

## European Commission – Agriculture and Rural development Iceland - Agriculture and Enlargement

Iceland is a founding member of NATO, OECD and EEA. It became an independent Republic in 1944. It has a territory of 103 thousand km<sup>2</sup> and a population of 319 thousand.

By the end of the 90s, Iceland had one of the highest economic growth rates; low inflation and low unemployment. However, the country was strongly affected by the financial crisis.

The EU is the main trading partner of Iceland. The imports from the EU have a share of 54% (2008) of all Iceland's imports from the World, whereas the exports to the EU account for 75% (2008) of all worldwide Icelandic exports.

Agriculture is an important sector for the country as it is the backbone for employment and livelihoods of its scarcely populated rural areas (an exception is the south-west corner of the country).



### Main Country Indicators

	Total area (in km <sup>2</sup> )	Population (thu)	Population density (per km <sup>2</sup> )	GDP (EUR mio)	GDP growth change with a previous year (%)
<b>Iceland</b>	103 000	319	3.1	36.104	0,82
<b>EU 27</b>	4 308 406.6	501 103	116.0	11788711.1	-4.2

Sources: Eurostat for year 2009 and Statistics Iceland, The Farmers Association of Iceland

## Towards the EU Membership

### Iceland's application

Iceland has the status of an applicant country. It has applied for the EU membership on 16 July 2009. On 27 July 2010, the Council asked the Commission to prepare an opinion on Iceland's capacity to comply with criteria for membership defined by the European Council of Copenhagen (1993). The Commission issued a positive Opinion on Iceland's application on 24 February 2010. Iceland has been applying almost 2/3 of the Community *acquis* since middle of 1990 as a member of the European Economic Area (EEA). Accession negotiations were opened on 27 July 2010.

### IPA – The Instrument for Pre-accession Assistance

For 2011 until 2013 assistance under component I, Transition Assistance and Institution Building is foreseen for an amount of €28 million. Only component I is foreseen as the setting up of IPARD (or component 5) management and control system is very lengthy and would not fit in the current enlargement schedule.

### **Agricultural sector**

Iceland is an island that lies above the 62<sup>o</sup> latitude, with average temperatures of around 10<sup>o</sup>C in July. The island is young on the geological calendar, consisting almost exclusively of volcanic rocks, lava and sediment and has still many active volcanoes. The arable land below 200 m altitude (land that can be cultivated), partly vegetated and partly barren, represents 15% of the total surface, 18% of the area lies between 200 and 400 m and 54% above 400 m altitude. Population density in several regions is around 3 persons per km<sup>2</sup>, restricting the development of local markets, and consequently, implying that distances to the latter are long and transports of agricultural products and inputs, become costly.

It is evident from the aforementioned data that Iceland does not have very favourable conditions for agricultural production and by consequence the farmers' revenues are strongly dependant on coupled payments and high import tariffs. Even though agriculture's contribution to GDP is 1.4% and only 3% of the total workforce is employed in agriculture, the agricultural sector plays an important role, as it is the backbone for employment and livelihoods of its scarcely populated parts of the country. In 2008 there were 3366 operational farms in Iceland. It is worth to be highlighted that Iceland has one of the highest PSE (52% in 2008, 48% in 2009 and 45% estimated in 2010) among the OECD countries, which is almost double than the EU one (25%, in 2008).

Traditional agriculture is primarily based on grass, by natural pasturage and making fodder in the form of hay or silage from cultivated grass fields. Total grassland, mostly uncultivated extensive grazing land amounts to 40,000 square kilometres, of which a little more than 100.000 ha for cultivated grassland. Crop production is currently on small scale, almost exclusively barley for feed for use on the farms and not for sale. This cultivation, however, has been increasing rapidly in the last few years and barley is now grown on over 4,000 hectares yielding around 15,000 tonnes and provides around 10% of all grain used for livestock feed.

Livestock production accounts for 87% of the farm income. An average dairy farmer has around 30-40 milk cows and a sheep farmer 300-600 sheep. The remaining share of the farm income derives from horticulture. The latter is mainly limited to the production of potatoes, turnips, cabbages, cauliflower and carrots, which are cultivated outside and to tomatoes, cucumbers, peppers, nursery plants and flowers, which are cultivated in greenhouses based on geothermal energy and artificial lighting.

Icelandic farmers have relatively large holdings, the total size of farms often being hundreds of hectares. Family farming is overwhelmingly the most common arrangement and in some cases two families work the same farm. Most farmers own their land and many farms have been owned by the same families for centuries and almost all farmers are affiliated to a sectoral organization, all together forming one single association called - the Farmers Association.

Rural development policy does not exist as such in Iceland. However, one might compare the European rural development policy with Icelandic regional development policy, which has some quasi-similar objectives. Icelandic regional development policy is not attributed only to one ministry; instead all the ministries and certain additional institutions are involved in rural development.

## Economic importance of agriculture

<i>Indicators</i>	<i>Iceland</i>	<i>EU 27</i>
<i>Utilised Agricultural area (UAA)(000 ha)*</i>	129	178 813
<i>Proportion of total area</i>	1,25%	41.73%
<i>Arable land, % of UAA</i>	7.8%*	59.7%
<i>Permanent Grassland, % of UAA</i>	92.2%*	33.3%
<i>Share of agricultural labour in total labour (%)</i>	2.6**	5
<i>Share of GDP (%)</i>	1.3**	1.6

Data for 2008.

\* 2006 Data \*\* 2009 data

Sources: Eurostat, Estimations from various Icelandic sources.

### EU-27 agricultural trade with Iceland

The EU is the main trading partner of Iceland, with regard to all commodities, as well as in terms of agricultural products. Currently, EU-Iceland economic relations are governed by the European Economic Area Agreement (EEA). It has to be noted though, that initially, agriculture was exempted from the EEA provisions. This has changed, however, in 2006, when Iceland partially opened its market to EU agricultural products, under Article 19 of EEA and a number of trade concessions have been made, as of 2007.

The product groups accounting for the largest share of EU exports of (basis and processed) agricultural products, in terms of value, are fruits and nuts (Ch 08); vegetables (Ch 07), food residues (Ch 23), cereals (Ch 10) and coffee/spices (Ch 9).

Whereas, with regard to EU agricultural imports from Iceland, the product groups accounting for the largest share are fats and oils (Ch 15). Note that data include mainly fish oils. This is followed meat (Ch 2) due to large increases in sheep meat which has now hit the TRQ level, live animals (Ch 1), raw fur skins (Ch 43) and dairy products; eggs; honey (Ch 04).

### Basic agricultural products (mio €)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Ø 2008/2010</b>
<b>EU27 imports</b>	38,2	28,1	36,7	34,3
<b>EU27 exports</b>	114,5	88,3	99,9	101
<b>Trade balance for EU</b>	76,3	60,2	63,2	66,7

Source: Eurostat (Comext)

### EU-IS trade for main basic agricultural products (mio €)

<b>EU Exports to IS</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Ø2008/2010</b>
<i>Fruit and nuts</i>	13.9	13.2	14.3	13.8
<i>Vegetables</i>	13.7	11.1	12.9	12.5
<i>Cereals</i>	14.4	7.8	9.7	10.6
<i>Sugar</i>	5.4	3.2	4.5	4.4
<i>Dairy, Eggs, Honey</i>	2.6	2.0	2.0	2.2

Source: Eurostat (Comext)

<b>EU Imports from IS</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Ø2008/2010</b>
<i>Oils and fats ( mainly fish)</i>	17.9	10.8	16.6	15.1
<i>Meat</i>	1.8	3.6	7.5	4.3
<i>Live animals</i>	6.5	6.4	4.7	5.9
<i>Fur skin</i>	8.5	5.0	4.1	5.9
<i>Dairy, Eggs, Honey</i>	0.6	0.7	1.6	1.1

Source: Eurostat (Comext)

### Agriculture production statistics

<b>LIVESTOCK (000 heads)</b>	<b>Iceland</b>	<b>EU 27</b>	<b>In % of EU 27</b>	<b>CROPS (000 tonnes)</b>	<b>Iceland</b>	<b>EU 27</b>	<b>In % of EU 27</b>
<b>Total Cattle</b>	72	88 837	0.1%	<b>Cereals (including rice)</b>	15	314 919	~0%
<i>o.w. Dairy Cows</i>	26.2	24 000	0.1%	<b>Sugar beet</b>	~0	114 810	~0%
<b>Sheep and goats</b>	459	91 154	0.5%	<b>Oilseeds</b>	~0	17 495	~0
<b>Pigs</b>	4	153 067	~0%	<b>Fruits &amp; vegetables</b>	5.6	61 764	0.01%

Data for 2008. Sources: Eurostat, Statistics Iceland, The Farmers Association of Iceland

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