



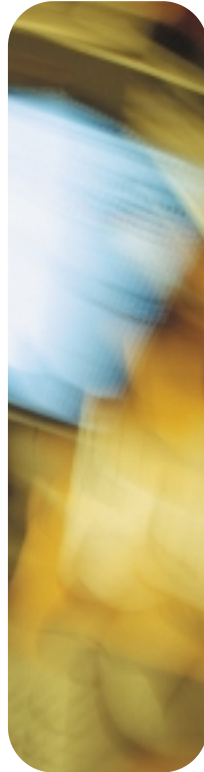
Iceland



Ministry of Industry and Commerce



[www.government.is](http://www.government.is)



## **The Ministry of Industry and Commerce An Introduction**

Iceland is a Nordic country strategically located midway between North America and Continental Europe, and offers the global business community an excellent infrastructure. Through the Country's membership in the European Economic Area (EEA), companies can benefit from Iceland's access to free movement of goods, services, labour and capital in Europe's 360-million-person-strong market.

Icelanders enjoy one of the world's highest standards of living in one of the world's most technically and culturally advanced societies, with a modern and thriving economy.

Liberal foreign investment rules, new legislation on international trading companies, short red tape, friendly public administration and a well-educated flexible workforce welcome the foreign investor.

Iceland enjoys an abundance of clean and renewable energy, hydro and geothermal, and has been quite successful in attracting foreign investment in power-intensive industries. However, inward investment in other fields has also increased considerably during the past few years. Good examples of this trend can be found in health-related tourism, biotechnology, fish farming as well as other specialized food industries, software, and small industries that utilize electric and geothermal power.

There have been major changes in Icelandic industry over the past few years. Innovation has been stimulated primarily by a more liberal business climate and rapid progress in science and technology, particularly in information and communications technology. This has provided Icelandic industry with numerous opportunities to create a variety of jobs in new and demanding areas, and enabled it to play an active and profitable role in international trade. The objectives of the Ministry of Industry and Commerce are to improve the competitiveness of Icelandic industry by increasing its variety and productivity, and to provide employment opportunities outside of the Reykjavík area, thus prevent depopulation of rural areas.

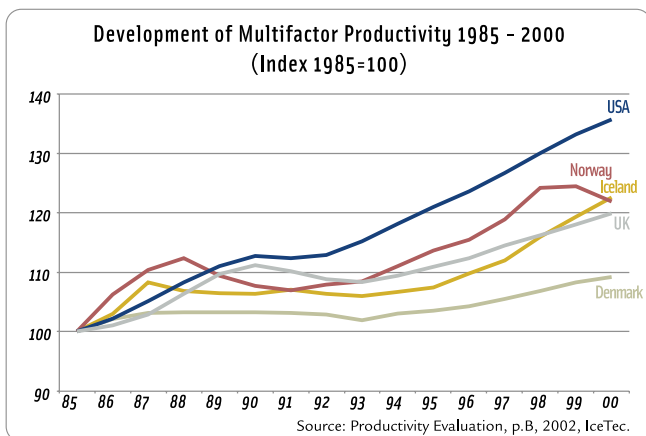
The purpose of this brochure is to give the reader a brief overview of the Ministry's sphere of activities, as well as the background and a number of fascinating facts about Iceland itself.

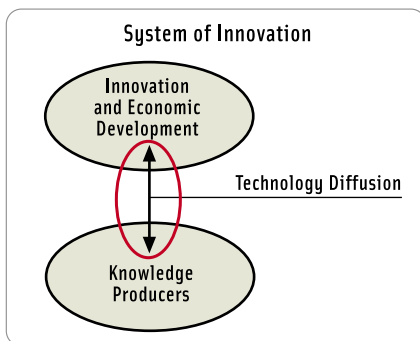
Again, we welcome your questions and the opportunity to tell you more about Iceland!

# Innovation for Economic Development and Social Well-Being

The primary objective of the **Department of Innovation and Industrial Affairs** is to promote the competitiveness of the Icelandic industrial and service sectors by improving micro-economic conditions. The Department's activities aim to diversify the industrial sector, increase production and exports, and build a sound foundation for the creation of new knowledge-based jobs, economic growth and social well-being.

Technology diffusion initiatives are among the key elements of the Ministry's Innovation Policy. The objective of these initiatives is to encourage broader economic returns from technology in terms of productivity and the creation of new jobs. For this purpose an Innovation Centre ([www.impra.is](http://www.impra.is)) is operated at the Icelandic Technology Institute ([www.iti.is](http://www.iti.is)), a technological R&D institution under the Ministry. Another independent R&D institution responsible to the Ministry is the Building Research Institute ([www.rabygg.is](http://www.rabygg.is)). Its main roles are to facilitate innovation, technical progress, improved production and cost reduction by performing applied research in the field of buildings and construction.





Recent technological developments have resulted in the continuous growth of knowledge-based industries and services. The five fastest-growing industrial sectors in Iceland over the past few years have been in the information and communication technology (ICT) industry: health technologies (including pharmaceuticals), biotechnology, genetics, biomedical engineering and IT-based equipment production for food processing. After years of effort, developments in these fields have progressed from research to profitable operations. These industries have shown that the boundaries between traditional economic sectors and research institutions are gradually disappearing.

The Ministry promotes closer links between industry on one hand, and universities and research institutions on the other, through increased innovation efforts, with the objective that public research funding should yield more economic returns.

The primary function of the Icelandic Patent Office ([www.einkaleyfastofan.is](http://www.einkaleyfastofan.is)) is to receive and handle applications for patents, trademarks and design protection.

**Export of high-tech products has increased considerably in the past decade; high-tech products now constitute six percent of Iceland's gross exports.**



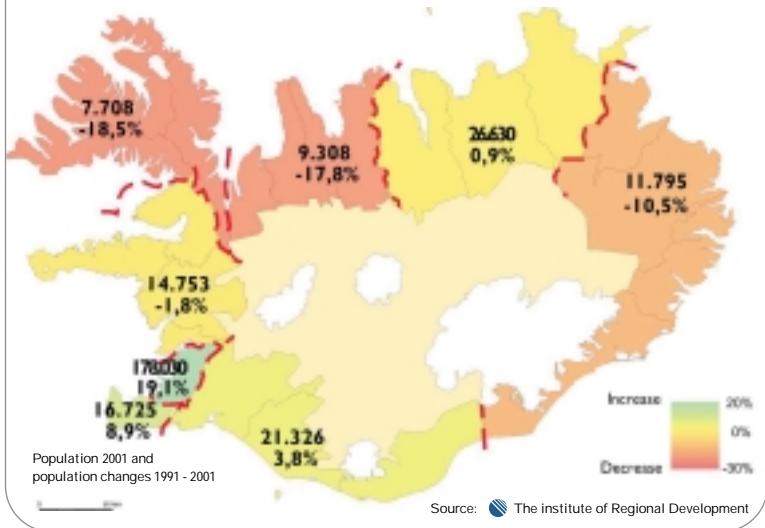
## Developments in Employment, Education and Culture – Prerequisites for Regional Growth

The function of the **Department of Regional Affairs and Power-Intensive Industry** is to work towards implementation of a policy-forming plan for regional issues. The Althing (Parliament) approves such a “Regional Plan” for a period of four years. The Regional Plan describes the goals and policies of the government in regional issues, implementation plans, and the relationship of regional policy to national policy dealing with economic and industrial affairs in the field of public service. The Institute of Regional Development ([www.bygg.is](http://www.bygg.is)), which is responsible to the Ministry, is meant to promote regional development and economic growth.

The goal of the Regional Plan is to minimize the disparities in the standard of living and earning opportunities of individuals in different regions of Iceland, and to create optimum community conditions for the rural areas. The Plan places great emphasis on supporting municipalities and ensuring systematic support to industrial development, education, and reliable social services. The intention is to strengthen those communities that are the most populous, have the strongest attraction to the greatest number of people and the best chances of increased economic development, schooling, culture and public service.

There are several projects defined in the Regional Plan that are meant to bolster the rural areas. A comprehensive survey will be carried out on differences in the living conditions in various communities and the working conditions in various industries, in addition to an assessment of the impact of government measures to level these differences. Proposals will be made on the basis of this research.

## Regional Population Development



The Regional Plan places great emphasis on telecommunications, with the goal of all users paying the same price for data transport, regardless of location. There are also plans to boost education in the fields of telecommunications and information technology to enable people all over Iceland to pursue education via distance learning.

In addition, the Department of Regional Affairs and Power-Intensive Industry handles matters pertaining to foreign investment in power-intensive industries. It is the Ministry's responsibility to coordinate and follow through on all projects relating to new large-scale industries in Iceland.

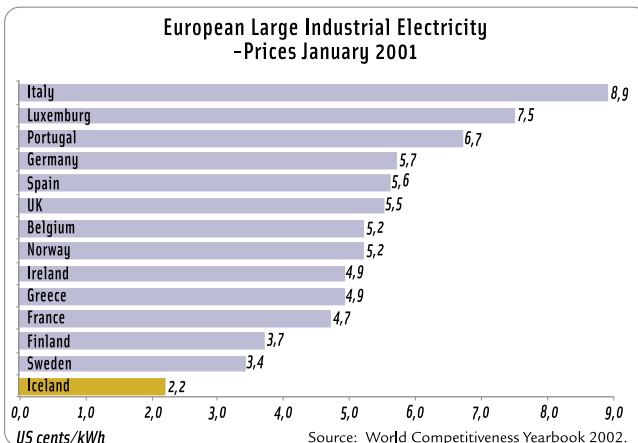
**The increase in students using distance learning  
from 1998 to 2001 was 171%.**

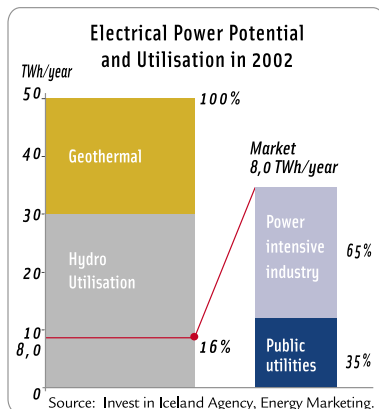
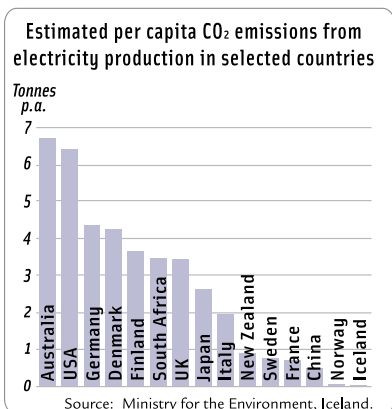
# Harnessing Green Energy – New Opportunities

The role of the **The Department of Energy and Environmental Affairs** is to promote further and better utilization of energy resources and more efficient organization of energy affairs.

Iceland possesses an abundance of renewable energy resources, and 72% of the gross energy usage in the country is derived from renewable energy sources. The utilization rate of renewable energy sources in Iceland is the highest in the world, and 99% of the production of electricity is from renewables, hydro and geothermal resources. The utilization of these energy resources is considered to be one of the driving forces behind the nation's increased prosperity over the past few decades. And Iceland's increased economic growth in recent years is in large part due to foreign investment related to the utilization of Iceland's energy resources.

The National Energy Authority ([www.os.is](http://www.os.is)) advises the national government on issues concerning energy and natural resources, and it carries out reviews of the nation's energy resources. The National Energy Authority is one of the largest research facilities





in the world in the field of geothermal heat. Iceland's energy companies are partly or wholly owned by the State or local municipalities, and the Ministry's Department of Energy and Environmental Affairs handles administrative dealings with those companies.

According to the Kyoto Protocol, emissions from Iceland may increase by 10% between 1990 and the first period of the Protocol, 2008–2010. A special provision was approved in November 2001 for small nations that utilize renewable energy resources to build up industry, because these projects have a great impact on the economies of such nations. Therefore this provision further enables Iceland to utilize its clean energy resources in the coming decade.

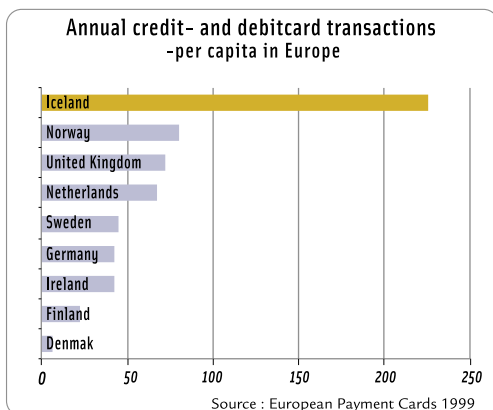
The Department of Energy and Environmental Affairs monitors and forms policies regarding the development of new energy sources and energy providers. The primary current project is research and development of clean fuel (i.e. hydrogen), which can be produced with the help of the country's abundant energy resources when the processes are both available and economical.

**Only 16% of Iceland's total potential geothermal energy and hydropower has been harnessed.**

## Promotion of Active Competition and Increased Consumer Protection – Leading to Improved Competitiveness

The function of the **Department of Competition and Consumer Affairs** is to implement rules ensuring an efficient competitive environment and consumer protection. The Competition and Fair Trade Authority ([www.samkeppni.is](http://www.samkeppni.is)) supervises competition and promotes active competition in business. The Governmental Agency for Electrical Safety, Accreditation, Market Surveillance, Metrology and Legal Metrology ([www.ls.is](http://www.ls.is)) is self-explanatory.

To increase consumer protection in Iceland, the Ministry has entered into a service agreement with the Consumer Association of Iceland ([www.ns.is](http://www.ns.is)) to reinforce its operations. This reinforcement is mainly in the form of support to guidance services, complaint services, office operations, administration for the ruling committees, and surveillance of standard negotiation terms. The Department of Competition and Consumer Affairs has a dual role of trying to ensure that consumers receive information so that they have some perspective regarding the market and that the principle of fair trade is honoured.





Revision of legislation concerning trade and consumer protection is planned so that the whole legal process will be simplified and bureaucracy minimized, while consumer protection will be increased.

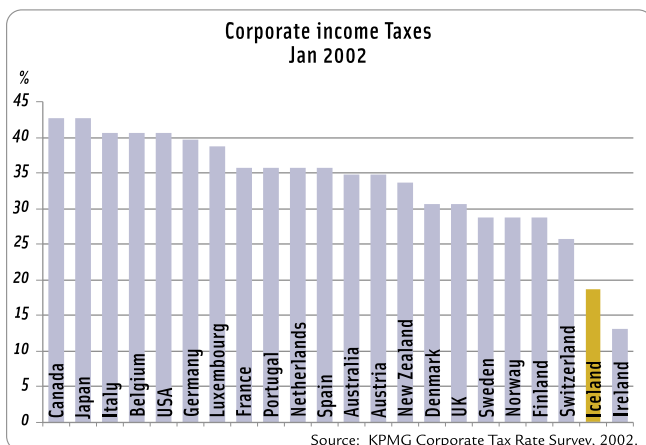
**Approximately 90% of over-the-counter purchases in Iceland are transacted through payment cards.**

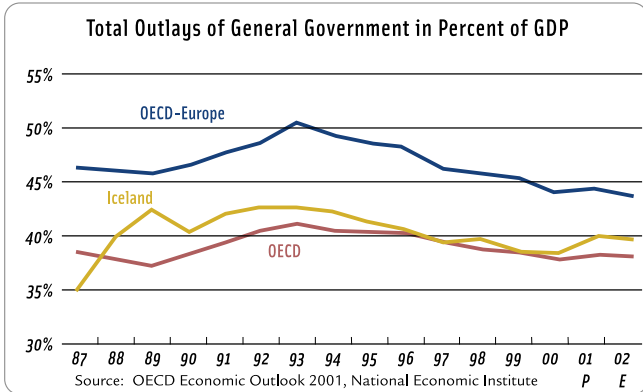
## A Solid Basis for Foreign Direct Investment in Iceland

The primary activities of the **Department of Insurance, Foreign Exchange and Trade** involve issues concerning insurance, imports, foreign investment in Iceland, international trading companies, free-trade agreements, bilateral investment agreements, and participation in WTO agreements.

It is also the Department's responsibility to handle matters relating to the film industry. According to law, domestic and foreign film producers are entitled to a 12% refund of production costs incurred in Iceland. Producers have demonstrated substantially mounting interest in producing films in Iceland since the enactment of this law.

In recent years the State has almost withdrawn from direct involvement in commercially run operations in the insurance field. Laws on insurance contracts are being revised and a new bill on insurance contracts is due to be submitted to Althingi (Parliament). The Financial Supervisory Authority ([www.fe.is](http://www.fe.is)) oversees the operations of insurance companies and insurance brokers in Iceland.





Iceland adheres to OECD codes dealing with the movement of capital, and is party to various bilateral, multilateral and international agreements relating to movement of capital and foreign direct investment. With very few exceptions, foreign direct investment in Iceland is not subject to limitation. The same applies to the movement of capital. To

meet foreign demand for information about investing in Iceland, the Invest in Iceland Agency ([www.invest.is](http://www.invest.is)) has been established. This “one-stop” Agency is an independent agency of the Ministry of Industry and Commerce, the Trade Council of Iceland


([www.icetrade.is](http://www.icetrade.is)) and the National Power Company ([www.lv.is](http://www.lv.is)). The Agency is divided into two independent departments: General Investments and Energy Marketing. The Invest in Iceland Agency provides information on all aspects of investment.

In addition, The Ministry's website (found at [www.government.is](http://www.government.is)) provides English versions of various laws and regulations regarding the establishment, registration and operation of Icelandic companies and subsidiaries of foreign companies operating in Iceland.

### Iceland – Lowest Business Costs in Europe

*In a KPMG comparative study of business costs in North America, Europe and Japan, Iceland was ranked the second lowest overall in costs. And within Europe itself, Iceland was shown to have the lowest business costs.*

**Excellent business environment – with an 18% corporate income tax and the most flexible labour legislation within the OECD**



## Increased Competitiveness through Electronic Commerce and a Powerful Legal Environment of the Capital Market

Financial market matters, with the exception of pension funds, fall under the Ministry of Industry and Commerce. **The Department of Financial Services** makes regulations and prepares legislative proposals on the operations of financial services while the surveillance of such operations is carried out by the Financial Supervisory Authority. The Ministry of Industry and Commerce also handles ownership of State-owned banks.

Iceland's capital market has developed rapidly in recent years. Competition has increased, as has the supply of new services. The State has undertaken to cease involvement with conventional bank management. In recent years the State has transformed its banks into limited liability companies and registered them on the Iceland Stock Exchange (ICEX). The privatization of banks began in 1998.

Financial services require a harmonized and efficient legal environment if they are to provide dependable, quality services in the most economical manner.

### E-business in Iceland

- *Low running cost for Internet Data Centres*
- *Low electricity cost*
- *Low housing cost*
- *Excellent telecommunication network and highly skilled workforce*
- *Quality infrastructure*
- *Low corporate tax and 0% withholding tax on dividends to corporate shareholders in Nordic countries with minimum 10% ownership*



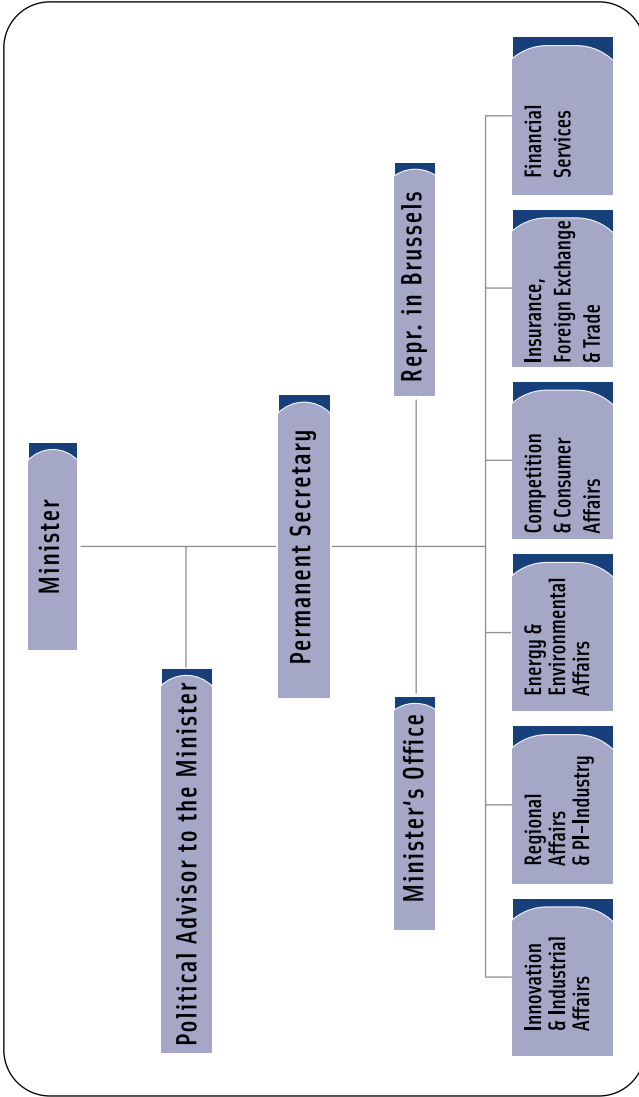
The Ministry of Industry and Commerce's goal for this important link of the economy is to create a legal environment equal to the best systems of Iceland's competitors. This environment must encourage fertile ground for the operation of financial enterprises, in addition to providing powerful control and ensuring financial security.

The Ministry of Industry and Commerce is responsible for supervision of policy orientation in the field of electronic commerce. There is no doubt that electronic commerce is about to revolutionize business practices. Consumers can now purchase products and services regardless of time and location. The Internet offers immense opportunity for a small country located far from the largest markets.

It is important for Iceland's global competitive status that electronic commerce spread rapidly. For that to occur, it is vital to pay attention to its legal environment, which is primarily the Ministry's responsibility.

**Iceland Stock Exchange (ICEX) was established in 1985 and has about 70 companies listed on its main and growth lists.**

# Organisation Chart





## Institutions under the Ministry of Industry and Commerce

### **Innovation & Industrial Affairs:**

- IceTec ([www.iti.is](http://www.iti.is))
- Icelandic Building Research Institute ([www.rabygg.is](http://www.rabygg.is))
- The Icelandic Patent Office ([www.einkaleyfastofan.is](http://www.einkaleyfastofan.is))

### **Regional Affairs & PI-Industry:**

- The Institute of Regional Development ([www.bygg.is](http://www.bygg.is))

### **Energy & Environmental Affairs:**

- The National Energy Authority ([www.os.is](http://www.os.is))
- Iceland State Electricity ([www.rarik.is](http://www.rarik.is))

### **Competition and Consumer Affairs:**

- A Governmental Agency for Electrical Safety, Accreditation, Market Surveillance Metrology and Legal Metrology ([www.ls.is](http://www.ls.is))
- The Competition and Fair Trade Authority ([www.samkeppni.is](http://www.samkeppni.is))

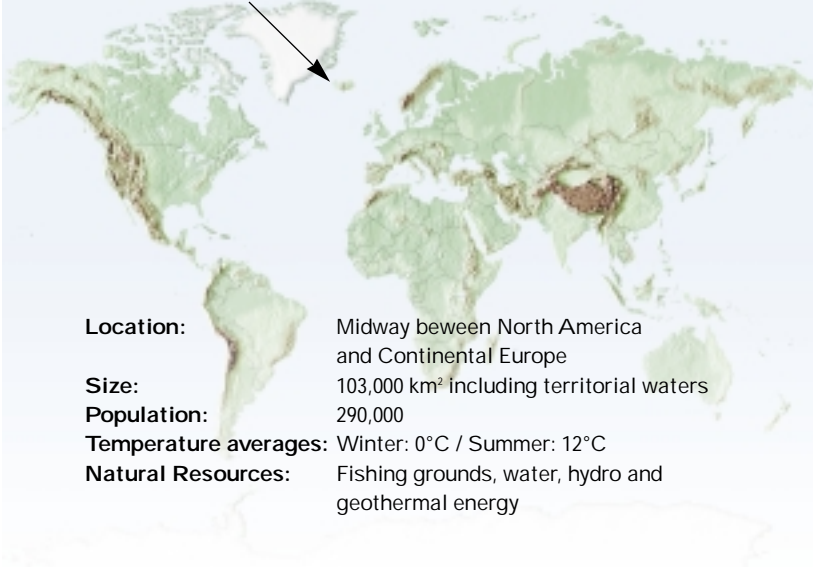
### **Insurance, Foreign Exchange & Trade:**

- The Invest in Iceland Agency ([www.invest.is](http://www.invest.is))

### **Financial Services:**

- The Financial Supervisory Authority ([www.fme.is](http://www.fme.is))

## Facts about Iceland:



<b>Location:</b>	Midway between North America and Continental Europe
<b>Size:</b>	103,000 km <sup>2</sup> including territorial waters
<b>Population:</b>	290,000
<b>Temperature averages:</b>	Winter: 0°C / Summer: 12°C
<b>Natural Resources:</b>	Fishing grounds, water, hydro and geothermal energy

## A Short Historical Summary



The first settlers, Ingólfur Arnarson and his wife Hallveig Fródadóttir, came to Iceland from Norway in the year 874. In 930, the Althingi, the world's first parliament of its kind, was established at Thingvellir. Iceland came under the rule of the Norwegian monarchy in 1262, and was transferred to the Danish crown in 1380. Danish rule lasted until 1944, when the Icelandic Republic was established with a parliamentary democracy.

## Facts of Interest:

72% of total energy consumed in Iceland is from renewable energy resources – the highest percentage in the world.

On average an Icelander eats 25.7 kg of lamb and 13.3 kg of potatoes per year.

Icelanders' favourite fish is haddock.

Life expectancy is 82.2 years for Icelandic women and 78.1 years for Icelandic men.

Iceland has three inhabitants per square kilometre.

Over 80% of the Icelandic population has access to the Internet.

The sale of beer was illegal in Iceland until March 1, 1989.

The mobile telephone usage rate among Icelanders is close to 80% – among the highest in the world.

Icelanders drove on the left side of the road until May 26, 1968.

The first white man believed to have been born in North America, Snorri Thorfinnsson, was Icelandic.

Women own 18% of businesses in Iceland.

There are close to 90,000 horses in Iceland.

The population of the Greater Reykjavik Area is around 180,000 – approximately 62% of Iceland's total population.

The Icelandic horse has five gaits.

Around 84% of Icelanders between the ages of 16 and 74 are members of the labour force.

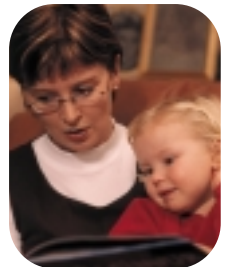
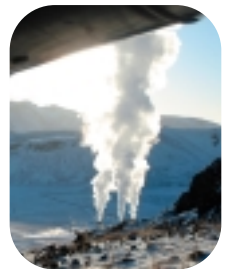
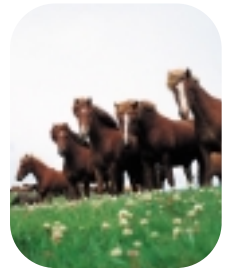
Iceland has the world's fifth highest GDP (PPP) and the seventh highest level of private consumption per capita.

The literacy rate in Iceland is among the highest in the world.

99.9% of the population has access to electricity from public supply utilities.

Iceland ranks seventh in the UNDP Human Development Index Ranking 2001.

The first European to discover America was an Icelander named Leif Eriksson – and he did it 500 years *before* Columbus!





## Ministry of Industry and Commerce

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