Department for
International Trade

Continuing the United Kingdom's Trade relationship with Iceland and the Kingdom of Norway

Agreement on Trade in Goods between Iceland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland

December 2020

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Agreement on Trade in Goods between, Iceland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland

Presented to Parliament

by the Secretary of State for International Trade

by Command of Her Majesty

December 2020

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Introduction

1. This report explains the Government's approach to delivering continuity in the United Kingdom's ("UK") trade relationship with Iceland and Norway now that the UK has left the European Union ("EU").

2. With our exit from the EU, the Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in the UK's existing trade relationships. It is in no one's interests to disrupt existing trade flows.

3. To achieve this, the Government has developed new bilateral agreements that replicate, as far as possible, the effects of the UK's existing trade agreements with existing partners. The new bilateral agreements provide for entry into force when the existing agreements between the EU and a third country cease to apply to the UK or as soon as possible thereafter. The agreements will form the starting point for the UK's future trade agreements with partners.

4. Wherever possible, the Government has sought a technical replication of the existing EU agreements through these new bilateral 'continuity trade agreements', but in some cases, it has applied bespoke solutions for individual agreements as necessary to ensure continuity of effect and operability in a bilateral context.

5. This report gives details of, and explains the reasons for, any significant trade-related differences between:

    a. Agreement on the European Economic Area ("EEA Agreement").

    b. Bilateral trade-related agreements between Iceland and the EU.

    c. Bilateral trade-related agreements between Norway and the EU.

6. The EEA Agreement effectively extends the EU's Single Market to its EEA EFTA signatories: Iceland, Norway, and Liechtenstein. Hence, the European Economic Area ("EEA") currently covers 31 countries - the 27 EU member states, Iceland, Liechtenstein, and Norway, and the UK, due to the terms of the transition period as defined by Article 124 of the Withdrawal Agreement.

7. The aim of the EEA Agreement is to establish a dynamic and homogenous European Economic Area between these States. The EEA Agreement primarily puts in place equal rights and obligations within the EEA for individuals and economic operators working and trading in the EEA (EU 27+ UK (during the transition period), Iceland, Norway, and Liechtenstein). The EEA Agreement also extends the EU's four freedoms to its EEA EFTA signatories: the free movement of goods, services, persons, and capital. The Agreement further encompasses other policy areas known as 'Flanking and Horizontal Policies'. These include education, social policy, research and development, tourism, the environment, and consumer protection. The EEA Agreement is amended by continuously incorporating EEA-relevant EU acts into the EEA Agreement. The bilateral agreements between the EU and Iceland and the EU and Norway cover trading arrangements between those parties on agricultural and fishery products over time and supplement the provisions of the EEA.

8. The closely intertwined relationship between Iceland, Norway and the EU means that translating our existing trade relationship (within the Single Market and the European Economic Area) into a bilateral arrangement is a complex process. We have agreed with the EEA-EFTA states that our long-term future trade relationship should be through a comprehensive FTA. Our negotiations towards an ambitious and comprehensive agreement began in the summer, and we are on track towards our ambition of having the agreement in force in 2021. To ensure trade is protected as far as possible, between the end of the transition period and the comprehensive

FTA coming into force, we have agreed continuity arrangements which ensure that trade continues tariff free for the vast majority of goods at the end of the year. This UK-Iceland-Norway Trade in Goods Agreement incorporates the relevant provisions of the EEA Agreement and the bilateral agreements with Norway and Iceland in order to achieve continuity of trade in goods as far as possible, alongside additional provisions which will ensure the trade agreement is operational, namely institutional provisions, trade remedies, settlement of disputes, customs cooperation and rules of origin.

9. The UK-Iceland-Norway Agreement on Trade in Goods will come into force for the end of the transition period. It provides continuity for trade in goods whilst negotiations are ongoing with the EEA EFTA States to agree a comprehensive FTA. A lot of trade such as trade in hydrocarbons is zero tariff anyway and so is not affected by an FTA being in place.

10. The Principality of Liechtenstein is also a signatory of the EEA Agreement with Iceland and Norway. Liechtenstein has not been included in the UK-Iceland-Norway Agreement on Trade in Goods because Liechtenstein forms part of the Swiss customs territory. An additional trilateral agreement between the UK, the Swiss Confederation and the Principality of Liechtenstein was signed on the 11th of February 2019. This additional agreement extends the relevant trade in goods provisions of the UK-Switzerland Trade Agreement to Liechtenstein. This agreement will come into force on 1 January 2021. An explanation of this additional agreement can be found on gov.uk at: https://www.gov.uk/government/collections/uk-switzerland-liechtenstein-trade-agreement

11. The UK, Iceland and Norway agreed to exclude certain goods and customs related policy areas or provisions from the UK-Iceland-Norway Agreement on Trade in Goods at the time of negotiation. This is because: (i) Iceland and Norway are not able to agree on such areas with a third country independently of the EU because of their obligations within the EEA Agreement (e.g. conformity assessment agreements with third countries); (ii) because it is not in the UK's interest to align to EU legislation; or (iii) because the provisions are designed to function in a relationship based on Single Market participation, and which the UK cannot therefore replicate bilaterally with Norway and Iceland. This includes:

Regulatory Alignment

12. Under the EEA Agreement, goods produced in the UK, Iceland and Norway were subject to the same essential requirements, and conformity assessment bodies were recognised by each Party. These arrangements have not been continued for this Agreement as it would require the UK to make legal commitments to align with EU law. However, guidance issued by the UK confirms that products that require third party certification or an authorised representative recognised by the EU originating from Iceland and Norway will continue to be recognised by the UK for a time-limited period. The government guidance setting this out can be found online here:

    a. https://www.gov.uk/guidance/placing-manufactured-goods-on-the-market-in-great-britain-from-1-january-2021

    b. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/925140/BordersOpModel.pdf

13. These are not reciprocated for UK goods sold in Norway and Iceland because EEA countries are closely bound by EU rules in these matters.

Procurement

14. Full continuity of the procurement provisions found in the EEA Agreement cannot be technically replicated by the UK as it will require the UK to implement EU Single Market rules. However, those international procurement obligations between the UK, Norway and Iceland that derive

from the WTO's Government Procurement Agreement will continue to apply after the end of the transition period once the UK accedes to the GPA. Furthermore, the Government has made statutory instruments under the EU (Withdrawal) Act 2018 to keep alive the EU-derived procurement obligations to suppliers from third countries for a temporary period of 12 months. This includes the expanded procurement market access coverage for Norway and Iceland that is derived from the EEA Agreement.

Competition and State Aid

15. The EEA Agreement requires the Parties to implement the EU Single Market rules for competition and state aid. It would not be appropriate to retain such commitments in a UK-specific bilateral context, and therefore these provisions have not been included in these agreements. Iceland and Norway will continue to observe the EU rules in these areas.

16. It should be noted that the agreement does not contain provisions on Services and Investment. Our intention is to address Services and Investment as part of a comprehensive FTA with the EEA EFTA States. We are continuing to work with the EEA EFTA states with regards to the intervening period between the end of the transition period and the entry into force of the new, comprehensive FTA. These conversations will continue as we develop business guidance that sets out changes that business need to be aware of.

17. As mentioned, the UK continues to negotiate for a comprehensive FTA with the EEA-EFTA states which will replace this agreement once it is concluded. The aim of the current negotiations is to agree an ambitious FTA which covers goods, but will also cover services and investment, as well as other commitments in areas like Sustainability and SMEs which will ensure that our long term trading relationship with the EEA-EFTA states is protected and can grow in the future.

Explanation of Report Layout/Approach

18. In accordance with the commitments provided for in the Trade Bill 2017-19, this report gives details of, and explains the reasons for, any significant differences between:

    a. Agreement on Trade in Goods between the United Kingdom of Great Britain and Northern Ireland, Iceland, and the Kingdom of Norway ("the UK-Iceland-Norway Agreement on Trade in Goods)";

    b. The trade in goods related provisions of the Agreement on the European Economic Area ("the EEA Agreement"); and

    c. The existing bilateral trade agreements between the European Union and Iceland and the EU and Norway

19. The report first sets out the general drafting changes necessary across all the UK's short form continuity trade agreements. These changes have no significant impact on the UK's current trade relationships.

20. It then considers articles of the UK-Iceland-Norway Agreement on Trade in Goods, in turn explaining any significant differences between the trade in goods related provisions of the UK-Iceland-Norway Agreement on Trade in Goods and the corresponding provisions of the EEA Agreement and the bilateral agreements. The report also provides an overview of the institutional provisions and horizontal policies that have been transitioned in order to operationalise this Agreement, this includes trade remedies, disputes, rules of origin and customs cooperation.

21. The UK-Iceland-Norway Agreement on Trade in Goods is a goods-focussed agreement. Excluding the provisions required to ensure the functionality of this goods-focussed agreement, all

other provisions of the EEA Agreement are out of scope. Modifications of the EEA Agreement provisions that have been incorporated (as included in Annex I to the Agreement) are explained in this report.

22. This approach differs from the traditional Parliamentary Report structure which explains each significant difference between the UK- third country trade agreement and the EU-third country trade agreement. This report provides an explanation of why certain provisions and protocols have not been incorporated at a level of appropriate detail for this report.

23. Furthermore, this report only focusses on the incorporation of the elements that govern trade within the EEA Agreement and the bilateral agreements. The transition of policies not related to trade are not in the scope of this report.

24. To assist the reader, we have included some discussion of the economic impacts as appropriate. This report focuses solely on the changes made to the trading arrangements between the UK, Iceland, and Norway in preparation for the UK ceasing to be bound by the EEA Agreement and entering into the UK-Iceland-Norway Agreement on Trade in Goods. Any wider economic impacts resulting from the UK's exit from the EU have been excluded from this report.

25. The UK has agreed with many third countries that the most appropriate and proportionate form of legal instrument to ensure continuity in the current circumstances is a short form agreement which incorporates by reference the relevant provisions of the underlying EU-third country agreement with relatively few but necessary modifications; the advantages of the short form approach are set out below. However, the UK has simply chosen the form that the States involved agreed was the most pragmatic and sensible in the circumstances, taking into account the wishes of the partner countries. Accordingly, some agreements have been drafted in long form to reflect these wishes. The UK-Iceland-Norway Agreement on Trade in Goods is a short form agreement.

Legal approach

26. The UK, Iceland and Norway agreed that the most appropriate and proportionate legal vehicle in the circumstances was a short form treaty which incorporated by reference relevant provisions of the underlying EEA Agreement as well as the relevant bilateral trade agreements between the EU and Iceland and the EU and Norway with relatively few necessary modifications. The advantages of this approach include:

    a. That it may more easily be adapted to accommodate different scenarios, such as the various possible outcomes of the UK's ongoing negotiations with the EU regarding the end state of the UK-EU relationship;

    b. That the format itself will send a clear message to businesses, consumers, and investors in the three countries that the aim is simply to secure continuity to the extent possible in existing preferential tariff arrangements; and

    c. It will provide a clear legal text, making rights and obligations unambiguous where they had by necessity changed.

27. The UK-Iceland-Norway Agreement on Trade in Goods continues the effects of the relevant provisions of the EEA Agreement, and relevant bilateral agreements on agricultural and fishery products, to the extent possible and includes the establishment of institutional arrangements between the UK, Iceland and Norway based on the existing structures (such as a Joint Committee) that allow for the ongoing management and updating of this Agreement.

28. Many of the general modifications (such as replacing "EU" with "UK") are applied *mutatis mutandis*, that is, with the technical changes necessary to apply the existing agreements as if

they had been concluded between the UK, Iceland, and Norway. This has avoided the need to reproduce or modify every page and has significantly reduced the volume of text that needs to be included in the Agreement.

29. Where more substantive amendments have been required to ensure operability in a bilateral context, or where the UK, Iceland and Norway jointly agreed that mutatis mutandis would not deliver adequate certainty over rights and obligations, amendments have been included in the Annexes to the UK-Iceland-Norway Agreement on Trade in Goods.

30. Where provisions required to ensure and support continuity of trade in goods from the EEA Agreement and the bilateral agreements cannot be transitioned in their existing form (such as the EEA Agreement Joint Committee structure), we have sought alternative arrangements to deliver continuity of effect in our bilateral relationship with Iceland and Norway to the extent possible. These provisions are written in long form in the main text of the Agreement, for clarity. Also, the rules of origin are set out in long form in Annex IV to the Agreement.

Resources

31. This report is intended to aid businesses, consumers, and parliamentarians in understanding any significant differences made to the UK's trade relationship governance with Iceland and Norway by the UK-Iceland-Norway Agreement on Trade in Goods and the reasons for any changes, and their impact.

32. Should you wish to view the EEA Agreement as originally published, it can be found online on the European Commission's website and in hard copy in the Houses of Parliament Libraries EUR-Lex website.

33. A consolidated version of the EEA Agreement can also be found on the EUR-Lex website. The consolidated text is not an authoritative version of the EEA Agreement but will assist readers to understand how the EEA Agreement has been amended and supplemented since its entry into force.

    a. Agreement in the form of an Exchange of Letters concerning certain fishery products from the Commission of the European Communities to the Head of the Norwegian Delegation done at Brussels on 16 April 1973 ("the 1973 Exchange of Letters on Certain Fishery Products");

       https://www.wto.org/gatt_docs/English/SULPDF/90880155.pdf

    b. Exchange of Letters No 3 of the Agreements in the form of exchanges of letters between the European Economic Community and the Kingdom of Norway concerning agriculture and fisheries, relating to the field of fishing, done in Brussels 14 July 1986 ("the 1986 Exchange of Letters on Fishing");

       http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=43

    c. Additional Protocol in the agreement between the European Economic Community and the Kingdom of Norway consequent on the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, done at Brussels on 25 July 1995 ("the 1995 Additional Protocol");

       http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=51

    d. Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway consequent on the accession of the Czech Republic,

the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union, done at Luxembourg on 14 October 2003 ("the 2003 Additional Protocol");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=2761

e. Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway, done at Brussels on 3 May 2016, done at Brussels on 3 May 2016 ("the 2016 Additional Protocol")

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=10961

f. Agreement in the form of an Exchange of Letters from the Head of the Norwegian Delegation to the Head of the Delegation of the Community concerning certain agricultural products, done at Brussels on 16 April 1973 ("the 1973 Exchange of Letters on Agriculture");

https://www.wto.org/gatt_docs/English/SULPDF/90880155.pdf

g. Agreement in the form of an Exchange of Letters concerning wines from the Head of the Norwegian delegation to the Head of the delegation of the Community, done at Brussels on 16 April 1973 ("the 1973 Exchange of Letters on Wines");

https://www.wto.org/gatt_docs/English/SULPDF/90880155.pdf

h. Exchange of Letters No 1 of the Agreements in the form of an Exchange of Letters between the European Economic Community and the Kingdom of Norway concerning agriculture and fisheries, done at Brussels 14 July 1986 ("the 1986 Exchange of Letters on Agriculture");

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A21986A1122%2809%29

i. Agreement in the form of an exchange of letters between the European Economic Community and the Kingdom of Norway concerning certain arrangements in agriculture, done in Oporto on 2 May 1992 ("the 1992 Exchange of Letters");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=49

j. Agreement in the form of exchanges of letters between the European Union and the Kingdom of Norway concerning certain agricultural products, done at Brussels on 20 December 1995 ("the 1995 Exchange of Letters");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=52

k. Agreement in the form of an exchange of letters between the European Community and the Kingdom of Norway concerning additional trade preferences in agricultural products undertaken on the basis of Article 19 of the Agreement on the European Economic Area, done at Brussels on 20 June 2003 ("the June 2003 Exchange of Letters");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=62

l. Agreement in the form of an Exchange of Letters between the European Union and the Kingdom of Norway concerning additional trade preferences in agricultural products reached on the basis of Article 19 of the Agreement on the European Economic Area, done at Brussels on 15 April 2011 ("the 2011 Exchange of Letters");

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22011A1209%2801%29

m. Agreement in the form of an Exchange of Letters between the European Union and the Kingdom of Norway concerning additional trade preferences in agricultural products, done at Brussels on 4 December 2017 ("the 2017 Exchange of Letters");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=12181

n. Protocol No 6 to the Agreement between the European Economic Community and the Republic of Iceland of 22 July 1972, as amended, concerning the special provisions applicable to imports of certain fish products into the Community ("Protocol 6");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=10

o. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland consequent on the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, done at Brussels on 26 January 1996 ("the 1996 Additional Protocol");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=21

p. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland consequent on the accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union, done at 14 October 2003; ("the 2003 Additional Protocol");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=27

q. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland, done at Brussels on the 3rd of May 2016 ("the 2016 Additional Protocol");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=10941

r. Agreement in the form of an Exchange of Letters amending Protocol 6 to the Agreement between the European Economic Community and the Republic of Iceland – Amendments to be made to Protocol 6 to the Agreement between the European Economic Community and the Republic of Iceland, done at Brussels on 29 June 1976 ("the 1976 Exchange of Letters");

https://eur-lex.europa.eu/legal-content/BG/TXT/?uri=CELEX:21976A0810(01)

s. Agreement in the form of an Exchange of Letters between the European Union and the Iceland concerning additional trade preferences in agricultural products, done at Brussels on 23 March 2017 ("the 2017 Exchange of Letters");

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=11682

t. Agri-food GIs (ISL only): The Agreement between the European Union and Iceland on the protection of geographical indications for agricultural products and foodstuffs, done at Brussels on 23 March 2017;

http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=11681

u. Wine and spirits GIs (ISL & NOR): GI provisions in the EEA Agreement Annex II and Protocol 47;

https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A21994A0103%2801%29

34. Should you wish to view the full text of the UK-Iceland-Norway Agreement on Trade in Goods, it will be laid in Parliament alongside an Explanatory Memorandum as part of the UK's treaty ratification process in accordance with the Constitutional Reform and Governance Act 2010. The text will also be available on GOV.UK.

Economic Background

35. This section provides a country-specific background analysis of trade between the UK, Norway and Iceland.

Trade between the UK, Norway, and Iceland

36. Total trade in goods and services between the UK and Iceland and Norway together was £26.7 billion in 2019, of which £20.9 billion (78%) was in goods1. Norway is the UK's 12th largest trading partner,2 accounting for 2.5% of total UK trade. Iceland is the UK's 67th largest trading partner, accounting for 0.1% of total UK trade.

37. In 2019, UK exports to Iceland and Norway were £8.2 billion. Of this, British exports to Norway were £7.4 billion, making it the UK's 22nd largest export market (accounting for 1.1% of all UK exports). The UK exported £0.8 billion to Iceland, making it the UK's 68th largest export market (accounting for 0.1% of all British exports).

38. British imports from Iceland and Norway were £18.5 billion in 2019. Of this, the British imports from Norway were £17.7 billion, making it the UK's 10th largest import market (accounting for 2.5% of all UK imports). The UK imported £0.8 billion from Iceland, making it the UK's 66th largest import market (accounting for 0.1% of all British imports).

Table 1: Trade between the UK and Iceland and Norway 2019 (£, billion)

	Trade in Goods	**Trade in Services**	**Total**
UK exports to Iceland and Norway	4.2	4.0	8.2
UK imports from Iceland and Norway	16.7	1.8	18.5
Total	20.9	5.9	26.7

Source: ONS (2020), UK total trade: all countries, non-seasonally adjusted (accessed 13th November 2020).

39. Using data from HMRC for trade in goods only, Table 2 shows the top goods exported to Iceland and Norway in 2019 were in machinery and mechanical appliances (HS84, £838 million), vehicles other than railway or tramway stock (HS87, £409 million), and aircraft, spacecraft, and parts thereof (HS88, £318 million). The vast majority of the British goods imports from Iceland and Norway were in mineral fuels or oils, products of their distillation (HS27, £13.2 billion), representing almost 80% of the British goods imports from Iceland and Norway.

[1] ONS (2020), UK total trade: all countries, non-seasonally adjusted (accessed 13th November 2020).
[2] EU members are treated as individual trading partners with the UK.

Table 2: Top 5 UK goods exports to and imports from Iceland and Norway 2019 (at HS2[3], £ million)

Top 5 UK goods exports to Iceland and Norway	Value (£m)	Top 5 UK goods imports from Iceland and Norway	Value (£m)
Machinery and mechanical appliances	838	Mineral fuels and oils	13,237
Vehicles other than railway or tramway stock	409	Fish and crustaceans	408
Aircraft, spacecraft, and parts thereof	318	Machinery and mechanical appliances	403
Electrical machinery and equipment	284	Zinc and articles thereof	193
Optical, photographic, cinematographic and medical equipment	267	Optical, photographic, cinematographic and medical equipment	169

Source: HMRC trade statistics by commodity code (accessed 13th November 2020). Sectors classified according to Harmonised System chapters. Data presented is recorded on a 'physical movement' basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

40. Table 3 shows that in 2019 other business services (comprised of sectors including legal, accounting and management consulting) was the largest UK service both exported to, and imported from, Iceland and Norway, valued at £1.4 billion and £338 million respectively. Travel services followed as the second largest UK service export to Iceland and Norway in 2019. Whereas transportation was the second largest services UK import from Iceland and Norway over the same period.

[3] The Harmonized System (HS) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.

Table 3: Top 5 UK services exports to & imports from Iceland and Norway, 2019 (£ million)

Top 5 UK services exports to Iceland and Norway	Value (£m)	Top 5 UK services imports from Iceland and Norway	Value (£m)
Other business services	1,362	Other business services	388
Travel	701	Transportation	372
Financial	502	Travel	63
Insurance and pension	296	Intellectual property	54
Intellectual property	200	Personal, cultural and recreational	51

Source: UK trade in services: service type by partner country, non-seasonally adjusted (accessed 13th November 2020)

ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.

British businesses exporting to and importing from Iceland and Norway

41. In 2019, HMRC estimated that around 13,100 VAT registered British businesses exported goods to and around 4,000 imported goods from Norway.4 Over the same period, around 4,200 VAT registered UK businesses exported goods to, and 525 imported goods from, Iceland. These numbers may not be mutually exclusive, since businesses trading with Norway may also trade with Iceland and vice versa. As these figures only include businesses trading in goods, they are likely to underestimate the number of businesses trading with Iceland and Norway.

42. For context, provisional survey data from the ONS5 shows that around 340,500 (non-financial) registered businesses in Great Britain traded either goods or services or both in 2018 with another country. This was just under 15% of all VAT/PAYE registered businesses. There were around 211,100 (non-financial) registered businesses in Great Britain that engaged in goods trade with another country and 188,400 (non-financial) registered businesses that engaged in services in 2018. Some of these businesses traded in both goods and services. There will be other businesses trading internationally, which are not identified by these surveys as they are not registered for VAT. Neither of these sources include businesses trading below the VAT registration threshold.

[4] HMRC, (2019). Regional trade statistics interactive analysis: second quarter 2020, exports/imports using proportional business count method (accessed 4th November 2020)

[5] ONS, (2020). Annual Business Survey: Non-financial business economy, exporters and importers in Great Britain 2018 (accessed 13th November 2020).

Economic impact of the existing FTA

43. In 1973, bilateral free trade agreements between the then European Economic Community (EEC) and the countries of the then European Free Trade Association (EFTA) entered into force. In 1984, trade barriers and qualitative restrictions in bilateral goods trade between the EEC and EFTA states were reduced following the signing of the Luxembourg Declaration on broader cooperation.[6] Although the bilateral trade agreements between Norway and the EU and Iceland and the EU are still in force, in practice these have been superseded by the EEA Agreement.

44. There is limited evidence on the economic or trade impacts of EEA membership between members and individual partner countries. A 2018 European Commission report looking at the implementation of EU free trade agreements included information on the EU-Norway trade relationship.[7] It highlights data which shows that, between 2007 and 2017, EU goods imports from Norway decreased by 2% and EU goods exports to Norway increased by 17%. EU services imports from Norway increased by 26% and EU services exports to Norway increased by 23% between 2011 and 2016. This does not provide evidence on the causality, or lack thereof. To note, a large proportion of Norway's exports is in hydrocarbons, do not incur duties under the EU's Most-Favoured Nation (MFN) tariff schedule.

Potential loss to UK if the UK-Iceland-Norway FTA is not brought into force

45. Not being able to bring the Agreement into force would result in British businesses losing the preferences negotiated in the EEA Agreement, with respect to goods trade with Norway and Iceland. This would include the re-imposition of many tariffs, returning to World Trade Organisation (WTO) MFN treatment with Iceland and Norway. The benefits derived from trading under preferences within the UK-Iceland-Norway Agreement on trade in goods, such as increases in trade flows, may then be reversed.

46. It is unlikely that the entire effect of the EEA Agreement, EU-Iceland bilateral agreements and EU-Norway bilateral agreements would disappear. Tariffs would revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure even in the long run. Business connections formed because of the EEA Agreement, EU-Iceland bilateral agreements and EU-Norway bilateral agreements might endure.

47. The size of the impact of not bringing into force the UK-Iceland-Norway Agreement on Trade in Goods would depend on the responsiveness of trade flows to increased costs brought about by the loss of provisions within the Agreement.[8]

Impact if not brought into effect

48. The UK-Iceland-Norway Agreement on Trade in Goods can only come into force if no other agreement(s) between the Parties governing the future trade relationships have entered into

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[6] Kocak K A. (2016). 'Free trade agreements between EFTA and third countries: An overview'. *European Parliament*, pp. 1-12.

[7] European Commission. (2018). 'Individual reports and info sheets on Implementation of EU Free Trade Agreements'. *European Commission*, pp. 1-267.

[8] Head K and Mayer T. (2014). 'Gravity Equations - Workhorse, toolkit and cookbook'. *Handbook of International Economics*, 4, pp. 131-195.
Dhingra S, et al. (2018). 'Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?'. *CEP Discussion Paper No 1532*, LSE, pp. 1-38.

force or are provisionally applied by the end of the coverage period. The coverage period is defined as the period during which the UK continues to be covered by the Trade-Related Agreements between the EU and one of both of Iceland and Norway.

Impact of tariffs under current MFN rates

49. Much international goods trade takes place in products for which MFN rates are already zero. However, free trade agreements provide additional opportunities by reducing tariffs in products where this is not the case. If the UK-Iceland-Norway Agreement on Trade in Goods were not brought into effect, tariffs between the UK and Norway and the UK and Iceland would revert to MFN rates. This would lead to an increase in duties on some British exports to and imports from Iceland and Norway.

50. To estimate the potential impact of losing tariff preferences, assumptions have to be made. It is assumed that all current trade between the UK and Iceland and the UK and Norway occurred at the negotiated preferential tariff rate and current patterns of trade remained unchanged in the future. Without taking into account the effect of any unilateral preferences, reverting to the UK, Iceland and Norway's current MFN tariff rates would result in an annual increase in total duties of around £86 million. This would predominantly be duties on the imports from Iceland and Norway of £65 million, with £36 million of that relating to imports from Norway. Duties on British exports to Iceland and Norway are expected to increase by £22 million, with £15 million of that relating to exports to Norway.[9] Iceland's share of additional duties is significantly higher than its share of trade flows. This reflects greater shares of higher-duty exports (such as farming and fishing products) and lower shares of lower-duty exports (such as hydrocarbons) compared to Norway.

51. These estimates assume that all tariff preferences offered under the EEA Agreement, EU-Iceland bilateral agreements and EU-Norway bilateral agreements are fully utilised by exporters. This is unlikely to be true, although in this case utilisation appears to be relatively high. Estimates suggest that 79% of the UK's eligible goods imports from Norway and 94% of the UK's eligible goods imports from Iceland (defined as those which occurred under tariff lines where a preferential rate was offered under the EEA agreement) were imported utilising the preferences under the EEA Agreement in 2019.[10]

52. Similar data on UK eligible goods exports is not publicly available. Data from the European Commission includes available data on preference utilisation of exports to selected FTA partner countries.11 For these countries, 75% of UK eligible goods exports were traded under preferences. This means that the value or impact of the actual increase in duties could be lower than the estimates above.

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[9] DIT calculations using tariff data from MacMaps (accessed September 2020) and trade data from ITC Trade Maps (accessed September 2020) for exports calculations. DIT calculations using tariff data from the European Commission and Eurostat trade data (accessed October 2020) for imports. Implied additional duties are calculated using the difference in MFN and preferential tariff rates (simple average tariffs at CN8 level) and the value of trade in 2019 for each product at CN8 level. For exports, the tariffs that would apply as of 1st January 2021 are compared with the MFN tariffs that would apply in the absence of a deal. Different approaches and data sources for this analysis are likely to yield different results. Calculations on export duties also assume trade is not eligible for duty relief under inward/outward processing rules, nor under specific plurilateral agreements such as those covering civil aviation and pharmaceuticals, nor WTO or preferential quotas. Calculations on import duties take into account inward/outward processing rules and trade which is eligible for relief under specific plurilateral agreements but not WTO or preferential quotas.

[10] Preferential utilisation rates calculated by European Commission Department of Trade (updated 20th September 2020)

[11] Albania, Bosnia-Herzegovina, Canada, Chile, Colombia, Costa Rica, Dominican Rep., Ecuador, Egypt, El Salvador, Georgia, Guatemala, Honduras, Israel, Jordan, Kosovo, Lebanon, Madagascar, Mexico, Montenegro, Morocco, Nicaragua, North Macedonia, Peru, Serbia, South Africa, South Korea, Switzerland, Turkey, Ukraine. Data were not available for all partner countries.

53. The total duty which would in fact be charged on exports and imports would depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If British producers were not previously utilising the preferential rates or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimated above. These are strong assumptions, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier under this scenario.

54. The indicative estimates show that the largest implied increases in UK export duties would be in products of the milling industry (HS11) of up to £9 million, followed by albuminoidal substances; modified starches (HS35) up to £3 million. Both increases are mainly made up of duties on exports to Norway.

55. On the imports side, the largest implied increases in UK import duties would be on fish and crustaceans (HS03) of up to £29 million, preparations of meat or fish (HS16, £8 million), with most of these duties falling on imports from Iceland. Additionally, there would be around £6 million worth of implied duties on imports of mineral fuels and oils (HS27), all of this from imports from Norway.

56. Indicative estimates of implied additional tariff duties are provided above to give a sense of scale of possible additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the extra tariff revenue collected by the UK Exchequer and the Icelandic and Norwegian governments. However, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare.

Businesses

57. Additional duties could be absorbed by either British businesses, or businesses from Iceland and Norway (depending on whether it is the importer or exporter paying the duty), passed on to consumers, or existing trade patterns could be interrupted. This could impact UK competitiveness, leading to disruptions in supply chains and job losses in the short term.

58. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including British exporters that rely on inputs from Iceland and Norway to export goods to the rest of the world. In 2016 (latest data), around 15.4% of the value added in UK's gross exports reflected imports from abroad, including 0.7% from Norway and less than 0.1% from Iceland (latest country-level data from 2015).[12] British companies which rely on imports from Iceland and Norway would become less competitive.

Consumers

59. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example those at the lower end of the income distribution, depending on the specific sectors affected. Consumers might also see a reduction in choice of products and services available.

[12] OECD, (2018). Trade in Value Added database: Origin of Value Added in Gross Exports 2018. Experimental statistics.

Longer-term economic impact if not entered into force

60. In the long run, the UK would forgo the longer-term benefits that continuing trading with Iceland and Norway under preferential terms would have brought to UK. This could result in the long-term UK Gross Domestic Product (GDP) marginally decreasing if a deal is not reached.

Explanation of the Agreement on Trade in Goods between the UK, Iceland, and Norway

Overview of the UK-Iceland-Norway Agreement on Trade in Goods

61. The UK-Iceland-Norway Agreement on Trade in Goods is a goods-focused trade agreement that covers areas where Norway and Iceland are not constrained by their EEA obligations and where UK's continued alignment with EU/EEA rules is not required.

62. The Agreement incorporates, with the necessary modifications in Annex I, relevant Articles and Protocols of the EEA Agreement to ensure continuity of the preferential tariff arrangements and functionality in a bilateral context, including:

    a. EEA Agreement Part II on Free Movement of Goods (incorporated with modifications where necessary in Annex I):

        i. Incorporation of Articles 8(3), 9(1), 10, 11, 12, 13, 14, 15 and 21(2) – industrial goods related provisions.

        ii. Incorporation of Article 20 of the EEA Agreement – fish related provision.

        iii. Incorporation of Article 25 – provision related to safeguard measures.

    b. EEA Agreement Part VII Institutional Provisions (incorporated with modifications where necessary in Annex I):

        i. Chapter 1, Section 2 - continuity of effect as a Joint Committee is set up in Article 13 of the UK-Iceland-Norway Agreement on Trade in Goods.

        ii. Chapter 3, Section 3 - incorporation of dispute settlement Article 111(1), (2) and (4)

        iii. Chapter 4 - incorporation of safeguard measures Articles 112, 113 and 114.

    c. EEA Agreement Part IX General and Final Provisions (incorporated with modifications where necessary in Annex I):

        i. Incorporation of Article 122 – non-disclosure.

        ii. Incorporation of Article 123 – provision related to safeguard measures.

    d. EEA Agreement Protocols (incorporated with modifications where necessary in Annex I):

        i. Protocol 2 on products excluded from the scope of the agreement in accordance with article 8(3)(a);

        ii. Protocol 3 concerning products referred to in article 8(3)(b) of the agreement;

        iii. Protocol 9 on trade in fish and other marine products;

        iv. Protocol 11 on mutual assistance in customs matters;

        v. Protocol 33 on arbitration procedures.

63. Also, the provisions on the rules of origin as set out in Protocol 4 to the EEA Agreement, with necessary modifications, are included in long form in Annex IV to the UK-Iceland-Norway Agreement on Trade in Goods.

64. In order to continue between the UK and Iceland the relevant existing trade arrangements in agricultural and fishery products, Annex III of this Agreement also incorporates, with the necessary modifications, the following **EU-Iceland bilateral agreements** on trade in agricultural and fishery products, bringing the relevant provisions together under one legal instrument and replicating their effects to the extent possible:

    a. Protocol No 6 of the EU Iceland Free Trade Agreement of 1972 concerning the special provisions applicable to imports of certain fish products into the Community;

    b. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland consequent on the accession of the Republic of Austria, the Republic of Finland, and the Kingdom of Sweden to the European Union, signed in Brussels on 26 January 1996;

    c. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland consequent on the accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union, signed in Luxembourg on 14 October 2003;

    d. Additional Protocol to the Agreement between the European Economic Community and the Republic of Iceland, signed in Brussels on the 3rd of May 2016;

    e. Agreement in the form of an Exchange of Letters amending Protocol 6 to the Agreement between the European Economic Community and the Republic of Iceland, done at Brussels on 29 June 1976;

    f. Agreement in the form of an Exchange of Letters between the European Union and Iceland concerning additional trade preferences in agricultural products, signed in Brussels on 23 March 2017.

65. This Agreement also incorporates the following Agreement between the EU and Iceland on the protection of geographical indications for agricultural products and foodstuffs in Annex V, replicating its effects to the extent possible:

    a. The Agreement between the European Union and Iceland on the protection of geographical indications for agricultural products and foodstuffs, done at Brussels on 23 March 2017.

66. In order to continue between the UK and Norway the relevant existing trade arrangements in agricultural and fishery products, Annex II of this Agreement also incorporates, with the necessary modifications, the following **EU-Norway bilateral agreements** on trade in agricultural and fishery products, bringing the relevant provisions together under one legal instrument and replicating their effects to the extent possible:

    a. 1973 April 16, Brussels, Letter from the Commission of the European Communities concerning autonomous concessions in the fishery sector (“the 1973 Exchange of Letters on Certain Fishery Products”);

    b. 1986 July 14, Brussels, Agreements in the form of exchange of letters between the European Economic Community and the Kingdom of Norway concerning agriculture and fisheries, Exchange of Letters No 3 (“the 1986 Exchange of Letters No 3 on Fishing”);

c. 1995 July 25, Brussels, Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway consequent on the accession of the Republic of Austria, the Republic of Finland, and the Kingdom of Sweden to the European Union ("the 1995 Additional Protocol");

d. 2003 October 14, Luxembourg, Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway consequent on the accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union ("the 2003 Additional Protocol");

e. 2016 May 3, Brussels, Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway ("the 2016 Additional Protocol")

f. 1973 April 16, Brussels, Letter from the Norwegian Delegation concerning autonomous Norwegian agricultural concessions ("the 1973 Exchange of Letters on Agriculture");

g. 1973 April 16, Brussels, Letter from the Norwegian Delegation concerning the wine trade ("the 1973 Exchange of Letters on Wines");

h. 1986 July 14, Brussels, Agreements in the form of an Exchange of Letters between the European Economic Community and the Kingdom of Norway concerning agriculture and fisheries, Exchange of Letters No 1 ("the 1986 Exchange of Letters No 1 on Agriculture");

i. 1992 May 2, Oporto, Agreement in the form of an exchange of letters between the European Economic Community and the Kingdom of Norway concerning certain arrangements in agriculture ("the 1992 Exchange of Letters");

j. 1995 December 20, Brussels, Agreement in the form of exchanges of letters between the European Community and the Kingdom of Norway concerning certain agricultural products ("the 1995 Exchange of Letters");

k. 2003 June 20, Brussels, Agreement in the form of an Exchange of Letters between the European Community and the Kingdom of Norway concerning additional trade preferences in agricultural products undertaken on the basis of Article 19 of the Agreement on the European Economic Area ("the June 2003 Exchange of Letters"

l. 2004 December 13, Brussels, Agreement in the form of an exchange of letters between the European Community and the Kingdom of Norway concerning Protocol 2 to the bilateral Free Trade Agreement between the European Economic Community and the Kingdom of Norway ("the 2004 Exchange of Letters")

m. 2011 April 15, Brussels, Agreement in the form of an exchange of letters between the European Union and the Kingdom of Norway concerning additional trade preferences in agricultural products reached on the basis of Article 19 of the Agreement on the European Economic Area ("the 2011 Exchange of Letters"); and

n. 2017 December 4, Brussels, Agreement in the form of an exchange of letters between the European Union and the Kingdom of Norway concerning additional trade preferences in agricultural products ("the 2017 Exchange of Letters").

67. The UK-Iceland-Norway Agreement on Trade in Goods follows the short form approach explained above throughout the Agreement, except with regard to the following provisions which are written out in long form:

a. Article 4 on good faith;

b. Article 9 on subsidies and countervailing measures;

c. Article 10 on anti-dumping;

d. Article 13 on Joint Committee

e. Article 14 on amendments;

f. Article 16 on territorial application

g. Article 17 on entry into force

h. Article 18 on termination; and

i. Annex IV on Rules of Origin.

68. Beyond the general *mutatis mutandis* changes explained above in paragraphs 25-26, this section first describes the global changes made to continuity free trade agreements following the short form approach and then goes on to provide a detailed discussion of the UK-Iceland-Norway Agreement on Trade in Goods.

General Provisions

Removal and replacement of references to the EU

69. Where necessary, references to the “European Union”, “the European Community”, the “EU” “EU Party”, and “Member States” have been replaced by the “UK”. Similarly, references to EU institutions have been replaced with appropriate references to the equivalent institutions in the UK (for example, the Competition and Markets Authority). All other references to “European Union”, “the European Community”, the “EU”, “EU Party” and “Member States” are read, mutatis mutandis, as references to the UK but are not explicitly deleted.

Territorial Application

70. Territorial application provisions in a treaty outline the territory to which a treaty applies and how it applies to them. In the EEA Agreement, Article 126 defines the territorial application of the Agreement by reference to the EU Treaties. The UK-Iceland-Norway Agreement on Trade in Goods continues the effect of this provision by including an article, Article 16, which clarifies that the Agreement applies to the UK and the territories for whose international relations it is responsible in the same way as the Trade-Related Agreements between the EU, Iceland and Norway did. The UK territories to which this Agreement applies are determined based upon the application of the EU Treaties under EU law to date. The territories that this Agreement apply to are

    a. The Crown Dependencies (Isle of Man, Bailiwick of Jersey, Bailiwick of Guernsey), to which, broadly, provisions relating to tariffs and trade in goods apply; and

    b. Gibraltar, to which the provisions on the protection of geographical indications apply.

Continuation of Time Periods

71. Certain provisions of the EEA Agreement and the EU-Iceland or the EU-Norway bilateral agreements that provide for a time period have been amended in the UK-Iceland-Norway Agreement on Trade in Goods so that the remainder of any unfulfilled time period is incorporated into the UK-Iceland-Norway Agreement on Trade in Goods. Further, where a time-bound commitment has been completed, reference to that time period has been left in; any rights and obligations resulting from that time period will then continue to be applied after entry into force of the Agreement. The provision dealing with the continuation of time periods is found in Article 12 of the UK-Iceland-Norway Agreement on Trade in Goods.

72. Article 12 also provides an exception for time periods which relate to a procedure or other administrative matter. These periods are not carried over and therefore ‘start again’ when the UK-Iceland-Norway Agreement on Trade in Goods enters into force.

Joint Committee

73. Article 10 of the main text of the UK-Iceland-Norway Agreement on Trade in Goods establishes a new Joint Committee. This Article tasks the newly established Joint Committee with ensuring that the Agreement operates properly.

74. The Joint Committee is responsible for the administration of this Agreement and its proper implementation. To ensure the functionality of the Agreement, the Joint Committee shall exchange information and, at the request of a party, shall hold consultations within the Joint Committee. The Joint Committee is tasked with meeting at least once a year, and at the request of one of the Parties. The Joint Committee shall act by consensus.

Amendment Clauses

75. The Government is committed to ensuring the appropriate level of Parliamentary scrutiny for all amendments to international agreements, whilst ensuring that the UK can keep agreements up-to-date and respond to changes in domestic legislation or wider economic considerations effectively.

76. With regard to appropriate Parliamentary scrutiny, Article 14(1) of this Agreement provides that an amendment made to this Agreement by the Parties shall enter into force once the Parties have provided notification of completion of their internal procedures, thus engaging in the UK the Constitutional Reform and Governance Act (2010) (CRaG) where changes are made using the power under this paragraph.

77. Notwithstanding this, Article 14(2) of this Agreement allows for amendments to be made by a Joint Committee decision to Annexes I (Modifications to the EEA Agreement) and IV (Protocol on Rules of Origin) to this Agreement. The Joint Committee powers to amend these Annexes are based on EEA Joint Committee powers to amend the annexes to the current EEA Agreement, thus ensuring continuity.

78. It is in our interest for the Joint Committee to have this function, both to ensure continuity as far as possible, and to streamline the process of making amendments for technical or administrative changes to Annexes I and IV, if required. The wording used in Article 14(2) is intended to indicate a simpler procedure than that for Article 14(1). In the UK, the CRaG procedure would not apply to amendments under Article 14(2).

Entry into Force and Provisional Application

79. Entry into force provisions specify when the UK-Iceland-Norway Agreement on Trade in Goods will bind the parties. This Agreement shall only enter into force in relation to those Parties which have deposited their instruments of approval at the end of 'coverage period' or a later date agreed by the Parties, meaning in the event that:

    a. the United Kingdom is no longer covered by the Trade-Related Agreements between the European Union and one or both of Iceland and Norway; or

    b. the date on which the United Kingdom and at least one other Party (Iceland or Norway) deposit their instrument of approval with the Depositary.

80. The agreement will enter into force at the end of the coverage period. The coverage period is defined as the period during which the United Kingdom continues to be covered by the Trade-Related Agreements between the EU and one or both of Iceland and Norway (see Article 2.4). At the end of the coverage period, EU trade agreements, including the EEA Agreement, will no longer apply to the UK.

81. For the UK-Iceland-Norway Agreement on Trade in Goods to enter into force, it must first be approved by the UK, Norway and Iceland in accordance with their respective legal requirements. In UK domestic law, before an agreement subject to ratification may be formally ratified, it must be laid before Parliament for scrutiny under the Constitutional Reform and Governance Act 2010 (CRaG Act).

82. Provisional application is a mechanism which allows an agreement to be applied prior to its entry into force. This means that the treaty can be provisionally applied prior to completion of the procedures required by the domestic law of the respective negotiating States for its entry into force, provided any necessary domestic implementing measures are in place. Where the negotiating States have agreed that a continuity agreement may be provisionally applied from the date the underlying EU agreement(s) ceases to apply to the UK, the treaty may be operated

provisionally from that date if this becomes necessary while, in the case of the UK, the treaty completes the procedures set out in the CRaG Act. A number of the existing EU agreements provide for provisional application and were provisionally applied by the UK as an EU Member State.

83. The UK, Iceland and Norway have agreed to allow the UK-Iceland-Norway Agreement on Trade in Goods to be provisionally applied (see Article 17) in the event that this is necessary. Given that the Government is seeking to maintain the effects of the existing EU agreements as the transition period ends, this is a proportionate approach to manage the timing constraints during this unique period and reduces the risk of businesses and consumers experiencing disruption at the end of the transition period.

Annexes and Protocols

Goods

84. Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted to goods of the respective parties. Such provisions include setting tariff levels and quotas on various products, establishing safeguards and determining the rules of origin for goods to qualify for preferential treatment. Commitments on tariffs for the UK, Iceland and Norway have, other than in those cases detailed below, been transitioned without changes. This means that tariff preferences applied by the UK for products from Iceland and Norway will remain the same as those applied by the EU, and likewise, Iceland and Norway will continue to apply the same preferences to products from the UK that it is applying to products from the EU.

85. The only exception to tariff commitments being transitioned without modifications relates to the size, and in exceptional cases for some seasonal fish quotas: the quota period, of tariff-rate quotas (see below). These can be found in the Appendices of Annex II and Annex III to the UK-Iceland-Norway Agreement on Trade in Goods.

86. Tariff Rate Quotas have to be resized to deal with the fact that the UK will no longer be a Member of the EU. These changes are detailed further below. The quota period was adapted on some specific seasonal inward quotas for fish to allow for the fact that the duty-free period for some fish products was amended to the 1st of the month from the 14th of the month in the UK's MFN schedule. Therefore, to ensure continuity of effect and that the TRQ period aligns with when there is an out of duty tariff, the quota period was likewise altered to the 1st of the month.

Trade in Industrial Products

87. The EEA Agreement provides for zero-tariff trade for industrial goods (covering almost all products falling within Chapters 25 to 97 of the Harmonized Commodity Description and Coding System). The industrial goods related provisions of the EEA Agreement, and more specifically Articles 8(3), 9(1), 10, 11, 12, 13, 14, 15 and 21(2), have been carried over to the new Agreement on Trade in Goods between the UK, Iceland and Norway so that the existing preferential system providing for tariff-free trade flows and market access privileges for industrial goods are replicated in bilateral trade between the UK and Iceland and the UK and Norway.

Trade in Agriculture and Fishery Products

88. We have incorporated the tariffs and TRQs on agricultural and fish products to ensure continuity for businesses.

Protocol 3 to the EEA Agreement – Incorporated in Article 5 and modified by Annex I

89. Protocol 3 to the EEA Agreement establishes tariff preferences for processed agricultural goods and a price compensation mechanism for these goods whereby reference prices are established and updated between Norway and the EU on an annual basis. Iceland does not actively make use of the mechanism. The reference prices equalize the differences between the Norwegian domestic and world market/EU prices for the agricultural raw materials used in the production of these products in order to create a level playing field for trade. Usually the Norwegian domestic prices exceed those in the EU and the rest of the world owing to the harsh environmental conditions present in the country.

90. By way of the incorporation and, where necessary, modification of the provisions of Protocol 3 to the EEA Agreement, the UK-Iceland-Norway Agreement on Trade in Goods ensures that the tariff preferences currently in place for processed agricultural goods are retained for the UK, Norway, and Iceland for the end of the transition period. This will provide continuity of trading conditions for consumers and businesses, to the extent possible.

91. Protocol 3 to the UK-Iceland-Norway Agreement on Trade in Goods retains, with modifications, the price compensation mechanism of Protocol 3 to the EEA Agreement. A new Article 2 of Protocol 3 to the UK-Iceland-Norway Agreement on Trade in Goods provides that the customs duties applied between Norway and the UK and Iceland and the UK under the UK-Iceland-Norway Agreement on Trade in Goods shall not exceed the customs duties applied between Norway and the EU and Iceland and the EU under the EEA Agreement. This approach has three benefits: firstly, it achieves continuity of current trading conditions; secondly, the UK will not need to continuously amend this Agreement to show changes in customs duties; and thirdly, the UK will not need to initiate a separate, resource intensive annual negotiation on duties applicable to processed agricultural goods. The UK, Norway and Iceland also retain powers to modify the scope of product coverage of the Protocol and the Parties may request consultations on adapting the duties applicable, should conditions in the UK vary significantly from those in the EU and EU domestic prices. There is also a provision requiring that Norway and Iceland notify the UK of any changes in custom duties pursuant to the EEA Agreement: this will allow the UK to assess these changes in a timely fashion and establish whether any consultation would be required.

92. Because current conditions of trade are maintained through the incorporation of this protocol, impact felt by consumers and businesses should be low.

Protocol 9 to the EEA Agreement – Incorporated in Article 6 and modified by Annex I

93. Protocol 9 to the EEA Agreement establishes tariff preferences applicable to fishery goods. The UK-Iceland-Norway Agreement on Trade in Goods retains these tariff preferences through the incorporation and, where necessary, modification of the provisions of Protocol 9. To the extent possible, this provides continuity for consumers and businesses in terms of the availability and price of fish, in particular white fish, for the UK fish processing industry.

94. The amendments to this Protocol include the following:

    a. The deletion of Appendix 1: this Annex related to Finland and so was not relevant to Norway, Iceland, or the UK;

    b. The deletion of Appendix 3: Appendix 3 listed bilateral agreements that provided for more preferential trading arrangements on fish; Article 7 of Protocol 9 to the EEA Agreement then expressly stated that these arrangements would, to the extent they provided more preferential trading conditions, prevail over Protocol 9 to the EEA Agreement. However, as Article 1 of Annex II and Article 1 of Annex III of the UK-Iceland-Norway Agreement on Trade in Goods incorporate all those bilateral arrangements which provide for more preferential trading conditions than the incorporated Protocol 9, and Article 7 of Protocol 9 has been modified to make clear that these bilateral arrangements prevail over the incorporated Protocol 9 to the extent that they offer more preferential trading conditions, Appendix 3 is no longer relevant.

    c. The modification of Article 4 relating to state aid and competition within the fisheries sector: this text was originally very specific to the EEA context where the parties are part of the Single Market and therefore conditions of competition are maintained such that anti-dumping measures are not generally required. Conditions of competition and

state aid go beyond the scope of this Agreement, and in addition, as a party independent from the Single Market the UK would not be able to make exactly the same commitments. Therefore Articles 4(1) and 4(2) relating to state aid and competition have been deleted. While Article 4(3) has been retained, it has been modified so as to remove the references to competition. The reference to trade remedies in Article 4(3) has been retained in order to make clear that anti-dumping and countervailing measures can be applied to products under Protocol 9, but that the parties will endeavour to refrain from doing so.

Bilateral arrangements on agricultural and fishery products: Incorporated and modified by Annexes II and III

95. Annexes II and III incorporate and modify, as required, the relevant bilateral agreements and protocols in place between the EU and Norway (Annex II) and the EU and Iceland (Annex III) regarding agricultural and fishery goods. The principle objective of this incorporation is to maintain tariff preferences and commitments regarding the administration of tariff quotas presently in place between the EU and Norway and the EU and Iceland. To the extent possible, this provides continuity for British consumers of Norwegian and Icelandic agricultural and fishery goods, and British businesses exporting these goods to, or importing from, Norway and Iceland.

96. All the bilateral agreements which have current and practical effect on agricultural good prices and trade between the EU and Norway and the EU and Iceland, i.e. that have not been superseded by later agreements or the EEA Agreement, and that are in force, have been incorporated.

97. In both Annex II and Annex III cross cutting (horizontal) modifications are stipulated clarifying:

    a. How provisions relating to TRQs are to be dealt with where there is no current trade in these products and the TRQs are not transitioned or resized (these are not applied; see below for further details regarding our approach to TRQs);

    b. The volumes of TRQs that will be applicable should the Agreement come into force after the beginning of a quota period (the quota volume will be reduced pro-rata); and

    c. Which rules of origin will apply (these are those set out within Annex IV of the UK-Iceland-Norway Agreement on Trade in Goods)

98. In addition to the abovementioned cross cutting (horizontal) modifications there are also specific technical modifications made to the bilateral agreements to ensure these are operable in the UK-Norway-Iceland context. These include:

    a. Excluding annexes that were not related to the EU, Norway or Iceland to clarify the text, e.g. in the Norway 1973 Exchange of Letters on certain fishery products we did not incorporate Annex III regarding the tariff preferences provided by the EU to Denmark and the UK prior to them becoming members of the European Union as these are no longer applicable.

    b. Excluding provisions relating to Rules of Origin. This exclusion alongside the horizontal modification already described provides certainty to UK, Icelandic and Norwegian exporters as to which Rules are applicable.

    c. Excluding, where this provides further clarity, any expired or irrelevant provisions e.g. regarding EU enlargement or time limited TRQs that do not have practical effect currently. To provide an example, in several of Norway's more recent exchanges of letters

for agricultural products, we excluded the references to Norway's commitment to consolidate bilateral concessions into a new exchange of letters as this is only of relevance between Norway and the EU, and Norway are already carrying out the process of consolidation.

d. Excluding for clarity provisions relating to authentic languages or entry into force where the provisions within the core text of the UK-Iceland-Norway Agreement on Trade in Goods take precedent. E.g. Articles 1, 5 and 6 of the Norway 1995 Additional Protocol.

e. Excluding for clarity provisions relating to the establishment of cheese quotas between the EU and Norway. These quotas have been amended and superseded a number of times and a new, separate article providing for continuity of the UK-Norway cheese quota has been incorporated: see Article 6 of Annex II.

f. Excluding references to Article 19 of the EEA Agreement. Article 19 of the EEA Agreement is a review clause specific to trade in agricultural goods. It requires parties to meet every 2 years to discuss the liberalisation of trade in agricultural goods. Given the scope of this Agreement as well as its temporary nature, and to secure continuity of current trading conditions, retaining an Article providing for such a review mechanism was not considered to be appropriate.

99. As these changes relate to provisions that are either no longer applicable, or are not relevant to the transition agreement, we do not expect them to have a direct impact on UK trade flows.

Bilateral arrangement between Iceland and the UK on the protection of Geographical Indications (GIs) for agricultural products and foodstuffs: incorporated and modified by Annex V

100. The Agreement between the EU and Iceland on the protection of geographical indications (GIs) for agricultural products and foodstuffs is incorporated into the UK-Iceland-Norway Agreement on Trade in Goods. The transitioned GI arrangements provide for continuity of protection for UK agri-food GIs in Iceland. There is no equivalent agreement on agri-food GIs between the EU and Norway.

101. As with the other incorporated bilateral agreements, entry into force provisions and provisions relating to parties other than the UK and Iceland were not incorporated for clarity.

102. The arrangements for protection of wine and spirits GIs with Norway and Iceland have not been incorporated into this Agreement and the UK will look to establish the appropriate protections in the course of future trade.

Tariff Rate Quotas (TRQs): Annexes II and III to the Agreement

103. Tariff-rate quotas (TRQs) allow a certain quantity of a product to enter the market at a zero or reduced tariff rate. Imports outside the quota are subject to a higher tariff rate – usually the MFN rate. The EU has agreed TRQs, both for imports to the EU and to partner countries, in some of its trade and association agreements. In order for products to be able to continue to benefit from the use of TRQs in trade between the UK and Iceland or Norway from the end of the transition period, these quotas need to be provided for in the UK-Iceland-Norway Agreement on Trade in Goods.

104. TRQs administered by the UK, Iceland and Norway have been re-sized to reflect the fact that the UK is a smaller importer and exporter than the EU27. Solutions were agreed with Iceland and Norway to set quotas to a sufficient level that will allow for continuity of historical trade flows, in most circumstances, for importers and exporters from both sides.

105. Where possible, TRQs have been re-sized in line with three years of historical customs usage data, which detail actual usage of the TRQs by importers. It includes information on the quantity and date of individual shipments of goods. This is relevant customs data which records the volume and date of entry of shipments that come into the UK, Norway or Iceland claiming TRQ preferences. Where there is not three years' worth of usage customs data, trade flow data has been used as a proxy instead. Where TRQ volumes in the EU agreement have increased since the historical reference period, a proportional uplift has been applied to historic data to account for this.

106. Tables in Appendix A and B to this report set out the new UK-Iceland-Norway quotas applicable under the UK-Iceland-Norway Agreement on Trade in Goods.

Impact

107. Without transitioning TRQs used by UK, Norwegian and Icelandic exporters, and without any other mitigating actions, goods imported from Iceland and Norway that are currently covered by TRQs in the existing EU agreement could face tariffs under the UK's new MFN tariff – the UK Global Tariff. This could make these imports more expensive. For example, the UK has a TRQ covering imports of frozen meat of lambs, boneless, frozen (CN8 code 02044310) from Iceland. The imports of these products could face the UKGT duty rate of 12% + 196 GBP/100kg rather than the in-quota rate of 0%. This example is not representative of all quotas. The nature of the impact of this will depend on a number of factors, including existing trading patterns and the behaviour and responsiveness of domestic consumers and businesses to the change in tariff.

108. UK imports from Iceland and Norway based on trade data (at HS6 level) for products covered by TRQs1 were worth £65 million in total in 20192, equivalent to around 0.4% of total UK goods imports from Iceland and Norway.

109. Trade in goods currently exported from the United Kingdom to Iceland and Norway could also be adversely affected if the relevant TRQs are not transitioned. In the absence of any explicit action by the Icelandic and Norwegian governments, that trade would face MFN tariff rates. As explored above for British imports, the nature of the impact will depend on a number of factors.

110. Setting TRQ volumes in line with historical usage or trade flows data over a historical three-year period ensures that agreed TRQ volumes fairly reflect average trade over this period. However, it is possible that with the original TRQs still in place British exporters might have traded volumes in excess of this level in some years.

Rules of Origin: Annex IV to the Agreement

111. In free trade agreements, rules of origin are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good must "originate" in one of the parties to the agreement. Trade agreements may also allow materials originating and/or processing in a country other than the exporting Party to count towards meeting the specific origin requirements for preferential treatment, a process known as "cumulation".

112. There are two categories relevant to determining whether goods "originate" in the exporting country for the purposes of a free trade agreement:

    a. ***Wholly obtained*** – These are goods that are wholly obtained or produced entirely in a single country. Examples include mineral products extracted from the soil and live animals born and raised there.

b. ***Substantial transformation*** – These are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:

   i. ***Value added*** – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.

   ii. ***Change in Tariff Classification*** *("CTC")* – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.

   iii. ***Specific processing or manufacturing*** – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.

113. During the transition period, all UK content is currently considered as "originating" in the EU and UK exports are designated as "EU origin". This means that originating materials from and, processing in, the UK and the rest of the EU can be used interchangeably in bilateral trade with existing EU trade partners. This will no longer be the case when existing EU trade agreements stop applying to the UK at the end of the transition period.

114. At that point, the designation of UK exports will shift from "EU" originating, to "UK" originating and EU content will (unless specific provision is made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This would have implications for goods traded between the UK, EU and Norway-Iceland.

115. To address these implications and to provide maximum continuity for business, it has been agreed in the UK-Iceland-Norway Agreement on Trade in Goods provides that EU materials can continue to be used, and count as originating (e.g. cumulated), in UK, Norwegian and Icelandic exports to one another. Furthermore, EU processing can continue to be used and count as originating in UK exports to Iceland and Norway. The possibilities to cumulate with other third countries, as per the EEA Agreement, are replicated in the UK-Iceland-Norway Trade in Goods Agreement on the same terms.

116. The cumulation arrangements are set out in detail in the Protocol on rules of origin as set out in Annex IV to the Agreement and are subject to satisfying certain conditions specified in the Agreement.

117. Norway, Iceland, and the UK (as it continues to be bound by agreements to which the EU is a party to) are currently Contracting Parties to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) and apply the PEM Convention between them. The PEM Convention is a multilateral agreement that harmonises preferential rules of origin across the Euro-Med area and provides for cumulation between Contracting Parties to that Convention. The UK's future relationship with the PEM Convention is yet to be determined, so the UK-Iceland-Norway Agreement on Trade in Goods reflects the provisions of the PEM Convention and Protocol 4 to the EEA Agreement, including the cumulation arrangements they provide for, in a UK-Iceland-Norway only context with modifications.

118. In addition, the UK has agreed with Iceland and Norway to include a provision which allows the customs authorities in the UK, Iceland, and Norway to continue accepting customs certificates electronically, including electronic signatures and stamps. This was at the request of Iceland and Norway and is continuity of current practice at customs borders. This provision can be found in Annex IV, Title V, Article 15.3.

119. The text of the Rules of Origin Protocol can be found in Annex IV to the UK-Iceland-Norway Agreement on Trade in Goods.

Impact

120. If cumulation of EU content for the UK, Iceland and Norway were not permitted under the UK-Iceland-Norway Agreement on Trade in Goods, some UK, Icelandic, and Norwegian based exporters might find themselves unable to access preferences, as they are currently able to, under the EEA Agreement.

121. UK exporters to Iceland and Norway who rely on EU inputs might have to revert to paying Most Favoured Nation (MFN) tariff rates if they continued using EU content, or they might have to review and reassess their existing supply and value chains as a result of this change to the existing terms. The impact would, of course, vary across sectors.

122. The UK-Iceland-Norway Agreement on Trade in Goods provides only for trade between the UK, Iceland and Norway and does not provide for any Party's direct trade with the EU, including, for example, where the UK, Iceland and Norway based exporters use content from each other in exports to the EU. The imposition of higher MFN tariffs on such exports may have a minor negative impact on trade flows.

Customs Cooperation: Incorporated in Article 5 and modified by Annex I

123. Regarding Protocol 11 of the EEA Agreement on mutual assistance in customs matters, modifications made to this Protocol are limited to those strictly necessary to ensure that the Protocol continues to be operative in the new bilateral context. References to the European Communities' legal framework(s) have been removed as they are no longer applicable.

124. We don't expect this to have any impact on UK exporters as mutual assistance arrangements will work in the same way under the new framework as they currently are.

Other Policy Areas covered by the UK-Iceland-Norway Agreement on Trade in Goods

Trade Remedies: Incorporated in Articles 8, 9 and 10 and modified by Annex I

125. Trade remedies provide a safety net for domestic industry against unfair or injurious trading practices caused by dumped, subsidised or unexpected surges of imports of goods. Most WTO members have a trade remedies regime. The UK will operate its own regime once the transitional period agreed with the EU comes to an end.

126. Article 9 and 10 have been included in the UK-Iceland-Norway Agreement on Trade in Goods in order to enable Parties to apply anti-dumping and countervailing measures if required. This is required in addition to the safeguard provisions incorporated from the EEA Agreement in Article 8 in the UK-Iceland-Norway Agreement on Trade in Goods to account for the Agreement being between the UK, Iceland and Norway, rather than an agreement to create a homogenous and dynamic EEA-wide Single Market, as the EEA Agreement aims to achieve. This addition is also in line with the Taxation (Cross Border Trade) Act, empowering the Trade Remedies Authority to impose trade remedy measures on any party, if the required evidence is produced.

127. Modifications in Annex I to Article 4 of Protocol 9 as explained above in paragraph 89 ensure that trade remedies can be applied to fish products too.

128. Regarding Article 113 of the EEA Agreement on safeguard measures and security exceptions, in paragraph 5, sub paragraph 1, the reference to “every three months” shall not be incorporated. In sub paragraph 2 “Each Contracting Party may at any time request the EEA Joint Committee to review such measures.” has not been incorporated. The decision to not incorporate these aspects of the EEA Agreement provision does not impact the functionality of the safeguard measures.

Dispute Settlement: Incorporated in Article 11 and modified by Annex I

129. The economic benefits of the UK-Iceland-Norway Agreement on Trade in Goods can only be realised if the Agreement is faithfully implemented and complied with. A dispute settlement mechanism in an agreement signals the parties’ intention to abide by the agreement, thereby increasing businesses’ and stakeholders’ confidence that commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism serves an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes that may arise in the future.

130. The UK-Iceland-Norway Agreement on Trade in Goods replicates the effects of the dispute settlement provisions in the EEA Agreement *mutatis mutandis*, except where modifications have been deemed as necessary.

131. The dispute settlement chapter of the EEA Agreement provides for the Parties to request the European Court of Justice to give a ruling on the interpretation of relevant EU Treaties. This only applies when a dispute concerns the interpretation of provisions of the EEA Agreement that are identical in substance to EU Treaties. This provision has been removed as it is not relevant to the UK in the context of this Agreement.

132. Protocol 33 (on arbitration procedures) of the EEA Agreement sets out the procedures for disputes that are referred to arbitration. The existing Protocol requires that the umpire of an arbitration panel is a national of either the EU or EEA EFTA States. However, the umpire shall not be of the same nationality as the arbitrators appointed by the two parties to the dispute. We have amended this provision so that the umpire cannot be a national of a Party to the Agreement. This is to maintain the effect that the umpire is independent of the two disputing Parties and to reduce the risk of deadlock as a result of the Parties failing to agree on the composition of the arbitration panel.

133. One of the impacts of transitioning the dispute settlement chapters in the existing EU trade agreements is that, in the event that a dispute arises, the UK will be directly responsible for any appropriate costs associated with the dispute settlement process.

Policy areas outside the scope of the UK-Iceland-Norway Agreement on Trade in Goods

134. This section of the report seeks to explain the short-term arrangements in addition to the UK-Iceland-Norway Trade in Goods.

Procurement

135. Government procurement commitments in trade agreements provide enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. They also liberalise specific procurement markets between the parties and provide enforceable market access commitments.

136. The public procurement obligations found in the EEA Agreement (Article 65 and Annex XVI) have not been transitioned as part of the UK-Iceland-Norway Agreement on Trade in Goods. This is because full continuity of the EEA Agreement requires the parties to implement the EU Single Market rules for public procurement. The impact of this for UK suppliers bidding for procurement contracts in Norway and Iceland is examined in more detail below.

137. The UK's current government procurement obligations with Iceland and Norway are governed by:

    a. **The Government Procurement Agreement (GPA)**. The GPA is a plurilateral agreement between 20 parties within the WTO framework which seeks to mutually open up Government procurement markets among its parties. Procurement activity that is covered by the GPA must be subject to open, fair and transparent conditions of competition as set out in the terms of the GPA. The UK has participated in the GPA under EU membership since its inception and continues to participate as if it were an EU member during the transition period.

    b. **The EEA Agreement.** The EEA Agreement requires the three EEA EFTA countries to implement the EU's rules for public procurement and guarantees reciprocal procurement market access at levels equivalent to those in the EU internal market. This goes significantly beyond the obligations within the GPA in terms of both market access and procedural requirements.

138. On 7th October 2020 GPA Parties adopted a decision allowing the UK to accede to the agreement as an independent party at the end of the transition period. The UK deposited its Instrument of Accession to the GPA on 2 December 2020.The agreement will enter into force for the UK as an independent party on 1 January 2021. Those international procurement obligations between the UK, Norway and Iceland that derive from the GPA will therefore continue to apply from the 1st January 2021.

Impact

139. The government procurement annex of the EEA Agreement effectively expands market access coverage from that of the GPA to that of the EU internal market. As this annex will not form part of the UK continuity agreement with Norway and Iceland, the obligations found in the EEA Agreement to provide additional procurement market access will not be transitioned.

140. For British businesses, this means the loss (from the end of the transition period onwards) of guaranteed access to bid for Norwegian and Icelandic procurement contracts that are covered under the EEA Agreement and are above and beyond procurement obligations found

within the GPA. British businesses win approximately £14 million worth of these contracts a year.

141. However, as explained above, additional access to the UK market derived from the EEA Agreement will be maintained for Norway and Iceland for 12 months. Norwegian and Icelandic businesses win approximately £16 million worth of covered contracts a year. These arrangements will protect access to these contracts over the next 12 months. Continued access would depend on arrangements put in place after that date.

142. It should also be noted that foreign firms can always bid for UK government procurement contracts even when the procurement is not covered in the market access schedules of an international agreement. The UK market is in general open to foreign bidders, even if this access is not legally protected by international agreement. For example, firms based in China and India bid for and win procurement contracts in the UK despite not benefitting from market access commitments (though they do not have access to the UK remedies regime). As such, even after the 12-month temporary extension of cover ends, Norwegian and Icelandic firms will in practice continue to be able to access UK procurement contracts beyond those covered by the UK's market access commitments under the GPA. It is our understanding that Norway and Iceland operate similarly open government procurement markets as a matter of principle. Therefore, although the UK, Norway and Iceland will lose legal rights under the EEA to access each other's markets, they may be able to continue to access each other's procurement contracts outside the market access commitments of the GPA.

Technical Barriers to Trade

143. Technical Barriers to Trade ("TBT") articles in free trade agreements cover aspects relating to technical regulations, standards, and conformity assessment for goods. TBT provisions in preferential trade agreements play an important role in reducing non-tariff barriers for businesses, for example, through increasing the transparency of a trading partner's regulatory requirements.

144. Due to the high degree of regulatory alignment and interdependencies between Iceland, Norway, and the EU, it is not possible to replicate the technical barriers to trade (TBT) provisions of the EEA Agreement.

145. In the immediate short term, after the end of the transition period, GB will remain closely aligned with Iceland and Norway on technical regulations, standards, and conformity assessment. NI will remain aligned with all EU rules listed under Annex 2 of the Protocol for as long as it is in force. The EEA Agreement[13] nevertheless restricts Iceland and Norway's ability to reach a mutual recognition agreement on conformity assessment test results and certification with the UK independently of the EU.

146. Certain EU regulations require an EU/EEA-EFTA based 'Notified Body' to certify product conformity with technical requirements. Certain regulations also provide for EU based 'Authorised Representatives' for manufacturers. Following the end of the transition period, for those goods that require mandatory conformity assessment, it will not be possible to place goods tested in the UK on the European Single Market. UK-based Authorised Representatives will also not be recognised.

[13] Protocol 12 of the EEA Agreement on mutual recognition agreements.

147. We have agreed with the EEA-EFTA states that our long-term future trade relationship should be through a comprehensive FTA. Our negotiations towards an ambitious and comprehensive agreement began in the summer, and we are on track towards our ambition of having the agreement in force in 2021. As part of these discussions, we will seek to include arrangements regarding TBT, taking into account any relevant arrangements made between the UK and the EU.

Impacts

148. After the transition period, British businesses may continue to use non-UK-based EU or Iceland and Norway-based Notified Bodies and Authorised Representatives (where required) to place products on the European Single Market. British businesses may incur additional costs and reduce trade activity as a result, but this is not possible to quantify at this stage.

Agreed approach

149. The UK and Iceland and Norway have agreed an exchange of non-legally binding 'side letters' on TBT (separate to the Agreement) which confirm that UK policy regarding EU goods placed on the UK market will also apply to Iceland and Norway, and that Iceland and Norway will apply the same approach to UK goods as the EU does.

Sanitary and Phytosanitary Standards

150. Sanitary and Phytosanitary (SPS) articles in trade agreements concern the application of food safety and animal and plant health regulations. They allow countries to set standards and regulations that allow for the protection of human, animal or plant life and health.

151. Due to the high degree of regulatory alignment and interdependencies between Iceland, Norway, and the EU, in the absence of an agreement between the UK and the EU it is not possible to replicate the Sanitary and Phytosanitary (SPS) provisions of the EEA Agreement without committing to EU law.

152. We have agreed with the EEA-EFTA states that our long-term future trade relationship should be through a comprehensive FTA. As part of these discussions, we will seek to include arrangements regarding SPS.

Impacts

153. At the end of the transition period under the UK's Border Operating Model, imports into GB, that are fully harmonised with EU SPS standards and are able to be exported to the EU currently, will be eligible for the UK's phased import arrangements from Jan 1st 2021 to July 1st 2021. These arrangements will apply to EEA EFTA States for animals and their products where EEA EFTA States are fully harmonised with EU SPS standards. This phasing of SPS controls will be carried out in line with EU countries. From 1 January 2021, where EEA EFTA countries are not currently fully harmonised with EU SPS standards for animals and their products, they should expect continuity of current SPS control arrangements. This is not expected to have a significant impact on trade flows.

Agreed approach

154. Taking into account that our respective food safety systems provide the same level of protection on the day the UK leaves the EU, an exchange of non-legally binding 'side letters' on SPS (separate to the agreement) has been agreed between the UK, Iceland and Norway.

The letters provide clarifications on government arrangements for trading in goods between the UK, Iceland, and Norway.

Services & Investment

155. Services and Investment chapters and corresponding annexes in free trade agreements set out the treatment and level of access to the domestic market granted to that trade partner's service suppliers and investors. Commitments written into these agreements build upon the level of access and the treatment granted to all WTO members under the GATS, or under relevant OECD and IMF codes, whilst protecting governments' right to regulate their domestic markets.

156. As mentioned above in the general provisions, the preferential access for services achieved through access to the EU single market will not be transitioned to the UK-Iceland-Norway Agreement on Trade in Goods.

157. We have agreed with the EEA-EFTA states that our long-term future trade relationship should be through a comprehensive FTA. As part of these discussions, we will seek to include arrangements regarding Services and Investment.

Impacts

158. Services trade (exports and imports) with Norway and Iceland were worth £5.9bn in 2019 (Norway was worth £5.1bn, Iceland was worth £0.8bn). This represents 1.1% of the UK's services trade in 2019. These trade flows will be affected by the loss of services and investment provisions that were in place through the EEA agreement and the freedoms of establishment and movement of capital that the EEA agreement provided for. However, the impact is unclear at this stage as it will depend on measures put in place to support trade in services and investment with Norway and Iceland following the UK's exit from the European Union, including bilateral and unilateral arrangements.

Agreed approach

159. Our intention is to address Services and Investment as part of a comprehensive FTA with the EEA EFTA states. In the interim, the UK-EEA EFTA Separation Agreement is in place, locking in certain rights during the transition period, such as the recognition of professional qualifications for those who have a recognition decision, or have applied for one, before the end of the transition period. Furthermore, we are in discussion with EEA EFTA States about the period between the transition period ending and a comprehensive FTA coming into force, including on the measures that are being put in place to support British businesses established in the EEA EFTA States, and we are continuing to develop guidance for business on upcoming changes in access.

Appendix A

Tariff-rate quotas administered by the United Kingdom for products originating in Norway:

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
090703	Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process: A. Dried, salted or in brine: I Whole, headless or in pieces: b) -Cod, wet, salted or in brine -Cod, dried, unsalted -Cod, dried, salted II. Fillets: (a)of cod	0302	5	TON	Nil	1 April – 31 December	0%	the 1986 Exchange of Letters No 3 on Fishing
090709	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured other non-alcoholic beverages containing sugar (sucrose or invert sugar)	2202 10 00, ex 2202 90 10	3	1000 LTR	If the tariff quota has been exhausted by 31 October in any one year, the tariff quota applicable from 1 January of the following year will be increased by 10 %. If the quota has not	1 January – 31 December	0%	the 2004 Exchange of Letters

[14] The Product description for each tariff-rate quota which is set out in this Appendix is the product description that is set out in the agreement which originally established the tariff-rate quota on trade in products between the European Union and Norway, including where the original description has been subsequently amended.

[15] The HS code for each tariff-rate quota which is set out in this Appendix is the HS code that is set out in the agreement which originally established that tariff-rate quota on trade in products between the European Union and Norway, including where that original HS code reference has been subsequently discontinued or amended. For the avoidance of doubt, the product scope of each tariff-rate quota which is set out in this Appendix shall be that which applies between the European Union and Norway immediately before the end of the coverage period.

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
					been exhausted on that date, products under CN codes 2202 10 00 (waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured) and ex 2202 90 10 (other non-alcoholic beverages containing sugar (sucrose or invert sugar) will be granted unlimited duty free access to the United Kingdom from 1 January to 31 December of the following year.			
090710	Herrings of the species *Clupea harengus* and *Clupea pallasii,* frozen, excluding livers and roes[16]	0303 51 00	571	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090712	Mackerel of the species *Scomber scombrus* and *Scomber japonicus*,	0303 54 10	259	TON	Nil	1 May – 30 April	0%	the 2016

[16] The benefit of the tariff quota shall not be granted to goods declared for release for free circulation during the period 1 February to 30 June.

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
	frozen, whole, excluding livers and roes[25]					(temporary quota until 30 April 2021)		Additional Protocol
090713	Chilean jack mackerel (*Trachurus murphyi*), frozen Other fish, frozen, other than horse mackerel (scad) (*Caranx trachurus)* Cobia (*Rachycentron canadum)* Other fish, frozen Rays and skates (*Rajidae*) Gilt-head sea bream (*Sparus aurata)* Other fish, frozen All products excluding livers and roes	0303 55 30, ex0303 55 90, 0303 56 00, 0303 69 90, 0303 82 00, 0303 89 55, 0303 89 90	140	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090714	Frozen fillets of herring of the species *Clupea harengus* and *Clupea pallasii* Frozen flaps of herring of the species *Clupea harengus* and *Clupea pallasii* (butterflies)[17]	0304 86 00, ex0304 99 23	373	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090722	Frozen meat of cod and the fish of the species *Boreogadus saida*, Frozen coalfish meat, Frozen haddock meat, Frozen hake meat, Frozen meat of blue whiting, Frozen meat of saltwater fish,	0304 90 35, 0304 90 38, 0304 90 39,	37	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol

[17] The benefit of the tariff quota shall not be granted to goods declared for release for free circulation during the period 1 February to 30 June .

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
	excluding mackerel	0304 90 41, 0304 90 45, 0304 90 47, 0304 90 49, 0304 90 59, 0304 90 61, 0304 90 65, ex 0304 90 97						
090723	Herrings, fresh or chilled Herrings, frozen	0302 40 90, 0304 50 90	7	TON	Nil	1 July – 31 January	0%	the 1995 Additional Protocol
090725	Mackerel, frozen	0303 74 19	191	TON	Nil	1 July – 31 January	0%	the 1995 Additional Protocol
090730	Frozen fillets of cod and of fish of the species *Boreogadus saida* Frozen coalfish fillets Frozen haddock fillets Frozen hake fillets Frozen plaice fillets, Frozen fillets of saltwater fish Frozen redfish fillets Frozen monkfish fillets	0304 20 21,0304 20 29, 0304 20 31, 0304 20 33, 0304 20 57, 0304 20 59,0304 20 71, 0304 20 85, 0304	3949	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
		20 87, 0304 20 91, 0304 20 96, 0304 20 35, 0304 20 37, 0304 20 83						
090732	Smoked salmon	0305 41 00	4	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090733	Smoked herring Smoked Greenland halibut Smoked Atlantic halibut Smoked mackerel Smoked trout Smoked eels Other smoked fish	0305 42 00, 0305 49 10, 0305 49 20, 0305 49 30, 0305 49 40, 0305 49 50, 0305 49 90	1	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090734	Other fish, salted but not dried or smoked and fish in brine	0305 69 90	19	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090735	Herrings, salted but not dried or smoked and herrings in brine	0305 61 00	153	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090736	Pandalidae shrimps, frozen Norway lobsters, frozen	0306 13 10, 0306 19 30	27	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090738	Pandalidae shrimps, not frozen, for processing Norway lobsters, not frozen	ex 0306 23 10, 0306 29 30	1	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
090745	Shrimps and prawns, Peeled and frozen, prepared or preserved	1605 20 10, 1605 20 91, 1605 20 99	777	TON	Nil	1 January – 31 December	0%	the 1995 Additional Protocol
090749	Shrimps and prawns, peeled and frozen, prepared or preserved.	ex1605 21 10, ex1605 2190, ex1605 29 00	777	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090750	Herring, spiced and/or vinegar-cured, in brine	ex 1604 12 91 ex 1604 12 99	1	TON net drained weight	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090752	Herrings of the species *Clupea harengus* and *Clupea pallasii*, frozen, excluding livers and roes, for industrial manufacture[18]	ex 0303 50 00,	197	TON	Nil	1 January – 31 December	0%	the 2003 Additional Protocol
090756	Frozen fillets of herring. Frozen flaps of herring (butterflies) for industrial manufacture[19]	0304 20 75, ex0304 90 22	157	TON	Nil	1 January – 31 December	0%	the 2003 Additional Protocol
090779	Fish feed	ex 2309 90 31	964	TON	Nil	1 January – 31 December	0%	the 1995 Exchange of Letters
090818	Mackerel, frozen fillets and frozen flaps	ex 0304 89 49, ex 0304 99 99	14	TON	Nil	1 May – 30 April	0%	the 2016 Additional Protocol

[18] The benefit of the tariff quota shall not be granted to goods declared for release for free circulation during the period 1 February to 30 June.
[19] The benefit of the tariff quota shall not be granted to goods declared for release for free circulation during the period 1 February to 30 June.

	Product[14]	HS Code[15]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
						(temporary quota until 30 April 2021)		
090820	Flours, meals and pellets of fish, fit for human consumption	0305 10 00	16	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
094179	Cheese and curd	0406	513	TON	Nil	1 January – 30 June =257t 1 July– 31 Decem-ber=256t	0%	the 2011 Ex-change of Letters

Tariff-rate quotas administered by Norway for products originating in the United Kingdom:

Product[20]	HS Code [21]	Quota volume	Unit	Staging	Quota application period	Quota duty (NOK/kg)	Source Agreement
Cheese of all types and varieties,	**0406**	299	TON	Nil	1 January – 31 December	0	Article 6 of Annex II to this Agreement
Birds' eggs, in shell, of the species *Gallus domesticus*	**0407:** 0407 00 11, 0407 00 19	1	TON	Nil	1 January – 31 December	0	the 1995 Exchange of Letters
Sausages and similar products, of meat, meat offal or blood; food preparations based on these products	**1601**1601 00 00	4	TON	Nil	1 January – 31 December	0	the June 2003 Exchange of Letters
Potatoes, semi-manufactured for production of snacks	**2005:** 2005 20 91	560	TON	Nil	1 January – 31 December	0	the 2011 Exchange of Letters
Apple juice of a Brix value not exceeding 20 Other apple juice	**2009:** 2009 71 00, 2009 79 00	14	TON	Nil	1 January – 31 December	0	the June 2003 Exchange of Letters

[20] The Product description for each tariff-rate quota which is set out in this Appendix is the product description that is set out in the agreement which originally established the tariff-rate quota on trade in products between the European Union and Norway, including where the original description has been subsequently amended.

[21] The HS code for each tariff-rate quota which is set out in this Appendix is the HS code that is set out in the agreement which originally established that tariff-rate quota on trade in products between the European Union and Norway, including where that original HS code reference has been subsequently discontinued or amended. For the avoidance of doubt, the product scope of each tariff-rate quota which is set out in this Appendix shall be that which applies between the European Union and Norway immediately before the end of the coverage period.

Appendix B

Tariff-rate quotas administered by the United Kingdom for products originating in Iceland:

Order no	Product[22]	HS Code [23]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
090793	Salmon, fresh or chilled; Salmon fillets, fresh or chilled; Salmon fillets, frozen.	0302 12 00,0304 10 13, 0304 20 13	33	TON	Nil	1 January – 31 December	0%	the 1996 Additional Protocol
090794	Sole, fresh or chilled, Megrim, fresh or chilled, Other flat fish, fresh or chilled, Blue whiting, fresh or chilled; Plaice, frozen, Other saltwater fish, frozen; Fillets of other freshwater fish, fresh or chilled, Fillets of coalfish, fresh or chilled, Fillets of redfish, fresh or chilled, Fillets of other saltwater fish, excluding herring and mackerel, fresh or chilled,	0302 23 00, 0302 29 10, 0302 29 90, 0302 69 85, 0303 32 00, 0303 79 96, 0304 10 19, 0304 10 33, 0304 10 35, ex 0304 10 38, 0304 10 98, 0304 20 19, 0304 90 35, 0304 90 38, 0304 90 39, 0304 90 41, 0304 90	64	TON	Nil	1 January – 31 December	0%	the 1996 Additional Protocol

[22] The Product description for each tariff-rate quota which is set out in this Appendix is the product description that is set out in the agreement which originally established the tariff-rate quota on trade in products between the European Union and Iceland, including where the original description has been subsequently amended.

[23] The HS code for each tariff-rate quota which is set out in this Appendix is the HS code that is set out in the agreement which originally established that tariff-rate quota on trade in products between the European Union and Iceland, including where that original HS code reference has been subsequently discontinued or amended. For the avoidance of doubt, the product scope of each tariff-rate quota which is set out in this Appendix shall be that which applies between the European Union and Iceland immediately before the end of the coverage period.

Order no	Product[22]	HS Code [23]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
	Meat of other saltwater fish, fresh or chilled Fillets of other freshwater fish, frozen. Frozen meat of cod of the species *Gadus macro-cephalus*, Frozen meat of cod of the species *Gadus morhua*, Frozen meat of *Gadus ogac* and of fish of the species *Boreogadus sa-ida*. Frozen meat of coalfish, Frozen meat of hake of the genus *Merluccius*, Frozen meat of blue whit-ing, Frozen meat of other salt-water fish, excluding mackerel	47, 0304 90 59, ex 0304 90 97						
090796	Norway lobsters, frozen	0306 19 30	4	TON	Nil	1 January – 31 December	0%	the 1996 Addi-tional Protocol
090811	Fillets of redfish (*Sebastes* spp.) fresh or chilled	0304 49 50	11	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Addi-tional Protocol

Order no	Product[22]	HS Code [23]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
090812	Herrings of the species *Clupea harengus*,and *Clupea pallasii*, frozen, excluding livers and roes [24]	0303 51 00	33	TON	Nil	1 May – 30 April (temporary quota until 30 April 2021)	0%	the 2016 Additional Protocol
090833	Sheepmeat	0204, 0210	692	TON[25]	Nil	1 January – 31 December	0%	the 2017 Exchange of Letters
094226	Skyr	ex0406	329	TON	Nil	1 January– 30 June = 165t 1 July - 31 December = 164t	0%	the 2017 Exchange of Letters

[24] The benefit of the tariff quota shall not be granted to goods declared for release for free circulation during the period 1 February to 30 June.
[25] The annual quota volume for the sheep meat quota is based on actual product weight.

Tariff-rate quotas administered by Iceland for products originating in the United Kingdom:

Product[26]	HS Code [27]	Quota volume	Unit	Staging	Quota application period	Quota duty	Source Agreement
Cheese (PDO or PGI)	ex 0406	11	TON	Nil	1 January – 31 December	0%	the 2017 Exchange of Letters
Cheese	0406	19	TON	Nil	1 January – 31 December	0%	the 2017 Exchange of Letters
Processed meat products	1602	18	TON	Nil	1 January – 31 December	0%	the 2017 Exchange of Letters

[26] The Product description for each tariff-rate quota which is set out in this Appendix is the product description that is set out in the agreement which originally established the tariff-rate quota on trade in products between the European Union and Iceland, including where the original description has been subsequently amended.

[27] The HS code for each tariff-rate quota which is set out in this Appendix is the HS code that is set out in the agreement which originally established that tariff-rate quota on trade in products between the European Union and Iceland, including where that original HS code reference has been subsequently discontinued or amended. For the avoidance of doubt, the product scope of each tariff-rate quota which is set out in this Appendix shall be that which applies between the European Union and Iceland immediately before the end of the coverage period.

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