Iceland❖

Iceland is located in North Europe, between the Greenland Sea and the North Atlantic Ocean, North-west of the United Kingdom.

Settled by the Norwegian and Celtic (Scottish and Irish) immigrants during the late 9th and 10th centuries AD, Iceland[1] boasts the world's oldest functioning legislative assembly, the Althing, established in 930 AD.

Independent for over 300 years, Iceland was subsequently ruled by Norway and Denmark respectively. Fallout from the Askja volcanic eruption of 1875 devastated the Icelandic economy and caused widespread famine. Over the next quarter century, 20 percent of the island's population emigrated, mostly to Canada and the USA. Limited home rule from Denmark was granted in 1874 and complete independence attained in 1944. Literacy, longevity, income, and social cohesion are first-rate by world standards.

PROFILE	
Population:	313,183 million***
GDP (Current US$):	13.826 billion***
Per Capita Income: (Current US$)	33,870 (Atlas method)** 28,630 (at PPP.)**
Surface Area:	103.0 thousand sq. km
Life Expectancy:	81 years***
Literacy (%):	99 (of ages 15 and above)***
HDI Rank:	14***

Sources:
- CIA World Fact Book
- Human Development Report Statistics, UNDP, 2011

(**) For the year 2010
(***) For the year 2012

Economy

Iceland's Scandinavian-type economy is basically capitalistic, yet with an extensive welfare system (including generous housing subsidies), low unemployment, and remarkably even distribution of income. In the absence of other natural resources (except for abundant geothermal power), the economy depends heavily on the fishing industry, which provides 70 percent of export earnings and employs 12 percent of the work force. The economy remains sensitive to declining fish stocks as well as to fluctuations in world prices for its main exports: fish and fish products, aluminium, and ferrosilicon.

Government policies include reducing the budget and current account deficits; limiting foreign borrowing; containing inflation; revising agricultural and fishing policies; diversifying the economy; and privatising state-owned industries. The Government remains opposed to EU membership, primarily because of Icelanders' concern about losing control over their fishing resources.

Iceland's economy has been diversifying into the manufacturing and service industries in the last decade, and new developments in software production, biotechnology, and financial services are taking place. The tourism sector is also expanding, with the recent trends in ecotourism and whale watching.Iceland achieved an impressive economic record for most of the 1990s, with one of the highest consistent growth rates in the world and low inflation and unemployment. But through the years of 2008-2012, Iceland suffered a major banking collapse and relative to the size of its economy, it was the largest suffered by any country in economic history.[1] As for the causes, in 2001, banks were deregulated in Iceland. This set the stage for banks to upload debts when foreign companies were accumulated. The crisis unfolded when banks became unable to refinance their debts.[2] At the end of the second quarter 2008, Iceland's external debt was 9.553 trillion Icelandic kroner.[3]

Competition Evolution and Environment

The Danish trade monopoly, established in 1602, was imposed on Iceland. The monopoly was aimed at

❖ Original paper submitted (2006-07) & updated (December 2012) internally by CUTS International.
http://cia.gov/cia/publications/factbook/geos/ic.html

promoting Danish mercantile interests. Merchants from certain towns, mercantile trade unions or companies, held the trade monopoly in Iceland for certain periods, often after competitive bidding.

This trade monopoly was in line with prevailing mercantilist ideas and aimed to aid in the formation of a capitalist class in the realm. Although attempts were made to protect Icelandic customers by price controls and other regulations, the absence of competition and the maintenance of artificial relative prices meant that trade remained at a minimal level and was unable to respond to market developments. The trade monopoly caused havoc in the economy.

During 1951, the economy was characterised by considerable public sector participation in business, and extensive state intervention, for example, widespread price controls. The period from 1959 to 1971 saw the formation of the longest living coalition, Government of the Social Democrats and Independence Party. The new Government undertook programme of economic reforms.

State intervention in various areas of the economy was cut back, foreign trade was liberalised and protectionist measures were reduced, in line with policies, which had long been established elsewhere in Western Europe. The new policy enabled Iceland to participate in free-trade agreements with neighbouring countries. Iceland became a signatory to General Agreement on Tariffs and Trade (GATT) and, in 1971, joined the European Free Trade Association (EFTA).

Despite frequent changes in Government, there has been a single main economic policy theme since 1983: deregulation and the introduction of market forces in even more areas, e.g. in price determination, currency transactions and credit. In continuation of this process, Iceland, along with most members of EFTA, became a member of the European Economic Area (EEA), which involved a close relationship with the EU single market and EU regulations on commercial freedoms and competition.

Competition Policy

The *Icelandic Competition Act* dates from 1993. Following the acceptance of the EEA Agreement, the Parliament passed the Competition Act, outlawing practices whose effect or aim is to fix prices, divide markets, or lead to a dominant market position; in this sense, cartels were not outlawed *per se*, but only in if they lead to one of these undesirable outcomes.

In Iceland, competition policy is enforced at three levels: at national level, when the effects of a practice are limited to Iceland; at EFTA level, when effects extend to other EFTA countries; and at EEA level, when practices affect other EEA members.

Decisions can be appealed to the Competition Appeals Committee, composed of three members appointed by the Minister and nominated by the Supreme Court of Iceland. Decisions of the Appeals Committee may be referred to the courts.

Before 2005, the Competition and Fair Trade Authority (*Samkeppnisstofnun*) and the Competition Council (*Samkeppnisrao*) were in charge of the enforcement of competition policy in Iceland. By the Competition Act of 2005, the responsibility for the enforcement of the Competition Act was vested in the Competition Authority (*Samkeppniseftirlitid*). The Competition Authority was

Box 1: Iceland's Largest Mobile Operator Fined for Abuse of Dominance

- Iceland's Competition Authority fined the incumbent telecoms operator ISK390mn (2.3 million euros) for abuse of dominance in May, 2012. Further, a fine of ISK50mn was imposed on Síminn for false and misleading information in the matter.

The Competition Authority decided that Siminn, Iceland's largest mobile operator and a former telecoms monopolist, abused its dominant position by squeezing the margins of its competitor Nova.

The authority says Siminn charged complainant Nova unfairly high tariffs for calls made from its phones to Siminn's phone numbers between 2001 and 2007. The enforcer said that such wholesale tariffs were higher than the retail price paid by Siminn users to call each other. "This has *inter alia* forced Nova to provide free calls within its own mobile telephone network in order to enable it to attract customers, in competition with Síminn", said the authority. "This policy has not been sustainable, and Nova has run at a heavy loss in its first years of operation. The agency said that Síminn's practice violated Iceland's and the European Economic Area's competition rules. According to the authority, it is "evident" that telecoms companies abandoned their plans to enter the mobile market and that competitors suffered losses and were forced to merge with each other, reducing the number of market players, as a result of Síminn's conduct.

In recent years, the enforcer has focused its attention on the telecoms market – a key sector for the sparsely populated country. In May 2011, it blocked the merger of Síminn's two main rivals Vodafone and Tal saying it would have led to a duopoly. The fine was confirmed by Iceland's Competition Appeals Committee in September 2012.

Source: Global Competition Review, 2011 launched on July 1, 2005. By the same Act, the former Competition and Fair Trade Authority and the Competition Council were discontinued. Prior to the entry into force of the Act, the competition authorities were also responsible for supervision of unfair practices and market transparency. These tasks have now been assigned to the Consumer Agency pursuant to the Act on the supervision of unfair trade practices and market transparency.

The enforcement of Competition Law has intensified in Iceland in the past two decades. There were 1,371 restrictive business practice investigations by the CFTA in 1998, of which 745 were closed without further investigation. A report was written in 84 cases, and for 542 cases an investigation was still in process at the end of the year. The number of judgments given by the Courts in 1998 regarding competition policy issues was 25, out of which three were given by the Supreme Court.

Investigations involved both public and private enterprises, a departure from the past when mostly public enterprise practices were analysed. Several investigations dealt with access to essential facilities for the provision of services; exercise of monopoly power; and the possibility, by wholesalers, of exercising monopoly power. Investigations involved, *inter alia*, the provision of telecommunication services (20 cases were filed in 1998, against Iceland Telecom); access to credit card services; access to mail delivery services; and several cases involving mergers not exceeding the EFTA/EEA threshold.

Another significant amendment in the Competition Act was that of 2011. The main changes were:

- The Competition Authority was given the powers to take action against any situation or behaviour that restricts competition even though that behaviour does not violate the prohibition rules in the Competition Act by itself. The amendment gives the Competition Authority options similar to those found for instance in the UK. Remedies on the form of divestiture are included.
- The ICA was enabled to bring rulings of the Appeals Committee before the courts. Before this amendment only those who opposed the ICA before the Appeals Committee could bring a case before the courts.
- Those who bring cases to the Appeals Committee have to pay a moderate fee.
- A moderate merger notification fee was introduced for the first time.

This amendment gives the ICA new remedies and also demonstrates an important recognition of the fact that competition restraints do not always stem from violations of prohibition rules. The changes and the reasoning behind them clearly show that the legislators are of the opinion that the encouragement of competition will promote a speedier economic recovery. The changes are intended to promote those improvements.

The new provision therefore supports the prohibition rules in the Competition Act. By it the ICA is better able to ensure that the public and the commercial sector do not suffer because of conduct or circumstances on the market that limit competition. The fundamental concept is that no company in an important market should have an irreversible right to benefit from profits deriving from a monopolistic situation of that company.

The ICA is currently preparing the general application of the new provision. As with other interventions by the ICA, the application of this provision will be tested before the Competition Appeals Committee and before the courts.

The objective of this law is to promote effective competition and, thus, to increase the efficiency of the factors of production in the society. This objective is to be reached by:

- preventing unreasonable limitations, or barriers to freedom of economic operation;
- preventing unfair trade practices, harmful oligopolies and the restriction of competition; and
- facilitating the entry of new competitors into the market.

Regulatory Framework

Much of Iceland's financial regulatory system was put in place only in the 1990s, thus, it is not yet clear where the boundaries of regulatory authority lie in some areas. Some sectors of the economy – especially fishing and agriculture – remain heavily regulated.

Telecommunications Sector

Iceland started to liberalise its telecom sector in 1997, as part of a move to integrate with the global trend of deregulation in this sector. The telecom monopoly was broken when the Government granted a licence to a private company to operate a mobile phone network.

Iceland Telecoms' tariffs and prices are now amongst the lowest in the western world, in all categories, and it is cheaper to use the internet in Iceland, at off-peak times, than anywhere else, other than Finland and Denmark. Competitors have already taken over the domestic copper loop. Over the last decade, Iceland Telecom has invested in 3,000 km of fibre optics to provide a 2.5 gigabyte capacity circuit around the island, and Global System for Mobile Communications (GSM) is now available to 96 percent of the population.

Unlike many European countries, Iceland is receptive to all companies wanting licences or licence-based agreements. It already boasts 17 operators, one per 17,500 people.

The main bodies in charge of the regulation of the telecommunications in Iceland are:

- Post and Telecom Administration (PTA);
- Ministry of Commerce; and
- Telecommunications bodies.

Energy Sector

Whilst import and distribution of fuel in Iceland have practically always been in the hands of private enterprises, energy production and the distribution of electric and geothermal energy have almost always been in the public domain, or carried out by publicly owned corporations. The entire organisation and legal framework of energy issues have, until now, been built up around this structure.

At the beginning of the present century, new legislation has been adopted, which will introduce competition in electricity generation and sale. This may result in private enterprises in various areas, which are currently under the auspices of the state or community authorities.

Consumer Protection

The Consumer Agency in Iceland is an independent government agency, which was formed by the merger of the State Electrical Inspection and the Agency for Legal Metrology in 1996. In 2005, the Consumer Affairs Division of the Icelandic Competition Authority was also merged to this government agency. The role of the agency is to ensure enforcement of legislation laid down by Parliament in order to protect the safety of consumers and assuring consumers legal protection in various transactions with business operators. The function of the agency, is to implement rules ensuring an efficient competitive environment, as well as a high degree of consumer protection. Its other main objectives also include:

- providing companies and institutions with expert accreditation and metrological services; and
- ensuring compliance with requirements for the safety and interests of Icelandic consumers.

The agency also performs the dual role of trying to ensure that consumers receive information so that they have some perspective regarding the market and that the principle of fair trade is honoured. Its main areas of work are:

- promoting and protecting the interests of consumers;
- representing the consumers, and undertaking comparative testing of consumer goods and services;
- stating consumers' views to the authorities, trade, industry, etc;
- giving assistance in individual cases; and
- consumers' education and information.

Concluding Observations and Future Scenario

In recent years, the Icelandic economy has undergone significant transformations, largely caused by market liberalisation. Dramatic shifts have taken place in the ownership of companies and many claim that greater concentration of holdings and power in the business sector, is now apparent.

Box 2: Anti-competitive Cases with Competition Authority

In 2011, the ICA fined five companies of a total amount of Euro5.6mn for anti-competitive practices ranging from abuse of dominant position, collusion and failure to adhere to a merger decision. Moreover, ICA took 26 decisions pertaining to mergers, thus intervening in around 60 percent of notified mergers. Three mergers were annulled in 2011, that if allowed to materialise would have had an adverse effect on competition in telecommunications, in the financial market and the production of pork.

As a result of the banking collapse in 2008, the three banks which were established upon the ruins of the collapsed banks, have taking over commercial undertakings, which have suffered from excessive debts and contradiction in demand

Source http://en.samkeppni.is/media/reports/ICA_2011_en.pdf

The Ministry of Economic Affairs has recognised that the financial crisis of the past four years in Iceland has revealed various flaws and deficiencies in the financial system and at the same time raised a variety of ethical and political questions, which must be addressed and answered, if public confidence is to be restored in banks and financial markets.

Opinions differ across political lines. Interestingly enough the middle and left parties objected to the anti-concentration bill, claiming it was aimed at certain individuals and also criticising the way it was created and proposed without cross-party consultation. The right wing Independence Party (which the Prime Minister at the time, who was proposing the bill, belongs to) subsequently accused the left of protecting their political interests.

It is a generally wide held belief that the Independence Party has had the better when it comes to media throughout the decades, being very influential in Iceland's most popular newspaper *Morgunbladid*. It now seems they have more competition. Everybody in Iceland has an opinion on this subject and it is really hard to tell what exactly is going on. The matter is highly politically charged.

The Chamber of Commerce believes that the business sector is capable of adopting measures to beef-up self-regulation, with the consumer/investor as the effective regulator (i.e. companies seen to be acting an anti-competitive manner will lose sales and investment). Seeking to get out in front on the issue, and hopefully forestall any legislative encroachments on business freedoms, the Chamber is working on new guidelines for business conduct that are intended to increase trustworthiness, transparency and efficiency of the business sector. If anything, this issue appears to be heating up as ever-larger business deals continue apace.

Suggested Readings

1. OECD, *1999*
2. International Law Office

Endnotes

1 "Premium content", The Economist, 11 December 2008
2 Robert Jackson (15 November 2008), "Big Chill"
3 Central Bank of Iceland (4 September 2008) "External Debt"