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*Iceland**

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

PROFILE	
Population:	286 thousand***
GDP (Current US$):	10.5 billion***
Per Capita Income: (Current US$)	30810 (Atlas method)*** 29,750 (at PPP.)**
Surface Area:	103.0 thousand sq. km
Life Expectancy:	79.7 years**
Literacy (%):	99.9 (of ages 15 and above)
HDI Rank:	7**

Sources:
- World Development Indicators Database, World Bank, 2004
- Human Development Report Statistics, UNDP, 2004

(**) For the year 2002
(***) For the year 2003

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.

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. Amongst the factors contributing to economic growth, success can be attributed to resource management in the mainstay fisheries sector; price stability; diversification of industry; privatisation; liberalisation and deregulation; development of the Iceland Stock Exchange; growth in foreign investment and business-friendly tax reforms. The living standard is among the highest in the world.

* Original paper submitted in October 2004 done by Nupur Anchlia of CUTS. Revised in April 2006. Comments received from John Bragi Fjalldal, IMD MBA Candidate, Lausanne, Switzerland.

1 http://cia.gov/cia/publications/factbook/geos/ic.html

Competition Evolution and Environment

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

At the domestic level, the Competition and Fair Trade Authority (*Samkeppnisstofnun,* CFTA) and the Competition Council (*Samkeppnisráð*) are in charge of surveying the enforcement of competition policy in Iceland. The Authority prepares cases submitted to the Competition Council. The Authority can decide provisionally on individual matters and may take decisions of limited scope. More complex cases are submitted to the Competition Council, formed by five members appointed by the Minister of Commerce. 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.

The enforcement of competition law has intensified in Iceland in recent years. 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

Box 78.1: Iceland Air Accused for Predatory Pricing

Iceland Air slashed its prices after a rival, Iceland Express, launched budget flights on the same routes. The Competition Authority decided that the strategy constitutes predatory behaviour.

The Authority issued a finding that Iceland Air used unfair pricing practices in an effort to undermine the chances of success of the newly established Iceland Express. The new low-fare airline only flies to Copenhagen and London, and from the day it began service, Iceland Air matched Iceland Express' very cheap fares on those specific routes only, leaving fares on the flag carrier's numerous other routes unchanged. The Authority also reprimanded Iceland Air for cutting the prices of certain business flights, although these were not priced below cost.

The Authority did not impose fines on Iceland Air. Instead, it ordered the company to restore the former fares. The intervention had the perverse effect of attempting to help consumers by raising prices.

Source: Global Competition Review, 2003 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.

The Act has been amended four times, most recently on December 06, 2000. This Act was designed to harmonise the Icelandic competition rules with Articles 53 and 54 of the EEA Agreement.

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,
- 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 down 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 mobile telephony (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.

Box 78.2: Controversy as Competition Council Annuls Merger

The Icelandic Competition Authority was notified of a merger between MR and FB, in accordance with Article 18 of the Amended Competition Act 8/1993. The main activity and purpose of both companies is the importation, processing, packaging, distribution and sale of animal food products. The reason behind the merger of MR and FB was twofold: it would save costs and secure the cooperation between the companies.

In light of the fact that the Icelandic market for the products in question was small, and potential purchasers were widely dispersed across the country, product distribution was uneconomical for both companies. For several years, the companies had also cooperated in the importation of animal feed products, since this requires the installation of specially equipped carriers and silos at the harbour, which the companies could not afford separately.

When the owners of FB wanted to sell the company, the future cooperation between the companies was jeopardised, and it also became clear that without further cutbacks in FB's operations, venture capitalists would not be interested in investing in the business. MR, therefore, bought 75 percent of the outstanding and issued shares in FB.

Since it was clear from the outset that the merger would give the new company a dominant position on the market in question, the companies suggested to the Competition Authority that certain conditions would be set for the merger.

Together with the high combined market share of the merging companies, their economic strength, the buyer's strength and the changes the merger would have made to the market structure, the Council decided that the conditions offered by the parties would not be enough to balance the detrimental effects on competition that such a merger would have. Therefore, the Council decided to annul the merger.

This decision is significant as it was the first time that the Icelandic Competition Council have used its authority to annul a merger that had already taken place.

Source: International Law Office

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 function of the Department of Competition and Consumer Affairs is to implement rules ensuring an efficient competitive environment, as well as a high degree of consumer protection. The CFTA supervises competition and promotes active competition in business. The Governmental Agency for Electrical Safety, Accreditation, Market Surveillance, Metrology and Legal Metrology is self-explanatory. Its main objectives are:

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

To increase consumer protection in Iceland, the Ministry has entered into an agreement with the Consumer Association of Iceland to reinforce its operations. This reinforcement is mainly in the form of support to guidance services; complaint services; office operations; administration for the ruling committees; and surveillance of standard negotiation terms.

The Department of Competition and Consumer Affairs has a 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.

The revision of legislation, concerning trade and consumer protection, is planned so that the whole legal process will

Box 78.3: Anticompetitive Cases with Competition Authority

A preliminary CFTA investigation reportedly points to collusion by **three big oil companies** in Iceland (Shell, ESSO, and Olis) to fix prices and rig bids. The investigation began when authorities raided the offices of the three in 2001, over suspicion about such activities.

Once the Authority's findings are finalised, a report will be forwarded to the public prosecutor's office, which will determine whether to initiate formal legal proceedings against those responsible. This matter has the potential to develop in to a full-blown scandal since the current mayor of Reykjavik, Thorolfur Arnason, was Marketing Director of Esso Iceland at the time the price fixing allegedly took place.

The irony for Arnason is that some of the purported actions of the oil companies include colluding on bids for contracts to supply public sector entities. Some of those bids were submitted for contracts with the city of Reykjavik, and as mayor, Arnason found himself in the position of having to push for an investigation of illegal activities, in which he may have been one of the key players. The Mayor has since resigned because of the case; although it is widely believed he was not directly involved. The case is still awaiting court proceedings.

The second case involves the possible illegal price collusion amongst the t**hree largest insurance companies** of Iceland. This investigation has been underway for six years. The companies deny the allegations, with the added caveat that even if there were truth to them, the statute of limitations concerning the deeds would have expired. These cases point out a broader problem within the Icelandic economy.

Most business sectors have only a handful of companies, and through a network of common interests, industry/trade associations and close family ties, some business practices, which are now largely unacceptable in other OECD economies, have endured in Iceland.

The CFTA was granted expanded powers a few years ago to pursue anti-trust violations, and it appears that this agency is finally prepared to use its newly acquired muscle. Going after these 'blue chip', high profile companies may serve as a firm warning and a wake up call to the Icelandic business establishment that the days of business, with usual tolerance for anticompetitive business practices, are over.

Source: http://www.buyusa.gov/iceland/en/97.html, 2003 be simplified and bureaucracy minimised, whilst consumer protection will be increased.

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.

This discernable trend of increased concentration has caught the attention of both the Prime Minister and Commerce Minister. Additionally, the Government of Iceland has appointed two committees, one to put forward proposals on how to deal with business sector concentration, in general; and the other looks at concentration in media ownership. The committees are expected to issue their reports shortly.

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 anticompetitive 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