
Business Administration

Which sectors of the Icelandic economy are likely to benefit the most after the Free Trade Agreement with China?

Bachelor's thesis

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Abstract

This thesis analyses which sectors of the Icelandic economy are likely to benefit the most after the Free Trade Agreement (FTA) with China. The fishing industry, the service sector and the manufacturing sector are very likely to benefit. Other sectors can also be affected in a positive way, especially agriculture. How the FTA will impact the different sectors of the Icelandic economy is very interesting because once it enters into force, tariffs on most goods will disappear.

In order to analyse which sectors of the Icelandic economy are likely to benefit after the FTA, qualitative and quantitative research methods were used. Össur Skarphéðinsson, the Minister of foreign affairs who signed the agreement, was interviewed in depth. The numerical data examined was helpful to see the business trend between the two countries in the last years. In addition, these numbers give a good insight about what is about to come and, thus, reveal interesting facts.

Since Iceland mainly exports fish to China, the fishing industry is very likely to make tremendous gains in the first years. Icelandic fish and fish products will become cheaper and more competitive in the Chinese market. Medium-term, the service sector can achieve significant gains with tourism, and if a port is built in Iceland to service ships travelling the Northern Sea Route. Competitive Icelandic manufacturing companies could also gain a foothold in China.

Even though it is just a long shot, it is possible that Iceland can export oil to China if this commodity is found in the Dreki-area. This would surely boost Icelandic economy in the future.

Key words: Free Trade Agreement, Iceland, China, economy, exports, sector, industry, benefit, gain, business

Acknowledgements

It is very hard to „compress“ in a couple of words what three years of sacrifices and this thesis mean to me. I would like to dedicate this thesis to my parents, their incredible support during this time has been essential and all I want is to make them proud of me.

My children also deserve special praise because they understood (in their funny way) they had to go early to bed „...because daddy has to study!“. Rúrik and Líska, I hope that from now on I will be a better dad and give you more of that thing you want you like the most: quality time.

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Introduction

Iceland's economic recovery after the international financial crisis between 2007 and 2010 has been admirable. However, the country still lacks foreign investment and needs to boost trade with other countries to stimulate growth. The country has held membership talks with the EU (European Union), but these are now on hold. Iceland should also pursue FTA's with other nations like Greenland. Earlier this year a FTA agreement with China was adopted by the Icelandic parliament. The FTA could have a big impact on the Icelandic economy since it is export-driven. It is known that China is trying to increase its influence in the Arctic. Resource extraction and shipping routes make a FTA with Iceland, an Arctic council member, a good step towards safeguarding China's commercial interests in the area.

This could be a huge opportunity for many sectors of the Icelandic economy. Fisheries, Service and manufacturing sectors are very likely to benefit in the near future. If oil is found in the Dreki-area there is the potential to export it to China. In this paper the various sectors shall be analysed in detail and I will try to predict how each sector can benefit from the FTA. In this context, I will also take a look at some downsides of the FTA.

The sources for this research were, firstly, primary data: the interview with Mr Össur Skarphéðinsson. Secondly, I used secondary data such as, information from books, reports, articles, other interviews and official websites. The numerical data was obtained through the official website of Statistics Iceland.

In analysing the available information I aim to infer which sectors of the Icelandic economy are likely to benefit the most after the FTA with China.

Possible limitations of this thesis

The FTA was adopted by the Parliament of Iceland in January 2014. It will enter into force later this year when legal procedures of acceptance in both countries have been concluded. It is easier to predict that the fishing industry is likely to benefit the most with the FTA short-term, since the most important Icelandic export product to China is fish and other marine products, in 2012 this industry was responsible for 90% of the total of exports to China. However, predicting which sectors are likely to benefit medium or long term is a more difficult task, because many factors can influence the final outcome. The author tried to predict what could happen once the FTA enters into force based on existing information from Statistics Iceland. The data collected reveals how business has been between the two countries, but since these numbers are volatile from year to year, they are not always reliable. Finally, interviewing MA Jisheng- the current Ambassador of the Embassy of China in Iceland, could give an insight on how the Chinese view the FTA with Iceland. This did not happen due to a lack of time on the author's half.

Outline of chapters to follow

The thesis has 11 chapters. Chapter one, is a brief introduction to the international trade theory. The chapter analyses in a very simplified way the most important trade theories in international business. Mercantilism, the classical theory and finally modern theory. Some examples are given so that the reader can more easily understand the subject. Chapter two explains the FTA with China and reveals some of the objectives and expectations the countries have with the agreement. In chapter three I take a view at the business relationship between both countries in the last years, exports and imports between 2000 and 2012 and the volume of trade in billions of ISK. Chapter four is about the fishing industry in Iceland and its importance in exports to China. Prices in this sector are very dependent on demand and supply worldwide. Jobs are also very sensitive to how much fish is caught. Chapter five takes a look at the service sector and how it can benefit from the FTA. Tourism and a new port to serve the increased traffic in the Northern Sea could become important revenue sources for the Iceland. Chapter 6 is about Icelandic manufacturing and Icelandic companies that currently do business in China. These companies might be able to increase their market shares in the country as well as paving the way for other newcomers. Chapter seven revolves around oil and gas in the Dreki area, and future exports to China if these commodities are found. Chapter eight analyses if there are other sectors of the Icelandic economy that can benefit from the FTA. These sectors are most likely to be agriculture, the geothermal energy industry, and information technology. Foreign direct investment could also increase- at the moment Chinese investment in Iceland is minimal. Chapter nine explains free trade and protectionism, and how these different approaches have affected the FTA. Some of the possible downsides of the FTA are explained in chapter ten. Finally, chapter eleven is the conclusion.

1. Theories of International trade

It is commonly said that the world is shrinking and although this may seem to be nothing more than a popular phrase there is a certain truth to it, thanks to a global system of trade. The world certainly seems smaller when countries on the other side of the world from each other, like Iceland and China, decide to establish a free trade agreement (FTA) between themselves. In order to understand said agreement it is necessary to gain insight into the main trade theories.

The first known trade theory goes by the name of *mercantilism*, according to which countries should export more than they import. Ideally there would be a favourable balance of trade that would simply contribute a surplus of money or gold to the royal treasury. Mercantilism focuses more on foreign trade than domestic trade, and manufacturing rather than agriculture. However the main view of this theory is that a large population of low-wage labour would be a source of national strength. (Berry, Conkling, & Ray, 1993). Even though mercantilism followed the Middle Ages, its reasoning is still relevant today as most countries focus on having a trade surplus with their business partners.

The *classical theory* was characterized by Adam Smith and David Ricardo. In 1776, Adam Smith wrote in the highly acclaimed *The Wealth of Nations* that if there were no barriers to trade a country would specialize in those products that gave it a competitive advantage as specialization could increase both efficiency and output (Daniels, Radebaugh, & Sullivan, 2012).

Smith suggested that a country's advantage would be either natural or acquired – the so called *Theory of absolute advantage*. In the instance of Iceland and China, Iceland has prolific fishing grounds, geothermal energy and water, which is an example of *natural advantage*. Meanwhile, China is one of the biggest manufacturing powers in the world thanks to cheap labour- “since most of today's world trade is manufactured goods rather than agricultural goods and natural resources” (Daniels et al., 2012), and therefore has an *acquired advantage*.

Rounding up the classical theory, David Ricardo concluded that a country should focus mainly on producing products it can produce efficiently. His theory of *comparative advantage* argues that trade increases global production since countries use resources (land, labour and

capital) to produce what they are best at. Let us for example imagine that Brazil and Colombia both produce timber and nickel and that there is no competition in the production of these commodities. Two countries, two commodities. Brazil produces timber more efficiently than Colombia, however the labour units necessary to produce nickel are higher than in Colombia. Colombia produces nickel using fewer labour units than Brazil, but the timber production costs are higher in the country. These products have very different costs in both countries, so it would be wise for Brazil to produce excess timber and trade it for nickel from Colombia. This way both countries could benefit. Commodities can therefore be produced efficiently and then be traded for other commodities produced abroad. Ricardo and Smith both believed that trade among different countries was beneficial, especially if those countries had different production possibilities.

In 1933 the *modern theory* appeared which focused on many factors: country size, population, land, manufacturing locations, process and product technology, capital labour and specialization (Daniels et al., 2012). The Heckscher-Ohlin model, which comes from the work of Bertil Ohlin, who worked with previous ideas from Eli Heckscher, states that countries that have large supplies of cheap labour and land will export products that are very labour-intensive, e.g. China, while countries with capital, skilled labour, and fewer people relative to the amount of land will export scientific instruments while importing raw materials, e.g. Switzerland. The differences between countries regarding labour compared to land or capital endowments will therefore result in different costs of production.

Iceland is a country that has relatively smaller population compared to the size of the land, which means that it can produce wool as wool is a product that demands a large amount of land. In this case an abundant land is a production factor, meaning that wool is cheaper to produce in Iceland than in Hong Kong where there population is large relative to the amount of land. The premise for modern theory therefore depends on the fact that countries differ in proportion of factors, and that the commodities differ in the combinations of factors they require in their production (Berry et al., 1993)

The main objective is to export more than you import and consequently avoid a trade deficit. Modern trade theory predicts that nothing is out of reach, and that with differences in national

factors, endowments almost disappear (E. Anderson, 2005). Trade theories explain how trade has been viewed in the last centuries. Very well known international trade researchers like Jagdish Bhagwati advocate free trade believing that it is beneficial and that it drives growth.

“ 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.” (Ministry for foreign affairs, 2013)

2. The FTA between Iceland and China

The FTA was signed by representatives from both countries hoping for tremendous benefits. Iceland is important to China because regular shipments between Iceland and the countries in the Arctic circle mean that Iceland’s location is of extreme importance. The Arctic circle is composed by five nations: Canada, Denmark (Greenland), Norway, Russia, and US via Alaska (Holmes, 2008). The effect of global warming on the Northern Sea Route makes it possible to travel between Qingdao in China and Reykjavík in 30 days in the summer time. In a couple of years, once the ice has melted, container ships originating from China can travel to Iceland year-round, which could save massive amounts of money (visir.is, 2013). This will create a new „door“ between Asia and Europe and an alternative to the Suez canal.

After the worldwide banking crisis shook Iceland’s economy like an earthquake, Iceland is slowly but steadily recovering. China is a superpower which follows the changing geopolitics of the Arctic closely: it knows that Iceland is an Arctic council member, and that the Arctic has oil, natural gas, and rich fishing grounds. Having a free trade agreement can therefore benefit Icelandic and Chinese interests, as entering the Chinese market is something that many Icelandic companies see as an exciting challenge.

This FTA is the biggest trade agreement Iceland has had with any nation. It will promote trade and abolish tariffs on imports as well as cover trade in goods and services, rules of origin, trade facilitation, intellectual property rights, competition and investment (Ministry for foreign affairs, 2013).

A joint Free Trade Commission will focus on making sure the FTA is functioning properly and try to solve any trade issues.

2.1 Trade in goods

As soon as the FTA is implemented Chinese products will be duty free and tariffs on most goods will be removed. Iceland has decided to exclude dairy and meat products from tariff expenses while China has excluded some products made of paper. It is easy to understand that Iceland is in this situation trying to protect farmers and the production of important products to the nation's identity, especially milk derivatives like "skyr" and the Icelandic lamb.

2.2 Rules of origin and trade facilitation

Rules of origin are used to confirm the country of origin of a product for purposes of international trade. Products originating in Iceland or China will qualify for preferential treatment, which means tariff concessions. The origin criteria for agricultural and fisheries products will be more restrictive than, for example, industrial products. Industrial products face more liberal rules of origin while agricultural and fisheries products often need to be wholly obtained in one country to benefit from tariffs in the other (Ministry for foreign affairs, 2013).

2.3 Intellectual property rights

Both countries acknowledge the protection of property rights as one of the objectives of the FTA. They are also committed to cooperate regarding this sensitive matter.

2.4 Trade in Services

No commitments were made regarding healthcare and education. There is however an annex on the movement of natural persons providing services. (Ministry for foreign affairs, 2013).

2.5 Investment, competition and cooperation

Regarding investment there is already an agreement from 1994 in place between the two countries, which may be seen as a goodwill gesture from both parties. The parties agreed to cooperate on competition matters and both agree to use competition laws to eliminate anti-competitive business conduct. Other areas of cooperation include: research, science, technology,

labour, environment, as well as education and development cooperation (Ministry for foreign affairs, 2013).

This agreement is important in many levels. With the abolition of tariffs, business will be easier as companies on both sides will be able to sell their products and services more easily. In the case of Iceland the agreement will mostly benefit exporters of industrial and fish products for now. There are however a small number of products which may need to wait a couple of years until Chinese tariffs are completely dismantled.

It is important for Iceland to protect its food manufacturing, excluding dairy and meat products from tariff expenses was therefore an obvious choice regarding FTA.

Iceland has already established free trade agreements with 33 countries. According to official numbers from the Ministry of Foreign Affairs, 90% of Iceland's exports to China are marine products (e.g. fish and fish derivatives). Tariffs on these products are currently 10-12% but can go up to 17%. (Ministry for foreign affairs, 2013).

As soon as tariffs are abolished, Icelandic companies will immediately increase competitiveness on the Chinese market. With a quickly growing middle class (prone to consumerism), and double digit growth for many years in a row, China will soon overtake America as the world's largest economy. (Daniels, Radebaugh, & Sullivan, 2012). Icelandic companies will therefore greatly benefit from the FTA since they can access this new (Chinese) market more easily. Icelandic companies using raw materials or other products originating in China will possibly decrease their production costs, which in return means that prices for some products might go down, resulting in direct benefits to consumers.

3. Business relationship

Despite the distance separating the two countries, Iceland and China have enjoyed a healthy business relationship through the years. Diplomatic relations were initiated by China in 2002. “From April 2012, when Premier Wen Jiabao made Iceland his first stop on his visit to Europe, the bilateral relationship has generated a broad range of cooperation projects. On 20 April 2012, following a bilateral meeting, the following bilateral and business agreements were signed in the presence of [then] Prime Minister Jóhanna Sigurðardóttir and Premier Wen Jiabao” (Jónsson, Hannibalsson, & Yang, 2013).

“The MOU [Memorandum of understanding between China and Iceland] covered the following:

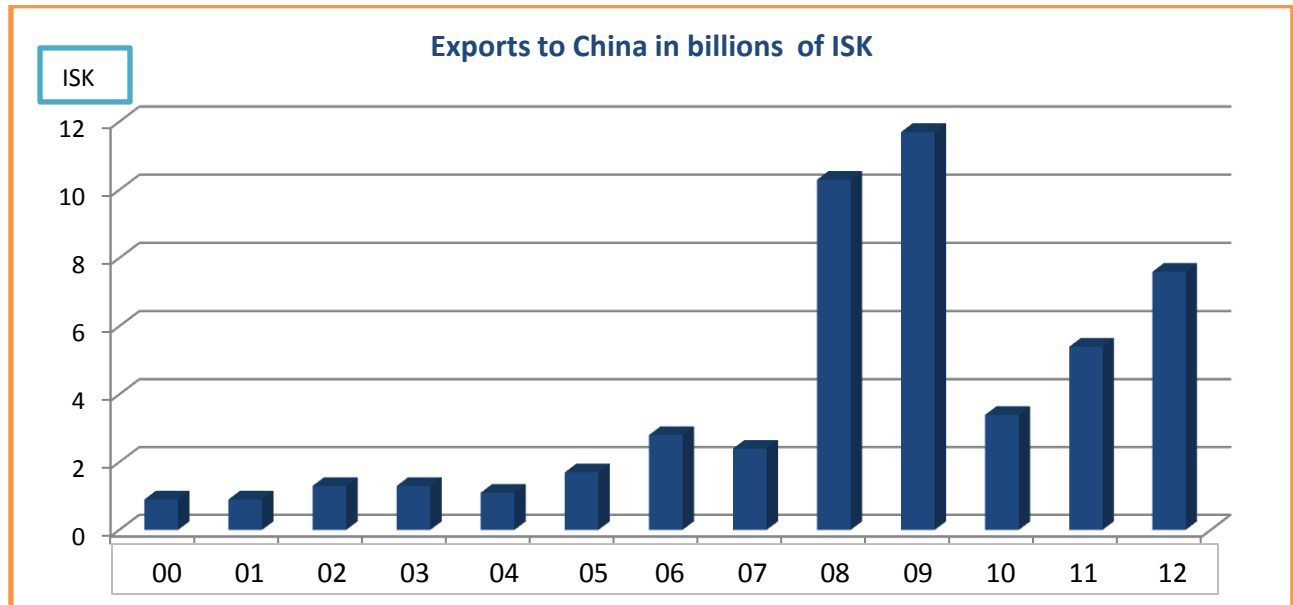
- Framework Agreement between the two governments on Arctic Cooperation.
- MOU between the Icelandic Foreign Ministry and the Chinese Ministry of Land Resources on Geothermal and Geosciences Cooperation.
- Letter of Intent between the Government of Iceland and China National Blue Star Group on a Polycrystalline Silicon and Metal Silicon Cooperation Project in Iceland.
- Framework Agreement between Orka Energy Ltd. and China Petrochemical Corporation (SINOPEC Group) on Expansion of Geothermal Development Scope and Cooperation.
- Memorandum of Understanding between Promote Iceland and China Development Bank on Planning Consultancy Cooperation” (Jónsson et al., 2013)

Since Iceland is a small market, it is possible that China’s main interest in Iceland might have to do with shipping routes. As ice melts and the Northern Sea Route (NSR) becomes an option, China might (will) benefit by moving its trade through the NSR.

Business with China has increased dramatically the last ten years. From 2001 to 2011 it ranged from 7 to 44 billion Icelandic Króna (ISK). In 2001, business with China was 1,7% of total trade Iceland had with other countries, while in 2008 it increased to 4,5%. The latest numbers show that Iceland has a trade deficit with China, which means that Iceland buys more products from China than it sells to it. The ratio is 1:9 for the twelve years outlined in figure 1 (below).

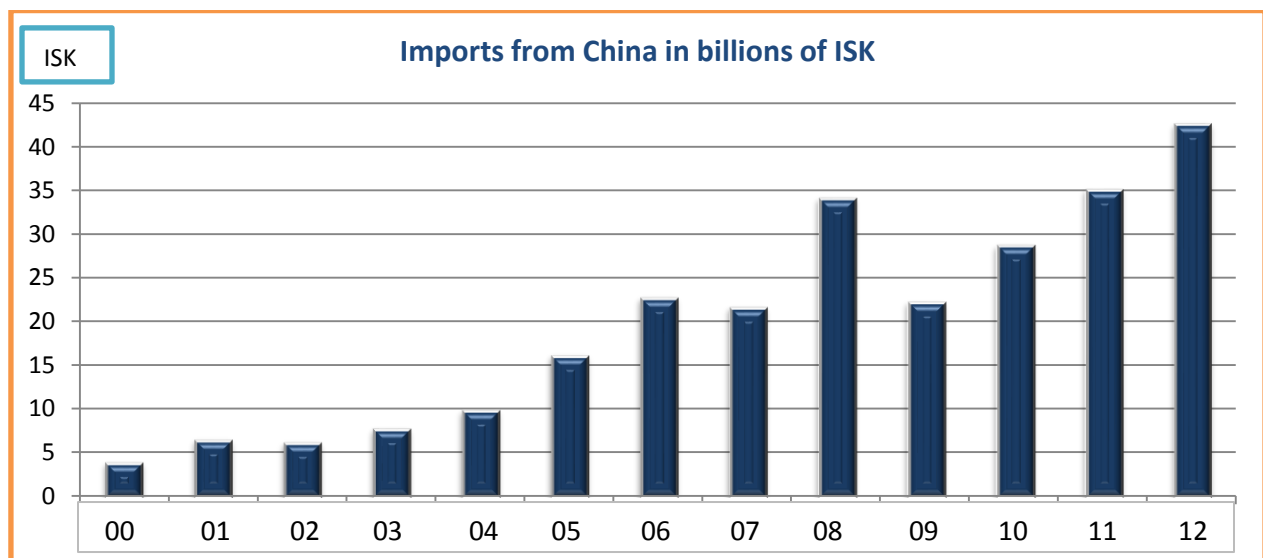
In 2001, exports to China were worth 905 million ISK. In 2011, exports were 5,4 billion ISK. The numbers for 2012 reveal that Iceland's exports were worth 7,6 billion ISK, which translates into a 40% increase in just one year.

Figure 3 Exports from Iceland to China 2000 – 2012 in billions of ISK.



These are the official export figures between 2000 and 2012. Between 2008 and 2009 $\frac{3}{4}$ of the exports to China were derived from airplane sales. (Ministry for foreign affairs, 2013)

Figure 4 Imports from China 2000 – 2012 in billions of ISK



Source: <http://www.utanrikisraduneyti.is/>

Iceland buys many different products from China such as furniture, clothing, machinery, and scientific instruments like computers, as well as chemical products.

Imports were merely 6 billion ISK in 2002 and have increased at an incredible pace for in 2012 imports were worth 42,6 billion ISK. In 2002, imports from China were only 2,9% of Iceland's total imports, while in 2011 it was up to 7,4% which shows that the trendline is definitely upwards.

Even though Iceland imports more than it exports to China, the reality is that the same can be said for most countries (Daniels et al., 2012). Sustainability is an important factor, understandably since about 90% of Iceland's exports to China are fish products. Carefully controlling how much fish is caught and sold is of extreme importance, meaning that Iceland cannot increase fish exports unlimitedly. It is however possible to find new ways to increase the value of the fish that is caught: fish heads are for example used to produce flour, while fish farming is also an alternative way to increase production and, consequently, exports.

The business relationship between Iceland and China became even stronger when the Chinese oil company CNOOC was awarded a license to explore for oil offshore Iceland (Chen, 2012). The state owned company will work with a small Icelandic company called Eykon Energy.

China is now Iceland's 4th biggest importing country and Iceland's biggest trading partner in Asia (Ministry for foreign affairs, 2013).

Industry in Iceland

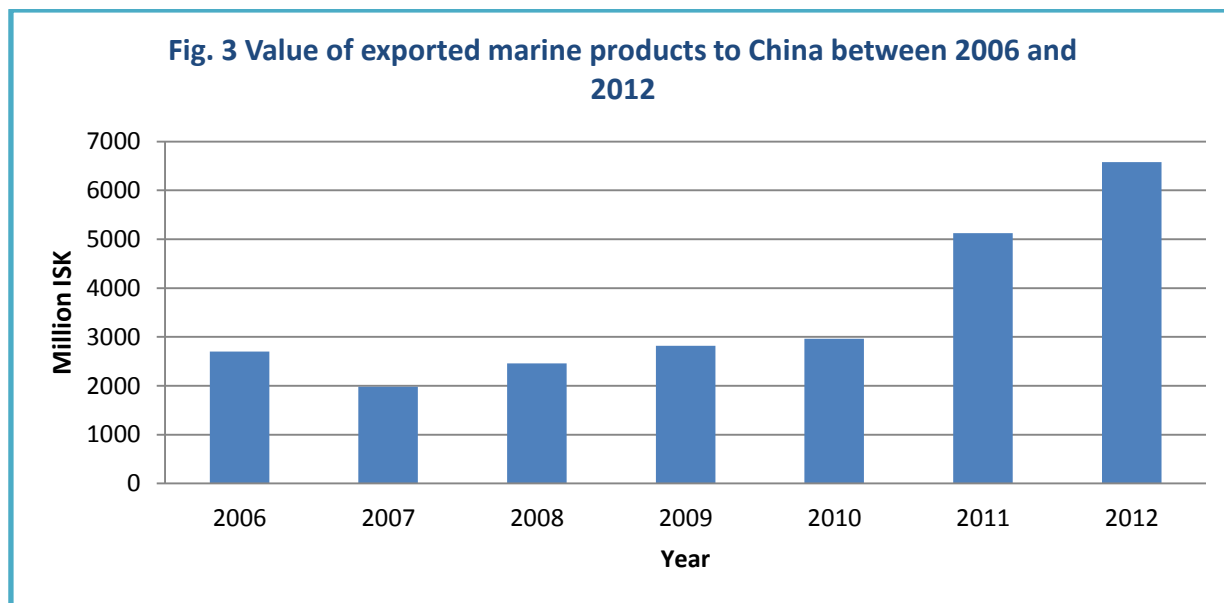
Iceland's economy is export based, it has rich fishing grounds and substantial energy sources in the form of hydroelectric and geothermal energy. It is also a known fact that the Icelandic economy is extremely dependent upon the fishing industry and exporting of goods and services (A. Bjarnason, 1996). The question that remains is: **“Which sectors of the Icelandic economy are likely to benefit the most after the FTA with China?”**. The FTA was approved by the Icelandic parliament in the beginning of this year (Ministry for foreign affairs, 2014). To answer that question I conclude that there are three sectors which are likely to benefit the most from the

FTA: the fishing industry, services, and finally manufacturing. Other areas might also benefit directly or indirectly, especially agriculture, oil and gas sector, and the information technology. These three main sectors shall consequently be analyzed in detail in the following chapters.

4. Fishing industry

Iceland has a very modern and competitive seafood industry. Responsible fisheries at the Icelandic fishing grounds are the prerequisite for the Icelandic fishing industry being a solid part of the Icelandic economy and a principal pillar in Iceland's exports (Guðfinnsson, Sigurjónsson, Ásgeirsson, & Bjarnason, 2007).

Icelanders therefore focus on sustainable utilization of the fish stocks and quality treatment of the marine ecosystem and base their catches on scientific advice, effective monitoring and enforcement of the fisheries and total catch (Guðfinnsson et al., 2007). There is a catch limitation system in force called "kvótakerfið", which implies that vessels can only catch a certain amount of a certain species. The main objective is to stop overfishing and to control how much fish is being caught. The total allowable catch (TAC) is decided by the Icelandic Marine Research Institute after detailed stock assessment. Based on this information the minister of fisheries determines the annual TAC of every species subject to quota regulation. Long term renewal of fish stocks has the highest priority, although there are disagreements over how the quotas are distributed. Fish species in decline are allowed to recover, which tends to have a negative chain reaction on factories, workers and third parties that work with that specific species (Guðfinnsson et al., 2007).



Source: www.statice.is

- In 2012, seafood products accounted for over 42% of Iceland's total export value and approximately 27% of the total export value of goods and services
- Total export value of seafood products has increased by 57% since 2008 (Íslandsbanki, 2013)
- The value of exported marine products to China has been rising steadily since 2008

Europe has been the most important market for Icelandic seafood but there is no doubt that the Chinese market offers many possibilities as well. The rise of the Chinese middle class together with a stronger purchasing power in the country indicate that the demand for expensive consumer goods rich in protein, such as quality fish products will increase as figure 3 clearly shows.

Consumption in growing market areas, especially among Chinese consumers, is expected to increase by 8,4% by the year 2022 and will be 20,6 kg per person per year (Íslandsbanki, 2013). If we add population growth into the equation, things get even more interesting as the increase in consumption could reach 11% (Íslandsbanki, 2013)

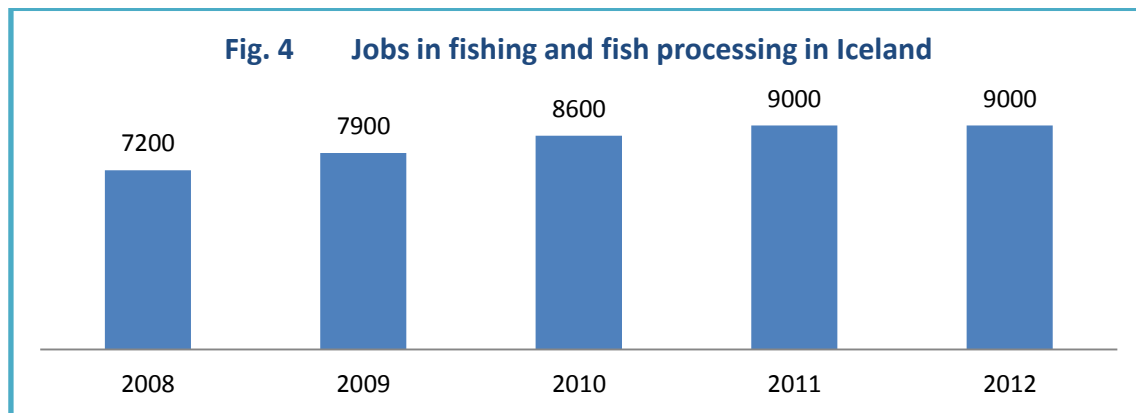
The demand from China for quality fish may however be too much for the Icelandic market to handle as it must fish in a responsible way in order to not deplete its resources. Therefore it is necessary for the market to find new ways to increase both *production* and *value*. One way to increase production could be to focus more on aquaculture. Even though aquaculture could have

negative side effects, it is used extensively in Norway with good results. Since Icelandic conditions favour this type of activity, it can be considered as “food for thought” for possible investors.

In order to find ways to increase value it is beneficial to take a look at the work being done by leading companies in fish processing, companies like Marel for example, which provides advanced equipment and systems for the food processing industry (Marel, 2014). In my opinion, technology and innovation are the most effective methods to increase value, which companies like Marel are able to do when they invent ways to use most parts of the fish so that nothing is thrown away.

4.1 Jobs

Iceland already relies heavily on the fishing sector, as many small villages in the Icelandic countryside survive entirely because of it. It is estimated that 25.000 to 35.000 jobs are directly or indirectly linked to the sector. Due to a boom in capelin and especially mackerel fishing, jobs in the sector have also increased since 2008 (Íslandsbanki, 2013).



Although it is difficult to predict exactly how the FTA will impact the job scenario in the fishing sector, it can be argued that more jobs will be created because of the trade boost. Having high expectations could be dangerous so it is necessary to be prudent when estimating gains. Things definitely look rosy, but it is necessary to approach the job-situation according to the Heckscher-Ohlin model, if labour is a factor that the Chinese have in abundance, it could happen that fish processing could diminish in Iceland and companies would find it more profitable to allow

certain fish species to be processed in China. (Icelandic fisheries laboratories report summary, 2006). Blue-whiting is a fish species that Icelanders normally use to process fish meal for animal use. Blue-whiting is also sent frozen to China to be manually processed because Icelandic companies consider it difficult and time consuming. Since labour costs are so low in China this still pays off for some Icelandic companies, despite the transportation costs. The final destination for blue-whiting is Eastern Europe. (Icelandic fisheries laboratories report summary, 2006).

China's competitive advantage in production costs regarding both ground and whitefish species can therefore have an impact and cause job losses in Iceland. Since technology is heavily used in this sector in Iceland, some less skilled jobs might be lost in favour of more specialized jobs.

Fig. 5 Exports to China between 2009 and 2011, main fish species. Numbers are in millions of ISK			
Year	2009	2010	2011
Herring	28,3	-	-
Capelin	151,5	254,9	527,6
Mackerel	3,3	65,1	1768,2
Cod	49,4	124,9	118,4
Haddock	33,5	1,6	-
Saithe	27,1	-	-
Redfish	1041,6	1219	541,6
Plaice	7,9	13,3	10,5
Shrimp	-	25,2	27
Shellfish, crustaceans and mollusc n.e.s.	51,6	162,8	220

Source: statice.is

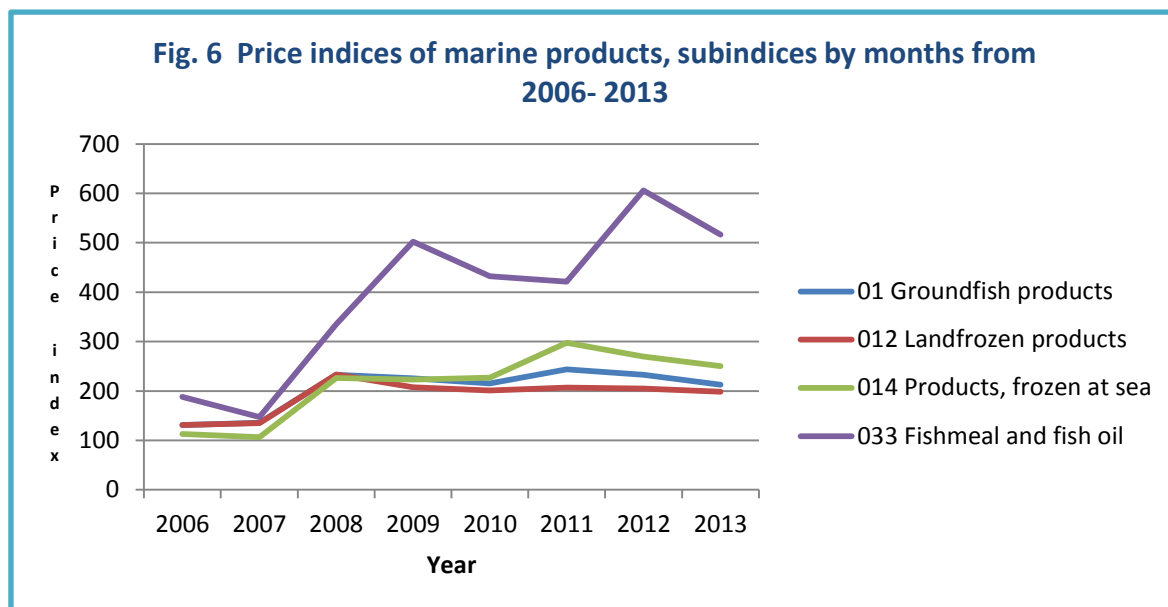
According to recent data (fig.5) , capelin and mackerel exports have been thriving while cod increased significantly between 2009 and 2011 and redfish took a dip because of reduced fishing. There is a clear possibility for substantial gains to be made concerning the sale of fish to China. As the distance separating the countries has prevented many of the Icelandic companies in the fisheries sector from doing business with China as of yet. In 2011, Asia account for only 9% of Iceland's export value, and nowadays the fish exports need to be shipped entirely frozen

(Íslandsbanki, 2013). As soon as tariffs are abolished, however, Icelandic companies in this sector will be able to compete against other companies in the Chinese market. For this particular situation, therefore, the FTA will encourage trade which will act as an incentive to overcome physical distance.

4.2 Prices

Fluctuations in world prices have a major impact on revenue in this sector. If there is too much supply, fish prices decline. If demand for fish is high however, the prices go up.

The low exchange rate of the Króna increases revenue and has helped the sector to restructure itself and become more efficient.



Reference 4 quarter 2005 = 100. All calculations are based on prices in ISK. [Source: Statice.is](#)

Fig. 6 indicates weighted average prices for various marine products between 2006 and 2013. Ground fish products, land frozen products, products frozen at sea and finally fishmeal and fish oil. Price has increased the most in fishmeal and fish oil, while prices for marine products frozen

at sea, land frozen and ground fish have been very stable. According to the Icelandic Sea Food Market Report done by Íslandsbanki, the price of cod fell by under 12% in 2013, while saithe fell around 8%, and haddock prices rose more than 30% because of little availability, which proves the volatility of the sector (Íslandsbanki, 2013). Since Iceland exports mainly cod is it very sensitive to demand and supply. Prices of fishmeal and fish oil are high and if production can fulfil the demand it would be wise to improve marketing for these products in the Chinese markets, as well as continuing the exports of cod, redfish, capelin and mackerel.

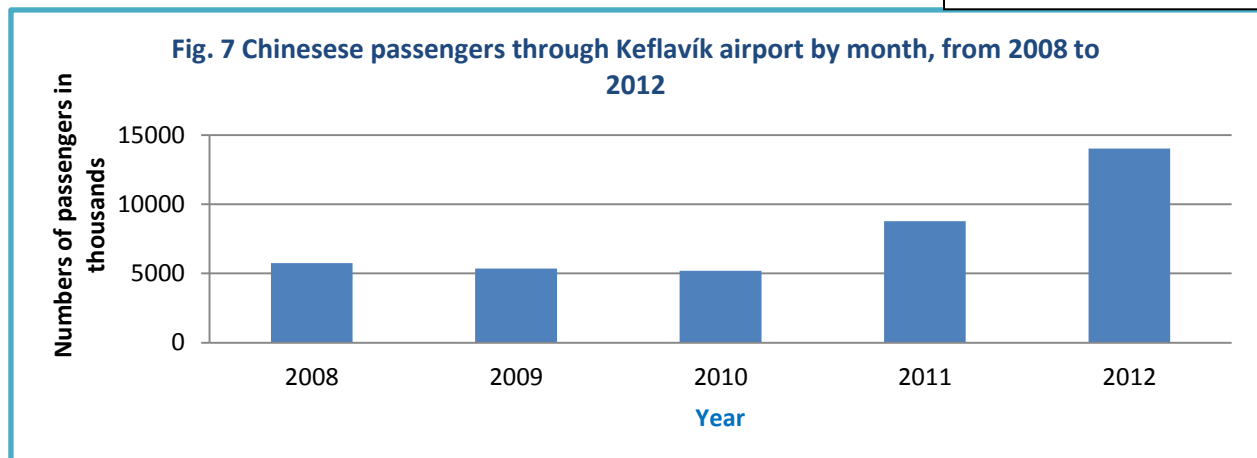
The Icelandic fisheries sector competes in a very globalized business environment and Icelandic fish has a very good brand image. In signing the FTA the Icelandic government will help the sector look into a new business area and encourage Icelandic companies in the sector to improve productivity.

5. Services

Services are now the fastest growth sector in international trade (Daniels et al., 2012). In Iceland this sector is experiencing a huge boom, especially because of tourism. Iceland can benefit hugely with service performance, tourism, transportation, investments and asset use.

In 2010 the share of tourism in Iceland's GDP was 6%. Visitors to Iceland have more than doubled since 2000 and their number rose to 673.000 in 2012 (Óladóttir, 2013). The amount of tourists has increased gradually since the year 2000, according to a report by Oddný þóra Óladóttir which also states that 14.036 persons with a Chinese passport left the Keflavík airport in 2012 (Óladóttir, 2013).

Source: statice.is



Even though the numbers are small they indicate that Iceland could become a popular destination for Chinese tourists. The increase of visitors between 2010 and 2012 is remarkable as we can see in fig. 7. Iceland needs high-yield tourism since the country's natural pearls are under a lot of pressure and cannot cope with so many visitors. Marketing Iceland as a luxury "eco travel" destination in China could therefore positively benefit the service sector. High-yield Chinese tourists are likely to spend more money than other tourists and require more expensive services. This sector can therefore benefit by focusing on yield sales revenue per visitor instead of focusing on numbers (Lundie, Dwyer, & Forsyth, 2007). Trade in services between Iceland and China has already grown significantly, especially in the tourism sector. The FTA does not alter the existing laws regarding the movement of people between the two countries.

Tourism is an important revenue source for airlines, shipping companies, hotels, restaurants, spas, travel agencies, car rentals, bus companies, hotels, etc.

Other services like banking, insurance, rental, management services or engineering will also benefit through fees or the payment for the performance of a certain service (Daniels et al., 2012).

5.1 Cargo ships- a new source of revenue?

Climate change is a fact and the result of it is that the Arctic shipping lanes are becoming more accessible. Experts do not know exactly how long it will take until it will be possible to travel the Northern Sea Route all year round: it could be 30 years or 20... or less time until then. At this point in time, specially designed cargo ships are able to navigate the route during the summer months. This saves time, reduces costs and even reduces emissions. "The Northern Sea Route has opened up a possible avenue of trade in containerized products between Asia and Europe" (Verny & Grigentin, 2009). Armed with this knowledge, Iceland can capitalize and take advantage of its location.

Iceland can become a transshipment port for ongoing cargo destined for North-America and Europe. The country can also become a base for Arctic exploration and processing of natural minerals like oil and gas (Sigurður Almar Ómarsson, 2010).

The business relationship between Iceland and China is already on good terms, but the FTA will improve matters even more, since it will overcome constraints, improve business, and speed up custom clearances and procedures.

“The growth in world trade has a direct impact on the growth of container shipping, since most of today’s merchandise is transported in containers, excluding heavy machinery, liquids, wheat, coal etc. For that reason, container shipping has risen in the same pace as world trade, or 5-7% for the last years” (Sigurður Almar Ómarsson, 2010).

Number of ships travelling through the Northern sea		Table 1.
2010	4	
2011	34	
2012	46	
2013	200	

Source: Ruv.is

If Iceland wants to build a transshipment port and capitalize on rapidly increasing ship traffic, it must address many issues. For instance, in order to be able to service ships coming from China and other Asian countries, the transshipment port must be able to accommodate huge vessels, load and unload them, supply spare parts for lifting cranes so ships can be repaired, provide building materials, etc. Other services like transportations/logistics, retail, law enforcement and medical care might also be necessary (Sigurður Almar Ómarsson, 2010). Previously there were three locations considered to be feasible: Eyjafjörður, Reyðarfjörður and Hvalfjörður (Dagmara Ambrosiak, Hugo Esteves, Helgi Guðmundsson & Daníel Viggóson, 2011).

In 2014, a German consulting and engineering company, Bremenports, has expressed interest in what is called the “Finnaþfjörður project”. This company is expected to research and analyse if Finnaþfjörður, in northeast Iceland, is a feasible location for building a port of such big dimensions: “Bremenports will assess which examinations are needed to identify the feasibility and future viability of the new port. The second phase will involve analysis of the location, its

geological features, environmental aspects as well as diverse legal and political questions. This will be followed by a market analysis and cost estimate“ (Bremenports, 2014).

Bremenports will likely also plan and design the new port. If the project goes ahead as planned, Iceland can also profit from the cruise shipping business in Arctic waters.

This might be a very optimistic view but a new port will facilitate business with China, create jobs in the sector of services and benefit many Icelandic companies both directly and indirectly. The FTA will reduce barriers to trade, facilitate movement of goods and services between the two countries, reduce import duties, and finally allow tariff savings for importers.

6. Manufacturing

Lastly, the Icelandic manufacturing industry will also be affected by the FTA. Icelandic firms like Marel Promens, Icelandic Spring, Icelandic Glacial, Icelandic Group, Elkem (owned by Chinese company Blue star), and others could increase market shares in China. Gains are most likely to be at firm-level. (Jónsson, Hannibalsson, & Yang, 2013). The aluminium industry in China is very bloated so it is highly unlikely that aluminium companies in Iceland can achieve any meaningful sales in China since the country is the world's largest aluminium producer. (Liang, Zhang, & Jia, 2013).

Table 2.

	Iceland's export to China 2009-2011, in millions of euros					
	2009		2010		2011	
	Euro	%	Euro	%	Euro	%
Export to China	19		21		34	
% of Iceland's export	1		1		1	
Export of seafood to China	18	93,50	19	86,80	32	94,30
Export of agricultural products to China	0	1,90	1	4,10	1	2,40
Export of manufactured products to China	1	3,70	2	8,70	1	3,20
Export of other products to China	0,60	0,90	0	0,40	0	0,10

Source: skemman.is

Growth and expansion in exports of manufactured products to China is an exciting possibility, here are some examples:

- Icelandic Glacial and Icelandic Spring sell bottled water and can pride themselves for producing first class water. Exporting water from Iceland to China gains a competitive advantage because of the trade agreement. (Jónsson et al., 2013)
- Marel manufactures advanced food processing systems and has sales offices in China.
- Promens produces insulated food containers and has sales offices in China.
- Össur delivers prosthetic solutions all over the world and has a presence in China
- Elkem exports ferrosilicon to China (Jónsson et al., 2013)

These are just a few examples of firms established in Iceland that do business in China and can expand in the Chinese market. Table 2 indicates that the export of manufactured products was very volatile, moving up and down between 2009 and 2011, which also occurred with agricultural products. Even though most of Iceland's exports to China are seafood and fisheries related products, does not mean that manufactured products can not increase their share in the export output. Growth is more likely to happen in the services and manufacturing sectors in the future.

The FTA will most assuredly promote two-way trade with China, which will work as an extra stimulus for Icelandic firms to export.

7. Oil and gas

It is known that two areas of the Icelandic Continental Shelf are thought to have potential for commercial accumulations of oil and gas. They are “Dreki”, east and northeast of Iceland, and “Gammur” on the northern insular shelf of Iceland. “Dreki” also includes the southern tip of the Jan Mayen microcontinent. “A number of academic and governmental surveys and surveys by the industry have been made in the northern part of the Dreki Area, indicating the presence of thick continental crust there, that potentially include Jurassic and/or Cretaceous source rocks. The Jan Mayen Ridge is thought to have potential for hydrocarbon accumulations because of its geological similarity to hydrocarbon basins which were its next door neighbours prior to the opening of the northeast Atlantic Ocean basin” (National Energy Authority of Iceland, 2014).

If a precious commodity, such as oil, is found in the northeast coast of Iceland, the extracting sector and the Icelandic government (mostly through corporate taxes) can make huge profits. CNOOC Iceland ehf. was granted a license to prospect and explore for oil together with Norwegian company Eykon Energy. CNOOC ehf. is a daughter company of CNOOC International Ltd which is owned by the Chinese government (National Energy Authority of Iceland, 2014).

The current, and insatiable, demand for raw materials around the world, and an open door to the world's second largest economy is a very good mixture from the Icelandic point of view. Even though the search for oil and natural gas is on a very early stage, the signs are strong that Icelanders can indeed "strike oil". Iceland can also be a base for mining, shipping and drilling. Oil and gas exploration might be a couple of years ahead, but thanks to governmental influence on trade and the signing of the FTA, exports in this sector could become a not so distant reality. If enough of oil is found, the extracting industry could possibly become Iceland's biggest exporting sector to China.

8. Other sectors

Besides fisheries, services and manufacturing, there are other sectors that could benefit and become the "icing on top of the cake". Most attention should be given to agricultural products, especially upscale products. Icelandic lamb enjoys a great reputation worldwide, it could even be called an organic product because the way the animals live and because of what they eat. Icelandic dairy products, with "skyr" (Icelandic yogurt) at the forefront could take the leap to a completely new market, a market that will likely demand fresh and healthy products. Selling upscale products to China might become quite profitable, since if demand is high the prices for these products will also be high. It is possible that Iceland could sell all of its extra meat and dairy production abroad, because these type of products are of high quality and could enter the huge Chinese market.

Table 3 shows some of the different products that Iceland exports to China. Between 2009 and 2011 there was a growth in the export of beverages and products of bovine animals. Products of sheep and textile yarn move up and down in the same period. Ferro-silicon exports decrease around 30% in one year, and went from 61,7 million ISK in 2010 to 42,9 million in 2011.

Össur Skarphéðinsson, the Icelandic Minister for Foreign Affairs between 2009 and 2013,, said when interviewed (see appendix 4) that he would expect agriculture to be the sector benefiting the most after fisheries, services, and manufacturing.

Exports by countries and commodities (SI classification) 2009-2011			
Exports to China in millions ISK			
	2009	2010	2011
Horses	-	-	-
Products of bovine animals	-	8,9	49,9
Products of swine	-	-	-
Products of sheep	56,1	129,4	79,9
Products of mink	-	-	-
Dairy products	-	-	-
Beverages	20,7	-	22,8
Medicinal products	-	-	-
Textile yarn, incl. wool tops	3,7	6,1	3,9
Textile articles	0	-	-
Aluminium and aluminium products	0	-	-
Ferro-silicon	-	61,7	42,9
Rock wool	-	-	-
Gravels and sand	-	-	-

Table 3.

The Fob (Free on board) value means the price for the item when it is on board whatever means of transport in the country of export.

Source: statice.is

Mr. Skarphéðinsson also points out that the fisheries sector will increase competitiveness as soon as tariffs are abolished, as with the FTA the Icelandic fish exports will become more accessible to Chinese consumers, and can more easily compete against Norwegian seafood exports to China (Össur Skarphéðinsson, 2014). Although the numbers referred to here are still quite low, there is still a great chance that the Icelandic agriculture products could become popular in China such as lamb, beef, pork, skyr and other Icelandic milk products, vegetables, as well as other Icelandic specialities like dried fish, rye pancakes or even sheep-head jelly. Besides these upscale agricultural products, Iceland can also export products that are very popular in Chinese cuisine such as pork tongue, ears, kidneys, heels, intestines, and other similar products. Icelandic meat processing companies could also, for example, research if it is feasible to export frozen organ meats (offal) to China (Wang, 2006).

The demand for food is certainly there since there are signs that China might struggle to feed its people in the future. It is clear that agriculture in China faces many challenges, for instance pollution (thanks to heavy industry), water shortages, deforestation, population growth, small profit margins for farmers, desertification and shortage of available farmland. China may very well need to import food to feed their people and Iceland might partially answer that need (Brown & Halweil, 1998).

Icelandic byproducts

Icelandic byproducts ehf., which belongs to Norðlenska and was founded in 2010, is a small Icelandic company that specializes in exporting intestines and other materials derived from the slaughter of sheep (see table 3 for exports of products of sheep). The company has achieved great success in its field: it exports products that result from the slaughter of sheep, essentially creating value out of the leftovers which have hereto been discarded by Icelanders which are now generating millions (Mbl.is, 2011). Icelandic byproducts ehf. has based its working procedures on the Irish company Irish casings and exports mainly to Europe. Last year only it made 89 million ISK with this business (Bændablaðið, 2014). The success of this company proves that there are multiple ways for Icelandic companies to thrive with the FTA with China.

8.1 Geothermal energy

Icelanders are the leaders in the field of geothermal energy usage, which it uses both for domestic and industrial purposes (Dickson & Fanelli, 2013). Around 87% of the population enjoys central heating by geothermal energy at very low prices. “Geothermal steam has been used directly for a number of industrial processing applications in Iceland for many decades, and has also been developed for electricity generation on a growing scale“ (Iceland Trade directory, 2014).

According to figures from 2013, Icelandic geothermal companies had projects in 40 countries and the sector provides services, drilling, project management and financing. The Icelandic energy model is unique and could be seen as something that the Chinese could wish to emulate, especially with regards to the usage of renewable energy. “The Icelandic energy market is built mainly on natural resources, hydropower and geothermal energy, which together provide 82% of the primary energy supply in Iceland” (Geothermal Research, Íslandsbanki, 2010). There

are several dynamic companies in Iceland that can handle major projects, such as Reykjavík Geothermal, Íslenskar Orkurannsóknir (ÍSOR), Mannvit, Efla, Verkís, and Landsvirkjun Power.

China is now trying to allocate more money (and energy) to renewable sources. The country still depends heavily on coal and it needs to lower its carbon emissions. Icelandic companies in the geothermal sector can follow Orka energy (see **MOU**) and try to get a slice of the cake:

“District Heating in China

Sinopec Green Energy is a Sino-Icelandic joint venture between Orka Energy and Sinopec Star Petroleum Co. SGE combines deep knowledge of geothermal resources in China and extensive Icelandic experience to construct and operate geothermal heating systems in districts across Asia. The SGE team aims to build and develop a state-of-the-art geothermal heating system in Greater China.

Sinopec Star is a subsidiary of the state-owned company Sinopec Group. The company is listed in Hong Kong and its shares are also traded in Shanghai and New York.”(Orka energy, 2014)

In “Ár drekans”, a smartly written diary/book by Össur Skarphéðinsson about his political experiences during 2012 he mentions what expectations Wen Jiabao had regarding the cooperation between Iceland and China in the matters of geothermal energy. Besides working together in Asia, Mr Wen Jiabao thought it was also possible for the countries to work in development projects in Eastern-Africa (Skarphéðinsson, 2013). There is no doubt that China needs to move towards a “greener” future, the country faces enormous environmental problems and needs to put even bigger efforts to use renewable energy sources. As previously mentioned, the Icelandic know-how could prove very helpful. This is a good example of a win-win situation.

8.2 Carbon fiber

The Keflavik Airport Development Corporation or Kadeco is an Icelandic development company that specializes in real estate and business development. Kadeco is the leading developer behind the Ásbrú Enterprise Park located next to the Keflavik International Airport (Ásbrú, 2014).

Ásbrú Enterprise Park has available to them industrial lots with the possibility to develop buildings capable of producing carbon fiber. “Due to Asbrú’s location, the park has easy access to the country’s main international airport and its international harbour.” There are recommendations to start carbon fiber production since the energy costs in Iceland are low which would reflect in a lowered cost of production (eNewsWire, 2013).

“Carbon fiber is increasingly applied in sport, entertainment, building consolidation and pressure vessels. Carbon fiber also has a bright future concerning its application in such fields as aerospace, aviation, national defence, new energy, electric power, and automobile, etc” (China composites expo, 2014).

Overall demand for carbon fiber in China is soaring, according to the "Research and Forecast of China's Carbon Fiber Market, 2013-2017" report. The report also states that China’s carbon fiber demand will be 20.000 tons in 2017.

If carbon fiber will be produced in Iceland, there is surely a market in China for it. It however remains to be seen if there are enough investors interested in financing such an expensive project.

8.3 Information technology

Iceland has the potential to do well in the area of information technology and take the Chinese market by storm. This sector is already growing at a rapid speed with companies like Meniga, Datamarket, Marorka, Advania and the latest success story, Plain Vanilla- with its app QuizUp, which are all gaining international recognition. Special mention must also go to CCP, an independent developer of multiplayer games and creator of EVE Online, which designs role-playing games and has 65.000 subscribers in China already. CCP has worked closely with Chinese company Tiancity and has already designed a Chinese version of EVE online. It has also established itself in Shanghai, where the game Dust 514 was designed. (Vb.is, 2012).

Fig. 8 snapshot of the game Dust 541 (CCP)



The great emphasis on innovation in general and innovative software by Icelandic companies is starting to pay dividends. These start up companies need funding, which could easily come from China in the near future. Companies in information technology can often struggle for many

years until they design software (e.g. games) that become the breakthrough and return profits. More Chinese investment in Iceland could therefore be welcome. Indeed, at the time of the FTA signing there were minor Chinese investments in play. For instance the Chinese company Chinalco is a shareholder in Riotinto Alcan and therefore an indirect investor in the Icelandic smelter. Járnbendið is also owned by the Chinese company Bluestar while Stormur seafood is partly owned by Chinese investors (Jónsson et al., 2013). Unfortunately none of these investments were in the IT sector.

Opportunities can also be found in investment form such as partnerships and joint ventures. Plain Vanilla recently raised \$2M from *eventures* and *Sequoia* (Johnson, 2013), and so Chinese investors might soon find Icelandic IT companies worth investing in. IT companies are likewise capable of exporting to China, both their software products and their expertise, and the FTA will therefore symbolize a window of opportunity for IT companies aiming to “conquer” China.

8.4 Foreign direct investment

The FTA might also increase Chinese investment in Iceland. To completely recover after the banking crisis the Icelandic economy needs to diversify and create more jobs. Chinese investment could therefore benefit the Icelandic economy and stimulate growth. This might come in the form of foreign direct investment, which is when an investor takes a controlling interest in a foreign company. This control can be a certain percentage, 10–20% or more. The foreign company, in this instance from China, could also form a joint venture with a company in the host country, Iceland (Daniels et al., 2012). At this moment in time it is still quite difficult for foreign investors to invest in Iceland, mostly due to legal and political policies. Icelandic authorities will

need to change both regulation and taxation to become more attractive to foreign investors. The removal of the existing capital controls is also necessary.

9. Free trade vs protectionism

“The argument for free trade as a policy for promoting economic development rests on the theory of comparative advantage as developed by Ricardo and Mill” (Pincus, 1967). According to this theory Iceland should have a higher real income if it exports what it produces relatively cheaply and imports those it produces relatively expensively. The free trade ideology is built upon this demonstration (Pincus, 1967).

Prebisch, Myrdal and Singer have doubted the virtues of free trade. They do not agree with the views from neo-classical economists like Keynes. Myrdal believes that growth of trade has not closed the income gap between industrial countries and the thickly populated less developed countries and also believes that trade tends to widen the gap between rich and poor countries (Pincus, 1967). This point of view could be correct, especially when considering FTA's China has signed with poor African countries like Angola. In the case of Iceland it is highly unlikely this would happen indeed. Iceland is a developed country and with a very well organized economy and good infrastructure.

Some important arguments for protectionism are:

- volatility of commodity prices
- Low wages due to foreign direct investment into labor, intensive export sector
- Protection of important economy sectors (Frieden, Frieden & Lake, 2002)
- The Prebisch–Singer hypothesis: according to their research, terms of trade between primary goods (e.g. coal, coffee, cocoa), and manufactured products (e.g. fridges, cars, PC's), become worse and/or uneven over time (Ihrke, 2009)

There is no doubt that protectionism might be connected with anti-globalisation. However, Iceland has to measure carefully how much it wants to open its doors to trade. Mixing the benefits of free trade with the tendency to protect important industries that characterizes

protectionism should always be considered. In the FTA signed with China this balance seems to have been achieved.

Free trade means that governments are eager to have open markets and abolish tariffs on most products. Protectionism is the opposite, as with this approach governments find ways to restrain trade and protect local business. The most frequently used protectionist methods are tariffs, quotas, subsidies, and tax cuts. David Ricardo and Adam Smith believed that free trade was beneficial, but if the FTA is put into perspective, would Iceland be doing the right thing by allowing cheaper meat and dairy products from China to enter the country without tariffs? What consequences would this have on Icelandic agriculture? Should Iceland also allow the free movement of people between the two countries knowing that China has a population of 1,35 billion? Did Iceland accept the FTA with a certain level of protectionism? Probably. Even though free trade is a beautiful concept and consumers would benefit from lower prices, the business of farmers could be seriously damaged if meat and dairy products from other countries could enter Iceland easily. Jobs could be lost and many companies wouldn't survive the competition and be wiped out.

Governments apply trade restrictions as a way to protect essential domestic industries, and in the case of Iceland, agriculture can be used as an example. If for some unpredictable reason there would be a food shortage, the country should always aim to produce as much as possible itself and be self-sufficient. Besides, agriculture has for centuries been a very important industry in Iceland. After the financial crisis the country went "back to basics", and the "disastro" of the Icelandic banks has reminded them that agriculture and fisheries play a vital role in its economy. Fisheries has also been the cause of much dilemma in Iceland's dealings with the European Union as the country is afraid to lose control over its fishing policy and fishing grounds. Or should the EU be able to decide how much fish is caught in Iceland? Having a protectionist approach and limiting trade does not necessarily need to have a negative impact in this special case. The Chinese did not seem to object the fact that Iceland wanted to exclude meat and dairy products from the FTA so one can assume that the importance of this matter was minimal for them.

To control trade governments normally use different instruments:

- “Those that indirectly affect the amount traded by directly influencing the prices of exports or imports
- Those that limit the amount of a good that can be traded” (Daniels et al., 2012)

Instruments:

Tariffs affect prices right away while non tariff barriers affect either price or quantity. A tariff is a very common type of trade control and it is a tax governments apply on goods shipped between countries. There are three types of tariffs: export tariffs, transit tariffs and import tariffs.

Export tariffs are collected by the exporting country. Transit tariffs are collected by the country which the goods pass through. Import tariffs are collected by the country importing the product. Import tariffs are the most common type of tariffs. Export tariffs are common among countries specializing in the sale of primary commodities (Daniels et al., 2012). “A tariff may be either *ad valorem* duty, that is, a given percentage of the value of a good (for example 15 % of the invoice amount) – or a specific duty – a particular amount of money for a given quantity of the good (for example 170 ISK per ton). *Ad valorem* and specific duties may also be used in combination” (Berry et al., 1993).

Tariffs are huge sources of revenue and for 2011 alone the Icelandic government gained around two billion ISK from tariffs on products originating from China (Ministry for foreign affairs, 2014). If a port is built in Finnaþjörður, Iceland can profit a great deal if ships coming from Asia stop there and pay transit tariffs. Tariffs tend to limit trade and increase prices to costumers.

Non tariff brarriers

Subsidies are an example of a non tariff barrier and are very important for farmers. In Iceland agriculture is heavily subsidized and subsidies are actually higher than EU levels (M. Bjarnason, 2010). Food supplies are of extreme importance and if there are surpluses the products can ultimately be sold. It is desirable to produce enough and to avoid food shortages. By shielding this sector the government is also hoping to make it stronger and more competitive.

Quotas are also utilized as a form to intervene with trade, they are basically a specific limitation on the quantity of exports or imports that a country will allow. Import quotas raise

prices because they limit supply and also provide little incentive to use price competition to increase sales. The difference between quotas and tariffs is that tariffs generate income for governments while quotas generate revenue for only those companies that are able to obtain and sell a portion of the intentionally limited supply of the product (Daniels et al., 2012).

Import quotas are very useful when a country is trying to protect against foreign competition in a certain sector. To consider it in a Chinese / Icelandic context, I use the example of Chinese milk. For the sake of simplicity, transportation cost, as well as distance between the two countries are left out of the equation. So, assuming that Chinese milk is cheaper and easily available. If the Icelandic government wanted to protect milk production in Iceland it should use quotas instead of tariffs to effectively control the flood of milk coming in Iceland's direction. Tariffs would in this case not be successful in stemming the flood of imports. Quotas are also easier to impose, remove or adjust (Berry et al., 1993). There are other non tariff measures like reciprocal requirements, offsets and exchange controls.

10. Possible Downsides of the FTA

So far we have looked at which sectors of the Icelandic economy are likely to benefit with the FTA but is this FTA too good to be true? Everything indicates towards a very beneficial deal for both countries, however, too much optimism and high expectations are normally not a good combination. Many years will be necessary to properly assess the impact this FTA will have on the Icelandic economy. Hence, in the following I will take a closer look at some possible downsides.

10.1 Loss of revenue

The Icelandic government can expect high revenue losses since it will no longer be able to impose tariffs on products originating from China. Tariff revenue on Chinese products was in 2011 around 2 billion ISK, in 2012 it was 1,99 billion and in 2013 around 1,5 billion ISK. (Ministry for foreign affairs, 2013). However, since Iceland is a WTO (World Trade Organisation) member it wants to make business relations easier with other countries and abolish tariffs. Even though revenue losses will be a reality, the economy is expected to benefit both directly and indirectly with the FTA.

10.2 Manufactured products

There is a small chance that Chinese products like phones, telecom equipment, clothing, cheap toys, home appliances, electronics, accessories and other manufactured products could flow into the Icelandic market. This has happened in Africa in the last years and the trend continues (Rotberg, 2009). African countries are today exporting precious commodities like oil, timber and metals to China and other Asian countries while importing a lot of value-added manufactured products. Goods from the West are too expensive for Africans and they now go to China to buy essential products. Chinese manufacturing is so effective that some African souvenirs are even “Made In China”. In the case of Iceland it is unlikely this could happen. Icelanders are used to high standard products and Chinese manufactured products will need to be world class to achieve popularity. Icelandic manufacturing companies as well as retailers should not underestimate Chinese products though. Icelandic manufacturers need to prepare for increased competition since consumers in Iceland are very aware of prices, and skilled online shoppers. The online store Aliexpress.com (part of alibaba.com) has been very popular and used by many Icelanders to access cheap Chinese products (Visir.is, 2013).

10.3 Impact on environment

Even though sustainable management is what most companies aim for, demand can influence decisions at top levels and have a negative impact on how natural resources are handled. Icelanders have a well-managed fishing industry and need to keep their system intact. Even though the demand for a certain fish species increases, exports should be according to the recommendations of the authorities and scientific community.

Increased business with China might increase the demand for many Icelandic products that have so far been produced in a sustainable way (e.g. lamb). It is therefore of the utmost importance to avoid a negative impact on the environment and respect production limitations.

10.4 Labour

Chinese multinationals working worldwide are not known for using local work force. For example, if we once again take a look at how Chinese companies go about their business in Africa it has been noted that they make limited use of African labour (Rotberg, 2009). There might be many reasons for this, like cultural differences, communication difficulties, lack of skilled labour and so on. The question is if this also would take place once Chinese companies were hired to build hotels and other large scale projects in Iceland? When the Kárahnjúkavirkjun Dam was built there were problems concerning wages since the Icelandic workers demanded higher salaries than other foreign workers. The Dam was therefore built by workers originating from countries like Portugal and China, which were prepared to settle for lower salaries and shorter contracts (Mbl.is, 2004) than their Icelandic counterparts. The question whether or not Chinese companies would use foreign labour on big projects in Iceland is not possible to answer at this time, but it is clear that Icelandic authorities must encourage companies who are thinking about investing in Iceland to use the available Icelandic workforce, as much as possible. Authorities can also influence this by changing regulation and policies.

10.5 Human Rights

The former Icelandic Prime Minister, Jóhanna Sigurðardóttir, was concerned over human rights in China, which she expressed to Wen Jiabao on their meeting at Þjóðmenningarhúsið on April 20th 2012 (Skarphéðinsson, 2013). It is however extremely difficult for a small nation like Iceland to have an impact on such matters in China. Össur Skarphéðinsson believes that consumers will ultimately have more influence than politicians. Since consumers are aware of where products come from and how they are produced, Mr. Skarphéðinsson said when interviewed (appendix 4) that this could be a determinant factor in helping to improve the human rights situation in China. He believes that the Chinese worry about their reputation worldwide and are willing to do what is necessary to make progress in these matters. According to the Amnesty International report from 2012, political activists and human rights defenders are still being harshly and unfairly persecuted in China. The major issues regarding human rights in

China are arbitrary detention, freedom of expression and domestic violence. Migrant workers are also often marginalized (Amnesty International, 2012).

Reforms are needed in China and the country has to address the issues regarding human rights for even if Iceland cannot directly impact the human rights situation in the country with the FTA, it is noteworthy that such a small country can make its voice heard. Every effort matters and it is positive that Iceland is sticking to its beliefs and trying to have a political influence on these matters.

Political influence and consumer demands are indeed powerful tools to persuade the Chinese authorities and as the country opens more and more to the West. One can only hope that the country will sign treaties and be more protective human rights.

Other implications or downsides of the FTA could be: offshoring, rules of origin complications, loss of political influence by Iceland, China taking over EU as Iceland's biggest trading partner and subsequent over dependence on China. These implications are highly speculative and unlikely to happen, however it is necessary to analyse the pros and cons of the FTA and to analyse trade trends. It could be feasible to Icelandic multinational companies to relocate their manufacturing to China (where wages are lower), which would cause loss of jobs and tax revenue.- The risk for offshoring is indeed real, as employment will rise in exporting industries while it will decrease in importing sectors.

“Complicated rules of origin are required to prevent third country product entering via the other party. With different rules negotiated under different agreements, enforcement of these rules and compliance with them by business can be a complicated task” (Foreign affairs and trade, 2001). If China would become Iceland's biggest trade partner one would expect Iceland to be more dependent on China (e.g. concerning loans or aid) and therefore to have less political influence which would result in economic policy shifts by Iceland as well as a realignment of the market towards the Asian country.

10.6 Currency

China tends to devalue the Yuan to make its exports more competitive (Hollander, 2011), this means that its exports go up and imports go down. Big trade partners can be seriously affected,

the U.S. is a good example of how Chinese steady currency devaluation can affect the trade balance in their favour. If the Yuan is weak, than Americans will be able to afford more Chinese products and will consequently buy more imports. (Hollander, 2011) Competitive devaluation has a bad influence on Chinese citizens purchasing power and causes less demand for foreign products. This could impact Iceland if it was a EU member state- then there would be no capital controls and Iceland's currency would be the Euro. The Euro can actually be called a victim of the "currency wars" since it tends to appreciate while the dollar and the Yuan go down.

Since exchange rates and trade have a controversial relationship, Iceland should be cautious regarding the Chinese exchange rate policy. Exchange rate instability could work against the main purpose of the FTA. The volume of trade between both countries is however small in an international context, and exchange rate stability can also be a compliment to a liberal trade policy. (Pomfret & Pontines, 2013)

11. Conclusion

The free trade agreement between Iceland and China was signed in 2013 and approved by the Icelandic parliament in January 2014. After analysing the facts concerning the FTA, the available data, and the current business trend between the two countries, everything indicates towards a very beneficial deal that could impact the Icelandic economy in a positive way.

Even though both countries have completely different interests and priorities going into the FTA, the benefits for Iceland are too good to be ignored. Icelandic products can enter a brand new market that is growing very quickly. As Mr Skarphéðinsson said when interviewed, the fishing industry will be the first to benefit, because as soon as tariffs disappear (in a couple of months from now), Icelandic fish will be cheaper for Chinese consumers. This means that Icelandic companies selling fish products will be more competitive and attractive on the Chinese market. Short-term, the fishing industry will be benefiting the most. Medium-term both the service sector and manufacturing can become very successful, and come next in line. The service sector can benefit a lot because of tourism and the building of an harbour to service ships coming with goods from Asia. The Chinese have been very prudent when it comes to matters in the Arctic and they want to cooperate and do research in the area. They also intend to look northwards for commercial shipping routes and raw materials. Iceland can therefore benefit from China's Arctic policies.

Thanks to the FTA Icelandic manufacturing companies can also access Chinese products more easily, and this will result in cheaper prices for costumers, because production costs will decrease.

Agriculture can also reap huge gains, due to the "organic" nature of what is produced in Iceland. Dairy products (e.g. skýr) and meat products (e.g. lamb) have a good reputation worldwide and are considered to be of high quality, mainly because of the characteristics of the country with its unspoiled nature and sustainable production. These types of products can be marketed, then exported and sold at a premium.

If oil is found in the Dreki-area, the oil and gas sector will benefit hugely. Exporting a commodity like oil to China could bring huge revenues to Iceland in the long-term.

This FTA can work as a powerful mechanism to stimulate growth and development in Iceland. Trade is so much more than the simple exchange of goods and services. Trade is a way to export knowledge and skills, it improves transportation routes and makes geographical distance less important. Trade facilitates the transfer of capital between countries. In this case we have two different countries, with different cultures and resources, working together to satisfy their specific needs.

Hopefully the FTA will attract Chinese investment to Iceland, and increase Icelandic exports to China.

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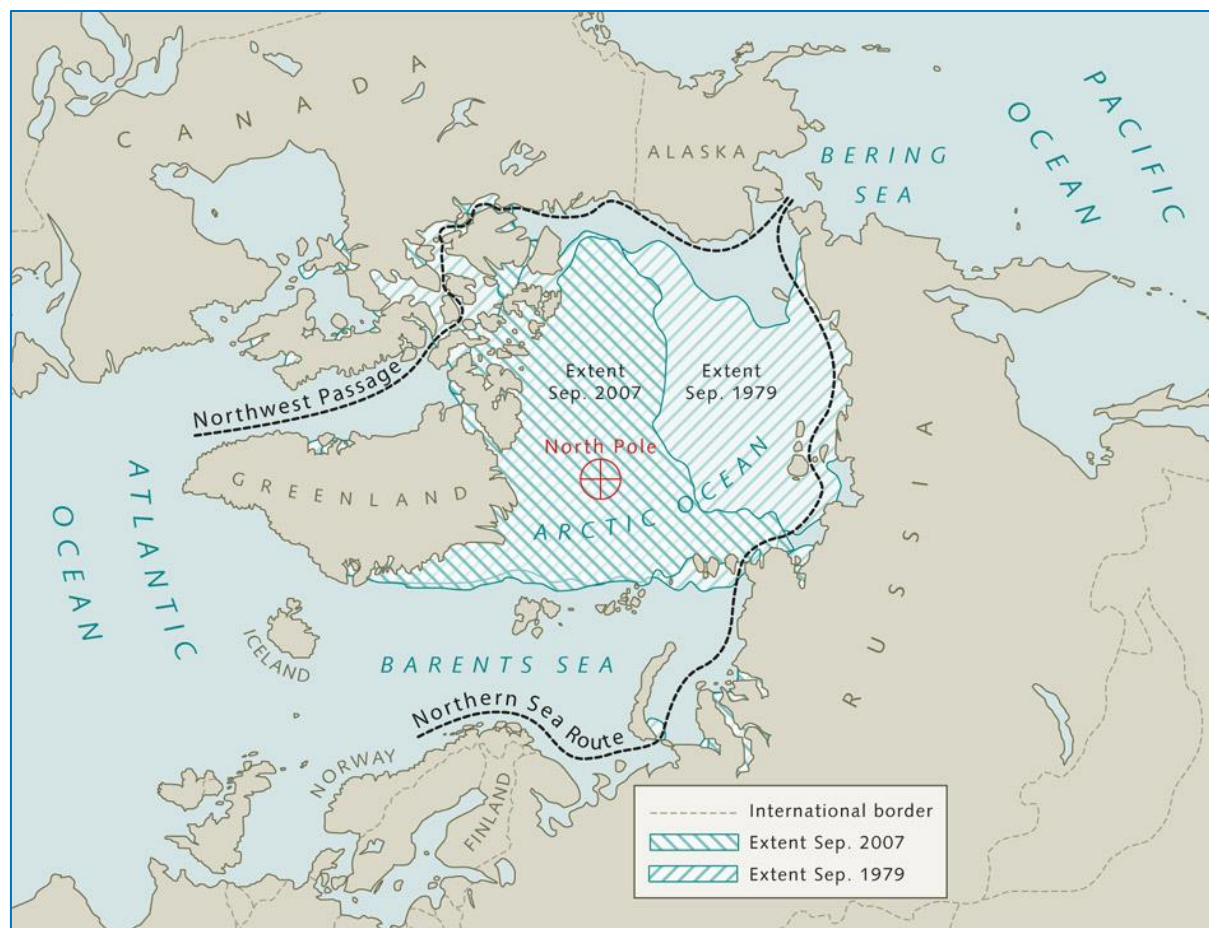
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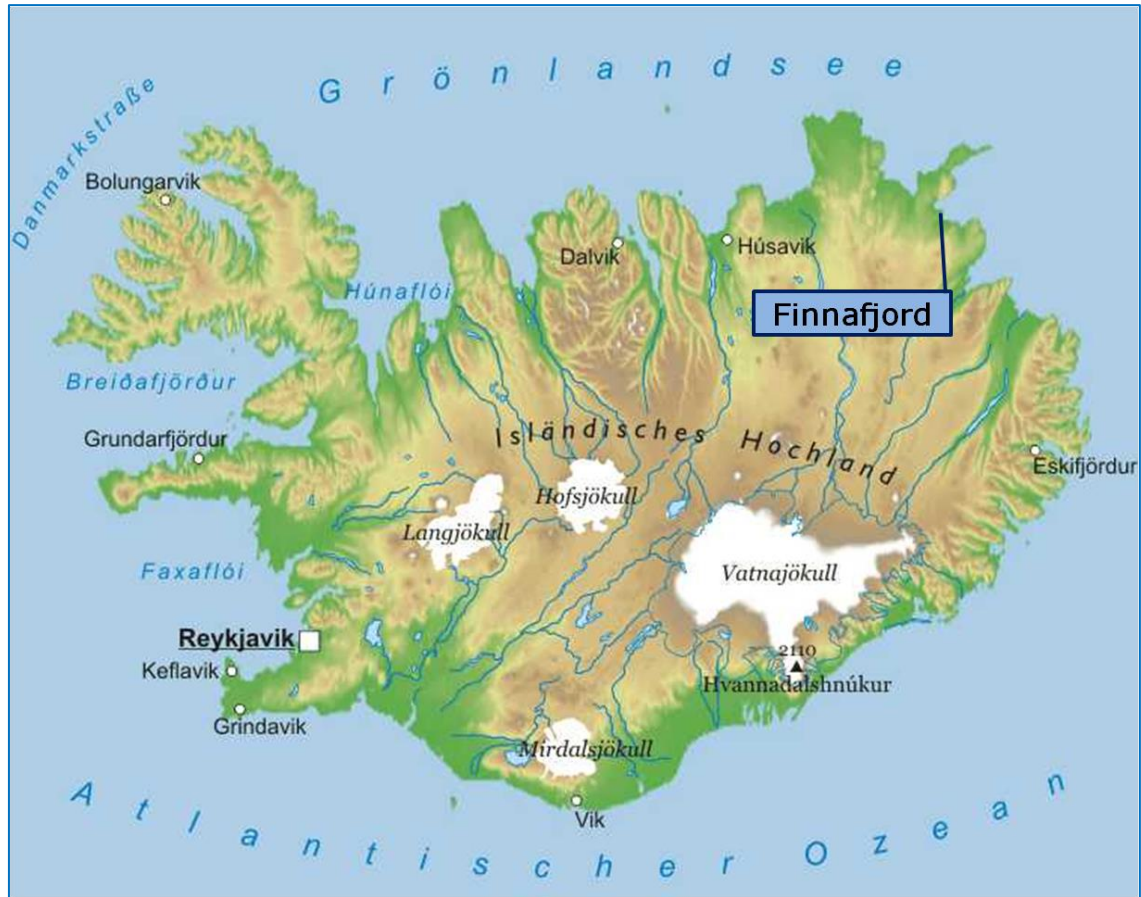
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Appendix 1: NSR (Northern Sea Route)



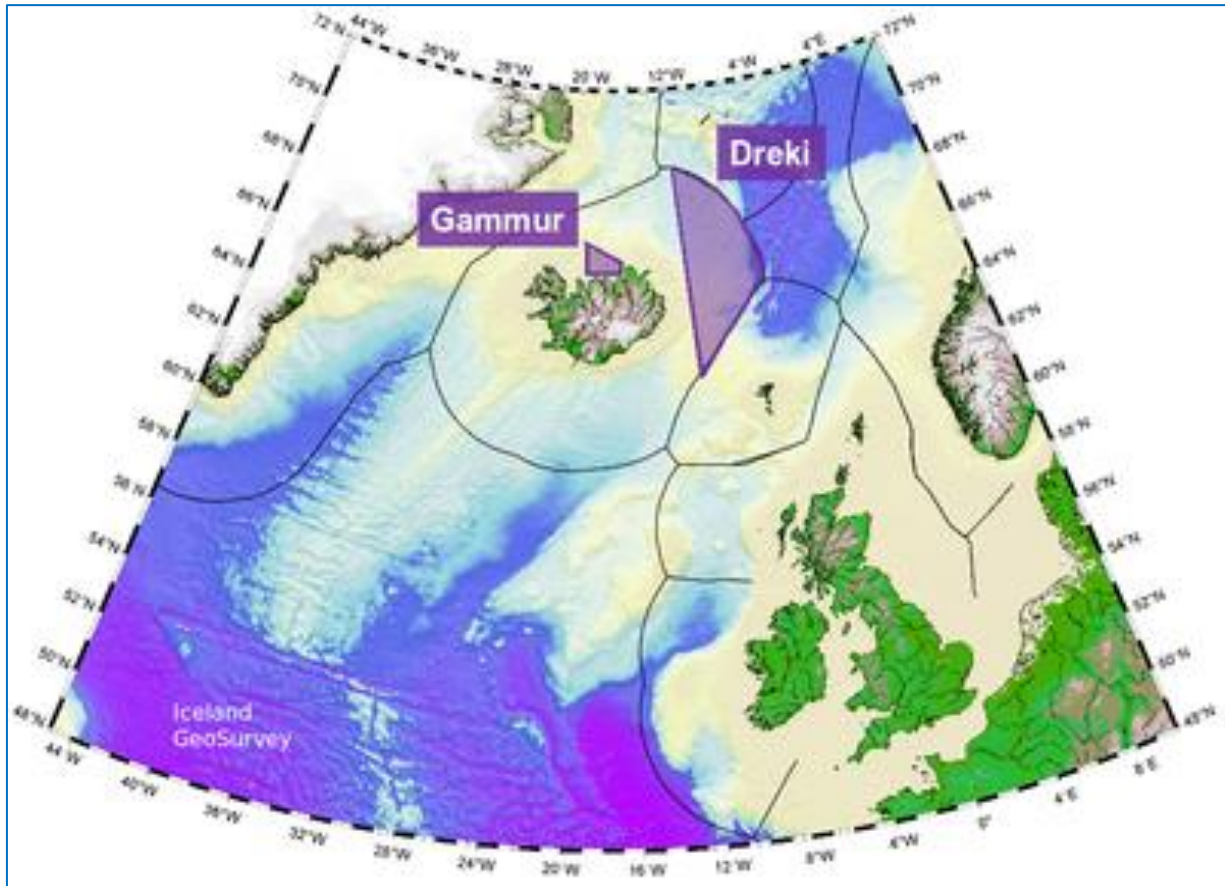
Source: *Hverjir eru möguleikar Íslands opnist norðaustur siglingaleiðin?* (Misserisverkefni - Bifröst)

Appendix 2: Finnafjörður



Source: www.bremenports.de

Appendix 3: Iceland offshore exploration. Dreki and Gammur areas.



Source: www.os.is

Appendix 4- Interview with Össur skarphéðinsson

Interview with Össur Skarphéðinsson, 17 th february 2014

I would like to thank Mr. Össur Skarphéðinsson for finding time in his very busy schedual to meet me, his book „Ár Drekans“ was also a very useful source for this thesis and I found many interesting facts regarding the FTA while reading it. Bellow is the interview which took place in his Reykjavík office, in February this year.

ÖS: Össur Skarphéðinsson

HE: Hugo Esteves

HE: Telur þú að fríverslunarsamninginn við Kína sé gott fyrir Íslenska hagkerfinu, svona almennt?

ÖS: Ég tel að þetta sé mikil tækifæri, þetta getur verið mjög gott fyrir Íslenska hagkerfið, það er ekkert sjálfgefið. Þetta fer algjörlega eftir því hvernig íslenska atvinnulífið tekur á móti þessi tækifæri. Ég er líka þeirra skoðunar úr kynnum mínum og fundum sem ég hef átt við toppanna úr Kínversku ríkisstjórninni að þeir hafi mjög mikinn vilji til að láta það sjást að þessi samningur hafi áhrif. Það var sömuleiðis mikinn vilja til þess þegar þeir [Kínverjar] gerðu samninginn við Nýja Sjáland, og það sést mjög vel. Þannig að ég á von á því að núna þar sem að stjórnin er top-down að þeir gefi sterkar leiðbeiningar í kerfið um að það eigi að notfæra sig þennan samning, það eigi að kaupa af Íslendingum. Og ég tel að þetta, það sem menn íhuguðu sér, að þetta skapi sérstaklega tækifæri fyrir sjávarútveginn, það er 90% af útflutningi okkar. En við erum í sérstakri stöðu núna, við mætum mikli samkeppni frá Noregi, þeir veiddu 1 miljón tonn úr Barentshafi, gríðarleg aukning og heimsverð hefur lækkað, sértaklega á stórum fiski. Og ég tel að það sé tækifæri til þess að skapa markað fyrir íslenskan fisk í Kína.

Sömuleiðis er ég mikil áhugamaður um beint flug milli Kína og Íslands. Ég tel að mögulegur fiskútflutningur með farþegaflugi styðji það að farþegaflugi hefjist fyrr en ella. Það er einn ávinningur, svo er auðvitað margvíslegur ávinningur fyrir landbúnað. Það er eitthvað sem fæstir

gera sér grein fyrir, að landbúnaður mun njóta góðs af þessu. Almenna svarið er: ég tel að það séu allar líkur á þetta verði gott fyrir okkur.

HE: Fyrirgefðu, þetta er kannski ekki alveg í spurningunni... en ég var einmitt að spá í landbúnaðinn. Þessi millistétt í Kína sem verður 300 miljónir manns, þetta verður vel efnað fólk. Telur þú að þeir munu hafa áhuga á íslenskum vörum eins og lambakjöt og skýr og svoleiðis?

ÖS: Meginfókusinn hjá mér var akkúrat þessi markaður, þarna er stærsta millistétt í heiminum, búnir að vaxa örum skrefum, mér sýnist að það muni þróast áfram. Þetta er fólk sem eins og annarstaðar hefur áhuga á að borða góðar og heilnæmar vörur. Við erum að framleiða svo lítið og að komast inná svona markað gæti leitt til þess að verðið hækki og að það takist að auka útflutning á kjöti héðan og ýmsum landbúnaðarvörum. Núna eru ótrúlegir samningar sem eru byrjaðir í kjölfar þessa, þar sem Kínverjar eru að kaupa alls konar hlutir meira að segja horn úr kindunum.

HE: Þeir náttúrulega nota allt! Líka í svona læknisfræði, (e. traditional medicine).

ÖS: Jájá, akkúrat!

HE: Þú komst reyndar inná næstu spurninguna en, ég sé hérna [spurningablað] að Sjávarútvegur, Þjónustugeirann, framleiðslugeirann munu hagnast. Hvaða geira mun hagnast mest á fríverslunarsamninginn af þessum þremur? Sko 90% af útflutninginn til Kína kemur frá Sjávarútvegin...

ÖS: Ég verð að tvískipta þessu. Ég tel að fyrstu árin mun sjávarútvegurinn geta hagnast að því að það er mikil og vaxandi fiskneysla í Kína, við erum þegar komin með sambönd þar. Ég átti fundi með helstu fiskikaupmönnum í Kína og þeir voru mjög áfjáðir í að fá íslenskan fisk. Og tollurinn sem fellur niður hann er múr, erfiður múr. Sjávarútvegurinn mun hagnast mikið, síðan þegar fram líða stundir þá er framleiðslugeirann. Þá er ég að tala um framleiðslu á ýmsum tækjum sem eru seld í Asíu. Það eru önnur jákvæð hlíð, mikið af nýjum litlum fyrirtækjum sem eru að hanna vörur: klæði (föt), og ýmis konar vörur sem það lætur framleiða í Kína. Þetta breytir mjög miklu fyrir það að geta fengið vöruna heim og selt hana hér, og aftur þegar heimamarkaðurinn er traustur þá verður hann síðan stökkpallur til annarra útrásar til Evrópu.

Þannig að ég held að þetta muni ýtta undir mörg smá fyrirtæki í svona hönnun, tísku, fatagerð, og ýmsu.

HE: Eru, að þínu mati, einhverjar líkur á að margar Kínverskar vörur flæði inná íslenska markaðnum og hafi slæm áhrif á íslenskri framleiðslu? Þá er ég að benda til dæmis á leikföng eða raftæki. Kannski verður markaðurinn rosalega „saddur“ á Kínverskum vörum.

ÖS: Það er nú þegar mjög mikinn aukning á Kínverskum vörum síðustu 4 / 5 árum og ég á ekki von á því. Ef þú átt við það hvort það munu tapast mörg störf hérna á Íslandi þá á ég ekki von á því. Sú framleiðsla sem Kínverjar myndu beina hingað er þegar hér til staðar, ég held ekki að hún verði til þess að útrýma mörgum störfum, hugsanlega einhverjum- en ekki í stórfeldu mæli. Ég held að það sem skapast í staðinn verði mikilvægara. Þú mátt ekki heldur gleyma því að þetta er kjarabata fyrir neytendur.

HE: Já vörurnar verða ódýrari...

ÖS: Við erum ekki bara, þó að ég hafi aðallega verið að hugsa um markað fyrir íslenska vöru þá er þetta líka bót fyrir íslenska neytendur.

HE: Ég nefnilega veit að það er fólk á Íslandi versla á aliexpress.com, fólk fer á svona vefsíður og kaupir vörur frá Kína. Þó að tollurinn séu t.d. 10% þá kemur þetta út ódýrari.

Svo er CNOOC (China National Offshore Oil Corporation), þeir hafa fengið leyfi til að leita að olíu á drekasvæðinu, finnst þér það í lagi að fyrirtæki í eigu Kínverska ríkistjórnarinnar hafi leyfi til að leita að náttúruauðlindum á Íslandi?

ÖS: Ég var sá ráðherra sem var iðnaðarráðherra sem auglýsti fyrstu leyfin alþjóðlega og ég geri ekki greinarmun á neinu þjóðerni gagnvart öðru. Ég er mjög glaður að í þessu tiltekna fyrirtæki sem þú ert að spyrja mig um er líka Norsk þátttaka og Íslenskt. Öðrum sem hafa fengið leyfi þarna eru líka fyrirtæki af öðrum þjóðernum. Ég geri ekki greinarmun á því. Ég bara tek algjörlega skýrt fram, ég óttast ekki að Kínverjar séu að hasla sér völl á Íslandi til þess að ná einhver yfirráð yfir landið eins og margir virðast óttast og mér finnst umræðan sem beinst að Kínverjum oft bera þess merki að menn eru hræddir við Kínverja og jafnvel...mér finnst þetta gefa til kynna einhverjar fordómar gagnvart Kínverjum.

HE: Já, það er kannski, þessi spurning er meira tengd hvernig viðhorfið er gagnvart umhverfismál þar sem þar sem við erum svo framarlega á Íslandi, á meðan í Kína er áherslan meira á að framleiða og umhverfismálin þeir fara..., Kínverjar þurfa að hugsa miklu meira um það...! Það var tilgangurinn með spurningunni.

ÖS: Ég er þeirra skoðunar að hvað varðar olíu og umhverfismál...þá er það klárt- við setjum reglurnar. Ég setti þær á sínum tíma sem iðnaðarráðherra, þær [reglurnar] eru byggðar að norskri fyrirmynd um olíuvinnslu og áhættustjórnun og eru þær ströngustu í heiminum. Almennt um vinnuvernd og mannréttindi í Kína þá hef ég þetta að segja: Sko, staðan er ekki nógu góð en hún er betri en hún var fyrir 25 eða 35 árum. Ég er þeirra skoðunar að augin viðskipti við Kínverja við umheiminn eigi gríðarlegan þátt í að auka mannréttindi, vinnuvernd áfram. Þú sérð dæmi strax....vegna þess að þrátt fyrir allt, að vinnuvernd og réttindum vinnuafls hafi þokast framá við- lægst launaður framleiðsluiðnaður í Kína, það er verið að flytja hann til Malasíu og til Víetnam vegna þess að kröfurnar eru hærri gagnvart Kínverjum. Við sem kaupum af þeim þrýstum á þá, þetta skiptir máli. Í öðru lagi þá er þessi samningur sem ég gerði, hann hefur tvenns konar leiðir til að hafa áhrif á Kínverjum. Í fyrsta lagi þá fylgir honum yfirlýsing um að það verði samráð milli þeirra eða fulltrúa þeirra [og við] á tveggja ára fresti þar sem hægt er að ræða hvaðeina eins og mannréttindi, vinnuvernd og umhverfismál. Samræðan skiptir máli, það skiptir líka máli að við setjum þetta í okkar samning sem var sá fyrsti sem Evrópuríki gerir við Kína. Í þriðja lagi þá var gert sérstakt vinnusamkomulag sem felur það í sér að aðilar á vinnumarkaðinn á Íslandi, þar með aðilar Alþýðusamband Íslands, eiga samráð við mótaðila í Kína og geta sett hvaðeina á dagskrá sem þeir vilja...mannréttindi, vinnuvernd og sjálfbærni í framleiðslu. Þannig að þetta býr til samráð, og ef öll lönd í Evrópu, ef þeir komu með svona í samband við Kína, þá hefur það áhrif. Ég bæti við einu sko, því þetta var það umdeildasta, Amnesty International, sem ég er félagi í og ég horfi til, sagði í umsögn sinni að samtökin legðust gegn fríverslunarsamningnum og skorðu á Íslensk stjórnvöld að nota þessa farvegi til þess að hafa áhrif. Mér finnst þetta skipta máli. Í minni reynslu reiðast ekki Kínverjar ef maður talar um mannréttindi, við getum talað um allt við þá.

HE: Ég var einmitt að spyrja þig næst hvort þú taldir að Ísland gæti haft einhver áhrif stöðu mannréttinda í Kína, en þú ert búinn að svara spurningunni.

ÖS: Við erum ofsalega lítil en við erum með rödd sem heyrir, það skiptir máli fyrir smáþjóðir að láta raddir sínar alltaf heyrast. Það gerði ég þegar ég tók Palestínumálið, var ekki hræddur við Bandaríkjamenn þó að þeir verði rosalega móðguð. Þannig að við erum að skapa fordæmi. Aðrar þjóðir verða að gera eins og við, allt hefur þetta áhrif.

Neytendur hafa líka áhrif eins og við höfum séð í öðrum löndum eins og Indlandi, þar sem barnaþrælkun tíðkast. Ung börn að vinna langan vinnudag og sem er í andstöðu..., við á Vesturlöndum horfum á þetta sem barnaþrælkun! Hvernig við sjáum barnaþrælkun..það hefur allt áhrif. Þrýstingur neytenda hefur alltaf að lokum áhrif. Pólitískur þrýstingur hefur alltaf að lokum áhrif. Við vinnum saman, aukin viðskiptatengsl, aukin pólitísk tengsl og síðan þessi nýju fjarskipti þau vinna öll að því að skapa áreiti sem smá saman hafa áhrif.

HE: Ísland er eins og áður sagt er mjög lítið þjóð í samanburði við Kína, telur þú líklegt að Kínverjar vilji auka sín umsvif á Norðurslóðum með því að skrifa fríverslunarsamning við Ísland? Þau [Kínverjar] vita að Ísland tilheyrir hefur mikinn samskipti við öll Norræn þjóð og tilheyrir Arctic Council. Telur þú líka að það sé einhver pólitískur hagsmunur í þessu ?

ÖS: Ég tel að Kínverjar hafi viljað auka tengsl sín við Ísland meðal annars til þess að skapa „gott veður“ gagnvart þeim og umsókn þeirra um áheyrnaraðild í *Norðurskautsráðinu*. Ég er þeirra skoðunar að það eigi að hleypa ríkjum sem hafa áhuga á Norðurskautinu inn í ráðið. En öllum réttindum fylgja skyldum. Þeir verða þá að uppfylla sínar skyldur og taka þátt í rannsóknum og svo framvegis. Við vitum að þetta er viðkvæmt vistkerfi og aðgerðir eru nauðsynlegar til að vernda það. Ég held líka að Kínverjar hafi á Norðursjó, það er alveg klárt. Áhuginn er tvenns konar, það er þess vegna sem þeir vilja koma sér vel á Íslandi, og koma sér vel hjá Íslensku þjóðinni, og láta gott af sér leiða í viðskiptum. Þetta tvennt er í fyrsta lagi, þeir áforma að hefja flutninga milli Asíu og Evrópu og þeir hafa sérstaka leið í huga sem Íslendingar telja líka vænlega, svokölluð Miðleið, og þeir hafa sagt við mig og opinberlega að uppúr 2020 þá vilji þeir byrja þessa flutninga vegna þess að þeir búast við að þessi leið verði íslaust árið í kring. Og þeir þurfa hafnir. Þeir munu ekki bara einblína á Ísland, þeir þurfa margar hafnir. Ísland er ein af þeim höfnum sem þeir munu hafa áhuga á. Hitt atriðið er að þeir hafa áhuga á samvinnu með Grænlandinga um að vinna málma og jarðefni þar og þá er mjög erfitt...þá liggur Ísland mjög nálægt þeirri siglingaleið.

HE: Ísland er reyndar ekki ennþá með Fríverslunarsamning við Grænland sem væri mjög mikil kostur.

ÖS: Það er rétt, Hins vegar er til samningur sem milli okkar og *Færeyinga* og þar er ákvæði um að Grænlandinga geta orðið hluti af honum og þeir hafa ekki viljað það, þeim finnst það ekki henta sér ennþá.

HE: Þú veist að Bremenports hefur áhuga á að byggja höfn á á Finnafirði, það er mjög gott og ég nefni þetta í ritgerðinni...

ÖS: Áhuginn Bremenports er mjög jákvæður, ég hef líka sagt opinberlega, í viðskiptabaðinu í Apríl 2013, að ég tel að það eigi ekki að..., að það eigi að vera pólitísk stefna Íslands að leyfa ekki engu einu urgi að byggja upp þarna, hins vegar algjörlegum fyrirtækjum eins og Bremenports, eins og einhver frá Brasilíu, Singapúr, Kína, Bandaríkjunum, það er æskilegt ef mörg fyrirtæki vinni að slíku. Ég tel að bæði Kínverskt og Evrópskt fyrirtæki geta byggt þetta í sameiningu.

HE: Og þau hafa reynsluna...

ÖS: Já.

HE: Er hægt að skrifa fríverslunarsamning við Kína og sækja um aðild að ESB?

ÖS: Já, það er hægt...í þessu tilviki þá getur Kína ekki blandað sér í því ef við værum að sækja um aðild. Ef við erum aðilar að Evrópusambandið þá falla fríverslunarsamningar niður. ESB hefur ákveðnar skyldur til þess að reyna að ná samningum við þau ríki sem við hefðum samband við (fríverslunarsamband) til þess að vinna upp það tap, og bæta það okkur með tollkvótum við viðkomandi ríki. Svo er kannski þetta, ég tel að það verði gerður fríverslunarsamningur Evrópusambandsins og Kína á næstunni, eða á næstu árum. Það er athyglisvert að þegar ég var staddur í byrjun 2012, þá Evrópumálaráðherra Íra, þá fóru Írar með forystu í Evrópusambandinu- þá sagði hún, Lucinda Creighton hét hún, þá sagði hún að hún taldi að það yrði lagt í að gera slíkan samning á næstu árum. David Cameron hefur nýlega sagt það líka. Og stundum er sagt að undanfari slíks samnings séu fjárfestingasamningar milli ríkja og Evrópusamning og Kína eru, eftir það sem ég best veit, eru núna að vinna að því að vinna í því að gera slíkan fjárfestingasamning. Viðhorfið að hálfu Evrópusambandsins gagnvart Kínverjum er breytt,

meðal annars vegna þess að Kínverjar gripu svo sterklega inn í skuldakreppu Evrópuríkjanna með því að kaupa mikið af ríkisskuldabréfum, þeir gerðu það með vinsamlegri hætti.

HE: Ef við hugsum 20 ár fram í tíma, verður Kína helsta viðskiptaland Íslands (trade partner) ?

ÖS: Ég held að viðskipti við okkar helstu markaði eru við Evrópu. Við erum með góða samninga eins og EES-samninginn og ég held að að Evrópa verði alltaf okkar mesti „partner“. Ég svara því þannig að Evrópusambandslöndin verða alltaf okkar stærsta viðskiptaaðili. En það er hugsanlegt að viðskipti við Kína munu margfaldast á 20 árum, það er vel hugsanlegt.

HE: Hvað telur þú vera nauðsynlegt til að auka Kínverskri fjárfestingu á Íslandi, ég var að hugsa um til dæmis um þegar Huang Nubo vildi fjárfesta hér þá vakti þetta mikið umtal, kannski fór hann ekki rétt að...

Hvað geta Íslendingar gert til að fá Kínverskri fjárfestingu hingað án þess að brjóta þessi lög og reglur sem gilda um erlendri fjárfestingu á Íslandi?

ÖS: Þessi vilji, þessi ósk Huang Nubo, þessi ósk um fjárfestingu, hún var misráðin meðal annars vegna þess að Íslendingar skyldu ekki alveg og sáu ekki skynsemi í því. Að kaupa land uppá fjöllum gegn almenna skynsemi- fólk fannst annað búa undir. Ég tel að það sem er hægt að gera er, við áttum að að fá fólk til að notfæra sér til dæmis ákveðin tækifæri sem eru að finna í [fríverslunar] samningnum, ég ætla að nefna eitt: með samningnum þá falla 18% tollar á koltrefjum (carbon fiber), þetta er efni framtíðarinnar. Sem mun ryðja slatta af stórum hluta af markaðsdeild aluminium. Þetta er reyndar stundum notað með aluminium til þess að búa til sterkari og léttari composit (material) sem verður notað í bílaframleiðslu og flugframleiðslu. Og ég tel að það er skortur á svona....ég tel að Kínverjar hafi ekki mikla orku í það, og ég tel að það sé fjárfestingatækifæri hjá Kínverjum. Ég tel sömuleiðis að áherslu þeirra á sólarorku, að þá gætu þeir komið inn og fjárfest í verksmiðjum sem byggja á endurnýjanlegri orku. Því þeir eru mengandi þjóð og þeir þurfa í sín portfolio að geta bent á það að þeir séu líka framleiðsla með endurnýjanlegum hætti. Og það eru sömu gildin að framleiða silicon eða kísil sem er notað í sólarrafhlöður. Ef hægt er að segja að hann [silicon] er búin á endurnýjanlegum hætti! Ég ímynda mér að það sem þeir séu líka að skoða fjárfesting í höfn. En það munu þeir ekki fá nema bara með öðrum aðilum.



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