Business administration (BSc)

Iceland, UK and Brexit
How can Iceland and the UK make a better trade deal in lieu of Brexit?

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Preface

This thesis is worth 12 credits as a Bachelor’s degree thesis in Business administration at the Reykjavik University.

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Abstract

When Brexit has been fully implemented, the UK will need to renegotiate its trade deals with non-EU countries such as Iceland. The aim of the thesis will be to discover the scenario that will lead to an optimal trade deal for both countries involved. The UK and Iceland will aim for a conclusive and mutually beneficial trade agreement between both countries. In the optimal solution, both countries will have a free trade of goods and materials, with the exception of agricultural goods plus fish and seafood. Both products will have a similar trade tariff between Iceland and the United Kingdom. In order to support this case, the thesis will cover some trade history on Iceland, the UK, EU and EFTA, how Brexit came to exist, the methodology that will used, trade numbers, possible protectionist measures between both countries, the pros and cons of international trading, the intricacies of trade deal negotiations alongside with Peterson institute for international economics guide on trade negotiations.
Chapter 1 Introduction

The purpose of this thesis is to examine how the trade deal between Iceland and the UK could be renegotiated after Brexit has been achieved. While there have been numerous debates about how Brexit will be handled, whether or not it could be repealed or not and if the actions of Brexit could be lessened in what is called the “Soft Brexit”. While this thesis will lightly address those concerns, the rest of this thesis will be based on the speculation that the UK will leave the single market in the coming future, which will give them the ability to make their own trade deals with non-EU countries, such as Iceland. In order to predict how the trade deal negotiations will conclude, information such as trade numbers will be used, what kind of products and materials both Iceland and the UK will reasonably act protectionist towards and the methods that can be used to predict the flow of the trade negotiations. With the UK being a far more important trading partner to Iceland, as opposed to Iceland’s relative insignificance as a trading partner to the UK, the Nordic country will have a strong incentive to get a trade deal, since a no deal could prove to be catastrophic for Icelandic businesses, while only serving as an inconvenience for most UK businesses. With the UK leaving the single market and the custom union of the EU, the UK will have the ability to set their own tariffs on products and materials. Since Iceland is part of EFTA and not the EU, the country has the ability to make its own trade deals with non-EU countries.

Chapter 2 The history of the UK, Iceland and the EU

Chapter 2.1 The creation of the EU

After the turbulent and catastrophic period during the 2 world wars and the great depression, the founding fathers of what is now known as the European Union along with the great leaders of Europe sought to create an institution that would unite Europe economically and politically in order maintain peace and to foster trade of goods, material, services and money with as little tariffs, quotas, trade restrictions and other types of protectionist barriers as possible, since these types of measures did help in exacerbating the great depression (Laurent Belsie, 2018). It started out as the European Coal and Steel community which was founded in 1951 after a treaty was signed in Paris by France, West Germany, Italy, Belgium, Luxemburg and the Netherlands. Its goal was to facilitate the trade and production of coal and steel and to supervise the market by providing rules and price lucidity, alongside with exposing and discouraging the breaking of set rules and any unfair business practices (European coal and
In 1957 the treaty of Rome was signed and the institution is transformed into the European economic community, also known as the Common market, and with that came the elimination of internal tariffs and other barriers, the establishment of a common agricultural and fisheries policy, more countries joining the EEC, giving the people the chance to vote their country’s representative in the parliament and the penalization of polluters (The history of the European Union, 2018). Following the fall of the Soviet Union and the balkanization of Yugoslavia the EEC transformed itself into the European Union by the year of 1993 with the signing of the Maastricht treaty and with that came the single market and its four freedoms, which are the free movement of goods, services, people and money (The history of the European Union, 2018). The free movement of people was further cemented with the Schengen agreement which gradually allows people to move between borders without passports (The history of the European Union, 2018). Back in 1999 a single European currency was established with the creation of the Euro with 11 countries using the currency by that year’s end and 8 more countries joining the Euro over the course of the next 16 years along with some micro nations that are not part of the Euro area, but they decided to use the Euro as their currency. With the exception of the UK and Denmark, the remaining countries do plan to implement the EU currency in the future (What is the Euro area, 2018).

Similar to many other modern states the European Union follows the trias politica (the separation of governmental powers between the judicial, executive and legislative branches of the government), with the European parliament and the European council serving as the legislative branch, the commission serving as the executive branch and the Court of justice as the independent judiciary. The European commission proposes EU policies and legislation to the European Parliament, ensures that the terms of EU laws and treaties are respected, manage and implement EU policies and budget and represent the EU around the world in areas that do fall under the commission’s responsibilities. The European Parliament and Council work together to adopt draft legislation put forward by the commission, also the parliament also approves the EU budget and exercises democratic supervision of the Commission. The court of justice of the European Union enforces a uniform interpretation and application of EU legislation along with ruling in legal disputes involving EU countries, EU institutions, individuals and businesses. There are also 8 other EU institutions, each with their own task (Institutional affairs, 2018). Currently the EU has 28 members, however it will be 27 members with the UK leaving the Union in the future (Francesco Guarascio and Alastair Macdonald, 2017).
Chapter 2.2 The creation of EFTA

The European Free Trade Association was founded in 1960 by the counties of Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. The reason for the founding of another bloc was because of failed negotiations between these counties and the EEC about creating an OEEC free trade area back in 1958. Thus they decided to create EFTA, an organization that reduced tariffs and liberalized quotas and did also create a better bargaining power when it came to establish the wider free trade area. In 1977, EFTA and its competitor the EEC eliminated tariffs on industrial goods and in 1994 the two organizations established a free trade zone amongst themselves that is known as the European Economic Area (European free trade association, 2018). Switzerland did not ratify the agreement due to a referendum, but Liechtenstein did however ratify the agreement in 1995 after talks and negotiations with its neighbor Switzerland. Through the lifespan of EFTA, more countries did join the organization, but many of them also left do join the EU overtime leaving only the countries of Iceland, Norway, Liechtenstein and Switzerland with no more countries joining or leaving EFTA since the year of 1995 when Austria, Finland and Sweden left (EFTA through the years, 2018). The reason for why these countries are still part of EFTA is because Norway held two referendums in 1973 and 1995 about joining the EU and the citizens voted against it, Iceland did apply for membership back in 2009 shortly after the financial crash of 2008 but the process did stall after that and it has not gone any further in the past few years, Switzerland preferred bilateral agreements over even joining the European Economic Area and while Liechtenstein did join the EEA, the country has not gone further than that. All 4 countries are part of the Schengen area (European free trade association, 2018). The EFTA countries that are a part of the EEA do follow the four freedoms of the EU and these counties also have to follow, enforce and apply the rules and laws of the internal market with the exception to certain areas. The EFTA Surveillance Authority cooperates with and works in a similar way to the EU Commission, they both apply and enforce the Internals Market rules and laws within their respective member counties and the EFTA court does the ruling in legal disputes (European economic area, 2018). The EEA agreements does not cover certain policies when it comes to the EFTA members, policies such as the common fisheries and agricultural policy, customs union, common trade policy, common foreign and security policy, Justice and home affairs and the monetary union (EEA agreement, 2018). That means that these countries regulate and police their own sale and production of agricultural goods and fish products within their countries and the import and export of these types of goods between the EFTA counties, also other countries are subject to whatever trade agreements the
EFTA counties and their trade partners decide upon (Iceland and the EU, 2018), the countries can make their own trade and investment policy when it comes to trading with non-EU countries (Customs Union, 2018), their foreign and security policy is up to them (Foreign and security policy, 2018) and that their monetary and fiscal policy is up to them (Foreign and security policy, 2018).

Chapter 2.3 The history of Icelandic trade

After the beginning of industrialization and the introduction of electricity to Iceland during the start of the 20th century, which was then proceeded by the second world war and Iceland’s independence form the rule of Denmark, Iceland managed to diversify their production, services, imports and exports, move away from a poor economy that was heavily based on agriculture at the start of the 20th century and build up trade agreements with other countries (Icelandic Economy, 2018). One of the major forces that assisted Iceland in its industrialisation after the end of the second world war, was the Marshall plan. Despite coming unscathed out of the war, with the exception of boats and ships that were destroyed at sea, Iceland did receive aid from the Marshall plan. The Marshall plan was a monetary aid, which was given by the United States of America to counties that had suffered at the hands of the second world war, so that those countries could finance the rebuilding of their infrastructure, factories and their homes (Egill Helgason, 2016). While Iceland was initially hesitant towards the liberalization of trade, the country did start do open up more in the mid1950s with the increase of a mostly barter trading of fish and manufactured goods in exchange for petrol, oil, cars and different types of machinery between Iceland and the Soviet Union. Trade with the Soviet Union did decrease however as Iceland did start to liberalize trade more from the 1960s and onwards with a sharp decrease in trading with the Soviet Union during its collapse. During the year of 1970 Iceland joined EFTA and during the year of 1994 the country did join the EEA in the same manner as Lichtenstein and Norway (Trade and economy, 2018). The reason for why Iceland has not joined the EU, despite some early talks and a submission of an application following the financial crash that did mostly stall afterwards, is mostly because of Iceland’s unwillingness to give the country’s sovereignty over its fisheries to the EU and replace it with the controversial common fisheries policy (Trade and economy, 2018).). During the 1960s the Icelandic exports were 90 percent fish and fish products, however the Icelandic exports did start to diversify more when Iceland started selling aluminum in 1969 (Trade and economy, 2018).). During the 1980s Iceland decided to impose limits on fish catches in order to prevent overfishing and during the same
decade the country reformed the financial markets in order to bring inflation under control (Björn Matthíasson, Valdimar Kristinsson and Gunnar Karlsson, 2018). As of June 2017, the top import and export locations of Iceland are the Netherlands, United Kingdom, Norway, Sweden, United States, China, Japan and Denmark (Iceland major trading partners, 2017). And during 2016 the top exports out of Iceland were fish and aluminum type of products and the top imports were oil, cars, aluminum oxide and electronics (OEC, 2018).

Chapter 2.4 The history of UK trade
During the height of the British Empire, the United Kingdom had a vast and continent spanning trade network, which had been established through the act of conquest and colonization. However, during the passing of the 20th century the Empire started to shrink overtime as the former colonies gained independence and self-rule from the UK (M.B. Synge, 2017). The United Kingdom’s trade relationship’s that were established under the Commonwealth started to fracture after the end of the second world war, plus the UK failed to join the EEC around the 1960s (David Thackeray, 2014). UK joined the EEC in 1973 and it accepted the four freedoms and the laws and regulations of single market as the EEC/EU evolved throughout the years (United Kingdom, 2018). Since the UK is part of the EU custom union, it means that there is a free trade of goods and services between the UK and other EEA nations and that there is a uniform policy on custom duties and imports among the EU nations when trading with non-EU nations (Customs, 2018). Throughout the 1980s and onwards the country implemented some free market reforms for the purpose of stimulating the economy and the country continued its rate of deindustrialization as the economy changed and adapted (Economywatch, 2010). As of 2016 the top imports are gold, cars, vehicle parts and packaged medicaments and the top exports are cars, packaged medicaments, gold, gas turbines and airplane parts (The United Kingdom, 2018) and trade balance has been negative, ever since the financial crisis (United Kingdom balance of trade, 2018).

Chapter 2.5 The current trade deal between the UK and Iceland
Since the United Kingdom is part of the European Union and with Iceland being part of EFTA, it means that products are mostly traded tariff free without any trade barriers except for the trading of agricultural and fisheries products, which terms of trade are dictated by a bilateral agreement which has been set by Iceland and the EU (Countries and region, 2018).

Chapter 2.6 Political tensions and past history
The UK has had some bad blood and sordid history with many nations across the world due to the fact that it used to be an empire. Iceland, being a very sparsely populated and a very small nation, has barely had any bad blood with other countries, although Iceland has made some substantial actions in the past to the ire of the UK. Not long after Iceland gained independence from Denmark, the country sought to expand its fishing boundaries and ban all foreign vessels from fishing within their borders. The United Kingdom took great umbrage to that proclamation, as they had been fishing there for centuries. What followed were a series of disputes, through the fifties and towards the seventies, that ended mostly in the favour of Iceland and to the detriment of UK sailors (The cod wars, 2018). A more recent dispute came with the fall of the Icesave bank, an Icelandic bank that many Dutch and UK citizens invested money in and lost following Iceland’s financial collapse back in 2008. The Icelandic state did initially refuse to reimburse their foreign clients for the money they had lost and what followed was a series of disputes between Iceland and UK over the matter. Following an EFTA court case that Iceland won and an anti-terrorism legislation that the UK invoked against Iceland in order to recoup the losses, the Icelandic state decided that they would pay back the “priority” debts that they owed to the UK government and as of 2016, those debt have been repaid (Agence France-Presse, 2016).

Chapter 3 Brexit

Chapter 3.1 The Brexit referendum

After the United Kingdom joined the EEC back in 1973, an event that was preceded by the UK forming EFTA and an application that was vetoed by the then French president Charles de Gaulle back in 1963, the country had a referendum two years later in which the majority voted to remain in the EEC. The following years 40 years had some turbulent events such as the tense negotiations with the UK and the EEC about the UK payments to the EEC back in the 80’s, UK’s fight to lift EU bans on beef and chocolate, the signature of the controversial Lisbon treaty which gave the EU broader powers, the UK’s veto of an EU treaty back in 2011 which gave the EU further rights to enforce budgetary policy, and the UK’s referendum on leaving the bloc back in 2016 (Sarah Pruitt, 2017). Following the Eurozone’s 2009 financial crisis the Euro skeptics of the UK started increase in numbers and influence, most notably
was the United Kingdom Independence Party which was established back in 1993, during the EEC’s evolution into the EU, and its goal was to champion for the UK’s withdrawal from the EU. As euro skepticism continued to rise in the UK, the then prime minister David Cameron promised a referendum in order to gain the votes of the Euro skeptics during the 2015 elections. The main reasons the Leave campaigners gave for leaving the EU were controls on immigration, no more payments to the EU and freedom from the EU’s controls and regulations. Thanks to the strong performance of the Leave campaigners and the ineptitude of the Remain campaigners the UK voted 52% leave and 48% remain and with that it was decided that the country would leave the EU (Eight reasons Leave won the UK's referendum on the EU, 2016).

Chapter 3.2 The aftermath of the Brexit referendum
As of June, 23th 2016 the United Kingdom decided that the country would leave the EU in the future (Sarah Pruitt, 2017). After months of political turmoil and attempts by the pro EU UK citizens, some members of the EU and UK parliament to plead for a repeal of Brexit, a second referendum and even a middle ground known as “soft” Brexit, the Prime minister of UK triggered article 50 of the Lisbon treaty on the March of 2017 (Jason Groves, 2017). Article 50 of the Lisbon treaty entails that once the country triggers it, that that country shall start negotiations with the European Union on the withdrawal of said country from the Union and the single market within the next 2 years or longer if both parties agree on an extension (Article 50, 2018). Hoping to strengthen her party’s position in the UK Parliament and to create a stronger and more united front in order to deal with the Brexit process, the Prime minister Theresa May announced elections back in 2017. Despite some early positive predictions on the outcome of the election, the Conservative Party lost its majority and the position of the pro Brexit members of Parliament had weakened as a result of this election (Steven Bernard, Anna Leach, Callum Locke, Tom Pearson, Ændrew Rininsland, 2017). During the Brexit negotiations several breakthroughs were made, a 50million euro divorce fee was decided upon, the issue of Irish border was resolved, and an agreement was reached on the rights of EU and UK citizens (Brexit Timeline: Key Dates In The UK-EU 'Divorce' ,2017). Also, the Brexit date was moved to December 31 2020 in order to give the UK some time to transition itself out of the Union (Tom Emburry-Dennis, 2017).

Chapter 3.3 Hard Brexit versus soft Brexit
A hard Brexit means that the UK leaves the single market, the customs union and that it no longer has to accepts EU laws and regulations along with no longer abiding by the 4 freedoms of the EU. A soft Brexit is defined by the newspaper, which is named as the Economist, as the UK still staying in the single market and custom union, still accepting EU laws and regulations and the four freedoms but without the ability to participate in the EU parliament (J.P., 2016). If the soft Brexit is reached then trade negotiations between the UK and Iceland would be unnecessary because it would not change their dynamics like a hard Brexit or UK’s reentry into EFTA would do.

**Chapter 3.4 Possible reentry of the UK into EFTA**

Although the UK government has not given any serious indication for a desire to reenter EFTA, it might still serve as a compromise between the pro- and anti-EU people when it comes to leaving the European Union. It would still mean that the UK would be a part of the single market and have to follow the 4 freedoms but the UK would also be able to make its own trade agreements with non-EEA nations, run their own fisheries and agriculture, self-control of home affairs and justice (Hugo van Randwyck, 2014). If that were to happen then that would mean that Iceland and the UK could still negotiate on the trade of agricultural and fisheries products.

**Chapter 4 The methodology**

The first three chapters of this thesis will cover the introduction into this thesis, alongside with historical background information on Iceland, the UK, Brexit, the EU, EFTA and other information that is relevant to the subject of the thesis. Chapter 5 through 6, along with some points from the second and third chapter, will cover data that will be critical in analyzing and answering the question of how the UK-Iceland trade deal will be renegotiated. These chapters will cover trade numbers, what products and materials both countries would act protectionist towards, past history, the meaning of Brexit and possible political tensions. Chapter 7 will include an explanation of the methodology that will be used to process the data from the first 7 chapters of the thesis and to answer the research question of this thesis. Since the thesis is about trade deal negotiations, the methodology will cover the pros and cons of international trading, the intricacies of trade negotiations, some important tactics to trade negotiations, the common problems of trade negotiations, the Peterson institute for international economics
seven step guide to trade negotiations alongside with an explanation on how the seven steps are applicable to real life. Chapter 8 will have an analysis on the trade numbers and the UK/Iceland’s protectionist measures. The seven steps that were provided by the Peterson institute will then be used to predict the flow of the trade negotiations. The reason for why these seven steps are used is because they are a practical tool for both analyzing and conducting proper trade negotiations, and the thesis is based on a scenario where the UK-Iceland trade negotiations will be conducted in a proper manner. There will be some brief examinations of alternate and failed outcomes to the negotiations, which will be followed by a more thorough examination of the optimal outcome to the trade negotiations. Chapter 9 covers conclusions.

**Chapter 5 Imports and exports**

**Chapter 5.1 History**

Iceland has always had a very undiversified range of exports, and its trade with the United Kingdom is no exception to that pattern, with over 90% of its exports being mainly fish and seafoods, metal products and processed minerals and less than 10% being machinery, medicaments, food and other types of products. In comparison, the UK exports to Iceland are a lot more diversified then Iceland’s exports to the UK. The biggest of the UK’s exports over the past years have been machinery, chemicals, electronics, food, aircrafts parts and accessories and other types of products that do represent a substantial amount of UK’s export to Iceland. Ever since the financial crisis of 2008 the balance of trade between Iceland and the UK has been positive for Iceland with Icelandic exports being over the double of UK’s exports between 2009 and 2015 (Tree map,2018).

**Chapter 5.2 Current trade**

As of 2016 the balance of trade became relatively more positive for the UK in comparison to previous years with Iceland’s exports accumulating to 489 million dollars and UK’s exports accumulating to 313 million dollars. The Icelandic exports to the UK are comprised of:

- 71% Fish and seafoods
- 18% Aluminum
- 1.7% Ferro-Alley and miscellaneous non-Iron wastes
2% Chemicals
1.3% Sands
1.2% Machinery
1.6% Not classified materials and products
3.2% Aircraft parts, meat, chemical and health related products, booze, electronics, garments, sheep wool, mining materials and a diversified set of other types of products that are traded in a very low amount (Tree map, 2018)

The UK’s exports to Iceland are comprised of:

27.4% Machinery
20% Chemicals
8.5% Processed food
7.3% Electronics
6.6% Aircraft and aircraft related parts and materials
4% Chemicals and health related products
3% Processed minerals
3.9% Construction materials and equipment
3.8 Garments
2.7% Agricultural products
1.8% Not classified materials and products
1.2% Booze and cigarettes
1.1% Petrochemicals
1.3% Boilers
1.2% Inorganic salts and acid
6.2% Home and office products, mineral tar pitch, fish and seafoods, oil, agrochemicals, meat and eggs, milk and cheese, ships, tropical tree crops and flowers, textile and fabric, pulp and paper, leather, animal fibers and a diversified set of other types of products that are traded in a low amount (Tree map, 2018)

Chapter 5.3 Imports

The 2016 imports of Iceland are worth 5.06 billion dollars and the imports are comprised of:
24.1% Machinery
14.3% Electronics
8.9% Mining
8.9% Construction material and equipment
6.8% Chemicals
5.8% Food processing
5.7% Aircraft and aircraft related parts and materials
4.5% Garments
4.6% Chemicals and health related products
2.2% Fish and seafood
1.3% Miscellaneous agriculture
1.3% Salts and acids
1% Processed minerals
1.2% Not classified materials and products
1.2% Ships and parts
1% Home and office products
7.2% Boilers, Booze and cigarettes, petrochemicals, cereals and vegetable oils, pulp and paper, coal, fruits, meat, tropical treetops and flowers, leather, tobacco, cotton rice, textile and fabrics, and a diversified set of other types of products that are traded in a low amount (Tree map.2018)

The 2016 imports of the UK are worth 599 billion dollars and the imports are comprised of:

22.9% Machinery
11.5% Mining materials
10.2% Electronics
6.5% Chemicals
6.4% Garments
6.4% Chemicals and health related products
5.9% Aircrafts and aircraft parts
5.8% Construction material and equipment
4.7% Food processing
3.8% Oil
2.2% Not classified products and materials
1.8% Home and office products
1.5% Meat and eggs
10.4% Metal products, processed minerals, tropical treetops and flowers, booze and cigarettes, petrochemicals, meat, fruits, precious stones, ships and ship parts, cotton, rice, textile, fabrics, inorganic salts and acids, leather, fish and seafood, animal fibers, tobacco, coal and a diversified set of other types of products that are traded in a low amount (Tree map,2018)

**Chapter 5.4 Percentage of the overall imports that are exclusively from each respective country**

As of 2016, the UK’s imports from Iceland represented 0.1% percent of the overall imports to the UK. Respective percentage of the overall imports for each type of product that are imported by the UK from Iceland:

- 7.9% Fish and seafood
- 1.7% Processed minerals (Tree map,2018)

As of 2016, Iceland’s imports from the UK represented 6.2% percent of the overall imports to Iceland. Respective percentage of the overall imports for each type of products that are imported by Iceland from the UK:

- 7% Machinery
- 18.1% Chemicals
- 9% Food processing
- 3.2% Electronics
- 7.2% Aircraft and aircraft parts
- 5.3% Chemicals and other health related products
- 2.7% Construction materials and equipment
- 5.2% Garments
- 17.6% Processed minerals
- 12.2% Miscellaneous agriculture
- 9% Not classified products and materials
10.5% Boilers
16.3% Booze and cigarettes
5.6% Inorganic salts and acid
8.9% Petrochemicals
4.6% Home and office products
7.8% Coal
1.8% Fish and seafood (Tree map, 2018)

Chapter 5.5 Percentage of the overall exports that go to each respective country
As of 2016, 11% of Iceland’s exports went to the UK. Percentage of the overall Icelandic exports for each type of products that go to the UK:

17.2% Fish and seafood
7.4% Processed minerals
12% Chemicals
13.2% Not classified materials and products
58.1% Inorganic salts and acids
5.1% Machinery
3.2% Metal products
3.2% Meat and cheese (Tree map, 2018)

As of 2016, 0.1% of UK’s exports went to Iceland. Due to Iceland being a relatively small trading partner, it means that almost all types of products and materials are traded in low amount to Iceland when it is compared to the overall worldwide exports of the UK (Tree map, 2018)

Chapter 5.6 Simple Overview

As of 2016, 6.2% of Iceland’s imports came from the UK and 11% of Iceland’s exports went to the UK, while about 0.1% of the UK’s imports came from the UK and 0.1% of the UK’s exports went to Iceland.
The most significant of Iceland’s exports were fish, seafood and aluminum, while the rest were shipped in a relatively low amount to the UK. The UK ships a diversified range of products and materials to Iceland, such as chemicals, machinery, processed minerals, aircrafts and many other products and materials (Tree map, 2018).

Chapter 6 Protectionism

Chapter 6.1 Determining protectionism

While it is impossible to determine with a 100% percent certainty how these trade negotiations will go, if there will be an application of any protectionist measures and what these measures will be, aside from the protectionist measures Iceland already enforces. This chapter is focused towards compiling a list of reasonable points for why Iceland and the UK might try to pursue protectionist measures for certain sectors of their economy.

Chapter 6.2 UK’s protectionism

Since most of the products and material that Iceland exports to the UK are fish, seafood and processed minerals, it is the most logical option to investigate if the UK might seek protectionist measures to protect these sectors of their own economy (Tree map, 2018).

During the Brexit campaign fishing served a big role with a pressure group called Fishing for leave campaigning for Brexit (Jeremy Phillipson, David Symes, 2017). A large majority of the UK’s commercial fishing community favoured Brexit because of the unpopularity of the EU’s Common fisheries policy, having foreign ships fishing in UK’s waters as a cause of...
said policy, the quotas that were set by the EU and high levels of discarded fish (Brexit and Britain’s Fisheries, 2018). There has been a great debate between the pro leave and the pro remain alongside with the rest of the EU about how Brexit will affect the British fisheries and the outcome of that issue will be decided in the ongoing Brexit negotiations. The debate around the fisheries has centred mostly around whether or not to allow foreign vessels to fish in British waters and whether or not to keep using current EU regulations versus creating and implementing UK regulations in a similar vain to Norway and Iceland, which means that protectionist measures like bans or trade tariffs have not been much of a talking point in that area of the Brexit debates. When trade tariffs are discussed, they are usually discussed in a more general sense as to the entirety of imports and exports (Peter Foster, 2016). The reason for why the pro leavers seek their mandate is because they think that the change they are seeking will improve and revitalise British fisheries (Brexit and Britain’s Fisheries, 2018). If they would have their way, one can hypothesize that protectionist measures against the trade of fish and seafood would be minimized, since they would use the revitalised fisheries to export more fish and trade tariffs on the exportation of fish from other countries to the UK would be met with retaliatory trade tariffs, which would hurt the British fishing sector. Although if said country were to have some trade barriers of its own, it is reasonable to assume that the UK would respond in kind. As for aluminium, which is the next biggest part of the Iceland exports, the aluminium sector of the UK has steadily gone down over the past few years with the UK exports of aluminium decreasing by half over the past 10 years (Tree map, 2018) (Roland Gribben, 2011). Aluminium is used in the manufacturing of diverse range of products such as cars, vehicles, airplanes, electronics and many other things that the UK manufactures and exports (Tree map, 2018) (Uses of aluminium, 2018). While the manufacturing sector was a topic in the Brexit debate, the aluminium sector got little attention, the aluminium represents 0.1% in exports and imports for the UK in 2016 (Tree map, 2018). While there may be a possibility that the aluminium sector may demand protectionist measures, the UK is unlikely to acquiesce to those demands due to the rest of the manufacturing sector needing aluminium to produce their products.

Chapter 6.3 Iceland’s protectionism

Iceland does implement some trade tariffs on certain type of products, those being mostly food and beverage related. Despite being Iceland most important resource, fish and seafood is mostly tariff free with the exception of some kind of a shellfish plus processed and packaged fish and seafood which has a 10% import tariff, which is relatively low when compared some
other products that do have 20% or even 30% import tariff. As for agricultural products, there are some that do have some kind of an import tariff and some that don’t have an import tariff, most of the agricultural products that do have an import tariff are the kind of products that Iceland does produce locally, which would mean that they are protectionist measures. Everything else is tariff free (Tollstjóri, 2017).

Chapter 7 Trade

Chapter 7.1 The pros and cons of international trading
According to the International Monetary Fund the reason why trade can benefit for all parties that are involved in trading, is because of comparative advantage. Comparative advantage means that when another country can produce certain products or materials with greater efficiency than some other country, it means that it has comparative advantage over it in the production of those products and materials. Two countries that want to trade and have certain comparative advantages over each other, can grow those industries that do have comparative advantage by giving them an access to foreign markets and thus giving them a bigger customer base. This will give consumers access to cheaper products and will also enhance the variety of products in both countries and the retail sector will also grow bigger thanks to more open trading. Giving the consumer access to cheaper and more varied products will also increase competition and it will give incentive to companies to create more improved, cheaper and varied products in order to stay in business, which is a major boon to the consumer. International trade can improve the economies of countries by these actions. There are however downsides to international trade. Foreign firms, that are more efficient than local firms in the production of certain types of products and materials, will most likely cause the local firms to go out of business, due to an inability to compete with the foreign firms. A country that seeks to protect local firms from what they may deem as “unfair competition” can impose bans or trade tariffs on these types of products and materials. While the world has moved closer and closer to a more free and open trade over the past decades, there are still plenty of trade barriers and restrictions that do affect international trade (Brad Mcdonald, 2017).

Chapter 7.2 The intricacies of trade negotiations
According to the Peterson institute for international economics, trade negotiations between nations are often a multi layered, complicated and a very difficult process for all parties involved. When it comes to two individuals trading cars for example, there are only two parties involved and the topic of debate revolves exclusively around the value of each owner’s car and on what value each party is prepared to compromise on. When it comes to two nations negotiating a trade deal between each other, a lot of parties that reside in each nation, such as political parties, industry leaders, lobbyists, non-governmental organizations, companies and any other party who has some sort of an interest in the trade negotiations, such as economical, profit based, political or moral, they will attempt to make sure that their agenda is represented in the trade negotiations, by either seeking a place within the coalition which represents each country on the negotiation table or by making sure that their agenda is heard by the coalitions and that their interests are taken to heart. The complication arises from the fact that the trade negotiations are no longer about just two parties seeking a mutually or exclusively beneficial agreement between each other, it is also about those two parties having internal negotiations within themselves on what they desire from the negotiations and what their response will be to whatever proposals that the other party brings to the table. Trying to reach a consensus within each coalition can prove to be complicated, time consuming and in the worst of instances they can prove to be completely fruitless, with a set of unified and disunified set of parties with numerous and sometimes conflicting interests and agendas that can complicate the deliberation process for each coalition and drag out the negotiations. Negotiations also do involve a lot of strategy and tactical thinking, with each party making demands, taking stances, projecting an air of unity in order to appear strong, revealing their stance on issues that they are uncompromising on, making high demands or projecting an uncompromising stance on issues in order force the opponent into a compromise, withholding information that may give the opposing party an advantage over their own’s party in the negotiations, ensuring that one’s own party knows and understands the perceived value of what they have to offer to the other party so that they can use it as bargaining chip for what they perceive to be of value to them. A simple example of trade negotiations between a hypothetical first world country and a hypothetical third world country would be that a NGO within the first world country would convince the coalition to not allow the imports of processed minerals from the third world country due to human rights violations that is done to workers, the workers that do extract the minerals, unless the third world country reforms its labor rules. The third world country agrees to meet those terms, but the producers of beverages and soft drinks in the first world country wanted use the import of
minerals as a bargaining chip in order to export their products with a lower tariff to the third world country, but they were outmaneuvered by the NGO. It is also important to understand that history and past events can affect the negotiations process, with either or both sides not being able to adequately discuss things, much less reach an agreement, due to mistrust and animosity towards the opposing party. In order to adequately engage in trade negotiations, both parties have to make preparations so that the process can move as smoothly and efficiently as possible (Negotiating trade agreements, 2018).

Chapter 7.3 Seven steps of trade negotiations

The Peterson institute for international economics recommends seven steps that involve the preparations and the process of negotiations. The first step is to build up the main coalition which will be in direct negotiations with the other country, and for influencers to such as lobbyist, NGOs, industry leaders to organize to influence the coalition and to promote their agenda to said coalition. The second step involves selecting the appropriate forum for both coalitions to engage in their negotiations, it is important for a coalition to select a forum where they will be more easily able to promote their agenda and to reach beneficial conclusion. The third step involves shaping the agenda, where both coalitions will decide on what issues they want to tackle, the importance of those issues, in which order they would like to negotiate those issues and establishing code of conduct. The fourth step is for the organized sets of industry leaders, NGOs and lobbyist to keep organizing and promoting their agenda, and to do that they will need to contact the right people of influence. The main coalition will also seek their advice on certain issues, in order to get a better understanding on the issues and to increase their options during the trade negotiations. The fifth step is linking certain issues and negotiations together in a variety of ways. Negotiators can link certain present issues to the negotiations of future by refusing to move on to other issues unless they have reached an agreement on the current issue, the negotiators can combine certain issues together instead of negotiating them one at a time, they can link the resolution to the issues that the two opposing parties have and they can also decide that agreements must be made on all issues before concluding the negotiations. The sixth step involves effectively framing the negotiations in a positive live to the eyes of the public, and attempt to rebuttal, in an effective manner, any attempt that may portray one’s own side in a bad way. The seventh step is to create a momentum with the negotiations, in order to save on time, money and resources. Skilled negotiators can also use the preliminary stages in the negotiations set up rules and basic principles to create a momentum in their desired direction thus giving them early
successes and increasing their options while limiting the options of others during the latter part of the negotiations. There are sometimes events that do affect the momentum of the negotiations, both internal and external, which will sometimes slow or stop the flow of the negotiations or even force one of the negotiators to make an undesirable concession because of some sort of a deadline. Skilled negotiators can sometimes use these to their favour in order to force a concession out of the opposing party (Negotiating trade agreements, 2018).

Chapter 7.4 Examples of trading
The Peterson institute for international economics rules and explanations on how proper trade negotiations function can be used to deconstruct and explain the reason for certain actions in real life trade negotiations. The following will be a collection of some real-world examples and how the Peterson Institute theories on trade negotiations explains and justifies their actions. The ongoing Brexit negotiations do offer up a couple of examples, starting with the 2017 elections in the UK. The reason why the UK held their elections 3 years before they had to was because the Prime Minister’s Conservative Party wanted more seats in parliament, and most polls did show that the Conservative Party would have had a good chance of snatching up seats from their biggest rival, the Labor Party. The prime minister’s call for early elections and the rhetoric that she used in the campaign can be further justified and explained by the Peterson Institute guide to trade negotiations, the first step in the Peterson’s guide with the prime minister’s belief that her party will be strengthened after the elections, which will give the Conservative party a greater influence over their side of negotiations and it will also give them the ability to project a stronger front against the EU. The sixth step is also applicable because of one of the biggest platforms that the conservative party campaigned on was a strong Brexit, so the elections were partly a test by the conservative party to both increase and gauge the public’s support for Brexit. The seventh step also applies as a unified nation and parliament would be more capable in creating a momentum in the negotiations, with more options and capabilities to manoeuvre during the negotiations process. However, all of that backfired as the Conservative Party floundered its way through the last month of the election while the Labour Party performed much better. At the end of elections, the Conservative Party had lost its majority in the parliament, and the UK’s position in the Brexit negotiations was severely weakened because of it (World watching as uk election results roll in, 2017). Another Brexit example would be the UK and the EU attempts to reach an agreement on the Irish Border, with the Peterson’s guide on the fourth step being applicable because of the many influencers that were divided on how to handle the Irish border which
made it harder for the UK to decide, and the UK needed eventually to make a decision because of a deadline which is applicable to the seventh step. Furthermore, the next topic of Brexit negotiations was linked to the finishing of the Irish border part of the negotiations, which fits with the fifth step in the Peterson Institute for international economics’ guide to trade negotiations (Samantha Raphelson, 2017). The sixth step can be a very important aspect in trade negotiations, as in the 2016 US elections where a large part of the public had no desire for the USA to enter into the Trans Pacific Partnership trade deal and presidential candidates such as Donald Trump, Bernie Sanders and Hillary Clinton spoke out against the trade deal. Shortly after Trump took office, he signed a memorandum that withdrew the USA from negotiations involving the TPP (The Trans-Pacific Partnership trade deal: Public opinion on TPP and TTIP, 2017).

Chapter 8 Results and analysis

Chapter 8.1 Reiteration of the thesis
As of the writing of this thesis, the Brexit negotiations between the UK and the EU are still ongoing, and the final outcome at the end of the negotiations is uncertain. An astute individual with a background in trade negotiations and an understanding of the dynamics between the UK and the EU could make some predictions on the final outcome of the Brexit negotiations, but that is not the main point of this thesis. The hypothetical trade negotiations that are being discussed in this thesis are based on the premise that the UK does fully leave the EU, which entails leaving the customs union and the common agricultural and fisheries policy and gaining back the ability to set their own trade tariffs and negotiate a trade deal with any non-EU nation on their own terms. However, chapter 8.6 will explore some alternate outcomes, some of them involving different outcomes to the Brexit negotiations.

Chapter 8.2 Discussion on trade numbers
As for determining which country is more important as a trading partner, the numbers show that the UK is a more important trading partner to Iceland with the UK being in the top 5 import origins and export destinations as of 2016 (6.2% of Iceland’s imports being from the UK and 11% of Iceland’s exports going to the UK as of 2016). However, the numbers also show that Iceland is a very insignificant trading partner to the UK, the reason for that being
that Iceland is a very sparsely populated nation, which means that it cannot produce as many exports or imports as the most significant of UK’s trading partners, such as Germany, the United States, China or France, after all only 0.1% of the UK’s imports came from Iceland as of 2016 and only 0.1% of the UK’s exports went to Iceland (Tree map, 2018). Due to the nature of Iceland undiversified economy, most of their exports to the UK are comprised of fish and seafood and processed minerals, while the UK has lot more diversified range exports to Iceland (Tree map, 2018).

While the UK exports a diverse range of products and materials to Iceland, they are all traded in such a relatively low amount when it comes to their worldwide exports of the UK, which it means that if Iceland would implement any trade restrictions on UK’s products and materials, that it would have a miniscule effect on the overall UK’s industry and companies. The UK has a very low reliance on the imports of Iceland, with the exception of Iceland’s exportation of processed minerals and fish and seafood to the UK accounting for 1.7% and 7.9% respectively for each of the worldwide UK’s imports of these types of products and materials. Other types of products and materials, that Iceland exports to the UK, do each represent less than 1% each of the overall worldwide import to the UK. While Iceland is not significantly reliant on the UK for any specific type of product or material, the variety of products and materials are still shipped in big enough quantities so that a trade barrier could
have some negative effects on a variety of Icelandic companies and industries (Tree map, 2018).

As for Iceland’s exports to the UK, a decent amount of Iceland’s biggest export products and materials are going to the United Kingdom, that being processed minerals and fish and seafood, plus Iceland ships most of their inorganic salts and acids to the UK (although inorganic salts and acids accounted for only 0.25% of Iceland’s exports as of 2016) which means that trade barriers could affect some of Iceland’s most important industries.
Based only on these trade numbers, a superficial analysis would indicate that Iceland has a greater reliance on a beneficial trade relationship as compared to the UK, which means that regardless of whatever trade relationship the countries decide on, it will most likely not have a significant impact on the UK, with the small exception of the UK having to adjust to the fact that they might not be getting more Icelandic fish if the trade deal goes nowhere (Tree map, 2018).

Chapter 8.3 Discussing trade tariffs

While Iceland has progressively moved more towards free trade over the past decades with both EU and non-EU countries, the country still enforces trade tariffs on sectors that the nation desires to protect, such as the highly important fisheries and also the agricultural sector. Importing fish into Iceland is mostly tariff free, with the exception of some type of shellfish, plus processed and packaged fish, both of which having a relatively low tariff of 10% (Tollstjóri, 2017). Since fish and seafood are the biggest part of Iceland’s exports, Iceland seeks to keep their tariffs on these products at a minimum, because if they were to seek high import tariffs on fish, it would lead to Iceland’s trading partners reciprocating these actions with trade tariff on fish and seafood from Iceland. These actions would severely affect Iceland’s economy, which means that Iceland does keep their tariffs close to a minimum, so that the fish and seafood sector in Iceland can be exported without any kind of trade tariffs that would severely affect foreign demand for Icelandic fish and seafood. Iceland does also implement a variety of trade tariffs on a large number of agricultural products, mostly the types of agricultural products that Iceland has the capacity to produce locally, which makes them a protectionist measure that protects Icelandic industries from foreign competition. The UK will have the ability in their future endeavours, thanks to Brexit, to set their own trade tariffs and make their own trade deals. With a full implementation of Brexit, the UK will gain back control of their fisheries and an exclusive right to fish within their own sea borders. The UK would use this opportunity to revitalize their fisheries and increase their exports. In order for the country to increase their exports of fish and seafood, the country would seek a minimum of imports tariffs for the same reason as Iceland. The second biggest of Iceland’s exports to the UK are aluminium, a processed mineral that is used in the production of variety of products, which is a minor element of the UK economy with 0.1% of UK exports being aluminium as of 2016. While there may be a possibility that the aluminium sector may demand protectionist measures, the UK is unlikely to acquiesce to those demands
due to the rest of manufacturing sector needing aluminium to produce their products and because of the insignificant size of that sector (Tree map, 2018) (Uses of aluminium, 2018).

**Chapter 8.4 Discussing the flow of the trade negotiations**

Following Brexit, the UK will seek to renegotiate its trade deal with non-EU countries, and that would include an insignificant trading partner such as Iceland. This chapter seeks to analyse the possible flow and outcome of the trade negotiations through the Peterson Institute for international economics seven steps of trade negotiations (Negotiating trade agreements, 2018). The first step is for each of the two countries to build their own main coalition of people that will officially be negotiating on the behalf of their own governments. At the same time influencers will begin to organize, establish their agenda and helping the main coalition from their respective country decide on which topics will be in the preliminary negotiations and possibly the future negotiations. Icelandic industry leaders in the fisheries, processed minerals, chemicals, inorganic salts and acids and other minor sectors will demand its own’s country coalition to ask the UK to not set import tariffs on the products that the industry leaders export, while the Icelandic agricultural and fisheries sector will demand that Iceland should not remove its own import tariffs on certain agricultural and fisheries goods, in favour for the UK (Tollstjóri, 2017). The UK’s industry leaders in the machinery, fisheries, electronics, processed foods, medicaments, aircraft and other sectors will also demand for their products to pass through Iceland without tariffs, some UK companies that ship in Icelandic fish will urge their coalition to not set a trade tariff on that product and the aluminium sector in the UK will seek some protectionist measures for their industry (Tree map, 2018). As for the second step, which entails the choosing of the forum for the negotiations, and since these negotiations are very important to Iceland and not so important the UK, it would best that the negotiations take place in the city of London, since it would be much more convenient for the UK. Setting the forum up in Iceland might lead to the negotiations needlessly dragging on, because the UK would be too busy renegotiating with other trading partners to go to the hassle of going back and forward to Iceland. In regards to the third step, the UK and Iceland will aim for a free trade agreement on the products and materials that they do not desire to seek protectionist measures on, and then decide on the trade tariffs for the products and materials that they do seek to protect, such as agricultural products, fish and seafood products and aluminium. These three products and materials will be discussed separately in the order of fish, agriculture and aluminium (Negotiating trade agreements, 2018). In the fourth step, the industry leaders that do seek protectionist measures
will continue to lobby their coalitions do maintain a protectionist stance on some products and materials, while other the industry leaders, who are in danger of facing an import tariff on the products that they export, will lobby for their coalition take a stance against the opposing coalition’s proposed protectionist measures (Negotiating trade agreements, 2018). In the fifth step, the two sides can link the final agreement of the negotiations to reaching an agreement on all the tariffs, which both countries would like to enforce plus the two sides can also link one side’s trade tariffs to the other side also establishing similar type of trade tariffs as retribution (Negotiating trade agreements, 2018). In regards to the sixth step, Iceland can promote these negotiations to the public as sign of Iceland’s continued desire to trade with one of its most important trading partners and that Brexit will not have any severe or long-lasting effects on their trade relationship, while the UK can promote this and other trade negotiations as a sign of the UK’s capabilities to negotiate and trade without the oversight of the EU. Iceland can promote stability and the UK can promote its own self-reliance (Negotiating trade agreements, 2018). As for the seventh step, the UK will seek a speedy resolution to the negotiations, because they will have many nations to negotiate with and Iceland is not the most important of these, which means that Iceland will need to maintain a momentum and avoid deadlocks that might make the UK put the negotiations on hold or walk away with no deal (Negotiating trade agreements, 2018).

Chapter 8.5 Discussing failed and alternate outcomes of the trade negotiations

There are several possible outcomes to the trade negotiations, other than the outcome which is discussed in chapter 8.6 of this thesis, some of them can be problematic for either or both parties and some of the outcomes can just be different. There some possible outcomes where trade negotiations will not happen, such as the UK deciding to repeal Brexit and stay within in European Union in the future or if the UK goes for some kind of a “Soft” Brexit, which involves the country still staying in the customs union and continues to enforce the common agricultural and fisheries policy of the EU. In these scenarios, the reason for why the United Kingdom would not seek trade negotiations is due to the fact that the current trade deals would still be enforced. If the UK decided to join EFTA, the UK could make new trade deals with non-EU countries, while agricultural and fisheries products would be the only products that Iceland and the UK would be negotiating, because of the fact that all other products and materials would still be imported and exported under the current EEA laws. There are is a possibility that the UK could bring up the ICESAVE fiasco during the trade negotiations and
demand further payments for the “non-priority” claims and in that case, the negotiations could turn toxic and drag on for an extended amount of time and it could lead to a no deal or a trade deal that may be very unbeficial to Iceland (Agence France-Presse, 2016). There may be a possibility that some overly nationalistic forces within the UK could demand big trade tariffs for their fishing industries, an act that would be very unbeficial for Iceland since most of their exports involve fish and seafood. In that scenario Iceland would most likely threaten the UK with import tariffs on some of their biggest import products and materials to Iceland, such as chemicals, machinery and aircrafts. After that, the UK and Iceland would start to argue about the tariffs and it would either end with both countries setting up those tariffs or both countries deciding not to use these kind of tariffs (Tree map, 2018 (Brexit and Britain’s Fisheries, 2018). There is also a possibility that UK’s industry leaders in aluminium might seek protectionist for their materials and that scenario would play out in a similar fashion to the fisheries example above (Tree map, 2018) (Uses of aluminium, 2018).

Chapter 8.6 The optimal solution
This is the most optimal and fair deal for both parties. After Brexit takes place, the country begins trade deal negotiations with non-EU countries. The UK and Iceland start their negotiations, they aim for a free trade deal at the start of the negotiations and then begin to discuss trade tariffs on the products that they have a desire to protect. The aluminium sector in the UK attempts to ask their coalition for protectionist measures, but they get declined over the fact that it is such a small part of the UK economy and it does not have a lot of political clout within the UK. The UK, having gained back control of their fisheries and exclusive rights to fishing within their own sea borders, aims to revitalise their fish and seafood sector and increase their exports. To increase their exports of fish and seafood and also to make sure that UK companies that import fish and seafood from foreign countries, such as Iceland, do not face extra fees, the UK will aim to keep their import tariffs of this product at a minimum when negotiating a trade deal with foreign countries, so that the other countries might also keep their import tariffs of British fish and seafood at a minimum. The UK and Iceland will agree on the free trade of fish, with the exception of packaged and canned fish. Since Iceland puts a 10% import tariff on that type of product, the UK will also put a 10% import tariff on packaged and canned fish. Since Iceland does employ a variety of import tariffs on certain agricultural products, the UK will also employ some similar types import tariffs on Icelandic agricultural products that might compete with the UK’s local agricultural industries. Iceland
will accept those trade tariffs, because Iceland also uses a similar kind of trade tariffs that the UK will also accept. The UK and Iceland will attempt to finish the negotiations as quickly as possible due to the fact that the UK will have many other trade deals with more significant trading partners to renegotiate. Iceland and the United Kingdom will conclude the trade negotiations, once they agreed on the free trade and imports tariffs on all products and materials that will be going between those two countries in the coming future. After the trade negotiations have concluded, the two countries will continue to trade on the terms of these new rules, that the countries have agreed upon.

Chapter 9 Conclusions

There are many possible outcomes and conclusions to the negotiations, this thesis has lightly touched on some of the possibilities, but the main focus was the optimal solution for both countries involved. The optimal solution focused on a scenario where both countries do not let past history get in the way of the negotiations, where both countries decide to resolve these negotiations in a timely fashion by avoiding deadlocks and no-deal scenarios and by also maintaining a good momentum in the negotiations, where the public of both countries support the negotiations and its optimal outcome, where both countries do aim for free trade and the minimization of trade tariffs. The optimal solution does end with both countries successfully concluding the trade negotiations, with almost all products and materials being imported and exported without any tariffs with the exception of packaged and canned fish, alongside with certain agricultural products. Iceland has had a steadfast policy over the past decades of protecting its agricultural sector and since the UK agricultural sector does not export much over to Iceland, the UK will also employ a similar type of agricultural import tariff for the sake of equal treatment and fairness, and Iceland will accept that on those terms. As to fish and seafood, Iceland will seek the minimization of tariffs because fish and seafood are their biggest export, while the UK will seek the minimization of tariffs because they wish to export more fish and seafood to foreign countries and so that UK companies can get Icelandic fish without any extra tariffs. The UK and Iceland will reach an agreement (in the optimal scenario) where fish and seafood is traded tariff free with the exception of canned and packaged fish. Since Iceland puts a 10% tariff on canned and packed fish, the UK will do the same and Iceland will accept that on the basis of equal treatment and fairness.
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