

**TRADE POLICY REVIEW**

**ICELAND**

**Report by the Government**

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Iceland is attached.

---

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



**CONTENTS**

	<b>Page</b>
I. EXECUTIVE SUMMARY	4
II. TRADE AND ECONOMIC POLICY ENVIRONMENT	5
III. THE ROLE OF THE FISHERIES POLICY	8
IV. TRADE POLICY DEVELOPMENTS AND FUTURE POLICY DIRECTIONS	9
(1) The EEA Agreement	9
(2) Other relations with the European Union and the question of membership	10
(3) The European Free Trade Association (EFTA)	10
(4) The World Trade Organisation (WTO)	11
(5) The OECD	12
(6) The Overseas Business Service and other foreign relations	12

## I. EXECUTIVE SUMMARY

1. The last Trade Policy Review of Iceland took place in 1994. At that time the economic outlook was not promising and the economy was not in a good shape. Since then however, some major changes have taken place.

2. Today Iceland's economy compares well with those of the countries it generally measures itself against. A reasonable macroeconomic balance has been established, inflation has been brought under control and the economy has rapidly moved towards openness and liberalisation of markets. Behind these improvements in recent years lie extensive economic reforms. The most significant reforms relate to the strengthening of markets, opening up of the financial markets and more disciplined economic management. Distortions in the economic environment have been corrected by containing inflation and allowing interest rates and the real exchange rate to be determined by economic conditions. Furthermore, general attitudes towards the economy have changed. There has been growing appreciation of the need for stability and a consensus appears to have emerged that economic stability is the key to future prosperity.

3. Before the recovery started there was a surplus on the current account, but as investment increased it has turned into deficit. There are signs of overheating in the economy. It appears that the economy has been testing the limits of non-inflationary growth. In response to growing demand, the Government has been tightening monetary and fiscal policies with the aim of slowing down the pace of economic activity. This tightening will be central to economic policies in the year 2000. The Government's goal is to achieve a "soft landing" for the economy.

4. Iceland has always been heavily dependent on imports. Most necessities of life need to be imported and financed through the export of fisheries products. Although a progressive diversification of the economy has taken place in recent years, fisheries remain the mainstay of the economy. For this reason, Iceland's overriding foreign trade interests continue to be identified largely with free trade in fish.

5. An important step towards free trade was taken when Iceland became a member of European Free Trade Association (EFTA), on 1 March 1970. According to the agreement, Iceland obtained immediate duty-free access to the EFTA markets for all products covered by the EFTA Convention and in return it abolished its protective duties on imports from EFTA countries. The EFTA Convention covers nearly all industrial products, as well as all fish and other marine products.

6. The Agreement on a European Economic Area (EEA) between the EFTA states and the European Union entered into force 1 January 1994 and has directed new trends into Icelandic industries. The agreement provides that the four fundamental freedoms of the internal market of the EU, the free movement of goods, services, capital and persons, apply within the EEA in the same way as in the EU.

7. Full free trade in fisheries products has been established not only within EFTA but also in a series of free-trade agreements with countries in Central and Eastern Europe and in the Mediterranean. The EEA Agreement, with some exceptions, secures preferential access for most Icelandic products to the EU market.

8. However, Iceland cannot depend exclusively on the European market. In the absence of any preferential trade agreements, trade with partners outside Europe relies on the contractual framework provided by the World Trade Organisation (WTO). The establishment of the WTO with its improved

dispute settlement procedures and increased scope will provide not only more security for trade but also a valuable forum for Iceland to develop its contacts and solve any potential trade disputes.

9. A profitable fisheries sector is vital for the Icelandic economy. It will be ensured by long-term fisheries management with the aim of sustainable growth of the fishing stocks. Therefore, the fisheries policy plays an important role in keeping the economy in good shape. The current quota system has succeeded in its goal of keeping the catch to within specified limits and the fisheries sector on the whole has shown increasing profits in recent years.

10. The EFTA States have concluded free-trade agreements with fourteen states and issued declarations of cooperation with six states in the past eight years. The most intensive work currently in progress within EFTA concerns the free-trade negotiations with Canada. In the EFTA Council, Iceland has supported cooperation with Mexico and the four MERCOSUR countries, Argentina, Brazil, Paraguay and Uruguay. In addition to the discussions with Canada, negotiations on free trade are also in progress with Egypt, Jordan, Cyprus, Tunisia and recently exploratory talks with Chile were initiated.

11. In the forum of the WTO, Iceland will continue to emphasize the importance of universal broad-based trade liberalization. Iceland supports the aim of efforts to launch a comprehensive Millennium Round of negotiations in the WTO in the year 2000.

12. Icelandic companies will have to prepare as well as they can for the future in a new highly regulated international trading environment, conducted with complex network of free trade agreements, the EEA Agreement and the WTO. In order to pave the way for their business activities in foreign markets the Overseas Business Service was established within the Foreign Ministry in 1997. This Service has assisted numerous companies in the conduct of their business across the world, both alone and in cooperation with the Trade Council of Iceland.

## **II. TRADE AND ECONOMIC POLICY ENVIRONMENT**

13. Iceland today is a small open economy with basically the same social and economic fabric as the most advanced OECD countries. The economy is market-orientated with quite an extensive welfare system. Public expenditure is estimated around 36% of GDP in 1999 and is close to the average in the OECD countries. Both GDP and private consumption per capita are in the top range among the OECD countries. The level of education is high and Iceland's technical infrastructure is well advanced. Macroeconomic performance has been remarkable in recent years. Economic growth has been rapid, inflation has been kept in check and employment has been increasing. As a member country of the European Economic Area, Iceland has a similar legislative framework for businesses and industries to those prevailing in the EU.

14. Behind these improvements in recent years lie extensive economic reforms. The most significant reforms relate to the strengthening of markets, opening up of the financial markets and more disciplined economic management. Distortions in the economic environment have been corrected by containing inflation and allowing interest rates and the exchange rate to be determined by economic conditions. Furthermore, general attitudes towards the economy have changed. There has been growing appreciation of the need for stability and a consensus appears to have emerged that economic stability is the key to future prosperity.

15. The phases of economic reform during this decade can be characterised by five milestones:

- First, inflation was contained at the beginning of the decade. Tight economic policies and moderation in the labour market achieved this. Iceland has a long history of high inflation.
- Second, the exchange rate and interest rates were allowed to be determined by market forces.
- Third, the European Economic Area was established, creating a similar legislative framework for businesses in Iceland to those in the EU.
- Fourth, capital flows have been liberalised in steps during the past few years and the final step was taken in the beginning of 1995 by liberalising short-term capital flows.
- Fifth, ongoing market reforms, incorporation and privatisation.

16. The latest development in this area is a successful first phase of privatisation in the financial market. The Government is firmly committed to further privatisation in the financial and telecommunications sectors.

17. These reforms have significantly changed the structure and characteristics of Iceland's economy by establishing a reasonable macroeconomic balance and integrating the national economy with the global one. Good macroeconomic conditions are a prerequisite for a competitive business environment and integration with the global economy provides conditions which are conducive for growth in foreign trade. Hence, the economy has been streamlined and is now fitter than before to meet the challenges of the future.

18. Over the last four years, annual economic growth has averaged more than 5% per year, compared with 2,5% in the OECD as a whole. Strong performance has also been reflected in low inflation, ample employment, sharply improved living standards and a budget surplus. Inflation has been kept in check, basically below 2% since the recovery started. However, in recent months there has been an upward trend in inflation signalling capacity constraints in the economy.

19. Unemployment has declined sharply since it peaked in 1995. It is estimated to average 2% this year, down from 5% in 1995. Unemployment is now at its lowest since 1991. As can be expected, vacancy rates have also moved up. Real disposable income per capita has risen by more than 20% over the last four years.

20. The Treasury finances have improved significantly in recent years. The surplus is estimated to be 7,5 billion krónur this year on the accrual basis or 1,2% of GDP, a turn around from a deficit of 8 billion four years ago and a record net financial surplus is expected of 20 billion krónur. Although local government finances have been somewhat weaker, general government finances have improved strongly. In 1995, there was a deficit of 3% of GDP, while a surplus of 1,2% is expected for this year.

21. The performance of the Icelandic economy has improved overall and there has been progress in many individual sectors. For example, the so-called knowledge industries, in particular software and biotechnology, have expanded rapidly and large investments have been made in the power-intensive sector. In addition, manufacturing in general and tourism have flourished over the past few years. Fisheries have strengthened as well, due to an advanced resource management system in the sector. There are also clear signs of increased productivity and improved efficiency in most other sectors, which are undoubtedly the result of the changed economic environment. Globalisation

of the markets has changed the whole economic environment. The Government is committed to developing a competitive and diversified Icelandic economy in a global environment.

22. As a consequence of rapid growth of expenditure, the current account has turned into a deficit corresponding to 4,2% of GDP in 1999. Before the recovery started there was a surplus on the current account, but as investment increased it has turned into deficit. Now booming consumption is preventing a reduction in the current account. There are signs of overheating in the economy. It appears that the economy has been testing the limits of non-inflationary growth. In response to growing demand, the Government has been tightening monetary and fiscal policies with the aim of slowing down the pace of economic activity. This tightening will be central to economic policies in the year 2000.

23. Prospects for economic growth in 2000 must be seen in this light. The Government's goal is to achieve a "soft landing" for the economy, by slowing growth from 5% to 2,5-3% level, which is the average expected for the industrial countries. This rate of growth should be consistent with price stability and should also ensure the best feasible continuation of the current growth phase. The challenge ahead is finding the right policy mix to achieve this objective.

24. National expenditure growth is expected to slow down, leading to 2,7% growth in GDP compared with estimated 5,8% in 1999. In 2001-2004, growth is expected to slow further, to 2% per year on average.

25. Price increases in 1999 were higher than in the recent past, and sharply higher than among trading partners. The National Economic Institute projects an increase in the CPI of 5% in the course of 1999 and a 3,2% increase between the 1998 and 1999 averages. If national expenditure growth slows, however, the pressure on prices can be expected to ease. The institute, therefore, forecasts 2,5% CPI inflation in the course of 2000 implying an increase of 4% between the 1999 and 2000 averages.

26. Unemployment in year 2000 is on average expected to be similar to what it was in 1999, or 2% of the labour force. Real disposable income per capita is assumed to rise in the range 1-1,5%.

27. Exports of goods and services are projected to grow by 2,5% and imports by 2%. A small deterioration in the terms of trade this year is expected to be reversed next year. A large current account deficit is expected to remain, although a gradual decline is projected in the medium term.

28. The Governments macroeconomic policy challenge is to find the right policy mix to achieve a soft landing for the economy. The Government has already taken certain steps with presenting a Budget with a record surplus, a surplus corresponding to 2,2% of GDP, and the Central Bank raised the repo-rate by 0,6% points in September 1999 after three successive interest rate increases during the prior twelve months.

29. The Government does not exclude further tightening of monetary policy; such an action is possible, if the pace of the economy does not slow down. Further tightening of fiscal policy than is envisaged in the Budget is also conceivable in order to secure continued stability. These issues will be carefully assessed in the next months ahead in light of developments in the economy. The Government is determined to take all the necessary steps in order to prevent overheating of the economy, which may jeopardize economic stability.

30. Iceland has always been heavily dependent on imports. Most necessities of life need to be imported and financed through the export of fisheries products. Although attempts have been made in

recent years to diversify, fisheries remain the mainstays of the economy. For this reason, Iceland's overriding foreign trade interests continue to be identified largely with free trade in fish.

31. Full free trade in fisheries products has been established not only within EFTA but also in a series of free-trade agreements with countries in Central and Eastern Europe and in the Mediterranean. The EEA Agreement, with some exceptions, secures preferential access for most Icelandic products to the EU market.

32. The European market is likely to remain the most important outlet for Icelandic products for the foreseeable future, while the US market, although relatively less important than Europe, will certainly not be neglected. But progress in fish processing technology and transport has opened up new possibilities farther afield that are far from being exhausted. Exports to Japan are increasing in importance and emerging markets in China and Korea seem to hold promise for the future. There are traditional markets for Icelandic products in Africa and South America.

33. No matter how its relations develop with the European Union, Iceland cannot depend exclusively on the European market. In the absence of any preferential trade agreements, trade with partners outside Europe relies on the contractual framework provided by the World Trade Organisation (WTO). The establishment of the WTO with its improved disputes settlement procedures and increased scope will provide not only more security for trade but also a valuable forum for Iceland to develop its contacts and solve any potential trade disputes.

### **III. THE ROLE OF THE FISHERIES POLICY**

34. Efforts to establish an international regime to protect the fishing grounds of coastal states have in the past been among the most important planks of Icelandic foreign policy. Since fishing is a sine qua non for the Icelandic people, governments have been obliged to take all necessary measures to preserve this vital resource. In so doing they have sought both to work within the framework of relevant international law and to influence the direction of the progressive evolution of that law in previously uncharted waters.

35. The entry into force of the United Nations Convention on the Law of the Sea in November 1994 marks a high point in this process. For Iceland, the convention is of major significance, mainly because it ensures the right of a coastal state to extend its economic zone unilaterally to 200 miles from the coastal base line.

36. In 1983 it became apparent that effort limitations, which had been in force in Iceland since 1973, had not proved successful and the Icelandic cod stock was in decline. The catch that year dropped to 294,000 tonnes from 462,000 tonnes in 1981. After marine biologists recommended a drastic cut in the cod catch for 1984 and subsequent years in order to allow the stock to recover, it was decided to adopt a system of transferable quotas for individual vessels, based on each one's catch performance over the period 1981-83. The vessel quota management system had the twin objectives of limiting the total catch and encouraging more efficient fishing operations, through the transfer of fishing rights among vessels and more rapid reduction of the fishing fleet. This management system has undergone a number of reforms since its introduction to rectify or eliminate various shortcomings, which have delayed the achievement of its objectives.

37. Every vessel with a commercial fishing permit was allocated a permanent "quota share". The quota share is unchanged from one year to the next, unless the vessel owners have given notification of changes due to combination of quota shares or their transfer. There are no restrictions on the transfer of quota shares between licensed fishing vessels registered in Iceland.



38. Recent years have witnessed a rapid growth in sales of both permanent quota shares and annual quotas. This has led to increasing efficiency and stability in the sector. Viable enterprises have chosen to invest in harvest rights rather than other forms of investment. Harvest rights have been transferred to those parties, which exploit them most efficiently, and it has proven easier for parties in financial straits to close down their operations without having to declare bankruptcy.

39. Trading in quotas for different species has encouraged firms to specialise in processing of particular species and thereby increase efficiency. In mixed fisheries the transfer of quotas has allowed vessels to adjust their quota composition to the actual species composition of the year's catch.

40. In most cases there is a direct relationship between fishing operations and processing. The same firms largely own vessels and processing plants. The system of issuing quotas to individual vessels rather than companies has therefore not disturbed the earlier equilibrium that had been established between fishing and processing interests. Shifts are more likely to occur in the activities of different fishing communities and regions, although clauses in the law grant local parties a first option to buy vessels or their annual quotas if their sale to other communities has been agreed. Considerable changes in the relative importance of local and regional fishing activities have nonetheless resulted from quota trading. However, it has been the Government's view that it is a natural development that fishing and processing should move to the places most suitable for undertaking them and that both fishing and fish processing continue to develop steadily.

41. A profitable fisheries sector is vital for the Icelandic economy. It will be ensured by long term fisheries management with the aim of sustainable growth of the fishing stocks. Therefore the fisheries policy plays an important role in keeping the economy in good shape. The current quota system has succeeded in its goal of keeping the catch to within specified limits and the fisheries sector on the whole has shown increasing profits in recent years.

42. The Government priorities for responsible fisheries for the future are:

- To ensure and maintain maximum long-term productivity through responsible exploitation of all marine resources;
- To ensure that all decisions are based on the most reliable biological and economic information and conclusions available at any time;
- To ensure that individuals and enterprises in the Icelandic fisheries sector have clear and generally applicable, non-discriminatory guidelines to follow, providing them with a positive working environment which will strengthen the sector's competitive position internationally.

#### **IV. TRADE POLICY DEVELOPMENTS AND FUTURE POLICY DIRECTIONS**

##### **(1) THE EEA AGREEMENT**

43. The EEA Agreement entered into force 1 January 1994 and has had a major impact on the business regulatory environment. The Agreement is much more than a free trade area. It provides that the four fundamental freedoms of the internal market of the EU, the free movement of goods, services, capital and persons, apply within the EEA in the same way as in the EU. The Agreement has led to a complete review of the Icelandic legislative framework. It placed the Icelandic government under great pressure when the codex of EEA instruments was adopted in its entirety.

44. One of the most important EEA decisions as regards Icelandic interests was made in July 1998, when the Joint Committee decided that common rules should apply within the European Economic Area on the processing of marine products and production controls. In addition, the same rules will apply to the control of imported marine products. That decision took effect in January 1999. On the basis of this decision, Iceland assumes responsibility for surveillance of compliance with the common rules, both domestically and as regards imports from third countries. The benefit is that exported Icelandic marine products will have greater access to the European market and will not suffer the same delays at borders as they did before.

45. It is now a fact that whether the subject of discussion is working conditions and health in the workplace, standards and quality requirements in production and services or consumer protection, education or the environment, the accepted context is the discussion within the European Union (EU). This was the case even before the conclusion of the EEA Agreement, which provided a framework, which not only provides access to markets but also ensures comparable competitive conditions in the entire area. The difference is that the Icelandic adaptation to the European legislation is now systematic and in accordance with the EEA Agreement.

46. The EEA Agreement was a big step towards free trade in fish and other marine products and the EU reduced or, in some cases, abolished trade distorting import duties on fish. However the EU did not accept the principle of free trade in fish and is still imposing high import duties on some fisheries products imported from the EFTA states.

47. Systematic efforts have been made to secure Iceland's position in the integration process in Europe. The EFTA states, including Iceland, have concluded free trade agreements with all the EU candidate countries including free trade in fish and other marine products. Iceland is, therefore, facing the risk of losing important potential markets for individual fisheries products once these countries join the EU.

## **(2) OTHER RELATIONS WITH THE EUROPEAN UNION AND THE QUESTION OF MEMBERSHIP**

48. The main substance of the Maastricht Treaty, economic and monetary union, is now bearing fruit. This progress affects not only the countries in the monetary union but also states outside the union. The positive effect of the Euro will benefit Iceland in many ways, and increased cooperation could also make it easier for Iceland to enjoy the fruit of increased stability and reduced interest rates.

49. The European Union has now initiated formal negotiations with eleven countries on their entry into the European Union. Within the next ten years the number of member states could be nearly doubled. Iceland has not applied for a membership of the European Union. The main obstacle to Iceland's membership has been the Common Fisheries Policy.

50. At the same time great emphasis has been placed on reinforcing bilateral relations with the member states of the Union, it is of great importance for Iceland to promote understanding of its views among these states and increase support for our special position as regards fisheries.

## **(3) THE EUROPEAN FREE TRADE ASSOCIATION (EFTA)**

51. An important step towards free trade was taken when Iceland became a member of the European Free Trade Association (EFTA) on 1 March 1970. Through membership, Iceland obtained immediate duty-free access to the EFTA markets for all products covered by the EFTA Convention and in return it abolished its protective duties on imports from EFTA countries. The EFTA Convention covers nearly all industrial products, as well as all fish and other marine products.

52. EFTA has in recent years adapted its activities to a changed environment and strengthened its role for the four member states, Iceland, Liechtenstein, Norway and Switzerland. Thus, EFTA has concluded free-trade agreements with fourteen states and issued declarations of cooperation with six states in the past eight years. The most intensive work currently in progress within EFTA concerns the free-trade negotiations with Canada. The decision to enter into these negotiations was made early in the year 1998, under the Icelandic chairmanship in EFTA. The negotiations represent the first such discussions with transatlantic states, and they have already aroused the interest of other countries in the western world in free trade cooperation with the EFTA states. In the EFTA Council, Iceland has supported cooperation with Mexico and the four MERCOSUR countries, Argentina, Brazil, Paraguay and Uruguay. In addition to the discussions with Canada, negotiations on free trade are also in progress with Egypt, Jordan, Cyprus, Tunisia and exploratory talks with Chile were recently initiated.

#### **(4) THE WORLD TRADE ORGANIZATION (WTO)**

53. Iceland is fully committed to the multilateral rules-based trading system and will continue to emphasize the importance of universal broad-based trade liberalization. Iceland therefore supports the aim to launch a comprehensive Millennium Round of negotiation in the WTO in the year 2000, conducted as a single undertaking. In that context it is very important to review the present agreements in an effort to improve implementation for the benefit of the developing and developed countries alike. Along with the built-in agenda issues, on agriculture and services the implementation matters must become the core of the new round. Without proper and faithful implementation of the present agreements, it makes little sense to develop new rules, which only a fraction of the Member nations can execute. Members having had difficulties in implementing the present agreements, whether it is for lack of resources, or for other reasons, need to be assisted to implement the present and new agreements in a proper manner in an effort to consolidate their full, faithful and convincing participation in the multilateral trade regime.

54. Iceland supports an approach aiming for more open markets and stronger disciplines of international trade in the agricultural sector. Iceland would, however, like many other Members, emphasise that while consolidating and reforming the agreement in an effort to increase trade liberalisation the fundamental importance of non-trade concerns of the agricultural sector cannot be left aside.

55. Although agreements on basic telecommunications and financial services have been successfully concluded in the WTO, there is still a long way to go in the services sector. Iceland would like to see the negotiations in the services sector result in liberalisation in all the fields of the services sector.

56. As a nation heavily dependent on the utilisation of renewable natural resources Iceland is firmly committed to the objectives of sustainable development. Trade liberalisation and environmental conservation must develop in harmony through multilateral cooperation if this is to be realised. There is no inherent contradiction between the two, they should be seen as mutually reinforcing.

57. Iceland has a successful experience with market driven fisheries management. This experience has demonstrated that the fishing industry can and should operate according to the principles of private enterprise and its products made to compete on the free market. Such an arrangement is both economically and environmentally efficient. Elimination of government subsidies, state aid and various other obstacles to free trade in marine products is therefore of fundamental importance, not only because they distort free trade and competition, but also for the

direct relationship between government subsidies and state aid in the fishing sector and excess fishing capacity and over exploitation of fish stocks. Iceland enjoys considerable experience which demonstrates that the fishing industry must not be treated like an orphan with little heed of responsible control and in fact that there is no visible reason for approaching the fishing industry in a different way from other sectors of the economy. Iceland believes that it can submit important experience and knowledge in resource management in the sector of fisheries and would be pleased to share this experience with others.

58. Iceland firmly supports launching negotiations on substantial reduction of industrial tariffs. Members should approach the task of radically reducing tariffs of industrial goods in a broad based and comprehensive way with the objective to reach an agreement on an overall reduction of tariffs of all industrial and other manufactured goods including fish and fish products. Finally, Iceland supports efforts to negotiate new agreements in the fields of investments, competition, trade facilitation, transparency in government procurement as well as modification of the TRIPS Agreement.

#### **(5) THE OECD**

59. The Organisation for Economic Cooperation and Development has for a number of years been the main forum for cooperation among the most developed countries of the world in the areas of the economy, trade and fiscal affairs. The Organisation and its member states possess important expertise and experience in the various aspects of public administration and it is important to share this expertise with countries outside the Organisation. Thus, cooperation with countries outside the Organisation is a growing element of the work of the OECD. For its part, Iceland has, together with the other Nordic countries, emphasised and to a large extent financed the cooperation of the OECD with the Baltic States.

60. Preparations for the upcoming negotiations within the OECD will also affect the work within the OECD in the future. The OECD is an ideal forum for the industrial states to co-ordinate their objectives and their reasoning in the service of liberal trade and to prepare expert studies to combat the protectionism policies that many developing countries are unfortunately increasingly favouring with their short term interests in mind. Furthermore, there are important discussions in progress in the OECD on new tasks confronting the multinational trade system, such as electronic trading, competition and investment. Early last year (1999) an important agreement took effect on the struggle against bribery of foreign public officials in international trade. Iceland was the first OECD State to ratify this agreement.

61. Iceland regrets that the OECD States have not yet found a common ground for finalising the Multilateral Agreement on Investment (MAI). A multilateral agreement on investment would provide a strong and comprehensive framework for international investment and would strengthen the multilateral trading regime. It would set clear, consistent and transparent rules on liberalisation and investor protection, with dispute settlement, thereby underpinning the continued removal of barriers to market access and encouraging economic growth. The MAI would provide a benchmark against which potential investors would assess the openness and legal security offered by countries as investment locations. This would, in turn, act as a spur to further liberalisation.

#### **(6) THE OVERSEAS BUSINESS SERVICE AND OTHER FOREIGN RELATIONS**

62. Icelandic companies will have to prepare as well as they can for the future in a new international trading environment, with complex network of free trade agreements, the EEA Agreement and the WTO. In order to pave the way for their business activities in foreign markets, the

Overseas Business Service was established within the Foreign Ministry in 1997. This Service has assisted numerous companies in the conduct of their business across the world, both alone and in cooperation with the Export Council of Iceland.

63. Specialised staff in Iceland and abroad has been appointed to provide this service, and currently there are trade representatives working in the Ministry for Foreign Affairs and in the Icelandic embassies in New York, Berlin, Paris, London, Moscow and Beijing. In addition, the other Icelandic embassies and almost 200 consulates across the world are put to effective use for this purpose. The review of the legislation on the Iceland Export Council, which took place in the year 1998, had the purpose of increasing consultation and dialogue on the activities of the Council and improved coordination of the activities of the Trade Service and the Export Council in order to make the best possible use of the limited funds available for this work. This service of the Ministry to industry will be further developed in the coming years and will be constantly adapted to the needs of Icelandic business.

64. Representatives from the business sector have accompanied the Minister for Foreign Affairs on official visits to South America and several Asian countries. This is an attempt to use the Ministry in support of increased business contacts of Icelandic businesses in the global market.

65. For years the rapid economic growth of Asian countries has been observed with admiration and exporters have looked longingly at promising markets in those countries, not only for fish products but for consultancy services and technological products, for which Icelandic companies have earned a good reputation. Iceland views the economic crises in Asia as a temporary setback which should not discourage efforts in the long term to prepare the ground for our businesses and future relations with the countries in that part of the world. Thus, the newly established Icelandic embassy in Beijing has for the past few years assisted in these efforts. New business opportunities have been created and in addition the number of tourists visiting Iceland from Asia is constantly growing.

---