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Committee on Regional Trade Agreements

FREE TRADE AGREEMENT BETWEEN THE GOVERNMENT OF ICELAND  
AND THE FAROE ISLANDS (GOVERNMENT OF DENMARK)

In a communication dated 11 February 1997, the Permanent Mission of Denmark, also on behalf of the Faroe Islands and Iceland, has transmitted the following documentation for the circulation to the Members of the Committee on Regional Trade Agreements.

I. Background Information on the Agreement

The Faroe Islands, as a self-governing part of Denmark, were earlier part of the EFTA through Denmark's membership of that organization, but were not included in Denmark's membership of the EC. After the conclusion of a more extensive free trade agreement between the Faroe Islands and the EC, the Faroe Islands introduced the EC external customs tariff towards third countries on 1 February 1992. At the same time the Faroe Islands invited the Nordic countries and later Switzerland and Austria to negotiate free trade agreements to reestablish free trade between the Faroe Islands and the EFTA countries.<sup>1</sup>

1. Membership and dates of signature, ratification and entry into force

The Parties to the Agreement are the Government of Denmark and the Home Government of the Faroe Islands, of the one part, and the Government of Iceland, of the other part. As prescribed by Article 27 of the Agreement, the Agreement applies, on the one hand, to the Faroe Islands, and, on the other hand, to the Republic of Iceland.

The Agreement was signed on 6 August 1992.

It was subsequently ratified by Iceland and Denmark (also on behalf of the Home Government of the Faroe Islands) by exchange of Notes dated 2 June 1993.

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<sup>1</sup>A free trade agreement between the Faroe Islands and Austria never entered into force due to the latter's

It was applied provisionally from 1 September 1992, pending ratification, and entered into force on 1 July 1993.

It was notified to the WTO by Denmark, also on behalf of the Home Government of the Faroe Islands, and by Iceland on 14 December 1995 (WT/REG23/N/1 and WT/REG23/1), in accordance with Article XXIV:7(a) of the GATT 1994.

## 2. Type of Agreement

The Agreement created a free-trade area in conformity with the definition set in Article XXIV:8(b) of the GATT 1994.

## 3. Scope

As prescribed by Article 2, the Agreement applies to products falling within Chapters 25 to 97 of the Harmonized Commodity Description and Coding System, excluding the products listed in Annex 1, and to fish and other marine products as provided for in Annex 2. The products covered are products originating in the Faroe Islands or Iceland according to the rules of origin laid down in Annex 3 of the Agreement.

The products excluded from the coverage of the Agreement (Annex 1) are products originally falling within Chapters 1 to 24 ("agricultural products") in the nomenclature preceding the Harmonized Description and Coding System (HS), but which were transferred at the time of the introduction of the Harmonized System into HS Chapters 25 to 97 ("industrial products"). The products listed in Annex 1 are thus products which are excluded from the application of the provisions of the Agreement relating to industrial products.

As prescribed by Article 25 of the Agreement, the possibility exists to envisage the extension of the product coverage of the Agreement at a later stage, if requested by one of the Parties to the Agreement.

## 4. Trade data

Data on intra-trade are presented in Annex 1 to this note.

## II. Trade Provisions

### 1. &

### 2. Import and export restrictions

#### (a) Duties and charges

As prescribed by Article 4, customs duties on imports and exports and charges having equivalent effect were abolished upon the entry into force of the Agreement. No new customs duties on imports and exports or charges having equivalent effect may be introduced. All import duties of a fiscal nature have been abolished, in keeping with the provisions of Article 4 and Annex 5. In line with Article 9 of the Agreement, there are no measures or practices of an internal fiscal nature establishing, whether directly or indirectly, discrimination between products originating in the Faroe Islands and like products originating in Iceland.

As prescribed by Article 5 of the Agreement, quantitative restrictions on imports and exports and measures having equivalent effect were abolished upon the entry into force of the Agreement, subject to the special rules laid down in Annexes 2 and 6. No new quantitative restrictions on imports and exports or measures having equivalent effect may be introduced.

### 3. Rules of Origin

Annex 3 of the Agreement lays down the rules of origin applicable between the Parties to the Agreement.

The origin rules are in line with the Common Declaration with Regard to Preferential Rules of Origin contained in Annex II to the Agreement on Rules of Origin as set out in the Final Act of the Uruguay Round. The relevant provisions on the definition of the concept "originating products" are contained in Title II of Annex 3. The origin provisions allow for cumulation with materials from all EFTA States.

The rules of origin for trade in agricultural products covered by the bilateral agriculture Arrangement referred to in Article 7 of the Agreement are laid down in a separate annex to that Arrangement.

### 4. Standards

The Agreement does not contain any specific provisions concerning "Technical barriers to trade" and/or "Sanitary and phytosanitary measures". Article 7 stipulates, however, that the Contracting Parties shall apply their regulations in veterinary, health and plant health matters in a non-discriminatory fashion and shall not introduce any new measures that have the effect of unduly obstructing trade.

### 5. Safeguards

The Agreement contains provisions relating to emergency action on imports of particular products (Article 20), re-export and serious shortage (Article 21) and balance-of-payments difficulties (Article 22). The procedures for the application of safeguard measures are laid down in Article 23.

### 6. Anti-dumping and countervailing measures

According to the provisions of Article 19, the Contracting Parties may only take anti-dumping measures in accordance with the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade and with the procedures laid down in Article 23.

### 7. Subsidies and State-aid

Any public aid granted which threatens to distort competition in trade between the Parties is considered incompatible with the proper functioning of the Agreement (Article 16). Criteria for assessing such practices are found in Annex 7. Appropriate measures against practices contrary to Article 16 may be taken in accordance with the procedures for implementation of appropriate measures against such practices laid down in Article 23.

### 8. Sector-specific provisions

In Article 7 of the Agreement, the Contracting Parties declare their readiness to foster, in so far as their agricultural policies allow, harmonious development of trade in agricultural products. In pursuance of this objective, the Contracting Parties simultaneously concluded a bilateral Arrangement providing for measures to facilitate trade in agricultural products between the Faroe Islands and Iceland.

The bilateral Arrangement provides duty free market access for the products it covers. The number of agricultural products covered by the Arrangement reflects the export interests of both Parties to it. In this respect it should be noted that the Faroe Islands, due to their production structure, have only demanded duty free access for a limited number of products. The Arrangement stipulates that requests from the Faroe Islands for extending the product coverage will be considered favourably by Iceland.

The Arrangement forms part of the instruments creating the free trade area and contributes to the development of closer integration between the economies of the Contracting Parties, without raising barriers to the trade of other WTO Members.

#### 9. Public Monopolies

According to Article 15, the Contracting Parties shall ensure that any public monopoly of a commercial character in the Faroe Islands and in Iceland be adjusted so that no discrimination regarding the conditions under which goods are procured and marketed will exist between residents of the Faroe Islands and of Iceland. The Agreement does not contain any list of public monopolies. The Parties to the Agreement are bound by their commitments under Article XVII and the Understanding on the Interpretation of Article XVII of the GATT 1994.

#### 10. Payments

Article 10 of the Agreement stipulates that payments relating to trade and the transfer of such payments to the Faroe Islands or to Iceland, depending on where the creditor resides, shall be free from any restrictions.

### III. General Provisions of the Agreement

#### 1. Exceptions and reservations

In Article 6, the Contracting Parties reserve their rights to take special measures regarding trade in petroleum products.

Article 11 (General Exceptions) prescribes that the Agreement shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants and the environment; the protection of national treasures possessing artistic, historic or archaeological value; the protection of intellectual property; or rules relating to gold or silver; or conservation of exhaustible natural resources, if such measures are made effective in conjunction with restrictions on domestic production or consumption. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Contracting Parties.

Article 12 (Security Exceptions) stipulates that nothing in the Agreement shall

prevent the disclosure of information contrary to its essential security interests, or to the protection of its essential security interests or for the implementation of international obligations or national policies as specified therein.

## 2. Accession / Withdrawal

There are no specific provisions in the Agreement relating to accession. According to Article 28, either Contracting Party may denounce the Agreement by notification to the other Contracting Party. The Agreement shall cease to be in force twelve months after the date of which such notification was received.

## 3. Dispute settlement procedures

There are no dispute settlement provisions contained in the Agreement. However, Article 24 (Consultation Mechanism) stipulates that for the purpose of the proper implementation of the Agreement, the Contracting Parties shall, whenever necessary, exchange information and, at the request of either Contracting Party, hold consultations. The Contracting Parties may also decide that the implementation of the Agreement shall be supervised and administered by a Joint Committee consisting of their representatives.

## 4. Relation with other trade agreements

As explicitly mentioned in the Preamble of the Agreement, the Contracting Parties have decided to conclude the Agreement considering that none of its provisions may be interpreted as exempting the Contracting Parties from the obligations under other international agreements.

Furthermore, the Preamble of the Agreement refers explicitly to the General Agreement of Tariffs and Trade. In concluding the Agreement, the Parties were resolved to eliminate the obstacles to substantially all their trade, in accordance with the provisions of the GATT concerning the establishment of free trade areas.

By concluding the Agreement, the Contracting Parties were desiring to consolidate and to extend the economic relations existing between them and to ensure, with due regard for fair conditions of competition, the harmonious development of their mutual trade in the context of European cooperation. They also declared their readiness to examine, in the light of any relevant factor, and in particular of developments in European cooperation, the possibility of developing and deepening their relations in order to extend them to fields not covered by the Agreement.

## 5. Institutional framework

The implementation of the Agreement shall be supervised and administered by a Joint Committee consisting of representatives of the Contracting Parties. The Joint Committee can set up sub-committees and working parties and may decide to amend the Annexes. The Joint Committee acts by common Agreement and meets whenever necessary (Article 24).

## STRUCTURE OF THE AGREEMENT

	Article
Preamble	
Objectives	1
Scope	2 - Annex 1 and 2
Rules of Origin and Administrative Cooperation	3 - Annex 3 and 4
Customs Duties and Charges	4 - Annex 5
Quantitative Restrictions	5 - Annex 2 and 6
Trade in Petroleum Products	6
Trade in Agricultural Products	7
Customs Unions, Free-Trade Areas and Frontier Trade	8
Internal Taxation	9
Payments	10
General Exceptions	11
Security Exceptions	12
Fulfilment of Obligations	13
Rules of Competition	14
Public Monopolies	15
Public Aid	16 - Annex 7
Protection of Intellectual Property	17
Public Procurement	18
Dumping	19
Emergency Action	20
Re-export and Serious Shortage	21
Balance-of-Payments Difficulties	22
Procedures for the Application of Safeguard Measures	23
Consultation Mechanism	24
Evolutionary Clause	25
Annexes	26
Territorial Application	27
Denunciation	28
Entry into Force	29

## ANNEX 1

Trade between Iceland and the Faroe Islands  
Intra-Trade

Imports from FR (in D.cr) 1,000 crowns					
HS Section	1992	1993	1994	1995	1996 <sup>2</sup>
1	18,884	10,708	15,089	12,684	5,669
2	1,776	1,211	1,259	2,808	271
3	27	53	72	38	55
4	4,243	3,344	2,224	13,833	1,024
5	82	78	1	169	5
6	550	278	305	435	291
7	455	308	387	1,390	3,223
8			17		
9	121	57	9	8	29
10	3,488	3,516	4,299	5,615	3,949
11	302	791	1,061	2,030	421
12	13	16		6	
13	2,086	821	511	819	569
14	4				
15	2,052	1,142	2,167	1,640	699
16	656	298	3,501	3,354	2,727
17	66	211	100	2,148	1,013
18	14	30	54	25	38
19					
20	70	57	21	93	16
21	2,732	40	9	69	150
	76	130	102	167	65
Chap. 1- 24	24,930	15,317	18,644	29,363	7,049
Chap. 25-97	12,686	7,694	12,544	17,799	13,189
TOTAL	37,698	23,089	31,189	47,331	20,243

Exports from FR (in D.cr) 1,000 crowns					
HS Section	1992	1993	1994	1995	1996 <sup>2</sup>
1	34		442	51,245	
2					
3					
4			373	253	
5					
6	594	650	664	610	280
7	27	201	291	343	157
8	547	285	1,326	1,181	7
9		22	182		
10		46		116	
11		984	484		
12					
13				427	
14					
15			98	65	
16		31	7		
17	103,000	2,193			
18		48	48	8	16
19					
20	1	134	326	134	25
21					
Chap. 1- 24	34	0	815	51,498	0
Chap. 25-97	104,571	4,595	3,426	2,883	487
TOTAL	104,605	4,595	4,241	54,381	487

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January - June (both included)



## Trade between Iceland and the Faroe Islands

1,000 crown (D.cr)

	1992	1993	1994	1995	1996 <sup>2</sup>
Imports	37,698	23,089	31,189	47,331	20,243
Exports	104,605	4,595	4,241	54,381	487
TOTAL TRADE	142,303	27,684	35,430	101,712	20,730

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January - June (both included)