

# **FREE TRADE AGREEMENT BETWEEN ICELAND AND CHINA**

## **FACT SHEET**

On 15 April, the Minister for Foreign Affairs and External Trade of Iceland, Mr. Össur Skarphéðinsson, and Mr. Gao Hucheng, Minister of Commerce of the People's Republic of China, signed a Free Trade Agreement (FTA) between the two countries. The negotiations were launched in 2007. Four rounds of negotiations took place during 2007-2008 and two rounds in December of 2012 and January 2013. The Iceland-China Free Trade Agreement will enter into force when legal procedures of acceptance in both countries have been concluded.

Since the beginning of the 1990s, Iceland has, as a member of the European Free Trade Association (EFTA), gradually been expanding its network of FTAs around the world, including in the emerging markets in Asia. To date, 26 FTAs have been concluded with 35 countries. The Iceland-China Free Trade Agreement is in essence similar to other FTAs that Iceland has already concluded. It covers trade in goods and services, rules of origin, trade facilitation, intellectual property rights, competition and investment.

The FTA with China will further extend Iceland's network of preferential trade agreements. The constant improvement of access to foreign markets represents a core objective of Iceland's foreign economic policy. By entering into FTAs, Iceland aims to strengthen the competitiveness of Icelandic companies and secure their access to international markets.

The Free Trade Agreement covers the following issues.

### **TRADE IN GOODS**

With the entry into force of the FTA, tariffs on most goods will be removed. For a small number of products the Chinese tariff will be dismantled during a transition period of 5 or 10 years. Chinese exports into Iceland are duty-free as from the entry into force of the FTA. Both China and Iceland exclude a limited number of products from tariff preferences. Iceland excludes, for example, dairy and meat products while China exclude certain products made of paper.

### **RULES OF ORIGIN AND TRADE FACILITATION**

In order to qualify for preferential treatment under the FTA, a product must be considered to be originating in Iceland or in China. For industrial products, the rules of origin are liberal, providing for wide-ranging possibilities of producing originating products from non-originating materials. The origin criteria for agricultural and fisheries products are more restrictive as they in most cases require the products to be wholly obtained in the other country in order to benefit from tariff preferences.

The provisions of the FTA on customs procedures have as their objective to facilitate trade between the two countries. Such provisions stipulate for example simplified procedures for the customs clearance of products, transparency of information, the possibility to get a binding opinion on tariff classification prior to importation, simplified administration and the cooperation between the customs authorities of the two countries.

## INTELLECTUAL PROPERTY RIGHTS

The Parties acknowledge the protection of intellectual property rights as one of the objectives of the FTA. In addition to reaffirming their obligations under international Agreements on intellectual property rights, they undertake to cooperate and exchange information pertaining to the protection of intellectual property rights.

## TRADE IN SERVICES

Trade in services is covered in a general chapter on services and in Annexes containing the countries' schedules of specific commitments. In addition there is an Annex on the movement of natural persons providing services. Iceland commitments are based on its revised offer under the WTO General Agreement on Trade in Services (GATS) and in recent EFTA FTAs. Commitments are not made in the area of healthcare and education. China's undertaking is in line with their revised offer in the WTO. Certain areas of services will be fully exempted from liberalisation, including public services.

## INVESTMENT

The provisions on investment do not go beyond and simply refer to an already existing bilateral agreement between Iceland and China on the promotion and reciprocal protection of investments from 1994.

## COMPETITION

The Parties agree that anti-competitive business conduct can frustrate the benefits arising from the FTA. Accordingly, they undertake to apply their respective competition laws with a view to removing anti-competitive business conduct. They also agree to cooperate on competition matters.

## COOPERATION

A chapter on cooperation in various fields is included, in which reference is made to already existing cooperation or mention is made of cooperation foreseen in the future. Areas of cooperation include research, science and technology, labour and environmental cooperation, development cooperation and education.

## INSTITUTIONAL PROVISIONS

The FTA establishes a Joint China-Iceland Free Trade Commission, which supervises and administers the FTA and oversees its further development. The Free Trade Commission may negotiate modifications to the FTA.

## DISPUTE SETTLEMENT

The FTA contains rules and procedures for the settlement of disputes arising from the FTA between Iceland and China. The Parties shall make every attempt through cooperation and

consultation to arrive at a mutually satisfactory resolution of any matter that might affect its operation when dispute occurs.

In the preamble of the FTA the main objectives of the agreement are listed and reference is made to the WTO. The Parties acknowledge that economic development and environmental protection are interdependent and mutually reinforcing components of sustainable development. Regarding human rights, both Parties reaffirm their commitment to human rights and the promoting of human rights in a declaration on regular political consultations issued by the Prime Minister of Iceland and Premier of China in the official visit of the former to China, during which the FTA was signed.

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### TRADE BETWEEN ICELAND AND CHINA

China is the second biggest economy in the world with average growth rate of 8% in the past 3 decades. The growth rate was 7.8% in 2012 and the projected growth rate for 2013 is 7.5%.

China is the world's biggest exporting country and the second biggest importing country. In 2012, China's exports grew to about USD 2,050 billion and its imports USD 1,818 billion, with a trade surplus of USD 231 billion. In view of the 20.2% average growth of China's international trade volume during 2001-2012, it is expected that China will have the world's biggest international trade volume in the near future.

Iceland-China Trade has been growing constantly over the years in spite of its small scale. Icelandic exports reached ISK 7.65 billion (USD 61,2 million – EUR 47,6 million) in 2012, up by 40.81% from 2011, and Icelandic imports from China reached ISK 42.6 billion (USD 340,8 million – EUR 265 million) up from ISK 35.1 billion in 2011 (USD 287,7million – EUR 216,9 million).

China is now Iceland's 4<sup>th</sup> biggest importing country and the biggest trading partner in Asia. Even though Icelandic exports to China have been growing fast, China still only ranks as Iceland's no. 19 export market in 2012. It is expected that the Iceland-China Free Trade Agreement will give a great push to Icelandic exports to China in the near future.

Seafood has been the biggest growth factor of Icelandic exports to China, while the export variety and export value of other products such as electrical scales and ferrosilicon are also increasing. On the other hand, ever-improving quality and competitive prices of Chinese products are the major reasons for increased Icelandic imports from China.