THE ECONOMIC IMPACT OF THE RUSSIAN COUNTER-SANCTIONS ON TRADE BETWEEN ICELAND AND THE RUSSIAN FEDERATION
1 Executive Summary

In August 2014, Russia imposed import sanctions on various goods, including many fish products, as a countermeasure to sanctions previously imposed by the European Union, U.S., Albania, Australia, Canada, Iceland, Montenegro, Norway and Switzerland. The sanctions by these countries were imposed due to the Ukraine crisis.

Ever since World War II, Russia (and the former Soviet Union) has often been one of the most important export markets for Icelandic seafood. Various trade agreements have been signed between the two countries over the years and this trade was never jeopardized in spite of diplomatic differences.

Iceland is a small open economy which depends heavily on foreign trade. The fishing industry has for a long time been the backbone of the Icelandic economy and an important source of income in foreign currency. Although the Icelandic economy is small in international comparison, it is among the largest seafood exporters in the world.

Figure 1 Largest seafood exporters in the world in 2011 by value (USD bn.)

Since the formation of the Russian Federation, it has generally been a growing market for Icelandic products, with seafood being by far the most important product. Since the devaluation of the Icelandic krona in 2008 and the increase in mackerel catches, the growth in trade has been substantial.

*Seafood exports are a sub-category of agri-food exports. Agri-food exports, in the case of Iceland, include seafood (including aquaculture produce and crustaceans), horsemeat, lamb, mink products, pork, cattle produce, dairy products, eiderdown and other minor categories.*
The bulk of seafood exports to Russia consist of pelagic species, mainly mackerel, herring and capelin.
Figure 3 Top food suppliers to Russia in USD bn. and percentage of GDP, from the list of banned importers in 2013 with Iceland added

![Bar chart showing top food suppliers to Russia in USD bn. and percentage of GDP.]

Source: Various, own calculations, Iceland, OECD & Brigham Young University

Figure 4 Seafood export from Iceland to Russia at FOB value by species in 2014

![Pie chart showing seafood export from Iceland to Russia by species.]

Source: Statistics Iceland
Furthermore the trade sanctions imposed by Russia affect Iceland more negatively than most other countries subject to the sanctions due to the importance of seafood exports to the Icelandic national economy and the relative importance of Russia as a market for these same exports.

Given the importance of seafood exports for the Icelandic economy and the relative importance of the Russian market for Icelandic exporters, it is evident that Iceland is proportionally among the hardest hit by the Russian counter-sanctions. Had the restrictions been imposed on other types of imports, this would not be the case.

It is difficult to estimate the total effect of the trade sanctions on the Icelandic economy with great accuracy as much depends upon the assumptions given concerning demand, supply and the financial impact on individual firms and segments of the labour market. It is clear, however, that the local effects on some municipalities are severe and the macroeconomic effects are considerable given the volume and prices of products exported to Russia in very recent years, especially if the trade sanctions are to continue into the longer future.

**Table 1** Potential loss of value added for the Icelandic economy due to the Russian counter-sanctions in ISK billions, based on various assumptions – average of export of banned products from 2013 to 2014
Assumptions regarding the loss of the value of exports

<table>
<thead>
<tr>
<th>Years of sanctions</th>
<th>Export growth</th>
<th>5% loss of the value of exports</th>
<th>10% loss of the value of exports</th>
<th>20% loss of the value of exports</th>
<th>30% loss of the value of exports</th>
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<tbody>
<tr>
<td></td>
<td>1 year</td>
<td>3 years</td>
<td>10 years</td>
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<td>0%</td>
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<td>2.9</td>
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<td>2.9</td>
<td>8.3</td>
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<td>2%</td>
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<td>3.0</td>
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<td>3%</td>
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</table>

In billions of Icelandic krona

The table above shows present value calculations using the policy rate of the Central Bank of Iceland (5.75%) of the potential theoretical loss due to the Russian countersanction against Iceland, given different assumptions. The table shows the potential loss of export value, by selling the banned product to other markets at lower prices. To take an example the average export value of the banned produce in 2013-2014 was ISK 21.3 billion. If the growth rate is assumed to be zero the export figures would be constant, but lower prices, e.g. by 20% for one year would result in ISK 4 billion in lost export value for the Icelandic economy.

If another example is taken where the export growth is assumed to be 2% for 3 years and the price would be 10% lower than the average export prices during 2013-2014 the theoretical loss in the present value of the exports would be around ISK 5.9 billion.

A 30% loss of the value of exports for 3 years assuming 0% growth per year would result a present value loss of ISK 17 billion. Hence Iceland would be willing to pay that amount today to avoid the counter-sanctions given these assumptions.

It should be noted that these number shows the different order of magnitude involved, but are not predictions.

In these analyses it is assumed that markets are found for all the produce. According to industry sources and data obtained in this study, prices in the case of mackerel are at least 20% lower post counter-sanctions.

Table 2 Share of fishmeal has increased and export value decreased

<table>
<thead>
<tr>
<th></th>
<th>Export value (FOB) in million ISK</th>
<th>Exported mackerel in tons</th>
<th>Share of of landed mackerel that went into fishmeal &amp;</th>
</tr>
</thead>
</table>
Further to the potential loss of the value of Icelandic exports (banned products) due to the Russian counter-sanctions, in the scenario table above, further economic losses are foreseen due to an increased share of the catch going to fish meal production.

Firstly, as increased share of the mackerel catch is going to fishmeal production, amounting to 27% during 2015 compared to 11% during 2014, the export value of frozen mackerel products decreased by 11 billions ISK.

Secondly, given that the market for frozen capelin is to a large extent closed, it is most likely that production of fishmeal will increase. As the price for fishmeal is considerably lower than the price for frozen capelin, this could result in 50%-60% lower prices. During 2014 the export value of frozen capelin was ISK 3.9 billion. Given that the Russian market remains closed, this could result in much lower export value or an ISK 2 – 2.5 billion loss compared to the 2014 export levels.

When one is assuming constant prices it has be acknowledged that Russia’s economy is experiencing great challenges. In a recent IMF evaluation it is estimated that the GDP of Russia contracted “by 3.8% in 2015 followed by a milder contraction of 0.6% in 2016 due to the headwinds from lower oil prices”\(^2\)

It is therefore clear that the purchasing power has declined in Russia and demand for goods will suffer. How this would affect the imports of pelagic produce from Iceland is uncertain since it is a source of inexpensive protein.

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Table of figures

Figure 1 Largest seafood exporters in the world in 2011 by value (USD bn.) ........................ 2
Figure 2 Icelandic merchandise exports to Russia, 1992 – 2015 ........................................... 3
Figure 3 Top food suppliers to Russia in USD bn. and percentage of GDP, from the list of banned importers in 2013 with Iceland added ................................................................. 4
Figure 4 Seaweed export from Iceland to Russia at FOB value by species in 2014 ............... 4
Figure 5 Share of fish in total commodity exports and share of Russia of total fish exports 2013 for each country ................................................................. 5
Figure 6 The left-wing newspaper Mjölnir in June 1946 ....................................................... 14
Figure 7 Main trading partners: Share of exports from Iceland, 1895-1994 – Five-year averages ..................................................................................................................... 14
Figure 8 The left-wing newspaper Þjóðviljinn in August 1953 .............................................. 15
Figure 9 The conservative newspaper Morgunblaðið in August 1953 ................................. 16
Figure 10 Share of trade between Iceland and the Soviet Union, 1926 - 1994 .................... 19
Figure 11 Twenty largest fishing nations in the world in 2013 .............................................. 22
Figure 12 Catches in the North Atlantic, by country, 2013 ................................................... 23
Figure 13 Largest seafood exporters in the world in 2011 by value (USD b.) ...................... 23
Figure 14 Largest merchandise exporters per capita in the OECD countries, USD (est. 2014) .................................................................................................................................... 24

Figure 15 Top food suppliers to Russia in USD bn. and as percentage of GDP, from countries on the list of banned importers in 2013, with Iceland added ........................................... 28
Figure 16 Economic growth and general government balance in Russia since 1993 .......... 30
Figure 17 Inflation in Russia ............................................................................................... 31
Figure 18 Real house prices in Russia ................................................................................. 31
Figure 19 Changes in monthly rouble exchange rate and Brent oil prices ......................... 32
Figure 20 Imports of goods and services and Russia’s current account ............................... 32
Figure 21 The foreign currency reserves of the Russian Central Bank, 1995 - 2015 ........... 33
Figure 22 Changes in the Russia’s foreign currency reserves, 2007 - 2015 ....................... 33
Figure 23 Icelandic merchandise exports to Russia, 1992 – November 2015 .................... 36
Figure 24 Icelandic merchandise export growth (+/-) to Russia, 1993 – November 2015 .... 37
Figure 25 Seafood exports from Iceland to Russia at FOB value, by species, in 2014 .......... 38
Figure 26 Mackerel catch by Icelandic vessels, in tons, 2007 – November 2015 .......... 39
Figure 27 Landed values of mackerel catches by Icelandic vessels in ISK billions, 2007 – August 2015 ..................................................................................................................... 39
Figure 28 Icelandic fish exports to Russia in ISK billions, 2008 – 2015 ............................... 40
Figure 29 Icelandic fish exports to Belarus, Kazakhstan and Ukraine in ISK billions, 2008 – 2014 .............................................................................................................................. 41
Figure 30 Price indexes of pelagic products from Iceland, 2006 – 2014 .............................. 41
Figure 31 Price indexes of pelagic products from Iceland deflated with USD, 2006 – 2014 .... 42
Figure 32 Changes in export distribution, by country, from 2014 to 2015 ............................ 43
Figure 33 Total exports of pelagic fish from Iceland, in tons, by species, 1999 - 2015 .......... 45
Figure 34 Total exports of pelagic fish from Iceland at current prices, by species, 2007 - 2015 ............................................................................................................................. 46
Figure 35 Mackerel exports from Iceland by countries in 2014 by value ............................ 47
Figure 36 Share of fish in total commodity exports and share of the Russian market for total fish exports for each country in 2013 ................................................................. 52

Tables

Table 1 Potential loss of value added for the Icelandic economy due to the Russian counter-sanctions in ISK billions, based on various assumptions – average of export of banned products from 2013 to 2014 ........................................................................................................... 5
Table 2 Share of fishmeal has increased and export value decreased ................................ 6
Table 2 Examples of trade agreements between Iceland and the Soviet Union ............... 17
Table 3 External trade in services between Iceland and Russia – ISK millions ...............42
Table 4 EU28 and Iceland’s agricultural trade with Russia.................................................56
Table 5 Potential loss of added value for the Icelandic economy due to the Russian counter-sanctions in ISK billions, based on various assumptions – average exports of banned products from 2013 to 2014......................................................................................... 58
Table 7 Share of fishmeal has increased and export value decreased.............................. 59
Table 7 – Timeline of major events concerning the Russian sanctions............................. 64

Boxes

Box 1 Tensions between the United Kingdom and Iceland gave way to increased trade with the Soviet Union .............................................................................................................. 18
Box 2 – Case of one municipality affected by the counter-sanctions ................................. 48
Box 3 – The Russian government’s decision No. 778 defining the list of products banned and the countries concerned which includes all EU Member States and a list of agricultural products, raw materials and foodstuffs originating from the United States, countries of the European Union, Canada, Australia and the Kingdom of Norway, that are banned for imports to the Russian Federation for a period of one year ................................................. 62
1 Introduction

This report is prepared by Reykjavik Economics by the request of an ad hoc task force (Prime Minister’s Office, the Ministry of Foreign Affairs, Ministry of Finance, Ministry of Industries and Innovations and Fisheries Iceland (SFS)) to assess the economic impact of the counter-sanctions imposed by Russia on Icelandic agricultural and seafood trade.

The Russian food import sanctions were imposed as a countermeasure to sanctions that the European Union, U.S., Albania, Australia, Canada, Iceland, Montenegro, Norway and Switzerland imposed in 2014 due to the “absence of de-escalatory steps by the Russian Federation” following the Ukrainian crisis.

On March 17, 2014, the EU imposed the following sanctions:

“Asset freezes and visa bans apply to 151 persons while 37 entities are subject to a freeze of their assets in the EU. This includes 145 persons and 24 entities responsible for action against Ukraine’s territorial integrity, six persons providing support to or benefitting Russian decision-makers and 13 entities in Crimea and Sevastopol that were confiscated or that have benefitted from a transfer of ownership contrary to Ukrainian law.”

On August 7, 2014, the Russian Federation levied counter-sanctions on selected EU products. Consequently, EU agricultural exports to Russia decreased by 38% over the period August-December 2014 compared to the same period the previous year.

On August 13, 2015, the Prime Minister of Russia, Dmitry Medvedev, signed an extension of the import sanctions of food. Previously, most European countries had been on the list; it was now expanded to include Albania, Iceland, Liechtenstein and Montenegro. The original list consisted of the states of the European Union, Australia, Canada, Norway and the United States of America.

The food exports from Iceland to Russia that are affected are agricultural products and seafood, with the exception of lamb, horses and canned seafood.

This purpose of this report is to assess the economic impact of the Russian counter-sanctions against Iceland.

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4 http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm
5 http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm?page=1&mxi=50
6 http://ec.europa.eu/agriculture/russian-import-ban/questions-and-answers/qa1_en.htm
Trade relations between Iceland and the Soviet Union/Russia from the 1930s to 1998

Trade relations between Iceland and the former Soviet Union, and now Russia, go back as far as to the 1920s. The first registered trade between the two countries was in 1927 involving mainly Icelandic exports to the Soviet Union. Imports from the Soviet Union to Iceland were insignificant to begin with, but increased from 1932 to 1934.

During World War II trade between the two countries was negligible.

After World War II the Socialist, Social Democratic Party and Independence Party (Conservatives) coalition government of Iceland (1944 – 1947) chaired by Mr Ólafur Thors, was seeking markets for frozen fish and other seafood products. This was due to the increased volume of catches by the Icelandic fleet.

At the time the Socialist Party had a direct relationship with the Moscow government, which probably affected the USSR's stance on trade with Iceland. In the spring of 1946, the then Minister of Industry, Mr Áki Jakobsson, sent a trade commission to Moscow to explore trading opportunities. The result was the first trade agreement with the Soviet Union. It was agreed that Moscow would buy the following Icelandic goods:

- 15 thousand tons of frozen fish fillets.
- 100 thousand barrels of salted herring.
- 12 thousand tons of herring oil.
- 200 tons of cod liver oil.

The Icelandic trade commission agreed to buy goods amounting to $1.85 million (ISK 12 million) at the time - or around USD 23 million in today’s prices. The goods that were bought from the USSR were:

- 10 thousand standards timber.
- 30 thousand tons of coal.

The Moscow government paid for the difference for the goods in hard currency, i.e. US dollars, that amounted to $9.5 million (ISK 62 million) or around $116 million in today’s prices. This was welcomed in the Icelandic left-wing media at the time; the newspaper Mjölnir hailed it on its front page as “The largest trade agreement that has been made in peacetime”. Pétur Magnússon, the Minister of Finance, wrote an article in Morgunblaðið in May 1946 stating that Russia could easily buy all Icelandic produce.

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7 Mjölnir “Stærstu afurðasölusamningar, er gerðir hafa verið á friðartímun” June 5, 1946
8 Eimreiðin Vol 3. 1946.
9 The export value to Russia equalled roughly $890 per capita in today prices at the time.
10 “Horfur á tryggrí sölu íslenskra afurða á þessu ári” Morgunblaðið, May 30, 1946
Ólafur Thors, the Prime Minister, assumed that the reasons for the trade were political and “...they are not handing us over to the US for free”. The trade between Iceland and the USSR experienced a setback when Iceland took part in the Marshall Plan (European Recovery Program) in 1947.\textsuperscript{11,12}

Figure 7 Main trading partners: Share of exports from Iceland, 1895-1994 – Five-year averages

The above chart shows clearly how the 1946 trade agreement affected Iceland's exports to the Soviet Union, which during the period 1946-1950 amounted to 8% of total exports. At the

\textsuperscript{11} http://www.bjorn.is/pistlar/2000/03/05/nr/482
\textsuperscript{12} https://en.wikipedia.org/wiki/Marshall_Plan
time it became the fourth largest export market by value. The largest export markets were the United Kingdom (UK) (29.9%), Germany (10.1%) and the United States (US) (8.9%). This shows the importance of the 1946 trade agreement. In the period 1951-1956 the Soviet Union became the third largest export market for Icelandic goods, with a 9.2% share, as shown on the chart above, trailing behind the US (17.4%) and the UK (13.1%).

2.1 The 1953 trade agreement

Another trade agreement was signed between the Soviet Union and Iceland in 1953, which was primarily based on barter trade. This was celebrated in the left-wing newspaper Þjóðviljinn, which said on its front page in August 1953 that this was the largest trade agreement that had ever been signed in ISK value.

Figure 8 The left-wing newspaper Þjóðviljinn in August 1953

The press release from the Icelandic government stated that the Soviet Union was going to buy 21 thousand tons of frozen fish, which the newspaper Þjóðviljinn asserted was 2/3 of annual production. In addition, the Soviet Union bought 180 thousand barrels of salted herring and 3 thousand tons of frozen herring. Iceland received in exchange 200 thousand tons of oil and gasoline, 2,100 tons of wheat, 360 tons of rice, 3,000 tons of rye flour, 300 tons of potato flour, 50,000 tons of cement, 2,000 tons iron pipes and 160 tons of reinforced steel bars. The trade agreement was valid for two years, after which it could be cancelled with three months’ notice.
According to the newspaper bjóðviltjinn, the total frozen fish production of Iceland was 29 thousand tons in 1952; it had been 35 thousand tons the year before.

The trade agreement was praised in the conservative and pro-NATO newspaper Morgunblaðið, which said among other things in its leader on August 5, 1953:

“All Icelanders certainly welcome the fact that extensive agreements have now been made with the Soviet Union on sales of Icelandic products and unilateral trade with the Russians. Our policy has always been to trade with any nation that wanted to buy from us.

This is how it must be. A nation that is as dependent on foreign trade for its well-being as Iceland is must make a priority of gaining markets in as many countries as possible.

Figure 9 The conservative newspaper Morgunblaðið in August 1953

The left-wing newspaper bjóðviltjinn showed some resentment towards the Marshall Plan and said it had only given Icelanders problems, e.g. that it had been difficult to sell frozen fish inventories to the Marshall countries and to the US. The newspaper therefore also welcomed the trade agreement on political grounds.

Numerous trade agreements, primarily based on barter trade, were made between Iceland and Russia in the years that followed. Main exports apart from seafood were wool and textiles, which were a substantial industry in Iceland in the 1950s to the 1980s.
### Table 3 Examples of trade agreements between Iceland and the Soviet Union

<table>
<thead>
<tr>
<th>Trade agreement</th>
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</thead>
<tbody>
<tr>
<td><strong>Trade agreement of 1946.</strong></td>
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<tr>
<td><strong>Two-year trade agreement of 1953.</strong></td>
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<td><strong>Trade agreement of 1955, which was valid from January – December 1956.</strong></td>
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<tr>
<td>That agreement was based upon the agreement of 1953.13</td>
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<tr>
<td><strong>Trade agreement that was valid from January 1963 – December 1965</strong>.14</td>
</tr>
<tr>
<td><strong>A five-year contract was signed in 1975.</strong></td>
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<tr>
<td><strong>Five-year trade agreement signed in June 1980 and was valid from January</strong></td>
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<tr>
<td>**1981 to December 1985.**15</td>
</tr>
<tr>
<td><strong>Trade agreement was signed in 1991, which was valid until 1992 and amounted</strong></td>
</tr>
<tr>
<td>**to $80 million at current prices.**16</td>
</tr>
</tbody>
</table>

#### 2.1.1 The essence of Icelandic trade policy since independence

The leader in *Morgunblaðið* for August 5, 1953 (see above) portrayed Iceland’s trade policy as that of a sovereign nation, and could have been written today. As a small open economy, Iceland is highly dependent on international trade, now as in the early days of its independence. The newspaper’s leader shows that the Icelandic authorities have, in the long run, always wanted to separate politics and trade. In this respect it is important to emphasize that Icelandic foreign policy has, since the middle of the 20th century, nearly always taken a stance with international institutions such as NATO and the United Nations. At the same time Iceland has also independently criticized human rights violations and breaches of international law.

To take an example, Iceland did not participate in the trade sanctions of the League of Nations against Mussolini’s Italy and continued to trade with Germany after the outbreak of World War II in 1939. The main reason for this is that the Icelandic authorities tried to ensure some kind of neutrality prior to the outbreak of the war17, not only on political grounds, but also due to lack of foreign currency reserves and foreign goods in the period after the Great Depression in 1929. Whitehead (2006) asserts that this policy was put in place to save the Icelandic economy from bankruptcy18. Soon after the war started, Iceland engaged in a secretive trade ban against Nazi Germany in 1939 in cooperation with the UK. Iceland demanded instead that the UK would ensure the export of fish and other trading goods19, which benefited the Icelandic economy greatly.

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18 Ibid
Box 1 Tensions between the United Kingdom and Iceland gave way to increased trade with the Soviet Union

The tension between Iceland and the UK due to the extension by Iceland of its economic zone from 3 to 4 miles in 1952 and the subsequent protest by the UK government, was one of the driving forces behind the 1953 trade agreement and subsequent increase in trade between Russia and Iceland.

During World War II (1941-1945), the UK had been the most important trading partner of Iceland, taking an 82.7% share of all its exports by value. During the period 1951-1955 this share dropped dramatically to 13.1% of total exports.

One of the actions of the UK fishing industry, in response to the 1952 extension of the Icelandic fishing zone, was to impose a landing ban on Icelandic vessels in the harbours of Hull and Grimsby.\(^{20}\)

The political controversy is reflected in an article in Réttur - one of the socialist magazines at the time – where Einar Olgeirsson, the leader of the socialist movement, writes that the trade agreement with the Soviet Union has reinforced the sovereignty of Iceland, which had been challenged by the landing ban by “British capitalists”\(^{21}\).

2.1.2 The Soviet Union becomes Iceland’s most important export market

In the period 1956-1960 the share of the imports by Iceland from the USSR reached as high 16.9% of total imports. During the same period the USSR became the most important export market for Icelandic goods, with a market share of 18.2%. The second and third most important export markets for Iceland at the time were Germany and the USA with a share of 13% each. This testifies the importance of the Russian trade at the time\(^{22}\).

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\(^{22}\) Hagskinna.
Iceland sent a new trade commission to Moscow in 1965 to renew the trade agreement. The Soviet Union would buy seafood for nearly 200 million krona from Iceland. Icelanders would receive from the Soviet Union, in exchange for seafood products, a year’s supply of oil products, gasoline, cement, corn, etc.

2.1.3 The USSR bought 93% of red fish fillets in 1974

The Russian trade was very important for Iceland. In November 1975 a new trade agreement between the countries was signed. The Soviet representatives sought trade for FX instead of the usual barter trade, while the Icelandic delegation pressed for barter trade, as stakeholders in Iceland were concerned that the Soviet Union would stop buying certain products if they were not offered in barter trade. At the time there was a trade deficit due to a rise in oil prices and the Soviet Union pressed Iceland to pay for the deficit in US dollars. The trade agreements included the sale of almost all catches of certain species, such as redfish and saithe, plus nearly all the export value of woollen products and paint. The newspaper Visir concluded that any change in the trade relation could potentially hurt the Icelandic economy.

2.1.4 Trade deficit with the Soviet Union in the 1970s

Since 1953 it was always the intent of the Icelandic government, to ensure a balance of trade through the trade agreements. In the 1970s, due to rising oil prices, it became

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24 “Nýsköpun viðskipta við Sovétríkin”, Visir, November 6, 1975
problematic to maintain this balance and it was difficult to secure sufficient sales of Icelandic products to Russia. Therefore, the Icelandic authorities worked for the introduction of new Icelandic products, such as fishmeal, to the Russian market. On the other hand the Soviet authorities wanted to receive convertible currencies, e.g. US dollar, for the balance. The trade agreement of 1975 was the first since 1953 that included cash payments in addition to the barter trade. Icelandic business people were worried that this new arrangement would discourage the Soviets from increasing their trade with Iceland.25

2.2 Conflicts with Russia and NATO commitments
Although trade between Iceland and Russia has been unaffected by politics until this year (2015), it was not without some frictions. When the Red Army invaded Afghanistan in 1979, Iceland kept in line with NATO allies and when the Baltic States demanded independence 1991, Iceland gave its full diplomatic support. In fact, Iceland was the first country to officially acknowledge the independence of the Baltic states. In the event, this did not damage trade between the two countries, even though the Icelandic government had criticized the Russian authorities in both instances and kept in line with NATO countries in the earlier case26.

2.3 Fall of the USSR and the Russian economic crisis
The USSR continued to be one of Iceland’s largest trading partners, as can be seen from Figure 10, but when the Soviet Union collapsed in 1991, exports to Russia decreased dramatically. Iceland started to invest in Russia soon afterwards and tried to build up a market there, but when the rouble collapsed in 1998 it became a difficult export market.

Icelandic Freezing Plants Corporation (Sölumiðstöð hraðfrystihúsanna - SH - est. 1942), which had been doing business in Russia for decades, tried to improve its marketing position by acquiring Axioma in collaboration with foreign investors in 1995. Axioma was a seafood marketing company that had wholesale offices in Moscow, Perm and Vladivostok27. The operation was closed down in 2000, mainly due to the Russian economic crisis, but the CEO of SH at the time said in an interview with Morgunblaðið: “We closed down this operation because it did not work. It is very risky to import fish to Russia and to pay for it in foreign currency and sell it in roubles. The company has lost a lot of money and therefore we are going to withdraw”28.

The CEO of SH added that only the cheapest seafood was in demand and that purchasing power in Russia was low. SH continued to operate a low-quality fish-processing factory in Perm, which only processed local catch.

Maras Linija, then a subsidiary of the Icelandic shipping company Eimskip, stopped sailing to St. Petersburg due to the Russian economic crisis in 199829.

25 Ibid.
26 Interview with Guðni Th. Jóhannesson, Morgunblaðið, August 15, 2015.
27 Private interview with Bóðvar Guðjónsson the former CEO of Axioma.
29 http://www.mbl.is/greinasafn/grein/428406/
2.4 Summary of trade relations
The trade history of Iceland and Russia during the 20th century shows a clear pattern. The trade was carried out with mutual benefits in mind and Russia provided a secure market for Iceland products for over six decades. With clear objectives, and usually five-year trade agreements, it supported the domestic industrial policy of Iceland and also gave Iceland leverage in international trade, i.e. the country was not as dependent on trade with its Western allies as would otherwise have been the case.

Even though Iceland has always stood at the side of its allies, it never broke off trade with Russia or other countries that were willing to trade.

The *Morgunblaðið* leader stated this in a nutshell when it said: “A nation that is as dependent on foreign trade for its well-being as Iceland is must make a priority of gaining markets in as many countries as possible.”  

30 “Editorial leader”, *Morgunblaðið*, August 5, 1953
3 Global seafood markets

Seafood is among the most internationally traded goods. It contributes, on average, at least 15% of animal protein consumption worldwide and it exceeds the trade in pork and poultry combined.\(^{31}\) Iceland is among the twenty largest fishing nations in the world (see figure 11) by catch quantity: it was in 18\(^{th}\) place in 2013, with 1.47% of the world catch (figure 11).\(^{32}\) Iceland is the second-largest fishing nation in the North Atlantic after Norway, measured in tons of catch (Figure 12).

Figure 11 Twenty largest fishing nations in the world in 2013


3.1 Iceland is among the largest exporters per capita in the world
Due to its big catches and small domestic market, Iceland is among the world’s largest exporters of seafood, both in terms of quantity and value.

Figure 13 Largest seafood exporters in the world in 2011 by value (USD b.)
According to the FAO, Iceland is the 20th largest exporter of seafood (from fishing & aquaculture) in the world, even though the aquaculture sector in Iceland is relatively small (Figure 13).

Iceland is an open economy that depends highly on international trade, not only in terms of exports of seafood products but also in terms of imports. In terms of exports per capita, Iceland is in the top twenty nations in the world.

3.1.1 Effects of economic sanctions on different countries

It is evident that all restrictions to international trade affect small open economies more than others. As can be seen from Figure 14, most OECD countries that are open to trade are also relatively small. One can conclude that trade sanctions of any sort have more damaging effects on small open economies than many large ones that depend more on domestic markets.

The economic losses of taking part in international sanctions against a large trading partner are, generally speaking, higher for small countries like Iceland than for larger and more diversified economies that are less dependent on foreign trade. In other words, Iceland has a comparative advantage in seafood production and therefore trades seafood, but is highly dependent on imports, reflecting a lack of diversification in the economy. It is therefore more vital for small open economies to maintain open trade relations to maximize welfare in their economy.

Figure 14 Largest merchandise exporters per capita in the OECD countries, USD (est. 2014)
4 EU sanctions and counter-sanctions by Russia in 2014 and 2015

This chapter describes the implementation of the EU sanctions against Russia and the Russian counter-sanctions. As Iceland is a member of the European Economic Area (EEA) an overview of the EU actions is useful, but it should be noted that altogether, including the EU, more than 40 countries participate in the sanctions against Russia.

The sanctions of the European Union against Russia were imposed on March 17, 2014. They included a travel ban on designated persons in Russian and Ukraine and the freezing of assets. This action was taken due to escalations of the crisis in Ukraine and the involvement there by Russia, and its annexation of Crimea.

An EU fact-sheet on the sanctions against Russia summarise them as follows.

“Asset freezes and visa bans apply to 151 persons while 37 entities are subject to a freeze of their assets in the EU. This includes 145 persons and 24 entities responsible for action against Ukraine’s territorial integrity, six persons providing support to or benefitting Russian decision-makers and 13 entities in Crimea and Sevastopol that were confiscated or that have benefitted from a transfer of ownership contrary to Ukrainian law.”

In addition, the EU imposed the following restrictions regarding Crimea and Sevastopol.

“As the EU does not recognise the annexation of Crimea and Sevastopol, the following restrictions have been imposed.

• The EU has adopted a prohibition on imports originating from Crimea and Sevastopol unless accompanied by a certificate of origin from the Ukrainian authorities.

• Investment in Crimea or Sevastopol is outlawed. Europeans and EU-based companies may no more buy real estate or entities in Crimea, finance Crimean companies or supply related services.

• In addition, EU operators will no more be permitted to offer tourism services in Crimea or Sevastopol. In particular, European cruise ships may no more call at ports in the Crimean peninsula, except in case of emergency. This applies to all ships owned or controlled by a European or flying the flag of a member state. Existing cruise contracts may be still be honoured until 20 March.

• It has also been prohibited to export certain goods and technology to Crimean companies or for use in Crimea. These concern the transport, telecommunications and energy sectors or the prospection, exploration and production of oil, gas and mineral resources. Technical assistance, brokering, construction or engineering services related to infrastructure in the same sectors must not be provided.”

The EU also targeted Russia with economic sanctions that included the following.
"EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by:
- five major state-owned Russian banks, their subsidiaries outside the EU and those acting on their behalf or under their control.
- three major Russia energy companies and
- three major Russian defence companies.

Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited.

EU nationals and companies may not provide loans to five major Russian state-owned banks.

Embargo on the import and export of arms and related material from/to Russia, covering all items on the EU common military list.

Prohibition on exports of dual use goods and technology for military use in Russia or to Russian military end-users, including all items in the EU list of dual use goods. Export of dual use goods to nine mixed defence companies is also banned.

Exports of certain energy-related equipment and technology to Russia are subject to prior authorisation by competent authorities of Member States. Export licenses will be denied if products are destined for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia.

Services necessary for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia may not be supplied, for instance drilling, well testing or logging services. “

The above list is not complete and further information can be obtained from the EU website (see footnote 33).

4.1 The Russian counter-sanctions

On August 6, 2014, Russia reacted to the international sanctions with counter-sanctions – “On the Application of Certain Special Economic Measures to Ensure the Security of the Russian Federation” – that banned fruit, vegetable, meat, fish, milk and dairy imports from the U.S., the EU, Australia, Canada and Norway. The ban took immediate effect and was set to last for one year. At the time Russia was the fifth largest importer of food in the world according to the WTO.

It is important to note that the Faroe Islands, whose foreign policy is formed in Denmark, are not part of the international sanctions and were therefore excluded from the Russian counter-sanctions. This is of special interest since the Faroe Islands are a competitor to

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33 http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm
34 http://tass.ru/en/world/743798
Iceland regarding seafood exports. The Faroe Islands further enhanced their market position by opening a representative office in Moscow in March 2015.37

On June 24, 2015, the President of the Russian Federation signed an order to extend counter-measures in response to international sanctions. This came as a response to the EU’s decision to extend the sanctions against Russia by six months.38

On August 13, 2015, Prime Minister Dimitry Medvedev extended the trade sanctions to additional countries, i.e. Iceland, Liechtenstein, Albania and Montenegro. In addition, Ukraine would be added in 2016 if an economic agreement between the EU and Ukraine were implemented.39

Figure 15 Top food suppliers to Russia in USD bn. and as percentage of GDP, from countries on the list of banned importers in 2013, with Iceland added

The figure above shows the top food suppliers to Russia in billions of USD along with Iceland, which, in terms of GDP, is much more dependent than the other countries on the Russian trade.

It is interesting that Prime Minister Dimitry Medvedev stated the following, at the first meeting of the governmental import-substitutions commission on August 11, 2015:

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"Our agriculture received quite a powerful boost from the introduction of restrictive counter-measures or the food import embargo. Recently, we extended these restrictions by another year, and one has to admit that this helped agrarian firms make some achievements,[…]"

"But we understand that the restrictions are important, they were extended for a year, but they will not be endless. And everyone should take advantage of this pause,[…]"

"It is clear that so far we are not quite able yet to replace imports entirely, for certain groups of products it will take several years, […]"\(^{40}\)

This seems to imply that the Russian sanctions are partly to support domestic food production and increase food security.

\(^{40}\) [link](http://rbth.co.uk/news/2015/08/11/russias_counter-sanctions_will_not_be_endless_says_medvedev_48426.html)
5 Macroeconomic developments in Russia

Russia is a resource-based economy, which is very dependent on international oil and gas prices. The Russian economy experienced great difficulties with the break-up of the Soviet Union and the fall of the Berlin Wall. This is reflected in the figure below. Russia was overcoming this shock in the 1990s when, with the exception of 1997, economic growth was negative. From the dawn of the 21st century Russia experienced strong economic growth and was hedged in the beginning from the global financial crisis that shook the world in the autumn of 2008. Due to high energy prices, Russia recovered quickly, but it has experienced greater economic difficulties due to lower oil prices in 2015 and because of the international sanctions. The IMF forecasts a negative growth rate for 2015-2016.

Figure 16 Economic growth and general government balance in Russia since 1993

Russia’s currency – the rouble – has devalued substantially due to the factors discussed above. The IMF foresaw a spike in inflation in 2015, due to fall of the rouble, since Russia is a large open economy that is very dependent on imports of goods and services – as seen in the figures below.
Figure 17 Inflation in Russia

Figure 18 Real house prices in Russia
Figure 19 Changes in monthly rouble exchange rate and Brent oil prices

Figure 20 Imports of goods and services and Russia’s current account
**Figure 21** The foreign currency reserves of the Russian Central Bank, 1995 - 2015

**Figure 22** Changes in the Russia's foreign currency reserves, 2007 - 2015
During the financial crisis in 2009, Russia cut its imports dramatically due to the fall of the rouble and Russia is experiencing the same story today in a much more dramatic manner.\(^{41}\) In the light of these events it should not come as a great surprise that Russia took the opportunity to retaliate against the international sanctions by taking measures in order to reduce imports. This could be viewed as a kind of capital controls, since by reducing imports, while energy prices are low, Russia is protecting its foreign reserves.

Russia’s economy has, as is shown in the figures above, experienced great challenges. In a recent IMF evaluation it is estimated that Russia’s GDP contracted “by 3.8% in 2015 followed by a milder contraction of 0.6% in 2016 due to the headwinds from lower oil prices”\(^{42}\)

Due to the above, it is clear that purchasing power has declined in Russia and demand for goods will suffer. How this would affect the imports of pelagic products from Iceland is, however, uncertain since they are a source of inexpensive protein. Further econometric research is needed to gain a clearer picture how these macroeconomic developments affect the demand for pelagic products in Russia.

### 5.1 Russia is boosting domestic food production

By restricting imports of agricultural goods, including seafood, Russia is giving local producers a temporary opportunity improve their goods and to increase their local market share. Although this might have an impact, the devaluation of the rouble has the greatest impact, since Russian-made products become relatively cheaper than imported goods.

This strategy has resulted in the following in 2015 (first quarter, year-on-year comparison):

- Russia’s agricultural production rose by 3.5 per cent.
- Production of cheese and cheese products increased by 31 per cent.
- Chicken production rose 13 per cent.
- Meat production rose 12 per cent

At the same time – due to sanctions and the devaluation of the rouble - food imports have decreased by 43 per cent over the same period.\(^{43}\)

### 5.2 Impact of the sanctions on the Russian economy

According to estimates by the IMF, the trade sanctions due to the Ukraine crisis could result in a loss to Russia amounting to 9% of its GDP. The sanctions consisted mainly of restrictions on the financing of major Russian banks, energy companies and hi-tech industries.\(^{44}\)

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\(^{41}\) Dreger, C. et al. *The rouble between the hammer and the anvil: Oil prices and economic sanctions*. DIW Berlin 2015

\(^{42}\) http://www.imf.org/external/np/sec/pr/2015/pr15533.htm

\(^{43}\) “Despite Kremlin’s promises, Russian food ban fails to deliver” *The Moscow Times*, June 30, 2015

Imports are still strong from many emerging market economies which have experienced devaluation of their currencies, an example being Brazil, whose currency has also experienced a steep depreciation, although trade has decreased between the two countries,\textsuperscript{45} due to decline of oil prices and devaluation of the rouble. \textsuperscript{46} Trade between the two countries seems to be improving; this is reflected in the fact that Brazil has replaced the EU as the main supplier of pork to Russia, which is less expensive source of protein than bovine meat.\textsuperscript{47}

Russia has incentives to import goods from those countries that have currencies that are more evenly correlated with the rouble. In the case of Iceland, the Icelandic krona has been countercyclical to the rouble. It is worth noting that the Icelandic krona has also been gaining ground against the dollar and the euro, which results in decreased competitiveness of Iceland. Although Russia has imposed sanctions against Iceland, one cannot exclude the possibility that the relative devaluation of the rouble \textit{vis-à-vis} the krona could have hurt trade between the countries independently of the sanctions.

\textsuperscript{45} http://www.ft.com/intl/cms/s/0/f98695b4-658e-11e5-97e9-7f0bf5e7177b.html#axzz3ofWRVxY9
6 Value of Icelandic exports to Russia in the 21st century

Exports from Iceland to Russia have increased substantially over the last decade after coming to a halt in the Russian economic crisis of the late 1990s. Current exports consist mainly of seafood in addition to some meat products. The official export data for Russia might be underestimated, as some of the exports of Iceland to Russia are registered as Lithuanian exports, e.g. exports from Iceland that are passing through Klaipeda in Lithuania and even Rotterdam in the Netherlands. This has been challenged in a study by Statistics Iceland.48

The growth of commodities exports to Russia can be seen clearly (black line) in the figure below. They have grown substantially for nearly a decade.

Figure 23 Icelandic merchandise exports to Russia, 1992 – November 2015

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48 https://hagstofa.is/utgafur/hanar-um-utgafu?id=55248
6.1 Seafood is the bulk of the exports to Russia

As before, seafood is still the main export from Iceland to Russia and, as is shown in chart below, seafood exports amounted to nearly ISK 24 billion in 2014. Mackerel and herring are the most important exports both in terms of value and quantity. Capelin and redfish were also important seafood products from Iceland.

According to a recent study by Statistics Iceland on the Rotterdam trade, the export figures to Russia are fairly accurate, due to the fact that Russian importers demand certificates of origin with the goods from the Icelandic authorities. Statistics Iceland does not have further information about the Rotterdam trade, but the Netherlands import around 30% of all Icelandic merchandise exports. The study says that the foreign buyer in most instances takes over the goods, which can go for further processing.49

According to Figure 24, about 21% of all mackerel products are exported to the Netherlands and around 5% to Lithuania. The share of exports to Russia of mackerel is around 38%. Seafood exports to the Netherlands from Iceland are some instances transit goods going to other countries, e.g. Russia and other markets for mackerel in this instance. The reason of the importance of the Netherlands in Iceland’s export figures, is that the port of Rotterdam is

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49 http://www.hagstofa.is/media/49234/hag_151102.pdf
the most important port in Europe for the import and export of refrigerated and frozen cargos and has one of the best freezing capacities for food in Europe.\textsuperscript{50}

Further research is therefore needed to assess the size of the individual end markets, due to transit, since information from Icelandic seafood exporters does not fully agree with the findings of Statistics Iceland.\textsuperscript{51}

**Figure 25 Seafood exports from Iceland to Russia at FOB value, by species, in 2014**

![Seafood exports from Iceland to Russia at FOB value, by species, in 2014](image)

\begin{itemize}
\item **6.1.1 Increased mackerel catches have driven exports to Russia in the last five years**
\item One of the reasons for the increased exports to Russia is the appearance of mackerel in Icelandic waters (EEZ) in 2006 – 2007. Mackerel has become one of the most important species for the Icelandic fishing industry, growing from almost nothing to just over 171,000 tons caught by the Icelandic fleet in 2014 according to Statistics Iceland.\textsuperscript{52} The bulk of that catch was made in Icelandic waters.
\item The mackerel catch of Icelandic fishing vessels and its value is shown in the figures below.
\end{itemize}

\textsuperscript{50} https://www.portofrotterdam.com/en/cargo-industry/containers/reefer-containers
\textsuperscript{51} http://www.vb.is/frettir/sfs-svarar-rannsokn-hagstofu-islands/122216/
\textsuperscript{52} There are minor discrepancies between the data from the Fisheries Directorate and Statistics Iceland. According to the Fisheries Directorate the total catch of mackerel in 2014 was nearly 174,000 tons.
Figure 26 Mackerel catch by Icelandic vessels, in tons, 2007 – November 2015

Figure 27 Landed values of mackerel catches by Icelandic vessels in ISK billions, 2007 – August 2015

As can be seen from the figure below, mackerel and other exports to Russia have flourished over the past half a decade. Since the economic crisis in Iceland, this has been comparable
to the large trade agreements that Iceland signed with Russia after World War II. The same story emerges if one examines the total commodities exports to Russia.

In 2015 the Icelandic capelin quota was more than doubled from its initial allocation to 580,000 tons. One of most valuable exports products from the capelin catch is first of all roe, followed by the frozen male capelin for human consumption. Russia is one of the most important markets for frozen male capelin, but is now closed due to the counter-sanctions. Other main markets for this product are Ukraine (USD 3,083 GDP per capita) and Belarus (USD 8,040 GDP per capita); both those markets have less purchasing power than Russia (USD 12,736 GDP per capita) based on GDP per capita in 2014. The estimated increase in total export revenues due to the increased capelin quota is around ISK 25 billion. Other important markets for capelin are in Asia.

Figure 28 Icelandic fish exports to Russia in ISK billions, 2008 – 2015

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54 http://www.visir.is/utflutningsverdmaeti-aukins-lodnukvota-er-25-milljardar/article/2015150139864
Figure 29 Icelandic fish exports to Belarus, Kazakhstan and Ukraine in ISK billions, 2008 – 2014

Source: Statistics Iceland

Figure 30 Price indexes of pelagic products from Iceland, 2006 – 2014

Source: Statistics Iceland
Price developments for Icelandic pelagic exports have been favourable and increased catch and high prices have been a factor in driving the Icelandic economy out of the economic crisis. The Russian trade has been of considerable importance for Icelandic exporters and the heavily indebted and FX-dependent economy of Iceland. Prices have been falling for the past year, especially that for frozen herring, as can be seen in the figure above. Even though pelagic products took a considerable hit in prices due to the challenges of the Russian economy, they still remained high compared to the previous years, as is shown in the figure above.

### 6.2 Russia’s service trade with Iceland

The Russian – Icelandic trade is not only based on commodity imports and exports, as trade in services is also important. Icelandic export of services, e.g. tourism, is considerable as can be seen in the table below while imports of services from Russia are just around one tenth of the exports. Trade sanctions in services are not a part of the counter-sanctions.

#### Table 4 External trade in services between Iceland and Russia – ISK millions

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of services</td>
<td>6,913</td>
<td>5,531</td>
</tr>
<tr>
<td>Imports of services</td>
<td>622</td>
<td>601</td>
</tr>
<tr>
<td>Balance of trade in services</td>
<td>6,291</td>
<td>4,930</td>
</tr>
</tbody>
</table>
The number of Russian tourists in Iceland via Keflavik Airport declined by 39.8%, from 7,812 in the period January – November 2014 to 4,700 during the same period in 2015. This probably reflects the decrease in Russians’ purchasing power denominated in ISK.

6.3 New markets for mackerel since the imposition of counter-sanctions

When Russian counter-sanctions were imposed, Iceland’s fisheries sector, together with its governmental agencies, began to explore new markets for mackerel products. The figure below shows the change in export quantities between markets from 2014 (Jan-Dec) and 2015 (Jan-Nov). Russia has been replaced by the Netherlands as the most important market for mackerel. The red columns in Figure 32 below show the new markets found for mackerel in 2015.

**Figure 32 Changes in export distribution, by country, from 2014 to 2015**

Intelligence obtained by the authors from traders in the Netherlands indicates that a considerable part of the mackerel that was stored in the Netherlands was mainly shipped to the following countries; Egypt, West Africa, Poland and Romania. Besides these countries, substantial export shipments were made to Bulgaria, Moldova and Ukraine.

6.4 Potential future growth

Due to the recent importance of the Russian trade and its growth rate it can be assumed that this large market could have had a huge potential for Icelandic exporters, despite the fall of the rouble. This growth opportunity was put in jeopardy when Russia put counter-sanctions on Iceland. It is difficult to estimate whether the Russian market will return or whether future opportunities will prove lost for the longer term. It is evident that Russian importers who were
buying Icelandic products have turned to other suppliers in other countries, which are not subject to the Russian sanctions, supplying either the same or similar products.55

The growth potential for exports from Iceland to Russia is difficult to predict, since the Icelandic krona has strengthened. It is nevertheless evident that trade between the two countries is important and has been growing. Iceland had successfully returned to the Russian market following the Russian 1998 economic crisis and had a secure position in the market, which might now be lost to other global competitors. The countries mentioned above are improving their manufacturing skills and therefore over time it might become more difficult for Iceland to regain its lost market share.

55 http://rbth.co.uk/business/2015/08/18/which_countries_have_benefited_from_russias_food_embargo_48587.html
7 Impact of the Russian sanctions on the Icelandic economy

Icelandic exports have been gaining ground following the collapse of the Icelandic banking sector in 2008. Total exports – both of goods and services - have been increasing (Figure 23 and Table 3).

Figure 33 Total exports of pelagic fish from Iceland, in tons, by species, 1999 - 2015
Pelagic catches and exports have also been in good shape since the economic collapse, making a significant contribution towards the country’s balance of payments.

Export growth in pelagic species has been vital for Iceland’s economic recovery. The Russian trade has played an important role in this; as can be seen from Figure 23, it accounted for roughly 5% of total commodities exports in 2014. Other general export markets have also been growing and are likewise vital for Iceland’s recovery.

The expansion in pelagic fisheries production has fuelled both the Russian trade and also trade with other countries. In the case of mackerel, which has formed a substantial proportion of the Russian trade, countries like Nigeria and China are other substantial buyers, as can be seen from the figure below. The Netherlands and Lithuania are also large buyers of mackerel, according to Statistics Iceland, but a great part of that mackerel probably goes on to Russia.\textsuperscript{56} As has already been discussed, Statistics Iceland has researched this issue and stands by its figures, although people in the industry in Iceland and in the Netherlands do not entirely endorse them.

\textsuperscript{56} http://www.byggdastofnun.is/static/files/Skyrslur/byggdaleg-ahrif-innflutningsbanns-russa-endanlegt.pdf
7.1 Trade balance
As has been noted above, the Russian trade amounts to nearly 5% of all exports from Iceland. It is evident that for a small open economy, it would be a great blow if there were no substitute markets for these exports.

It must be acknowledged that the Russian market, with its strong demand for Icelandic products and stable prices, is valuable for Icelandic seafood exports. Substantial marketing costs and efforts are also involved; these will be wasted if the counter-sanctions are prolonged.

How difficult it is to find new markets quickly varies from one seafood species to another. In the case of mackerel it is clear that it is challenging to sell all the catch to countries other than Russia, e.g. China and Nigeria, which is currently a closed market because of capital controls.57 In 2014 about 64% of the export value of mackerel went to Russia, the Netherlands and Lithuania, as can be seen from the figure above.

Icelandic producers of pelagic seafood products have plans to respond to the counter-sanctions by increasing the share of fishmeal as a final product, as was done before investments were made in high-tech processing facilities, making it possible to produce goods for human consumption. Fishmeal production is cheaper than freezing pelagic products and the prices for fishmeal are lower58, though they have improved lately due to the El Niño phenomenon, according to the United Nations Food and Agricultural Organisation.59

57 http://www.ruv.is/frett/fluttum-mest-allra-af-makril-til-russlands
58 Monetary Bulletin, Central Bank of Iceland, 2015
59 http://www.ft.com/intl/cms/s/0/79a42688-83c8-11e5-8095-ed1a37d1e096.html#axzz3sKtZ4rwh
Although it costs more to produce frozen pelagic products the profit margins have been higher than for fishmeal production. It is not clear at this time how much of the pelagic catch has either been frozen for human consumption or processed into fishmeal.

In spite of this, inventories of frozen mackerel are low but the industry has been able to sell the products to market regions such as Central Asia (via Georgia) and to Turkey and African countries (with the notable exception of Nigeria). Keeping inventories of pelagic products in refrigeration is costly and therefore there is an incentive for companies to sell the product as soon as possible, even in markets where prices are less appealing, rather than in markets with higher purchasing power. Representatives from Iceland Seafood International have stated in the media that prices for mackerel are 30-35% lower than last year. It is difficult to evaluate these figures, but according to the authors’ calculations, the price difference depends on the market where the product is sold. In the case of Russia, the price was about 20% lower in 2015 than in 2013. Following the closure of the Russian market, exporters have turned to other markets to offload their inventories. There, prices are considerably lower: for example, markets in West Africa are taking the premier goods that used to be shipped to Russia at prices that are more than 30% lower, according to authors’ calculations based on official statistics. These price differences are calculated on the basis of November 2015 prices on the Russian market, which were already around 20% lower than in 2013.

Furthermore, the Russian trade sanctions take place concurrently with a drop in oil prices, which benefits the terms of trade for Iceland, due to the high consumption of oil by the fishing fleet. Lower fuel prices also result in lower production costs in Icelandic fisheries, but higher labour costs and a strengthening krona offset these beneficial effects.

7.1.1 Effect on the exchange rate of the Icelandic krona
It is not likely that the sanctions will affect the exchange rate of the ISK in a significant way. This is because foreign direct investment (FDI) into Iceland is growing due to energy intensive industrial projects; the inflow of foreign currency is stronger because of the boom in tourism, better terms of trade and increased foreign investments in Icelandic government bonds (carry trade).

7.2 Regional investments, finances and employment
It is not clear whether investments have been deferred because of the sanctions, as both companies and municipalities had already invested heavily in equipment, processing lines, harbours, etc., before the sanctions.

Box 2 – Case of one municipality affected by the counter-sanctions

One example is the municipality Vopnafjörður in the East of Iceland, which is one of the main pelagic processing centres in Iceland with only very limited demersal fishing catches. The municipality foresees that its income will decline substantially because of the Russian counter-sanctions.

60 http://www.mbl.is/mm/mogginn/blad_dagsins/bl_grein.html?grein_id=1575715&t=1448006202
61 Discussions with people in the industry.
63 http://www.fiskifrettir.is/frettir/aetla-ad-frysta-staersta-makrilinn-serstaklega/63158/
counter-sanctions. Due to the importance of one employer – HB Grandi – and of pelagic fisheries in the town, the Russian counter-sanctions will hit most households in Vopnafjörður. The mayor of the town has said that official decisions by the Icelandic authorities – on participating in the EU sanctions against Russia – which had such an affect on a single community, called for some kind of financial aid from the Icelandic Treasury to compensate for its losses.

About one tenth of the inhabitants of Vopnafjörður (i.e. 65 people out of approximately 700 inhabitants) are employed by HB Grandi.

The mayor estimated the financial loss of the municipality as follows.

- ISK 24 million in lost tax revenue, as 30% of all wages of HB Grandi are linked to the freezing of capelin.
- The estimated tax revenues of Vopnafjörður municipality come to about ISK 315 million, but the Russian sanctions could result in an income loss of 7-8 per cent.
- In addition the sanctions have an affect on other aspects of society such as shops, electricians, workshops, restaurants and other services.  

The municipality has made investments to support the operation of HB Grandi. This year it will be investing in harbour facilities for about ISK 160 million. This investment is made to be able to receive larger ships and increase the service level of the harbour. It is not clear at this moment what the return on investment will be on this project or how it will be affected by the sanctions.

Pelagic producers had invested in freezing equipment and processing lines prior to the Russian counter-sanctions to provide for the needs of that market, amongst others. The return on these investments could be lower than was originally projected, due to the loss of markets. A special study would be needed to confirm and evaluate this effect.

7.2.1 Employment rate

Effects of the Russian import ban on employment in Iceland as whole should be minimal due to strong economic growth in Iceland (4.5% for the first nine months of 2015), which again contributed to an improved labour market.  

Regional effects on employment are much greater in fishing villages around the countryside than in the Reykjavik region, due to the lack of diversification in labour markets. The jobs in the pelagic industries are relatively highly paid and it is difficult for these communities to find alternative jobs paying comparable wages. Hence the loss of income of people, companies and municipalities that are dependent on Russian market is considerable.

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64 http://www.visir.is/skylauskrafa-ad-rikid-baeti-skadann/article/2015151029362
65 http://www.visir.is/skylauskrafa-ad-rikid-baeti-skadann/article/2015151029362
66 http://www.hagstofa.is/utgafur/frettasafn/thjodhagsreikningar/landsframleidsian-a-3-arsfjordungi-2015/
A recent study by the Icelandic Regional Development Institute assesses the impact on the employment rate, based on certain assumptions. They base their analyses on various scenarios as follows.

- Scenario 1: About 30% of the products previously exported to Russia would go into fishmeal and 70% to new markets.
- Scenario 2: 50% would go into fishmeal and 50% to new markets.
- Scenario 3: 70% would go into fishmeal and 30% to new markets.

The main outcomes based on these scenarios are as follows.

- People in the industry – fishermen and processing workers - could lose between ISK 0.9 billion and ISK 2.6 billion in a whole year.
- Income lost by each fisherman, on average, is estimated to be ISK 1.1-2.5 million (USD 8,800-20,000). In the case of processing workers the lost income lies in the range ISK 1.1-2.4 million (USD 8,800-19,200) per worker on average.
- To put this in context, average total wages (with overtime) in Iceland in 2014 were ISK 6.7 million (USD 53,000). One can see that this loss in income is considerable.
- Increased fishmeal production will require 220 more employees, which will counter the losses above.

7.2.2 Municipal revenues
The same study estimated the potential income loss for affected municipalities as lying in the range ISK 143-364 million (USD 1.14-2.9 million) plus lower income from service fees, amounting to ISK 43 million (USD 344,000).

7.2.3 Other regional aspects
The pelagic industry is of great importance in the Northeast of Iceland. Plans have recently been made regarding several power-intensive projects in the Northeast. These include the building of a geothermal power station, a silicor factory and related infrastructure in roads and the electrical grid. This may partly crowd out the negative effects of the sanctions in the local employment market in that specific area – the vicinity of Húsavík.

These positive effects do not apply to other regions in the East of Iceland which are more dependent on pelagic fisheries.

It is likely that tourism in the East of Iceland will increase further in the next few years, due to expected direct weekly flights from the UK to Egilsstaðir next summer. The government is considering subsidizing direct international flights from Akureyri in the North and from
Egilsstaðir in the East. Further research is needed to evaluate the economic impacts in the region.

These opportunities might have some positive effects and reduce lost income, especially for some local municipalities.

7.3 Other potential consequences

The Russian and Icelandic authorities are currently renegotiating a fishing agreement for the so-called “Loophole” (Icelandic: Smugan) in the Barents Sea; the fishing rights there have been valued at about ISK 2 billion. If these negotiations fail it will result in additional economic losses for the Icelandic fishing industry and the Icelandic economy.

Furthermore the Russian Federal Service for Veterinary and Phytosanitary Surveillance, which influences other countries in the Eurasian Economic Union, e.g. Belarus and Kazakhstan, has already made increased demands for traceability and sanitary standards in the Iceland food industry. Some of the factories of Icelandic companies have been temporarily banned from exporting to these countries.

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67 http://www.ruv.is/frett/hafa-raett-sjod-til-ad-styrkja-beina-flugid
68 The members of the the Eurasian Economic Union are: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.
70 http://www.dv.is/frettir/2016/1/5/russar-loka-fjarar-islenskar-fiskvinnslug/
8 Proportional effects on Iceland’s economy in an international perspective

Comparing the relative importance of fisheries in the OECD countries\textsuperscript{71} it is evident that Iceland stands apart due to the importance of the fisheries sector in total commodity exports. Furthermore, the share of fish exports going to Russia is among the highest of all OECD countries, as shown on the following graph. This holds both in terms of share and absolute values.

Figure 36 Share of fish in total commodity exports and share of the Russian market for total fish exports for each country in 2013

In terms of the role of the Russian export market for their total seafood exports, the only countries affected by the sanctions in way comparable to Iceland are Norway, Finland, Estonia and Turkey. However, the relative importance of fisheries in these countries, measured as a percentage of total commodity exports, is much lower than in Iceland, as can be seen from the figure above. The figure shows that Iceland’s total seafood exports constitute close to 40% of all commodity exports. Furthermore the fact that Russia imports about 7% of all Icelandic seafood exports highlights the relative importance of the Russian market for Icelandic exporters. To take an example, more than 20% of Finland’s seafood exports go to Russia, but at the same time the share of seafood exports in Finland’s total commodity is negligible.

\textsuperscript{71} The OECD data is not fully comparable to the data from Statistics Iceland, but the share of Russian fish export trade from Iceland is roughly the same, using different databases.
It is much easier for most other countries than it is for Iceland to subsidize or in other ways alleviate the negative effects of the Russian trade sanctions.

8.1 Sanctions hurt small open economies more than larger ones
Small economies are often less diversified than those of larger developed countries, therefore any hindrances to trade – such as economic sanctions – have proportionally more negative effects than in the case of a large country with a broad and vast home market.

Kaempfer (2007) states the following in the *Handbook of Defence Economics*:

“Very large countries are self-sufficient enough to not reap very substantial gains from trade, but conversely they do not suffer extensively from abstaining from trade, following sanctions. […] Small countries, however, tend to be much more dependent on trade. Their demands for and supplies of tradable goods are price-inelastic and these countries can suffer greatly from the imposition of sanctions.”

It is clear, according to the analysis, that small open economies like Iceland will sacrifice greater interests than larger countries when it comes to sanctions.

Revisiting the figure above, one can see the immense importance of seafood exports for Iceland in comparison with other OECD countries. Furthermore, the exports to Russia are an important part of the total seafood exports of the country.

To conclude, it is more costly for small countries that are dependent on trade to take part in or suffer trade sanctions. The long-term welfare loss can be considerable if a small country is pushed to use economic sanctions against important trading partners, the reason being that the small country does not in all cases have a large domestic market for its produce and is sometimes unable to consume all of its produce.

8.2 Iceland is among the worst hit
In the European agriculture and seafood trade with Russia, i.e. the EU28 group, Iceland is one of the largest exporters of agricultural products, including seafood, to Russia. In the period August 2013 – April 2014, Iceland was the 17th largest exporter and the 12th largest from August 2014 – April 2015. In the latter period Iceland did not suffer any sanctions from Russia as did other EU28 countries.

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73 According to Eurostat, these numbers include seafood. See: http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_in_agricultural_goods Fish export is minor export item for most EU-28, but the EU-28 countries is one of the leading importers of seafood in the world. See: http://ec.europa.eu/fisheries/documentation/publications/pcp_en.pdf
More interestingly when it comes to the share of total agricultural exports to Russia prior to the counter-sanctions, Iceland was the fifth largest exporter out of 29 European nations. Only Finland and the Baltic countries had larger shares. After the imposition of the counter-sanctions Iceland was the fourth largest exporter to Russia. This shows that Iceland is taking on larger sacrifices, comparatively, than other countries of Europe. Since seafood exports are vital to the Icelandic economy, the Russian counter-sanctions are therefore more damaging to Iceland than to most other countries.

8.2.1 The European agricultural sector has been affected by the sanctions
A recent study published by the European Parliament states:

“Sanctions adopted in July and September 2014 by EU and other western countries have hurt the Russian economy by restricting access to western financial markets, but the impact on trade is limited. On the Russian side, only arms exports are concerned — but these were already at a very low level before sanctions. As for EU exports to Russia, the bans on arms, dual-use equipment (civilian industrial products used by the defence industry) and innovative technology used by Russia’s energy sector to explore new reserves of oil and gas are of strategic importance, but again have little immediate impact on trade volumes. On the other hand, Russian counter-sanctions have banned numerous EU agri-food products (representing 43% of total EU agri-food exports to Russia and 4.2% of total EU agri-food exports to the world in 2013). As a percentage of total EU exports to Russia (4%) or total EU exports to the world (0.3%) this is relatively small, but the impact on individual sectors and in certain countries (the Baltic countries and Poland are the worst affected) has been severe; there has also been a knock-on effect on the freight transport sector. EU agricultural producers have responded successfully by exporting more to other markets (e.g. US, China); while agri-food exports to Russia fell by 38% year-on-year in the final quarter of 2014, EU agri-food exports to the rest of the world grew substantially (2%; excluding Russia, 6.6%), reaching a record high. Russia is considering options to mitigate the impact on Greece, Hungary and Cyprus, but it is unclear how it could do so without violating WTO rules prohibiting discrimination between member states.

Other economic factors
The significant decline in Russian trade with non-EU countries (January-February 2015, year on year: China – -28%; Belarus – 41.2%) suggests that sanctions are much less significant than other factors:

- economic recession and a weaker rouble (-17% against the euro over the past year, despite a recent recovery) mean that Russian consumers and businesses can no longer afford imported goods;
- while the volume of Russian oil and gas exports has only declined slightly, lower fossil fuel prices (crude oil: -45% over the past 12 months) have severely reduced their value;
- meanwhile, a weaker rouble has not increased EU demand for non-energy Russian exports – reflecting the poor state of Russian industry and its failure to develop internationally competitive products”.

8.2.2 Russia is the 20th largest market for U.S. agricultural products
The U.S. Department of Agriculture conducted a survey in August 2014 on the impact of the Russian sanctions against the U.S. exporting agricultural sector. The main findings were the following:

“In calendar year 2013, the United States shipped $1.3 billion of agricultural and related food products (including fish and forestry products), and of this amount approximately 55 percent are products now restricted.

Size of Russian Market for Imports of Agricultural, Fish and Forestry Products
Russia is the 5th-largest agricultural import market in the world after the EU, China, the United States and Japan, with total imports of agricultural and related products in 2013 of $40.4 billion. Russia was the 20th-largest market for U.S. agricultural and related product exports in 2013, with exports worth $1.3 billion, accounting for less than 1 percent of total U.S. agricultural exports. Exports in the first half of 2014 were $606 million, up 4 percent from the same period last year.

The United States has relatively small market share in Russia as a result of the geographical distance and other factors, with only about 4-percent share in 2013. The EU-28 is the dominant player, supplying nearly 40 percent of the Russia agricultural market, followed by Brazil with 9 percent.”

8.2.3 The economic impact on Europe and the U.S. is minor compared to that on Iceland
It is evident when the agricultural exports for Europe and the US to Russia are reviewed that the impact on these large economic areas is minor in comparison to the impact on Iceland. Individual countries are of course more affected than others, e.g. Finland, Hungary and the Baltic States (see table below).

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76 http://www.fas.usda.gov/data/russia-bans-key-us-agricultural-exports
### Table 5 EU28 and Iceland’s agricultural trade with Russia

<table>
<thead>
<tr>
<th></th>
<th>EU28 Agri-food Exports in Values (1000€)</th>
<th>Russia on the extra-EU28 exports before the ban (Aug 13-Apr 14)</th>
<th>% exports to Russia on total exports before the ban (Aug 13-Apr 14)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU Member States (EU-intra trade)</td>
<td>Russian Federation</td>
<td></td>
</tr>
<tr>
<td>All agri-food products</td>
<td>8,610,977</td>
<td>4,980,849</td>
<td>(42.00)</td>
</tr>
<tr>
<td>EU 28</td>
<td>90,861,032</td>
<td>90,248,163</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>16,027,415</td>
<td>16,367,379</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12,794,062</td>
<td>13,579,171</td>
<td>6</td>
</tr>
<tr>
<td>UK</td>
<td>8,320,508</td>
<td>9,275,748</td>
<td>9</td>
</tr>
<tr>
<td>Italy</td>
<td>6,645,677</td>
<td>7,400,432</td>
<td>13</td>
</tr>
<tr>
<td>Ireland</td>
<td>2,126,157</td>
<td>2,268,726</td>
<td>7</td>
</tr>
<tr>
<td>Denmark</td>
<td>4,107,242</td>
<td>4,360,767</td>
<td>6</td>
</tr>
<tr>
<td>Greece</td>
<td>1,289,337</td>
<td>1,274,420</td>
<td>(1)</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,276,866</td>
<td>1,360,185</td>
<td>7</td>
</tr>
<tr>
<td>Spain</td>
<td>6,429,105</td>
<td>7,363,963</td>
<td>14</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,049,914</td>
<td>4,279,702</td>
<td>6</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>30,586</td>
<td>31,299</td>
<td>2</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,614,995</td>
<td>1,625,283</td>
<td>2</td>
</tr>
<tr>
<td>Finland</td>
<td>839,863</td>
<td>728,003</td>
<td>(13)</td>
</tr>
<tr>
<td>Austria</td>
<td>1,708,421</td>
<td>1,760,867</td>
<td>3</td>
</tr>
<tr>
<td>Malta</td>
<td>74,376</td>
<td>81,645</td>
<td>10</td>
</tr>
<tr>
<td>Estonia</td>
<td>277,075</td>
<td>207,680</td>
<td>(25)</td>
</tr>
<tr>
<td>Latvia</td>
<td>859,371</td>
<td>739,992</td>
<td>(15)</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1,745,847</td>
<td>1,420,417</td>
<td>(19)</td>
</tr>
<tr>
<td>Poland</td>
<td>3,686,405</td>
<td>3,551,189</td>
<td>(4)</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>420,757</td>
<td>456,959</td>
<td>8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>89,251</td>
<td>95,828</td>
<td>6</td>
</tr>
<tr>
<td>Hungary</td>
<td>932,372</td>
<td>965,854</td>
<td>4</td>
</tr>
<tr>
<td>Romania</td>
<td>1,770,331</td>
<td>1,748,999</td>
<td>2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>981,151</td>
<td>1,131,752</td>
<td>17</td>
</tr>
<tr>
<td>Slovenia</td>
<td>273,883</td>
<td>276,388</td>
<td>2</td>
</tr>
<tr>
<td>Croatia</td>
<td>434,593</td>
<td>534,967</td>
<td>21</td>
</tr>
<tr>
<td>Cyprus</td>
<td>80,711</td>
<td>77,401</td>
<td>(4)</td>
</tr>
<tr>
<td>Iceland</td>
<td>523,199</td>
<td>550,354</td>
<td>5,2</td>
</tr>
</tbody>
</table>

Legend:
- *%*: Percentage of the previous year's value.
9 Potential opportunity cost of the Russian sanctions for Iceland

Although it can be complicated to calculate the direct cost of the Russian counter-sanctions in respect to different products (e.g. fishmeal, roe, frozen products, salted, etc.) and market areas (e.g. Russian vs. African and Asian markets), one can make a simple theoretical analysis of the difference of the added value of different markets. Since prices fluctuate between markets and market share changes over time, the mark-up on seafood products can differ. It is known that the price stability of the Russian markets was considerable, at least before the devaluation of the rouble.

The calculation below shows the theoretical outcome of different scenarios, based on various assumptions.

- Assumption 1: The loss of added value between the Russian market and other markets is assumed to be from 5% to 30% of the total exported value to Russia.
- Assumption 2: The growth of exports to Russia has been phenomenal in recent years. The table below assumes three different growth rates into the future, with the lower growth rates applied to the 10 year case, since it is evident that the resource is naturally limited.
- Assumption 3: The discount rate is assumed to be equal to the policy interest rates of the Central Bank of Iceland, i.e. 5.75%.
- Assumption 4: Total seafood exports from Iceland to Russia amounted to ISK 24 billion in 2014. The loss in added value is calculated on this figure, given the assumptions above.
Table 6 Potential loss of added value for the Icelandic economy due to the Russian counter-sanctions in ISK billions, based on various assumptions – average exports of banned products from 2013 to 2014

<table>
<thead>
<tr>
<th>Assumptions regarding the loss of the value of exports</th>
<th>5% loss of the value of exports</th>
<th>10% loss of the value of exports</th>
<th>20% loss of the value of exports</th>
<th>30% loss of the value of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of sanctions</td>
<td>1 year</td>
<td>3 years</td>
<td>10 years</td>
<td>1 year</td>
</tr>
<tr>
<td>Export growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td>2.9</td>
<td>7.9</td>
<td>2.0</td>
<td>5.7</td>
</tr>
<tr>
<td>1%</td>
<td>2.9</td>
<td>8.3</td>
<td>2.0</td>
<td>5.8</td>
</tr>
<tr>
<td>2%</td>
<td>3.0</td>
<td>2.1</td>
<td>2.1</td>
<td>5.9</td>
</tr>
<tr>
<td>3%</td>
<td>3.0</td>
<td>2.1</td>
<td>2.1</td>
<td>6.1</td>
</tr>
</tbody>
</table>

*In billions of Icelandic krona*

The table above shows present value calculations using the policy rate of the Central Bank of Iceland (5.75%) of the potential theoretical loss due to the Russian counter-sanctions against Iceland, based on various assumptions. The table shows the potential loss of export value involved in selling the banned product to other markets at lower prices. To take an example, the average export value of the banned products in 2013-2014 was ISK 21.3 billion. If the growth rate is assumed to be zero, the export figures would be constant, but lower prices, e.g. by 20% for one year, would result in ISK 4 billion in lost export value for the Icelandic economy.

If another example is taken where the export growth is assumed to be 2% for 3 years and the price 10% lower than the average export prices during 2013-2014, the theoretical loss in the present value of the exports would be about ISK 5.9 billion.

A 30% loss of the value of exports for 3 years assuming 0% growth per year would result in a present value loss of ISK 17 billion. Hence, Iceland would be willing to pay that amount today to avoid the counter-sanctions, given these assumptions.

It should be noted that these figures show the various orders of magnitude involved, but are not predictions.

In these analyses it is assumed that markets could be found for all the products. According to industry sources and data obtained in this study, prices in the case of mackerel have been at least 20% lower since the imposition of the counter-sanctions.
When assuming constant prices it must be acknowledged that Russia’s economy is experiencing great challenges. In a recent IMF evaluation it is estimated that Russia’s GDP contracted “by 3.8% in 2015 followed by a milder contraction of 0.6% in 2016 due to the headwinds from lower oil prices”\(^7\)

9.1 Changing from frozen products to fishmeal further deteriorates the situation

Even though Icelandic mackerel landings did increase during 2015 compared to 2014 by 5.6%, the export value of frozen mackerel decreased by 48% or 11 billions ISK. This is due to both lower prices and an increased share of the catch going to fishmeal production, amounting to 27% during 2015 compared to 11% during the previous year. Although currently fishmeal prices are relatively high, they are still 50% - 60% lower than prices for products for human consumption. This decrease in mackerel export value is largely, though not entirely, due to the Russian counter-measures.

Table 7 Share of fishmeal has increased and export value decreased

<table>
<thead>
<tr>
<th></th>
<th>Export value (FOB) in million ISK</th>
<th>Exported mackerel in tons</th>
<th>Share of of landed mackerel that went into fishmeal &amp; oil</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 (Jan-Nov)</td>
<td>22,892</td>
<td>125,689</td>
<td>11%</td>
</tr>
<tr>
<td>2015 (Jan-Nov)</td>
<td>11,948</td>
<td>80,825</td>
<td>27%</td>
</tr>
<tr>
<td>Changes in %</td>
<td>-48%</td>
<td>-36%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistics Iceland & Fisheries Directorate

Russia is the main market for frozen male capelin for human consumption, however some export has been to Ukraine, Belarus and China but these markets are unstable. Given that the market for frozen capelin is closed, the only alternative is production of fishmeal. As the price for fishmeal is considerably lower than the price for frozen capelin, this would result in 50%-60% lower prices. During 2014 the export value of frozen capelin was 3.9 billion ISK. Given that the Russian market remains closed, this could result in much lower export value or a 2.5 billion ISK loss compared to the 2014 export volumes.\(^8\)

10 Mitigation measures by the Icelandic authorities

The government of Iceland has taken preliminary steps to compensate those affected. One of the measures is to allow fishing companies with fishing rights in mackerel to transfer part of the quota to the next fishing year. This might benefit those companies in the short run, i.e. if new markets are found or if the Russian counter-sanctions are lifted soon. It is too early to evaluate the potential harm to municipalities and companies due to the Russian counter-

\(^7\) http://www.imf.org/external/np/sec/pr/2015/pr15533.htm
\(^8\) Industry estimates.
10.1 Actions taken by the Ministry of Industries and Innovations
Three changes were made to the regulation controlling mackerel fisheries by Icelandic vessels in 2015, as follows.

Firstly, provisions preventing the transfer of fishing rights (quotas) between certain categories of vessels were relaxed in order to allow for maximal efficiency in fleet utilization.

Secondly, the amount of unutilized quota that each vessel could transfer to the following year was increased from 10% to 30%. The purpose of this was to give the companies the option of responding to the closure of the Russian market in August by terminating fisheries in expectation of more favourable market conditions next year.

Thirdly, it used to be obligatory to process for human consumption at least 70% of landed mackerel. This percentage was lowered to 50% to allow the companies to meet the sanctions partly by increased meal production. This, however, can only be a temporary measure, as it is against our general policy not to maximize the value and utilization of fish such as mackerel for human consumption.

10.2 Diplomatic measures to facilitate market access
Immediately after the Russian import ban on Icelandic products, the Ministry for Foreign Affairs contacted the EU Commission and requested that customs duties on imported mackerel to the EU from Iceland be reduced, and/or duty-free quotas on fisheries products be extended. The Commission’s reply was that this was not possible, as reduction of customs duties and extension of duty-free quotas had to be part of a general rule applicable to importers from all countries.

The Ministry for Foreign Affairs has also, through its diplomatic missions, extended its marketing research in Asia in order to assess new opportunities for Icelandic fisheries products. In this respect, particular emphasis has been put on China. The Chinese authorities have also been requested to extend the list of fisheries products that may be imported into China, for example to cover farmed fishing products from Iceland.

In addition, an assessment has been made regarding possible export guarantees from state entities to stimulate trade with old and new markets.

11 Conclusions
Generally speaking, the findings of this report reflect the fact that small open economies are more affected by international trade sanctions than are larger and more diversified economies. Also, smaller regional communities with less diversified employment opportunities suffer the greatest.
History shows that the Russian-Icelandic trade relation has been beneficial to both countries in spite of diplomatic differences on the international political scene. International disputes have until now had a minimal effect on the trade relation with Russia and other countries.

Analysis shows that the economic interest related to the sanctions can be substantial.

Russia’s economy is experiencing great challenges. In a recent IMF evaluation it is estimated that the GDP of Russia contracted “by 3.8% in 2015 followed by a milder contraction of 0.6% in 2016 due to the headwinds from lower oil prices”79

It is therefore clear that purchasing power has declined in Russia and demand for goods will suffer. How this would affect the imports of pelagic products from Iceland is, however, uncertain, since they are a source of affordable protein.

Regarding measures to compensate those municipalities and companies that have been impacted in the short run because of the Russian counter-sanctions, it is too early to tell if they are sufficient to alleviate the negative effects. That issue would need to be monitored and studied further.

On measures for implementation of the Decree of the President of the Russian Federation dated August 6, 2014 No 560 "On the application of certain special economic measures to ensure the security of the Russian Federation"

Pursuant to the Decree of the President of the Russian Federation on August 6, 2014 No 560 "On the application of certain special economic measures to ensure the security of the Russian Federation", the Government of the Russian Federation decrees as follows:

1. To introduce for one year a ban on imports into the Russian Federation of agricultural products, raw materials and food, originating from the United States, the countries of the European Union, Canada, Australia and the Kingdom of Norway, in line with the annexed list.

2. The Federal Customs Service to ensure control over the implementation of Item 1 of this Resolution.

3. The Governmental Commission on Monitoring and Rapid Response to changing conditions on food markets together with the high executive authorities of the subjects of the Russian Federation to ensure a balance of commodity markets and to prevent the acceleration of growth in prices of agricultural products, raw materials and foodstuffs.

4. The Ministry of Industry and Trade of the Russian Federation and the Ministry of Agriculture of the Russian Federation together with the high executive bodies of the subjects of the Russian Federation to organize the implementation of the daily operational monitoring and control over the state of the markets of agricultural products, raw materials and food.

5. The Ministry of Agriculture of the Russian Federation together with interested federal executive authorities and with participation of associations of producers of agricultural products, raw materials and food to develop and implement a set of measures aimed at increasing the supply of agricultural products, raw materials and food in order to prevent a rise in prices.

6. The Ministry of Industry and Trade of the Russian Federation, the Ministry of Agriculture of the Russian Federation, the Ministry of Economic Development of the Russian Federation and the Federal Antimonopoly Service with participation of retail chains and trade organizations to ensure the coordination of activities in order to curb rising prices.

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7. This Decision shall enter into force on the day of its official publication.

D. Medvedev  
Chair of the Government  
Of the Russian Federation

<table>
<thead>
<tr>
<th>CN Code</th>
<th>Product name *, ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>0201</td>
<td>Meat of bovine animals, fresh or chilled</td>
</tr>
<tr>
<td>0202</td>
<td>Meat of bovine animals, frozen</td>
</tr>
<tr>
<td>0203</td>
<td>Pork, fresh, chilled or frozen</td>
</tr>
<tr>
<td>0207</td>
<td>Meat and edible offal of the poultry indicated in line 0105, fresh, chilled or frozen</td>
</tr>
<tr>
<td>Out of 0210**</td>
<td>Meat salted, in brine, dried or smoked</td>
</tr>
<tr>
<td>Out of 0301**</td>
<td>Live fish (excluding hatchlings of salmon (Salmo salar) and trout (Salmo trutta))</td>
</tr>
<tr>
<td>0302, 0303, 0304, 0305, 0306, 0307, 0308</td>
<td>Fish and crustaceans, molluscs and other aquatic invertebrates</td>
</tr>
<tr>
<td>Out of 0401**, out of 0402**, Out of 0403**, out of 0404**, Out of 0405**, out of 0406**</td>
<td>Milk and dairy products (excluding lactose-free milk and lactose-free milk products)</td>
</tr>
<tr>
<td>0701 (excluding 0701 10 000 0), 0702 00 000, 0703 (excluding 0703 10 110 0), 0704, 0705, 0706, 0707 00, 0708, 0709, 0710, 0711, 0712 (excluding 0712 90 110 0), 0713 (excluding 0713 10 100 0), 0714</td>
<td>Vegetables, edible roots and tubers (excluding seed potatoes, seed onion, sugar maize hybrid for planting, peas for planting)</td>
</tr>
<tr>
<td>0801, 0802, 0803, 0804, 0805, 0806, 0807, 0808, 0809, 0810, 0811, 0813</td>
<td>Fruit and nuts</td>
</tr>
<tr>
<td>1601 00</td>
<td>Sausages and similar products of meat, meat offal or blood; final food products based thereon</td>
</tr>
<tr>
<td>Out of 1901 90 110 0**, Out of 1901 90 910 0**, Out of 2106 90 920 0**, Out of 2106 90 980 4**, Out of 2106 90 980 5**, Out of 2106 90 980 9**</td>
<td>Food or finished products (excluding biologically active supplements; vitamin-mineral complexes; flavour additives; protein concentrates (of animal and plant origin) and their mixtures; food fivers; food additives (including complex ones))</td>
</tr>
</tbody>
</table>

(*) For the purposes of the application of this list, one should be guided solely by the CN CODE, name of product is shown for convenience.

(**) For the purposes of the application of this position, one should be guided both by a CN CODE, and the name of the product.

(***) Except for goods destined for baby food.
### Table 8 – Timeline of major events concerning the Russian sanctions

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 3, 2014</strong></td>
<td>An extraordinary meeting of the Council of the European Union on 3 March 2014 condemned the clear violation of Ukrainian sovereignty and territorial integrity by acts of aggression by the Russian armed forces as well as the authorisation given by the Federation Council of Russia on 1 March for the use of the armed forces on the territory of Ukraine.</td>
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<td><strong>March 6, 2014</strong></td>
<td>In a statement of the Heads of State or Government following an extraordinary meeting on 6 March, the EU underlined that a solution to the crisis must be found through negotiations between the Governments of Ukraine and the Russian Federation, including through potential multilateral mechanisms</td>
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<td><strong>March 17, 2014</strong></td>
<td>In the absence of de-escalatory steps by the Russian Federation, on 17 March 2014 the EU imposed the first travel bans and asset freezes against Russian and Ukrainian officials following Russia's illegal annexation of Crimea. The EU strongly condemned Russia's unprovoked violation of Ukrainian sovereignty and territorial integrity.</td>
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<td><strong>March 17, 2014 - February 16, 2015</strong></td>
<td>Asset freezes and visa bans apply to 151 persons while 37 entities are subject to a freeze of their assets in the EU. This includes 145 persons and 24 entities responsible for action against Ukraine's territorial integrity, six persons providing support to or benefitting Russian decision-makers and 13 entities in Crimea and Sevastopol that were confiscated or that have benefitted from a transfer of ownership contrary to Ukrainian law.</td>
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<td><strong>August 7, 2014</strong></td>
<td>Russian ban on selected EU products introduced on 7 August 2014, EU agri-food exports to Russia over the period August-December 2014 decreased by 38% compared to the same period of the previous year. However, in spite of the Russian ban, total EU agri-food exports to third countries increased by 2% in value over the considered period.</td>
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<tr>
<td><strong>August 14, 2014</strong></td>
<td>Commission statement after Management Committee meeting today to assess the potential impact of Russia sanctions on EU Agriculture products</td>
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<tr>
<td><strong>December 18, 2014</strong></td>
<td>Further EU sanctions approved: The Council has imposed substantial additional sanctions on investment, services and trade with Crimea and Sevastopol. This is to reinforce the EU's policy of not recognising their illegal annexation by Russia and follows a conclusion by the Foreign Affairs Council of 17 November.</td>
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<tr>
<td><strong>March 12, 2015</strong></td>
<td>Icelandic herring fillet volumes to Russia triple as prices hit Faroese output: Exports of Icelandic frozen herring fillets to Russia more than tripled last year, as the Faroe Islands focused on whole round production due to decreasing prices</td>
</tr>
<tr>
<td><strong>August 3, 2015</strong></td>
<td>Iceland will continue trade sanctions against Russia: Members of Parliament in Iceland are expressing some discontent on the country's plans to continue its participation in international sanctions against Russia</td>
</tr>
<tr>
<td><strong>August 14, 2015</strong></td>
<td>Prices for the main pelagic products supplied to Russia will be determined by the Russian fleet, both Faroese exporters and Russian importers agreed</td>
</tr>
<tr>
<td><strong>August 14, 2015</strong></td>
<td>Iceland's pelagic sector sees the closure of a market it has invested millions, and years, into servicing, as companies question why the country took sides between Russia and the EU</td>
</tr>
<tr>
<td><strong>August 17, 2015</strong></td>
<td>Russia confident new import bans won't affect domestic market</td>
</tr>
</tbody>
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Source: Various media headlines