

AGREEMENT

on the operating environment for horticultural producers

The Minister of Fisheries and Agriculture and the Minister of Finance and Economic Affairs, for the Government of Iceland, and the Farmers' Association of Iceland/the Icelandic Association of Horticulture Producers hereby enter into the following agreement on the operating environment for horticultural producers in accordance with Article 30 of the Agricultural Products Act, No 99/1993, as amended.

Article 1

Objectives of the agreement

The objectives of this agreement are to strengthen all aspects of Icelandic horticulture, having regard to the wholesomeness, quality and reliability of produce, and a responsible attitude toward society and the environment.

The agreement is intended:

- To increase the supply and consumption of horticultural products in accordance with the government's public health policy and heightened public awareness of healthy eating and wholesome living;
- To contribute to a more varied, year-round supply of horticultural produce capable of being sold to consumers at fair prices;
- To increase the professionalism, cost-effectiveness and competitiveness of domestic horticultural production;
- To strengthen the revenue base and the operating conditions of horticultural producers;
- To provide support for the productive and marketing potential of domestic production.

Article 2

Eligibility requirements

- 2.1 Payments under this agreement may only be made to those engaged in the production of horticultural produce at a horticultural operation, who have a value-added tax number, and whose operations are classified under either of the sectoral codes 01 and 02 of ÍSAT2008, Statistics Iceland's sectoral classification, excluding operations classified under codes 01.61, 01.62, 01.63, 01.64, 01.70 or 02.40.
- 2.2 Spouses or partners who run a horticultural operation jointly in accordance with this agreement may apply for any payments to be divided equally between each party concerned.

Article 3

Terminology

- 3.1 Definitions of the terms used:
1. **Classification:** Quality classification according to the manual on the Icelandic rules for the classification of vegetables, published by the Icelandic Association of Horticulture Producers.
 2. **Producer:** The owner or operator of a horticultural operation, whether a natural or a legal person, engaged in either open-field or geothermal growing.

3. **Greenhouse illumination, plant illumination:** The use of artificial light to enhance plant growth and improve harvests.
4. **Greenhouse – under glass:** A building with a steel structure and a frame made of wood, aluminium or steel. Glass or plastic is used as covering material. The building should have appropriate heating and ventilation (cooling) equipment. The definition does not include packaging facilities.
5. **Open-field growing:** Growing for human consumption which during most of the growing season takes place outside, such as potatoes, cabbage and berries.
6. **Geothermal growing:** Growing in greenhouses using geothermal energy for heating, and mushroom growing.

Article 4

Direct payments

- 4.1. In order to create a more level playing field for domestic producers competing with imports, direct payments shall be made to producers of cucumbers, tomatoes and bell peppers based on their own production.
- 4.2. The total amount of direct payments is divided between total quantities of individual first class products sold in the relevant year, as confirmed by verified information on sales of the aforementioned types of produce, see Table 1 in Annex I.
- 4.3. The division of total direct payments between the different types of vegetable is determined as follows:
 - Tomato 49%
 - Cucumber 37 %
 - Bell pepper 14%
- 4.4. Based on information from producers, the Icelandic Food and Veterinary Authority provides an estimate of sales of the aforementioned types of produce for the relevant year. Estimated sales shall be used to produce a first estimate of the level of direct payments per kilogramme, and 80% of that estimate shall be paid as the first payment following each month's sales. Where estimated production figures indicate a significant change in the proportional production of each type of vegetable, the Committee for the Implementation of National Agricultural Agreements may revise the proportional division between types of vegetable laid down in Article 4.3.
- 4.5. In the case of an increase in the production of each type of vegetable compared to the annual quantities estimated pursuant to Article 4.3, direct payments per kilogramme will be reduced proportionally. In the case of a drop in production within the year, direct payments per unit will increase.
- 4.6. All producers of tomatoes, cucumbers or bell peppers are entitled to direct payments in accordance with the above provisions during the term of the agreement.

Article 5

Electric power subsidies

- 5.1 Producers engaged in geothermal growing will be guaranteed electric power for plant illumination through subsidies toward the cost of transfer and distribution of electricity, to promote a more favourable operating environment for the sector. The quantitative components of transfer and distribution rates shall be subsidised by up to 95%, with the share paid by horticultural producers amounting to at least 5%. Fixed costs shall be paid in full by each producer.
- 5.2 In 2017, the total amount of subsidies will be as shown in Table 1 in Annex I.
- 5.3 Horticultural producers shall have the option to apply for subsidies to the National Energy Authority using the appropriate form; the Authority must process the application within a month of receiving it.
- 5.4 Anyone who signs a contract for greenhouse illumination with an energy supplier is entitled to receive electric power subsidies. This right may be cancelled if a party violates the provisions of this agreement.
Eligibility to receive subsidies is subject to the following conditions:
- a) The power must be intended for commercial use.
 - b) Subsidised power must be metered separately and must only be used to provide illumination for plants in greenhouses to enhance their growth.
 - c) The production must be intended for the market.
 - d) Annual electricity use for illumination must exceed 100 MWh.
- 5.5 Payments to the power suppliers involved are handled by the Icelandic Food and Veterinary Authority.

Article 6

Payment ceilings

- 6.1 Support payments to each individual producer are limited:
- With regard to direct payments, to no more than 10% of total available funds for direct payments in the relevant financial year under this agreement;
 - With regard to subsidies towards transfer and distribution costs for electricity, to no more than 15% of total available funds in the relevant financial year under this agreement.
- 6.2 The Committee for the Implementation of National Agricultural Agreements may decide to reallocate contributions between components of this agreement within the relevant financial year in the event that funds intended for individual projects cannot be fully allocated because of the limits set by payment ceilings.

Article 7

Price indexation

- 7.1 Annual contributions under this agreement shall be as decided in the 2016 National Budget and shall be adjusted annually in accordance with price indexations applied in each annual National Budget. Where the average value of the consumer price index (the annual mean) differs from the reference value used

in the National Budget for the year in question, a correction shall be applied in the National Budget for the following year.

Article 8

Revision

- 8.1 This agreement is to be revised twice during its term: in 2019 and in 2023. The focus is to be placed on the manner in which the production of horticultural produce has developed, and the extent to which the agreement's objectives have been reached. Consideration will also be given to the extent to which the objective of subsidising up to 95% of power transfer costs, set in Article 5, has been reached.
- 8.2 In the period 2017 to 2019, the parties to the agreement will analyse the cost-effectiveness of introducing production-based payments for horticultural produce grown in open fields and potatoes in exchange for the potential removal and/or reduction of tariff protection. The conclusions of that analysis will be discussed in the context of the 2019 revision of this agreement.
- 8.3 The second revision is to take place in 2023. In the context of that revision, the focus is to be placed on the manner in which the production of horticultural produce has developed, and the extent to which the agreement's objectives have been reached. At the same time, the parties to the agreement may decide to initiate negotiations on a new agreement, which could come into force in 2025.

Article 9

Reservation

- 9.1 This agreement applies with the reservation that Iceland's international obligations may change as a result of the Althing's decision.

Article 10

Implementation and term

- 10.1. This agreement shall apply between 1 January 2017 and 31 December 2026 inclusive.
- 10.2 The Minister of Fisheries and Agriculture will issue a Regulation providing for the detailed implementation of projects under this agreement.
- 10.3. The Parties to the agreement must consult regularly on the implementation of the agreement; any such consultation should take place within the Committee for the Implementation of National Agricultural Agreements. In the event of a dispute regarding the implementation of the agreement, the parties agree to appoint for each such case a three-member arbitration panel to rule on the dispute. Each party to the agreement is to nominate one member to the panel. The Supreme Court shall be asked to nominate the Chair of the panel, unless the parties can agree on the third member. A ruling by an arbitration panel is binding upon the parties to the agreement.
- 10.4. This agreement is signed, on behalf of the Government of Iceland, with the reservation that the necessary legal provisions must be adopted by the Althing.

10.5. This agreement is made in four identical copies. Of these, one shall be kept by the Farmers' Association of Iceland, one by the Icelandic Association of Horticulture Producers, one by the Minister of Fisheries and Agriculture, and one by the Minister of Finance and Economic Affairs.

Reykjavik, 19 February 2016

For the Government of Iceland

For the Farmers' Association of
Iceland

Sigurður Ingi Jóhannsson
Minister of Fisheries and Agriculture

Sindri Sigurgeirsson
President of the Farmers' Association
of Iceland

For the Icelandic Association of
Horticulture Producers

Bjarni Benediktsson
Minister of Finance and Economic Affairs

Gunnar Þorgeirsson
Chairman of the Icelandic
Association of Horticulture
Producers

Annex I

Table 1 – Amounts in ISK millions

Horticulture	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Direct payments – Article 4	274	273	272	268	267	265	263	260	258	256
Electric power subsidies – Article 5	278	278	278	278	278	278	278	278	278	278
Horticultural agreement total	551	550	549	546	545	543	540	538	535	533