Will potential entry to European Union impact future of the fishing industry in Iceland?

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B. Sc in Business Administration

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Preface

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Abstract

The purpose of this essay is to look into possible impact if membership of the European Union on the Icelandic fishing industry. The research looked in to impact of the investment, employment and trade effects in the Icelandic fish sector. The crisis in 2008 has changed Icelandic attitude towards European Union. Icelandic politics used to be more sceptical about European Union but after the crisis more politicians started to look at Icelandic accession to the European Union in more positive way. Iceland applied to join EU on 16th July 2009. In that contest it is important to remember that Iceland is already integrated to the EU market through the EEA agreement. Fisheries are one of the most important Icelandic resources because of their trade value.

Key words: European Union, EFTA, EEA, Fisheries industry
1 Introduction

The thesis examines what benefits and disadvantages possible European Union membership could bring to the Icelandic fishing industry. One may argue that European Union could be beneficial for the Icelandic fishing industry for ex bringing more investments opportunities into the Icelandic economy and by increasing market access into the EU. However, there are also possible disadvantages because of EU internal market impact on Iceland’s economy, mainly through foreign investment. Another disadvantage could turn out to be the Common Fisheries Policy as is not as successful as the Icelandic Fisheries Policy. CFP hasn’t worked well because of overfishing resources which led inefficiency in the EU fishing sector.

The most important factors in the Icelandic fishing industry are free trade, investments and Fisheries management and employment.

The economic crisis that occurred in 2008 in Iceland has changed Icelandic attitude towards European Union. Icelandic politics used to be sceptical about European Union but after the economic crisis more politicians started to look at possible Icelandic membership more positively. Iceland formally applied to join EU on 16th July 2009. At the same time it is important to keep in mind that Iceland is already integrated to the EU market though the EEA Agreement- Fisheries may be difficult in the negotiations for both sides. The negotiations officially opened on 27 July 2010.

Fisheries have political and economic significance for Iceland because of export value and being the back bone of the Icelandic economy. Iceland will need agreement that would be beneficial for the Icelandic fishing sector if they become EU member state. However fishing industry plays minor role in the EU economy. Also Common Fisheries Policy hasn’t been successful in the past and been criticized by many.

Although Icelandic government has already started accession negotiations there are still doubts how EU may affect labour market and how it may influence fish industry in the long run. Although, Iceland is a member of EFTA, EU play more significant role in the world economy. One of main features of the EU is the open market Single market without barriers like tariffs that bloc free flow of the goods.
Chapter 2 EU and EFTA

2.1 European Union

European Union became one of the biggest economic powers that are comparable with USA or China. However in the beginning European Union was created in order to prevent from possible wars that might take place in Europe and also for the mutual economic gain and market cooperation. The founding countries: Luxemburg, France, Holland, Belgium, Italy and Germany created European Coal and Steel Community (ESC) in 1952 to create free trade area for the coal, steel and iron resources. ESC was the first step towards of the foundation of the EU and it was later replaced by further more developed unions. For instance Treaty of Rome created common market between the members without tariffs or hindrances to the flow of labour and goods (Europa, 2012). Maastricht Treaty created European Union as a political and economic organization (Ocana, 2003). The main purpose of today’s EU is to create free-trade zone and to reach more efficiency and economic wealth within EU marketplace. EU has currently 27 members that are in political and economic union. EU has significant economic and political influence in the world economy (Hill, 2009). EU activities are divided into three areas: European Community, Common Foreign and Security and Justice and Home Affairs. The European Community is responsible for all the internal market policies and also for agriculture and competition policy. European community area also covers economic and monetary union as well as immigration policies. (Bomberg, et al. 2008).

Common Agricultural Policy was established in 1970 and it was one of the most controversial EU polices (Wilde, n.d.). Also in 19 70 Common Fisheries Policy was initiated to contribute a common market in fish (Sharpe and Brewer, 2006). Most of the decisions that are taken within EU are connected to the European Community area. European Community area has both political and -economic influence for example on Common Agriculture policy and Common Fisheries Policy (Bomberg, et al. 2008).

Common Fisheries Policy is one of the most controversial policies within EU as CFP decides catching quotas and how big they should be for each of the member\’ states. CFP is based on exclusive economic zones and the concept of the relative stability that was created in 1983 and quotas for the member\’s state are based on their historical fishing pattern (Foss, 2003).
2.2 Fisheries in European Union vs. Fisheries in Iceland

Icelandic fishing sector is very important part of the Icelandic economy because contribution of fisheries products is at 38% of the Icelandic exports value. Direct contribution of fisheries and fish processing to the GDP is at 11% (Statistics Iceland, 2011). In the year 2011 there were 9000 jobs directly connected to the fishing industry (Islandsbaki, 2012). Furthermore, fishing industry is important for the Icelandic labour market because approximately 15% of the Icelandic labour force is employed in the industries that are directly or indirectly connected to the fishing industry (Frostadottir, 2012). Fishing resources are very important natural resource in Iceland because there are in fact few natural resources that can be found in Iceland (Katsioloudes M et al., 1996).

EU fisheries industry is a fifth largest fisheries industry in the world representing 4,4% of world fisheries production (Europa, 2012). China is still considered as strongest fisheries producer. However, EU fishing industry has relatively less significance to the EU economy because of its little value in the European GDP. The contribution of the Agriculture and Fisheries to the EU GDP is only at 1,8% (CIA, 2011). Many EU regions that used to be dominated by fisheries are now dominated by others forms of economic activities (Foss & Mattiasson, 2003). However fisheries have still some economical and social value for some of the countries that belong to European Union (Hauksson, 2002). Spain, Denmark and United Kingdom are considered as largest producers in terms of volume within the EU (Europa, 2012).

2.3 History of Common Fisheries Policy

Fish resources were once part of the EU Common Agricultural Policy. Later on fisheries became part of a common organisation of the markets for fishery products and advanced a structural policy for the fishery sector (Foss et al, 2003). First moves that were made in order to create common fisheries management were made during 1970s in order to avoid conflict between nations as at that time many countries extended their waters to create bigger Exclusive Economic Zones. In order to prevent disruption that could be caused by EEZ regime, EU made an agreement under which members states agreed to free mutual access to each and every one waters (European communities, 2009).

Common Fisheries Policy was made in order to create free-trade market in fish with common rules (Sharpe & Brewer, 2006). Furthermore, CFP is system that monitors and
allocates size of the European fishing fleet (Europa, 2012). During 1970 United Kingdom, Ireland, Norway and Denmark were negotiating access to European Community. All these countries were important for the European Community because of the access to fishing waters which was consequential for the EC members’ states. Although, Norway did participate in negotiation and finished them, they did not join EC because they voted against membership in a referendum, partially because voters did not agree to CFP conditions, however United Kingdom agreed to these conditions in 1971 with minor concessions that give UK fishermen exclusive fishing rights from six up to 12 miles, and then in 1976 their fishing rights were extended to 200 miles however because of Britain accession agreements, the extra fishing grounds were given to the EEC to be shared with other members (Global Vision, 2007). In 1983 European community introduced formal CFP with system of total allowable catches (TACS) and Species-quotas with minimum net sites with effort to restraint over- fishing on particular species (Global Vision, 2007).

2.4 Common Fisheries Policy

The European waters is one of the largest in the North Atlantic that is operated by one single management regime called CFP (Symes, 1997). Common fisheries policy is a fisheries policy for the all European Union members’ states. CFP was created in order to focus on market regulation and attempt to increase levels of self-sufficiency in manufacture through augment competitiveness of EU’s fishing fleets (Symes, 1997). CFP was designed in order to make fishing grounds common resource giving theoretically equal access to all EU members states (Global Vision, 2007). The important principle of CFP is equal access to the European common waters. However this principle is modified through principle of relative stability (Foss et al., 2003). Even though main aim of the CFP is to help to protect and improve European fish stocks from environment damages it has been criticised as a policy that is wasteful and damages environment and European fishing industry (Sharpe & Brewer, 2006). Moreover, CFP is also criticised because it attempts to confine fishing effort by controlling the capacity and limiting time spent at sea (Daw & Gray, 2005). CFP is affecting legal, political, economic and even social environment when European Union decide to change legal rules or when they decide new fish resources quotas (Foss et al., 2003). Most important species are managed through Total Allowance Catches (TACs) and quotas in order to provide comprehensive system of rules that protect and preserve vulnerable fish populations (Europa, 2009). The creation of
these measures is based on scientific assessment of the status stocks. ICES and ACFM make scientific advice for the European Commission the proposals are sent to the Council of Ministers that has rights to negotiate and formulate fishery regulations (Daw & Gray, 2005). However the system is widely regarded as ineffective as many stocks have suffered serious declines. One of the most important reasons why CFP system is ineffective is because scientific advice is barely adopted into policy stage. Additionally, many documents suggest that TACs in the past were set at higher levels than the levels that were recommended by scientists (Daw & Gray, 2005).

2.5 EU fishing industry situation

European fishing industry is in a critical situation now as two third of the assessed fish stocks are overfished. According to WWF CFP need reform in order to bring necessary changes and in order to create sustainable fishing sector. CFP should be reformed in five key areas: fish populations, planning and management, regionalisation, fisheries management, incentives in order to fix Common Fisheries Policy. The other reason inefficiency of the CFP is poor enforcement of CFP regulations (WWF, 2012). EU fishing industry is supported by European Fisheries Fund (EFF). The main purpose of the EFF is to help reduce oversized and to balance fishing capacity. Approximately 25% of EFF has gone to reduce fleet overcapacity that is still one of the biggest barriers to the persuasive recovery of fish stocks and more efficient performance of the EU fleet (WWF, 2012).

2.6 Relative stability

Relative stability was first introduced in 1983 and is one of the oldest elements of the CFP. Relative stability is a tool for the distribution and allocation of fisheries resources among member states based on the member states past catch record (fishing experience). The main purpose of the relative stability is to hinder repeated arguments over how quotas should be allocated and to support fishers with an environment which is constant relative to the overall condition of the stock in question (Europa, 2009). Access to EU waters is restricted by specific regimes such as requirements of quotas. Quota rights are allocated between EU members based on the principle of relative stability and thus equal access to the EU waters cannot be taken literally (Foss, et al., 2003). The Relative stability has both advantages and disadvantages. It is acknowledged as short-term-decision making and a focus on national
share at the cost of common long-term interests. Some criticize Relative Stability as antagonistic to EU’s commitment to a single market. The principle of relative stability is widely supported by EU Fisheries Ministers as basis of quota allocation under the CFP (Europa, 2012).

Relative stability principle is important for the possible Icelandic membership in EU. The Principle of Relative Stability had been adopted as allocation key to accommodate the rights of new member states (Europa, 2009). It is significant for Iceland that this principle wouldn’t disintegrate. Recent CFP reforms had confirmed and make the principle stronger because RS is not a subject of changes as other parts of the CFP that were criticized in the past (Foss et al., 2003).

Both CFP and Icelandic Fishery policy are based on the TAC allocation system and quotas for most of the fish species. However, there are many differences between those policies. CFP is more influenced by politics impact than Icelandic Fisheries Policy. Icelandic Fisheries Policy is praised by quota holders and value of the quotas is important for the companies. The Icelandic ITQ system is criticized because it failed to amplify fish stocks (Kristjansson, 2009).

CFP is criticized because of the poor enforcement of CFP regulations and poor scientific advice adoption into CFP (Daw & Gray, 2005).

2.7 EFTA and Iceland

EFTA is a European free trade organisation that was founded in 1960 between Austria, Denmark, Norway, Swiss, United Kingdom and Portugal. Since EFTA creation some members left to join European Union while some choose to join EFTA (Iceland and Liechtenstein). EFTA’s first main objective was economic cooperation with Western European markets and promotion of the balanced trade with other member states (Bryn and Einarsson, 2010). Iceland decided not to join EFTA in 1960 because of significance of Icelandic fisheries and value of the fisheries products in Icelandic exports. Iceland wouldn’t benefit completely from the EFTA provisions at that time. However Iceland joined EFTA in 1970 when Iceland was granted tariff and quota- free entry to the markets within EFTA. In 1972 Iceland and others EFTA member states signed mutual free trade agreements with EEC (Bryn & Einarsson, 2010).

EFTA expanded trade in agricultural goods that are important for the Icelandic economy. EFTA also encourage liberalization of world trade and advice Iceland in the matters that are
connected with the free trade agreements to which Iceland is a party (Katsioloudes et al., 1996).

In 1990 EFTA-Council agreed to include fish in the free trade between member’s countries. Regulations that involved fisheries were beneficial for Iceland and their exports (Katsioloues et al., 1996).

Access to EFTA, changed rapidly Icelandic economy and adapted Iceland more to the European market. The benefits could be seen immediately after the EFTA entrance. The price on imported goods decreased and it was easier to approach European consumers. However there were also negative factors for instance competition from European markets increased dramatically. (Bergmann, 2011)

2.8 EEA, EU and Iceland

European Economic Area is agreement that unite EU members’ states and three out of four EFTA members. EEA was established in 1994 with the purpose to create single market that is ruled by the same basic regulations by enabling the free movement of the goods, services and human resources within Europe (Claire, 2010).

Creation of the European Economic Area composed the largest single common market in the world with nearly five hundred million inhabitants (Bergman, 2011). Since entrance into EEA, Icelandic society has witnessed active Europeanization and uniting Iceland more closely into internal market in Europe. Nevertheless, EFTA members are not authorized to participate in institutions like European Parliament or European Council or in decision making process of single market as such. The limitation in scope of EEA Agreement means that important areas like Common Fisheries Policy and EU trade agreements are not implemented in Iceland. Same goes for Monetary Policy, taxation and Common foreign and security policy. EEA agreement had enormous effect on the Icelandic society. Icelandic economy became more internationalised and this allowed progression of the financial sector in Iceland (Bergman, 2011). Although EEA agreement doesn’t include fisheries policy, some special agreements concerning fisheries has been made. Some significant exceptions were made for Iceland regarding fisheries and trade with fish products since EU is Iceland one of the most important trading partner in fisheries resources (Katsioloues et al., 1996).

If Iceland decides to join EU there is high probability that Iceland will have to negotiate about fisheries all over again, even though same agreements are already made before. (Katsioloues et al, 1996).
Chapter 3- History of Icelandic fisheries

3.1 Individual Transferable Quota

Individual Transferable Quota (ITQ or IFQ) is a type of the management system when government regulate fisheries. Iceland was one of the first countries that implemented ITQ and is now among world leaders (Eythorsson, 1996). However, before Iceland had started to use ITQ, they used others systems which protected fish and contained equipment and, size limitations or reducing number of days that vessels could been kept at sea (Gylfasson & Weitzman, 2002). ITQ played huge role in the creation of the sustainable fishing industry (Arnasson, 2008).

Icelandic economy has experienced period of high economic growth since perfectly transferable, durable ITQ property rights were established in 1991. Before ITQ-system was introduced, the profitability of fisheries was poor (Arnasson, 2008). The ITQ-management turns catch quotas into a market commodity. This system is offered to the fisheries industry as a resolution to situations in fisheries like problem “tragedy of the commons” (Eythorsson, 1996).

3.2 History

The Icelandic fishery was uncontrolled until 1970; there were only fisheries limits during that time. At that time there were no limits for the size of the fleet or catch limits (Kristjansson, 2009).

Iceland was in very difficult situation in during 60s after the crisis due to overfishing. At that time many fish stocks were in critical state, for instance cod were one of them. During mid-1970s, Icelandic Marine Research Institute issued “Black Report” with urgent warnings about forthcoming collapse of the cod stock. Iceland fish’s resources weren’t unlimited as some might have thought. The fish stocks were overfished, but catches remained high by historical standards. It was crucial that somehow the fisheries would have to be limited (Gylfasson & Weitzman, 2002). In 1976 Iceland claimed full ownership and control of its waters and extension of the fisheries jurisdiction to 200 miles. After 1976 all foreign competition and participation was removed from the Icelandic Fisheries (Arnasson, 1993). After that it became clear that free access would deplete fish resources. The first regulations that were made in order to regulate fish effort were a time reduction which in the end proved to be ineffective and didn’t provide any positive results. In 1984 the quota system was established and has since remained in force (Gylfasson &Weitzman, 2002). In the beginning quotas were
allocated for free even though fishing grounds were owned by the whole nation. However, later money came into a picture when quotas could be traded in the market through selling or renting. The quotas evolved into a value for the companies. Therefore it was important for the companies to keep high prices for the quotas (Kristjansson, 2009). In 1990 the complete ITQ legalisation was passed. The ITQ fisheries management legalisations were important improvement in the Icelandic fisheries management (Arnasson, 2008).

### 3.3 The present management system

Current fisheries management is based on catch limitation through ITQ. All fish species are subject to vessel catch quotas. The quotas represent sharers in the Total allowable catch (TAC). Ministry of Fisheries (now Ministry of Industries and Innovation) have authority decide TACs each year fish species (Gylfasson & Weitzman, 2002). TAC-shares are assigned to the vessel with quota shares that are based on catch history over a reference period. The quotas are defined in tons such that sum of quotas each year distribution equals TAC. It is possible to transfer TAC-shares without any restrictions. However, transfers of annual vessels quotas are subject of some restrictions (Gylfasson & Weitzman, 2002).

Individual fishing companies are not allowed to control more than of 12% of the value of the total quotas allocated for all species. Furthermore, fishing companies can control from 12% to 35% value of the total quotas for individual species (Ministry of fisheries, 2008).
Chapter 4- Case and Negotiations about entrance to EU

Europe has two main international organisations focused on trade, EU and EFTA. However, EU plays much more significant role in economic integration, not just in terms of enormity but also in terms of political and economic influence. International trade is important factor for Iceland and the impact on the Icelandic market area. Although Iceland is now member of EFTA and EEA, there are still regulations that are different in Iceland and in EU. The EEA Agreement does not cover Common fisheries policy and there are still important Icelandic fisheries products for ex lobsters or mackerel that are imported to the EU market but with duties. The other hindrance to the effective international trade is the Icelandic currency (ISK) that is one of the smallest floating currencies in the world.

4.1 Free trade

According to Adam Smith the invincible hand of the market mechanism is supposed to determine what countries exports and imports rather than government policy (Hill, 2009). Free trade can be explained as situation where government does not try to influence trough quotas or duties what can be bought from other countries or what could be produced or sold to other countries (Hill, 2009).

Both EU and EFTA are free trade areas as both organisations contain groups of countries that removed barriers in order to increase free flow of goods and services among them by following independent external trade policies (Hill, 2009). However EU is in more advanced level of economic integration.

4.2 Free trade in Iceland

Iceland is a now member of European free trade association (EFTA) and European economic area (EEA). EEA allows Iceland to participate in EU internal market without acceding to the European Union. However, in return Iceland has to adopt all EU legalisations related directly or indirectly to the internal market. Among legalisation exempted are agriculture and fisheries (Europa, 2011). Since Common Fisheries Policy is not part of the EEA Agreement; free movement of goods within the EEA Agreement does not apply to the fisheries products (Katsioloues et al., 1996).
4.3 Tariff
Tariff is a tax on goods produced aboard and sold domestically. There are two types of tariffs payment per unit and advalorem tariffs- percent of sales price (Perloff, 2007). Tariffs are very similar to taxes but they are applied only to imported goods. Tariffs decrease imports and increase price of the imported goods (Mankiv & Taylor, 2006).
Some of the Icelandic fisheries products are sold with high tariffs for instance mackerel, red fish lobsters and processed fish products when they are imported by EU countries. Tariffs have negative influence on the exports because it may decrease quantity of the exports of fisheries products but also put certain limitations to how the industry domestically developed. Mackerel is for instance exported to other countries than EU because of high tariffs.

4.4 Currency
Iceland is the smallest country in the world that has freely floating currency. During financial crisis in 2008 value of ISK decreased and the real exchange rate of ISK is still weak. ISK fell in value against many foreign currencies. For instance ISK fell in value against EURO from around 86 to 161 per EURO (Sedlabanki, 2012). Research by Breedon and Petursson assumed that ISK is one of the barriers to the effective international trade. Furthermore, research indicates that adoption of the EURO might have several advantages and may possibly increase international trade in Iceland (Breedon & Petursson, 2004).

4.5 International trade
Icelandic economy is rather small and is based generally on imports of various goods and exports of natural resources like fish. Most of the commodities goods that are exported from Iceland are fisheries products contribute Icelandic exports over 25%. Over the years however value of fisheries products has decreased and exports of other commodities like aluminium increased (Hagstofa, 2012).
The EU is one of the most important trading partners of Iceland. Icelandic exports to EU are dominated by fish and fisheries products. Iceland is one of the largest of the marine producers and exporters only China and Norway are larger exporters in terms of value. In 2011, Icelandic fisheries exports were 5% of all fish that EU imported within their market (Europa, 2012)
Chapter 5 Icelandic export and import

The fisheries sector remains one of the most important sectors in the Icelandic economy. The fisheries contribution to Icelandic GDP used to be around 17% during the 70s. However, over the years contribution of the fisheries to GDP has declined and contribution of the fisheries is now at 11%. Icelandic economy has changed dramatically in recent decades as today services and retail contribution are at 42%, public sector and education are at 21, 8% to GDP. Despite that contraction of the fisheries to Icelandic GDP, fisheries resources are still important part of the Icelandic exports. Fisheries contribution to exports were at 38, 2% in 2011.

5.1 Icelandic fisheries resources exports

Fish resources was huge part of the Icelandic export during 20th century. However, their value has decreased over the past decades. Iceland is still protective of their fisheries industry because of importance of fisheries resources in the Icelandic economy. Dependency on the fisheries industry is still present in the Icelandic economy because of their exports value; only in 2011 the value of the he exported of the fisheries products were approximately 245 billion ISK (Islandsbanki, 2012). Icelandic export of the fisheries products has increased in 2011 mostly because of the pelagic fish species.

Source: Statistics Iceland
5.2 Exports by market areas

<table>
<thead>
<tr>
<th>Market areas</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>9,4%</td>
<td>7,8%</td>
<td>7,1%</td>
<td>5,8%</td>
<td>4,9%</td>
<td>4,3%</td>
<td>4,7%</td>
<td>3,7%</td>
</tr>
<tr>
<td>EEA</td>
<td>77,5%</td>
<td>77,7%</td>
<td>78,4%</td>
<td>80,0%</td>
<td>79,0%</td>
<td>78,7%</td>
<td>73,0%</td>
<td>72,2%</td>
</tr>
<tr>
<td>Japan</td>
<td>4,4%</td>
<td>4,8%</td>
<td>3,3%</td>
<td>3,2%</td>
<td>3,8%</td>
<td>3,8%</td>
<td>5,3%</td>
<td>4,8%</td>
</tr>
<tr>
<td>Other European</td>
<td>2,6%</td>
<td>3,5%</td>
<td>3,8%</td>
<td>4,4%</td>
<td>5,1%</td>
<td>4,2%</td>
<td>7,2%</td>
<td>9,7%</td>
</tr>
<tr>
<td>countries</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>6,1%</td>
<td>6,1%</td>
<td>7,4%</td>
<td>6,7%</td>
<td>7,2%</td>
<td>9,0%</td>
<td>9,8%</td>
<td>9,6%</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland

The EEA market area was the largest market for the Icelandic fisheries resources in 2004-2012. European countries are the main market for the Icelandic fisheries resources, USA and Asian market share is rather small below 10%. The share of fish resources to EEA countries was 72.2%, decreased from previous years but still remain major importers of the Icelandic fisheries resources (Hagstofa, 2011).

5.3 Exported fisheries products in tons between years 2007-2011

Iceland exported 2,256,284 tons fisheries products between years 2007-2011. Herring and Cod had the highest value in exports between years 2007 to 2011. In past 2 years Mackerel has become more important resource for the Icelandic export as both production and export
has increased in the recent 2 years- Mackerel became more important fish resource in recent years in 2011 it was 11% of all exported fisheries resources. (Hagstofa, 2011)

5.4 Where it goes
Europe is most important trade market area for the Icelandic fisheries products as 72% of the exported fish goods were exported to the European countries. To United Kingdom were exported ca. 18% marine products. The value of the exported marine products that were transported to the UK was almost 45 billion ISK. To Spain were exported marine products for 22 billion ISK or 9% value of the exported goods, France (7%), Norway (7%), Japan (7%), Netherland (7%) and Russia (7%).
The export to the United Kingdom was mainly fresh Cod and Haddock, to Spain ware the main product was of salted fish and frozen cod and lobster and to the Netherlands salted fish, mackerel and frozen Pollock and capelin roe.

5.5 Most important exported fish species
The most important fish species that were exported from Iceland in 2011 are Cod (value 77,162 billion ISK), Herring (value 24,094 billion ISK) and Mackerel (value 24,135 billion ISK). Mackerel became second most important exported fish species. Most of the mackerel was exported to Russia (43%) of whole exported mackerel resources, to Netherland (17%), Nigeria (12%) and China (7%) (Hagstofa, 2011).

5.6 Icelandic import
Iceland imported goods for 620.120 billion ISK. Icelandic import has increased in the recent years. For instance in year 2006 value of the Icelandic import was only 242.739 billion ISK.

<table>
<thead>
<tr>
<th>Icelandic Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>800,000 kr.</td>
</tr>
<tr>
<td>600,000 kr.</td>
</tr>
<tr>
<td>400,000 kr.</td>
</tr>
<tr>
<td>200,000 kr.</td>
</tr>
<tr>
<td>0 kr.</td>
</tr>
<tr>
<td>2006</td>
</tr>
<tr>
<td>Source: Statistics Iceland</td>
</tr>
</tbody>
</table>
5.7 From where come imported goods

Most of the good that were imported to Iceland in year 2011 were from EEA countries, they were 46% of the whole Icelandic import. Norway was the country that provided the largest import share in year 2011, 16% of total imports. The second largest country was USA, 10, 9% of total imports and third largest country was Germany, 7.9% of total imports (Hagstofa, 2012)

5.8 Import of the fisheries resources

![Import(fisheries resources)](image)

Source: Statistics Iceland

Although Iceland main focus is export of the fisheries resources, some of the fisheries resources are imported to Iceland. However over the years the import of the fisheries resources has decreased and in 2011 Iceland has imported 8000 tonnes.
Chapter 6- Economic importance of the fisheries sector

6.1 Investment

Investment has different meanings in economics and finance. In an economics investment is connected to procurements of the goods, services or buildings that are not consumed today but are used in the future for the wealth creation. In finance investment is related to money assets that are put into something in order to gain something in return in the future (Mankiw G & Taylor M., 2009).

Investments are important for every economy because of their impact on innovation, developments and researches. Icelandic fishing industry is still big part of the Icelandic economy however since the economic crisis that occurred in Iceland in 2008 investments became more limited than they were before. Investments contribution to GDP was only at 14.1%, the second lowest in Iceland’s history, investment was lower in 2010, 13%. There is strong link between investment and recession as recession is negative indicator of the economic growth. GDP is one of the indicators of the economic growth.

6.2 Investments in Iceland

Iceland is on the third place on list of OECD FDI restrictiveness index of the countries that have most restrictions on direct foreign investments only Japan and New Zealand have more restrictions on FDI (OECD, n.d.). Foreign investments are very limited in Iceland. Since the economic crisis started in 2008 situation on the investment market has become more difficult. The other reasons for the few investment opportunities are legal restrictions and lack of the opportunities on the Icelandic economic market. The exchange rate of the ISK (Icelandic currency devalued since economic crisis and investment became more risky now. The restrictions on the free movement of capital are also hindrance of increased foreign investment in Iceland.

Investments in Iceland were only at 14.1% of Icelandic GDP in year 2012, investments have never been that low in the Icelandic history as they were now (Ingason, 2012). There are few opportunities for the investments in Iceland and also some governmental activates hinder foreign investments. It is important for Icelandic economy to increase investments because investments crates more jobs and provide innovation (Ingason, 2012).

With the possible accession to the European Union, Icelandic economy might change and more investors would want to invest in Iceland with more opportunities and less restrictions.
6.3 Investments in the Icelandic fisheries industry

Investments in the Icelandic fish industry are not as big part of Icelandic economy as they used to be during 20th century and in the beginning of the 21th century. Investments in the fishing sector are crucial as they increase labour productivity and welfare. However there are disadvantages of that kind of investment as often overinvestment has occurred in case of the human resources and in case of capital resources (Eyolfsson, 2011).

Investments to the Icelandic fisheries are also very important for the Icelandic economy as seafood is over 38% of all of the Icelandic exports. Many of the Icelandic industries are still directly or indirectly affected by the fisheries industry and fisheries are also still affecting political realm in some way (Frostadottir M., 2012). Between years 2000-2007 many investments in the fisheries sector have declined as Iceland focused on other industries then seafood industry. Investments fluctuated from 2004 to 2011 but were lowest in 2007 and 2008.

Declining contribution of the fisheries industry to GDP is one of the reasons that investments declined in the previous years.

Capital formation by kind of activity 2002-2011

Capital formation fishing industry declined over the years while capital formation of the Electricity and hot water supply and manufacture of basic metals increased.
6.4 Restrictions
Iceland has a permanent exception in the EEA regarding foreign investment and foreign ownership in the fisheries sector. This restriction blocks to a large extent foreign investments in the Icelandic fisheries industry. The main aim of these restrictions is to protect the Icelandic exclusive rights to the fishing grounds around Iceland (Icelandic Fisheries, n.d.).

Foreign Direct Investment in companies conducting fishing operations and fish processing are possible however because of Article 4 of Act No 34/1991 and Article 1 of Act 22/1998 foreign ownership is limited, preventing foreign majority ownership only. Those legalisations allow only Icelandic citizens or other Icelandic persons to conduct fishing operations or run enterprises that specialize in fish processing (Ministry for Foreign Affairs, n.d.)

6.5 Foreign direct investment

Foreign direct investment is source of productivity gains and plays significant role in establishment of business and jobs and creating the global supply coins that are part of the modern international economy (Europa, 2012).

6.6 FDI in Iceland

Icelandic FDI 1998-2007

![Chart showing Icelandic FDI 1998-2007](chart.png)

Source: Icelandic Fisheries

Icelandic FDI increased from 2004 and in 2005 and was highest in 2007. Foreign investments had concerted on UK and Scandinavia. Since Icelandic market area, companies in various branches wanted to increase their revenues and profits by acquiring subsidiaries in similar branches (Icelandic Fisheries, n.d.)
FDI after 2007

Foreign direct investments in Iceland had plummeted in 2008 mostly because of the financial crisis in Iceland and global economic crisis.

6.7 Insolvency in the fisheries sector

![Insolvency of the fisheries companies](image)

Source: Statistics Iceland

Although bankruptcy in the fisheries industry was much higher in 2006 and 2007, most of the companies that bankrupt during that time was because of the cod quotas was reduced and. The other reason was liabilities that were taken in other currency than ISK. However, during the collapse of the Icelandic financial sector, amount of the companies that went bankrupt was also very high especially in year 2011.
Price and development of the fisheries products

Price of the fisheries products enlarged since economic crisis in the Icelandic banking sector. Price index of the fisheries products has increased, mostly because of the collapse of the Icelandic banking sector and value of the ISK had plummeted. The value of ISK in 2011 was low and exchange rate is still unstable.

From the beginning of the 2012 price indices for marine products were unstable. The price index has increased by circa 14% from the beginning of 2011 but it has decreased by 2% in the beginning of 2012 (ISK) (Islandsbanki, 2012).
Like price index of fisheries products Price index of both grounding and pelagic fish species have also increased between years. Price of the grounding fish species have raised more than pelagic ones especially in 2010 and 2011. Real exchange rate of ISK had devalued and price of the fisheries products that are measure in ISK is rather high.

### 6.9 ISK influence on fisheries sector

<table>
<thead>
<tr>
<th>DATE</th>
<th>EUR BUY</th>
<th>EUR SALE</th>
<th>EUR MED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>86,903466</td>
<td>87,387051</td>
<td>87,145258</td>
</tr>
<tr>
<td>2005</td>
<td>77,92224</td>
<td>78,35888</td>
<td>78,14056</td>
</tr>
<tr>
<td>2006</td>
<td>87,474658</td>
<td>87,964618</td>
<td>87,719638</td>
</tr>
<tr>
<td>2007</td>
<td>87,356612</td>
<td>87,845645</td>
<td>87,601129</td>
</tr>
<tr>
<td>2008</td>
<td>127,099357</td>
<td>127,810843</td>
<td>127,4551</td>
</tr>
<tr>
<td>2009</td>
<td>172,186144</td>
<td>173,148634</td>
<td>172,667389</td>
</tr>
<tr>
<td>2010</td>
<td>161,437649</td>
<td>162,342191</td>
<td>161,88992</td>
</tr>
<tr>
<td>2011</td>
<td>160,969444</td>
<td>161,869444</td>
<td>161,419444</td>
</tr>
</tbody>
</table>

Source: Sedlabanki

Exchange rate of ISK is changing constantly and is still rather low and unstable and price of the fisheries products that was measured in ISK was weak. However weak value of the ISK had rather positive effect on competition position of the export companies (Islandsbanki, 2012). Growths of the export value of the fisheries products have increased mostly because of the stronger competition position of the exporters in the fisheries sector based on the weak exchange rate of the ISK. ISK have also influence on the investments in the fisheries sector market especially on the exporters who export huge quantities of the goods as there is uncertainty about receipts from exports. Projects like construction of the new plants became more risky (Mankiw N. & Taylor M., 2009).

The main advantage of the common currency is that there aren’t any transactions costs and trade become more efficient for the companies because they don’t have to buy foreign exchange. The research from 2004 suggests that ISK acts as a barrier to the effective international trade. Furthermore, the research indicates that Economic and Monetary membership (EMU) like euro membership could have positive effect on the Icelandic exports and increase trade with other EU countries (Breedon & Petursson, 2004).
6.10 Liabilities in the fisheries sector

Liabilities in the fisheries industry increased between years 2007-2008 because of the cod quota was reduced by one third at that time. Because of that many companies have lost a lot of their incomes because of those quota reduction, liabilities increased doubtlessly (Frostadottir, 2012). Furthermore, exchange rates of ISK devalued and many companies’ loans ware at that time in foreign currencies. According to Statistics Iceland leverage of the Icelandic fishing companies were at 564 billons ISK. From 2008 liabilities started to declined and are now at similar level as they were in 2007. In 2007 fisheries industry liabilities were at 325 billion ISK. The economic crisis had more influence on the long-term liabilities than short ones. Although both long-term and short-term liabilities have decreased and are now at 382.372 (long-term) and 118.010 ISK (short-term), it will take at least 8 years to pay off all the liabilities in the fisheries sector (Frostadottir, 2012).

6.11 European Union investments

Common EU trade policy main role is creation of jobs and development of the European companies. Investments plays crucial role in this process as they accelerate economic growth.

Approach

The EU investments rules aims at free flow of capital and investment-related capital movements and assist progress of the movement of potential investment related instruments. The Investment in EU focuses on the long-term investment that generates constant
employment and employment growth in the EU market. EU investment policy supply market access to the foreign investment and those investments are treated like domestic investments (Europa, 2012).

EU’s foreign direct investment is considered as the important tool to promote development and economic and social growth. EU investment policy adjusts to support investments with legal certainty and imperial and properly regulated environment where conduct business is relevant to the existing international rules. EU main focus is negations with third countries both in the European and also with countries outside European area in context of preferential trade agreements. Recent example of the EU Investment Policy is trade agreement with South Korea (Europa, 2012).

6.12 FDI in EU

FDI in EU between years 2008 to 2010 have plummeted because of the global economic and financial crisis. However, in 2011 EU FDI-flows demonstrated signs of recovery after the recent financial and economic recession. Outward FDI flows have increased in 2011 by rising 154% compared to 2010 (Eurostat, 2012). The inward FDI flows also increased compared to previous years. Despite, increases in the FDI flows in these gains are still below of their records before recession (Eurostat, 2012).

Source: Eurostat

![Diagram showing flows and stocks of FDI in EU from 2004 to 2011.](image)
6.13 FDI stocks by economic activity

Agriculture hunting and fishing contribution to EU FDI stocks is rather small compared to other EU sectors like Services or manufacturing sectors.

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Outward</th>
<th>Inward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3662,1</td>
<td>2658,1</td>
</tr>
<tr>
<td>Agriculture, hunting and fishing</td>
<td>3,0</td>
<td>2,2</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>233,6</td>
<td>59,2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>821,5</td>
<td>537,5</td>
</tr>
<tr>
<td>Food products, beverages and tobacco products</td>
<td>113,8</td>
<td>71,8</td>
</tr>
<tr>
<td>Textiles and wood activities</td>
<td>30,4</td>
<td>16,3</td>
</tr>
<tr>
<td>Petroleum, chemical, pharmaceutical products</td>
<td>319,8</td>
<td>216,2</td>
</tr>
<tr>
<td>Metal and machinery products</td>
<td>224,6</td>
<td>175,9</td>
</tr>
<tr>
<td>Vehicles and other transport equipment</td>
<td>58,0</td>
<td>18,4</td>
</tr>
<tr>
<td>Electricity, gas, steam and air conditioning</td>
<td>56,0</td>
<td>17,1</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management</td>
<td>4,4</td>
<td>2,5</td>
</tr>
<tr>
<td>Construction</td>
<td>16,7</td>
<td>8,9</td>
</tr>
<tr>
<td>Services</td>
<td>2087,1</td>
<td>1672,1</td>
</tr>
<tr>
<td>Trade; repairs of motor vehicles and motorcycles</td>
<td>133,7</td>
<td>123,4</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>49,1</td>
<td>30,9</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>22,2</td>
<td>13,1</td>
</tr>
<tr>
<td>Information and communication</td>
<td>108,7</td>
<td>76,7</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>1387,8</td>
<td>1054,8</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>40,0</td>
<td>43,9</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>295,4</td>
<td>243,0</td>
</tr>
<tr>
<td>Other services</td>
<td>50,2</td>
<td>86,3</td>
</tr>
<tr>
<td>Activities not allocated</td>
<td>409,1</td>
<td>329,0</td>
</tr>
<tr>
<td>Other</td>
<td>30,6</td>
<td>29,6</td>
</tr>
</tbody>
</table>

Source: Eurostat

6.13 European Funds

Part of the EU budget is assigned in form of grants and funds by European Commission. Funds and grants are used for the implementation project and financial activities that are related to EU policies. EU has allocated a budget of €4 304 million for the period 2007-2013 for the European Fisheries fund (Europa, 2012). The amounts were divided among the Members States according to the size of their fisheries sector and labour force in the sector.

EEF is a new financial instrument for fisheries programming and replaced FIFG in 2007. The council Regulation (EC) No 1198/2006 established The European Fisheries Fund (EEF) for the period 2003-2013 to provide financial support to guarantee future of fishing activities and sustainable fishery resources usage. EEF aims to increase economically enterprises in the fisheries sector and encourage sustain development and improvement of life in areas with an active fishing industry (Regulation (EC) No 1198/2006).
Although, European fisheries sector has been at difficult situation for past years EU may have both positive and negative impact on Iceland fisheries sector because of opening up of investment opportunities in Iceland (Single market and presence of the EEF regulation in EU single market make easier access to the investments. If Iceland becomes EU member they’ll lose sovereignty in foreign investment majority ownership in the fisheries sector
Chapter 7- Employment in the Fisheries sector

7.1 Employment in the Icelandic Fisheries sector

The importance of the fisheries sector has decreased in the recent decades. At present fisheries sector employs around 8800 people. Employment in the fisheries sector has been similar for the last 30 years despite reduction of the vessels and more technological advance. The rates of the employment in the fisheries sector have been at 5% to 10% the last 3 decades.

There are approximately 25 to 35 thousand work activities that are indirectly or directly connected to the fishing industry; the industries that indirectly belong to and depend on the fishing industry are transport services, repair services, industries, trade, sales and public administrations. The research from year 2011 indicates that more work activities may be classified as fishing industry activities. (Bryndísardóttir, 2011). Results from this research indicate that fishing industry create 15% work activatess in the Icelandic economic system.
Rural cities vs. Capital cities

Fisheries sector is more important for the smaller communities; the significance of the fisheries sector is much more important there (Foss, Matthiasson & Ulrichsen, 2003). Fishing industry is more important for companies outside of the Reykjavik as most of the fisheries employees live outside of the Reykjavik, approximately 84% live in the rural cities and only 16% live in Reykjavik or close to Reykjavik.

More than 80% of the Icelandic work activities that are connected to the fisheries sector are outside of the Reykjavik.
7.2 Companies with the highest number of employees

Most important fishing companies in Iceland are outside of the Reykjavik. The Icelandic companies that specialize in seafood production are for instance in Akureyri, Westman Islands and many other smaller towns and villages around Iceland.

HB Grandi is one of the largest companies in Iceland fisheries industry. HB Grandi runs three plants in Iceland and employs approximately 700 people in Iceland (Hb Grandi, n.d.). Another important company is VSV which is located in Westman Islands and employs around 200 people. However VSV is also important for the community of the Westman Islands VSV employs 13% of the workforce of the Islands. (Vinnlustöðin, n.d.) Samherji is also one of the largest companies in the fisheries sector runs three plants in Iceland and employs around 600 workers in Iceland. (Samherji, n.d.)

The importance of the fisheries is more visible in smaller communities in Iceland. The smaller communities depend more on fish sector as fishing companies employ huge part of labour force in some of the rural towns. Furthermore, some rural cities are strongly depending on fishing industry. Sometimes the role of the fisheries is crucial because smaller communities give fewer employment opportunities than towns that are close to Reykjavik. However Reykjavik also depends on the fish industry as there are many companies in Reykjavik that are connected to the fish sales and marketing.

7.3 Employment in the EU Fisheries sector

The EU fisheries sector is relatively less important sector in EU economy. However it has still some significance for the individual countries within EU. In 2009 there were approximately 400,000 people employed in the EU fisheries sector. The number of people that are employed in the fisheries sector have decreased over years. In terms of employment Spain, Greece and Italy are the countries with the highest levels of employment in the fisheries sector. Spain, Greece and Italy employ around 60% of EU-27 labour force in the fisheries sector (Europa, 2012).
Chapter 8- Results

8.1 Results and analyses

The analyses covered period from 2000 to 2011 but data for 2012 was used in several analyses. To understand it better Icelandic fisheries industry was analysed and compared with EU fisheries industry. It has been displayed that both Icelandic and EU fisheries industry have experienced financial and economic crisis.

The Icelandic employment in fisheries sector hasn’t changed much over the years and was at 5% in 2011 or 8800 employers. The employment rate in the Icelandic fisheries sector has been from 5% to 10% for the last 10 years. Similarly, EU employment hasn’t changed much over the past 7 years. However, research indicates that Icelandic fisheries sector is more important for the smaller communities in Iceland for ex in rural cities as more than 80% of employers in the fishing sector live outside of Reykjavik.

The research also demonstrates that Icelandic exports of the fisheries product have increased between years 2004 to 2011. Cod was the most valued exported fish species and mackerel and herring are second most valued fish species. Mackerel became more important in 2010 and in 2011 Iceland exported 109.649 tonnes of mackerel in 2011. The main export area is EU common market.

Depreciation of the ISK had positive effect on fisheries companies that export fisheries goods as exports became less expensive and stronger competition position.

The research indicates that ISK have both positive and negative effects on the Icelandic fisheries sector. However, unstable exchange rate of ISK have increased price of fish resources. Investments in all sectors had decreased during the financial crisis. Investments in fisheries sector had fluctuated between years 2004-2011. Investment rate in 2011 was at only 14% of Icelandic GDP. Investments decline often during recession and lack of investments led to economy into deeper recession. Investments in Iceland had never been lower as they were in 2010 and 2011. The lack of investment opportunities and restrictions that apply to FDI in the fisheries sector are blocking development of the fisheries industry.

The Icelandic Fisheries Policy has been more successful than Common Fisheries Policy.
8.2 Limitations

Every research has several limitations and this thesis is no exception. The information was accumulated from the secondary sources such as internet websites, books, scholarly journals, reports and statistical data. Some of the argumentations in this research are based on the others researches that were made in the past and some resources weren’t written recently. The main weakness of this research was lack of access to data on Icelandic FDI after the year 2008. Despite several limitations, the analyses should give some results about advantages and disadvantages of the possible EU membership on Icelandic fishing industry.

8.3 Conclusion

Icelandic nationalism and fear of EU domination are barriers to the possible EU membership; it will be difficult for Iceland to lose their sovereignty and authority to the EU institutions in Brussels. The main aim of this research was to look at possible advantages and disadvantages of the possible EU membership on the Icelandic fishing industry. The thesis outlined importance of the fisheries in Icelandic economy and importance of the fisheries sector in EU economy. The results indicate that fisheries are more important to the Icelandic economy. The importance of the fisheries sector can be seen especially in exports value as fish resources comprised almost 40% of the Icelandic exports. European area is one of the main importers of the Icelandic fisheries resources. That is the reason why it is very important in the negotiations for membership to get results that will not undermine this important pillar of the economy. The results suggest that EU membership may have both positive and negative effects for the Icelandic fisheries sector. There are several advantages for Iceland to become EU member like for ex better access to the investment opportunities in the fisheries sector. The other advantage is more efficient trade in Icelandic fisheries industry. Adoption of EURO theoretically could have a lot advantages for the Icelandic economy. Since economic crisis ISK devalued and uncertainty about exchange rate became one of the barriers for the free flow of the goods and services. Furthermore, adoption of the EURO would make international trade more efficient. The results outlined that price of the fisheries resources increased in recent years. The Icelandic currency has negative influence on the investment because projects became more risky because of the exchange rate of the ISK has devalued since recession in Iceland. The results suggest that investment decreased for the last 4 years mostly because of the financial and economic crisis. The price indexes of the fisheries resources are
rather unstable due to weak exchange rate of ISK. The financial and economic crisis has changed Icelandic economy.

However, main disadvantage for the Icelandic fisheries industry is European Common Fisheries Policy. CFP was unsuccessful in the past as the policy that damaging EU fisheries industry. Furthermore, all decisions that are connected to the quotas are taken in Brussels. Possible access to the EU can damage Icelandic industry because Iceland may lose their sovereignty over their fish stocks. Although relative stability principle is still present in EU Common Fisheries Policy and with this principle Iceland would remain their control over their fish stocks. However, there is always possibility that EU will decide to change this principle and this could be inefficient for Icelandic fisheries industry. Although, adoption of EURO has several advantages, there are also disadvantages like for ex Iceland would lose sovereignty over their currency and all decisions would be taken by European Central bank and it will be no longer possible to depreciate exchange rate of ISK. Investments can be both good and bad for the Icelandic fisheries sector because with the possible EU membership, Iceland will lose their permanent exception connected to foreign investment and foreign ownership in the fisheries sector and without this exception Iceland may lose control over their fisheries market. Free flow of investments may have negative consequences because foreign investors may want to move their investments out of the country. Iceland is still depending on fisheries and it rather difficult to say if EU impact will be positive or negative for the Icelandic economy.
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