	1.00	1.00	1.00	1.00
Poultry meat						
Value of production	3,510	3,433	3,426	3,241	3,393	3,648
SCT	2,759	2,628	2,528	2,290	2,345	2,401
MPS	2,757	2,628	2,528	2,290	2,345	2,401
Producer NPC	4.66	4.26	3.82	3.41	3.24	2.92
Beef and veal						
Value of production	3,248	3,008	2,904	2,532	2,964	3,166
SCT	1,209	733	2,170	1,864	217	226
MPS	1,042	560	305	0	0	0
Producer NPC	1.47	1.23	1.12	1.00	1.00	1.00
Pig meat						
Value of production	2,741	2,990	3,005	3,134	2,843	3,293
SCT	1,449	1,694	1,341	1,179	1,297	1,516
MPS	1,449	1,694	1,341	1,179	1,297	1,516
Producer NPC	2.12	2.31	1.81	1.60	1.84	1.85
Eggs						
Value of production	1,598	2,274	2,386	2,287	2,086	2,260
SCT	1,165	1,663	1,724	1,573	1,469	1,457
MPS	1,165	1,663	1,724	1,573	1,469	1,457
Producer NPC	3.69	3.73	3.61	3.20	3.38	2.82
Wool						
Value of production	168	118	127	128	94	110
SCT	382	282	190	190	465	415
MPS	0	0	0	0	0	0
Producer NPC	3.27	3.38	2.49	2.48	5.94	4.78
Non-MPS commodities						
Value of production	5,506	5,507	5,505	5,505	5,507	5,506
SCT	2,579	2,562	2,434	2,264	2,153	1,676
MPS	2,333	2,334	2,209	2,039	1,904	1,362
Producer NPC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. Not applicable.

Note: TSE: Total Support Estimate; PSE: Producer Support Estimate; SCT: Single Commodity Transfers; MPS: Market Price Support; NPC: Nominal Protection Coefficient.

Source: OECD, *Agricultural Policy Monitoring and Evaluation*. Viewed at: https://www.oecd.org/agriculture/topics/agricultural-policy-monitoring-and-evaluation/.