



OECD COMPETITION ASSESSMENT REVIEWS ICELAND 2020

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Highlights from the competition assessment of laws and regulations in two sectors of the Icelandic economy

In 2019, the government of Iceland asked the OECD to carry out an independent competition assessment of the country's **construction** and **tourism** sectors. The assessment, conducted in co-operation with the Icelandic Competition Authority, involved screening the legislation in both sectors using the OECD's Competition Assessment Toolkit. A review of **632 legal texts** revealed **676 potential barriers** to competition. The OECD then conducted an in-depth analysis of each potential barrier, taking into consideration the objectives of policy makers, the extent of possible competitive harm, international experiences, factors unique to Iceland, and relevant economic and policy literature.

This assessment finds that Iceland has numerous opportunities to encourage competition and reduce administrative burdens in both sectors. The **438 recommendations** in the report can contribute to a more flexible environment for business, new employment opportunities, higher productivity, and stronger economic growth in the years to come.

The assessment's recommendations take on a new urgency in light of the economic crisis caused by the COVID-19 pandemic, which has disproportionately affected the tourism sector. **The OECD estimates that the implementation of these recommendations for both sectors combined could generate in excess of EUR 200 million in benefits per year, around 1% of Iceland's GDP.**

The full results of the analysis are available at oe.cd/ca-iceland.

Summary of the legal provisions analysed in both sectors

| | Construction | | | | Tourism | Total |
|-----------------------------------|--------------|-----------------------|--------------------|---------------|---------|-------|
| | Planning | Building regulations* | Building materials | Professions** | | |
| Potential restrictions identified | 108 | 191 | 67 | 81 | 229 | 676 |
| Recommendations made | 70 | 149 | 44 | 53 | 122 | 438 |

* Includes 79 mandatory Icelandic standards. ** Includes two additional professions not related to construction that were included as indicative of the overall breadth of the regulations on professions in Iceland.

Competition Assessment Reviews and the OECD Competition Assessment Toolkit

OECD Competition Assessment Reviews provide an analysis of regulatory restrictions on competition in the countries reviewed and make specific policy recommendations for reform. The resulting recommendations allow governments to introduce more competition into the economy and foster long-lasting growth.

Tunisia (2019), Mexico (2019, 2018), Portugal (2018), Greece (2017, 2014, 2013) and Romania (2016) have already undergone similar reviews, and reviews are currently ongoing in the ten ASEAN Member States.

Access all reviews and the toolkit at oe.cd/cat



KEY FINDINGS AND MAIN RECOMMENDATIONS

CONSTRUCTION SECTOR

Construction is a key sector in the Icelandic economy. It accounted for **9% of GDP** and **8% of employment** in 2017. The study makes **316 detailed recommendations** to improve the functioning of this sector.

Planning and land use

Planning regulations and development plans establish limits on land use and construction. While a developer can apply to amend a development plan that is incompatible with their project, the process for doing so is unclear, lengthy, and burdensome. Several land use requirements, including street construction fees and parking requirements, also significantly raise the cost of construction. Further, the process for plot allocation is unclear and contains a number of unnecessary restrictions.

Key recommendations

1. Review the entire process involved in preparing and amending **municipal and local development plans** in order to **simplify and clarify** the procedures.
2. Consider reducing **street construction fees** and **parking space requirements** in Reykjavík given their impact on construction costs, or develop alternative measures to achieve the objectives.
3. Review the process and rules for allocating plots to clarify the process and to **improve the supply of plots in response to changes in demand**. Plot allocation rules should not unnecessarily restrict the transfer or return of plots, or favour more established players over new entrants.

Building regulations

Building regulations are a key part of the regulatory framework for the construction sector. However, the current process for obtaining building permits is lengthy and burdensome, adding unnecessary costs to housing construction. Further, the current one-size-fits-all approach imposes unnecessary costs. The notifications framework, intended to be a fast-track process when building permits are not required, is also onerous. In addition, requirements for the design of buildings to ensure universal accessibility and minimum standards of living are highly prescriptive and do not always take into account alternative solutions.

Key recommendations

1. The process for obtaining **building permits** should be **simplified and clarified** with **clear timeframes and requirements**. Applicants should be able to hand in all documentation digitally. **Requirements for building permits should be risk-based** according to the type of building and construction job. Alternatively, smaller, **less complicated projects could be fast-tracked**.
2. The requirement for **construction notifications** in cases exempt from building permits **should be abolished, or significantly simplified** to provide for online notification and automatic approval if approval timeframes are exceeded. Requirements regarding the involvement of specific professionals should be reviewed and should be based on the type of project.
3. Regarding requirements that impose minimum living standards and universal accessibility, consideration should be given to using **performance-based regulation** rather than prescriptive requirements that limit the ways in which the relevant outcomes can be achieved.

Building materials

Building materials, facilities and equipment are subject to regulation that can increase costs and administrative burdens, and reduce choice in the construction sector. The way that some provisions of the European Construction Products Regulation (CPR) were transposed in Iceland is overbroad and imposes greater compliance burden than necessary. Transport subsidies for manufactures in rural parts of Iceland could also distort competition in this sub sector. Further, a number of registration, inspection and licensing requirements for certain facilities and equipment in the construction sector do not seem proportional to the safety risks, and are unclear or burdensome.

Key recommendations

1. **Amend** regulation of **construction products** to ensure consistency with overarching EU law, and consider **exemptions** for **non-safety critical** products.
2. Review whether **regional transportation subsidies** provided to manufacturers could be **removed or replaced** with alternative measures that do not advantage some manufacturers over others.
3. All relevant facilities and equipment licences should be available in one place, in a **“one-stop shop”**. Consider **exemptions** for equipment that do not raise significant health or safety concerns
4. Certain regulations, as identified in the report, should be **reviewed or abolished** due to changes in the industry or incorrect references to obsolete regulations.

Professions

Regulated professions are a feature of everyday life, from medical check-ups to taxi rides. Regulation may be required where consumers lack information or expertise to make informed decisions regarding these services. However, overbroad professional regulations can lead to higher prices for consumers, and lower productivity and employment. This project reviewed the regulatory framework for a selection of professions in Iceland, primarily in the construction sector. It found that Iceland has a particularly broad and restrictive regulatory framework for professions relative to other countries in Europe and the OECD. Certain activities require multiple professional designations, increasing barriers for potential entrants and costs for consumers.

Key recommendations

1. Undertake a **broad review of the current regulatory requirements for professions**, particularly in the Law on Industry no. 42/1978, to evaluate the underlying objectives for regulating each profession, and whether the current restrictions are proportionate to the objectives. In some cases, the policy concerns may be difficult to identify, or may be outdated. In these cases, the objectives may be better addressed through consumer protection laws or regulations focusing on outputs, and the **reserved activities should be narrowed or abolished**.
2. **Revise the current framework for master tradespersons**. The approach should be tailored to the specific requirements, qualifications and risks associated with each trade, and any retained reserved activities should be justified by a clear safety or liability objective. Three possible approaches that could be taken, depending on the specific nature of each profession, include:
 - ▶ **Option A** – make it easier for a tradesperson to become a master.
 - ▶ **Option B** – allow tradespersons to perform the activities currently reserved to masters.
 - ▶ **Option C** – abolish the entire licensing scheme for the profession.
3. Consider **reducing the regulatory burdens** for carpenters, electricians, plumbers, construction managers, licenced designers, real estate agents, architects and engineers. **Abolish** the reserved activities and protected title for bakers and photographers.

TOURISM SECTOR

The tourism sector has grown rapidly in the last decade in Iceland, with visitor numbers climbing from **459 000** in 2010 to **2.3 million** at its peak in 2018. The sector has become a major contributor to the Icelandic economy, accounting for around **9% of GDP** and **15% of employment** in 2017.

After examining **229 potential barriers to competition** in the tourism sector, the study makes **121 detailed recommendations** for change.

Tourism activities

A number of administrative burdens were identified in relation to tourism activities in Iceland. In particular, the licencing arrangements for certain tour operators are duplicative, and foreign ownership restrictions may limit investment in sea angling tours. The way that concessions or licences to operate in protected areas are granted could also be revised to stimulate greater competition. Finally, physical location and indemnity insurance requirements impose undue burdens on car rental businesses.

Key recommendations

1. Abolish duplicative requirements for licenced travel agencies or daytrip vendors to have **tourism transport licences** and **special equipped vehicles licences**.
2. Assess whether the **nationality requirements** are required for certain **sea angling tours**.
3. **Abolish** outdated and highly prescriptive **accommodation standards**, for example with respect to amenities included in hotel rooms.
4. **Remove municipal restrictions on repurposing buildings** as accommodation establishments. Consider alternative policies to achieve the desired objectives with less distortionary impacts.
5. Introduce a **procurement framework for public parks** to ensure that service operators are selected according to a public tender with clear, transparent criteria.
6. **Abolish** the requirements for car rental operators to have a **fixed establishment** and **general indemnity insurance** (i.e. in addition to vehicle insurance).

Air transportation

Nearly every international tourist arrives in Iceland via Keflavik International Airport and commercial flights provide year-round accessibility to various parts of the country. However, Keflavik Airport is among the least cost-efficient and most expensive airports in Europe, including when compared to airports with a similar traffic mix, size and climate. Further, Isavia, which owns and operates all airports in Iceland, is less cost efficient than other airport groups in Europe. The regulatory and ownership framework for airports in Iceland may be contributing to this outcome. In particular, they do not constrain prices or costs for airport services in Iceland, to the detriment of consumers.

Key recommendations

1. Explore ways to enhance the incentives for the operator of Keflavik Airport to seek **cost effectiveness and increase competitiveness**. This could be through an alternative ownership model involving a **competitive tender** for the management of Keflavik, or separate competitive tenders for the management of the main domestic airports in Iceland, for example.
2. Provide the Icelandic Transport Authority with the requisite independent powers and resources to introduce **ex ante incentive regulation of airport tariffs**. Consider defining a **clear mandate** specifying Isavia's main economic and public policy objectives, to supplement regulatory efforts.
3. Isavia should revise future **concession contracts** for the provision of food, beverages, specialised retail and bus transport services at Keflavik International Airport, to reduce the scope for high consumer fees for concession services.

Taxis

Taxis are a vital part of tourism in Iceland, particularly for transportation in and around Reykjavik. The regulatory framework for taxis in Iceland is being revised in response to an inquiry by the European Free Trade Association Surveillance Authority. While these revisions will address some of the substantial barriers to competition present in the current framework, and reflect in part the fundamental changes brought by the introduction of ride sourcing applications, further changes will be necessary to ensure a procompetitive environment for taxi services, and to reduce the burden on market participants.

Key recommendations

1. **Eliminate coursework not related to passenger, driver or public safety** from the requirements for taxi licences. Reduce course costs in light of the reduced curriculum.
2. **Allow taxi licences to be held by businesses** as well as individuals, and allow businesses to own multiple taxi licences.
3. **Ensure taxi regulations do not inhibit the implementation of alternative pricing schemes** commonly used by pre-booked ride-sourcing services.