The creative island

From Hollywood productions to avant-garde arts, Iceland punches above its weight when it comes to cultural influence.
Iceland, the creative island

From Hollywood productions to avant-garde arts, Iceland punches above its weight when it comes to cultural influence.

“Three out of tourists who visit say that it was seeing Iceland in films and TV programs that inspired them to come,” says Lílja Gudjónsdóttir, Director of the Icelandic Film Centre. “New productions are announced all the time, which in turn increases the hiring of local staff for creative positions such as directors, set designers, editors, and actors,” she adds.

The country’s growing reputation in film and TV has piqued the interest not only of tourists, but of retail buyers and other potential customers for Icelandic products and services of all kinds. Artists and designers draw inspiration from both the country’s awe-inspiring natural landscapes and its rich heritage. Examples include the use of unusual textiles or other materials in fashion and footwear, or the forms and features in cutting-edge architecture, while reusing it to tune with international cultural trends. A government that supports creativity “The main constraint to creativity is usually financial,” says Gudjónsdóttir. “As other Nordic societies, we have a very advanced mix of public and private sector, and a strong social security. Whether you’re a businessman or an artist, you are encouraged to innovate. You can try something adventurous and see if it works. If you make a mistake, you’ll get another chance, and that is our advantage,” she explains.

Iceland’s government agencies actively support exports from these burgeoning sectors, by organizing or participating in trade ventures at home and abroad. IFC oversees a government scheme that reimburses 25% or up to 35% of the costs incurred in the country.

In music, the country already has a vibrant festival culture. “The Record in Iceland” scheme offers a 25% refund of all recording costs – adding to the attractiveness of a country that, as Business Iceland notes, boasts “world-class studios, brilliant producers and great session players.”

The ‘Creative in Iceland’ initiative seeks to raise awareness of Icelandic art and creative industries among consumers in target markets abroad, with the aim of boosting exports and further developing these activities.

In many ways, Icelanders were the architects of the co-production model. I’m proud that more and more well-established nations actively seek co-productions from Iceland. It was not only about money, it was also about talent pool, which has proved to be among the major benefits out of co-production. Film makers from Iceland are great storytellers, creative, credible and reliable.
Set on preserving the island’s abundant natural resources for future generations, environmental sustainability has historically been central to Iceland’s economy.

Original green solutions of global relevance

By PEDRO AMARAL
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Ideal natural conditions coupled with outstanding technological prowess led to Iceland’s self-sufficiency in electricity and heating. Hydro-electric and geothermal technology are the cornerstones of this success, and the government’s focus on R&D and pro-business mindset make it the ideal place to invest in new green solutions of global relevance.

Iceland’s economy has recovered well from the pandemic, as the OECD (Organization for Economic Co-operation and Development) forecasts GDP growth of over 5% this year and 4% in 2023. The country’s resilience to unexpected shocks is a major factor in its economic sustainability – a lesson learned the hard way.

“We have had crises before and we have learnt from past experience,” says Guðlaugur Thór Thórðarson, Minister of the Environment, Energy and Climate, referring to the financial turmoil of 2008-2011.

“That was useful when making decisions about the pandemic domestically, but also in preparing decisions about the pandemic do
eering our experience from earlier transitions. The first was about a hundred years ago when we started generating electricity sustainably.”

Geothermal water not only heats Iceland’s homes but is also used to generate electricity. The minister stresses that this is “know-how that can be built on and used in all the parts of the world.”

To that end, it is no coincidence that the world’s largest geothermal heating system is in Xi’ning, China, built jointly by Icelandic and Chinese firms. According to Thórðarson, such systems “can be used more or less around the world and could do much to reduce global carbon emissions.”

The governing coalition focuses on investing in green technology. Iceland’s experience in the field makes it an ideal location to develop solutions in wind, hydro-electric, geothermal and even solar power. In addition to the natural conditions, there are generous government incentives, and thriving R&D activity.

Forbogsson, the business confederation leader, says that incentives for green solutions align well with official goals. “When companies invest in machinery, equipment and vehicles, they are generally rewarded with an extra depreciation on top, so there is a significant incentive there.”

“This is happening at a rapid pace – we see it in fisheries, which have been in heavy investment mode for a decade. We see it in tourism, with car rentals going electric and local airlines studying the possibility for green domestic flights, which they say are viable within a decade,” Forbogsson notes.

There is a general focus on boosting R&D spending, with SMEs able to claim back 35% – an incentive that, according to Forbogsson, has seen these companies’ share of GDP growing by leaps and bounds.

And while this specific break is not available to big multinational firms, there are myriad opportunities in green tech.

“That will hold the key to our future in terms of FDI,” he says. “We are positioning the economic opportunities for foreign investors to take part in larger green projects.”

He cites work on ideal sites for eco-industrial parks with a circular economy focus.

“There is high demand for this, including from U.S. investors,” he says, mentioning the war in Ukraine as one reason. “It’s focused on offering investors well-defined, well-developed value propositions based on sustainable solutions, with a lot of it related to electricity generation.”

For foreign investors, Forbogsson says, the confederation is the ideal partner. “It’s a small independent economy like Iceland, you need a one-stop shop to answer questions,” he says.

“It’s a complicated regulatory environment, not comparable to anything else, and you need a clear message that you’re well come. We’re here to help.”

The government is also unashamedly upbeat, citing highly skilled labor and a friendly business environment. As well as a corporate tax of 20% – among Europe’s lowest – other positives include the availability of land and a European legislative framework. Foreign experts who move to Iceland to work in their field can apply for a 25% income tax exemption for up to three years.

“We are positioning the country and the economic opportunities for foreign investors to take part in larger green investment projects.”

HALLÐÓR BENJAMÍN FORBERGSSON
Managing Director of the Confederation of Icelandic Enterprise

“The main thing is that all the opportunities are here,” the minister reiterates, citing Iceland-based ventures that are leaders in innovative climate solutions. “Probably the most famous is Carbfix, which grabs CO2 from the air and turns it into rock,” he says. “But there are many other companies and innovative ideas.”

Iceland has a corporate tax of 20% – among Europe’s lowest.

“Iceland is the place to be when it comes to new, green solutions – it’s as simple as that,” the minister concludes.
Building a top of mind country brand

Iceland’s excellent reputation often precedes itself. That’s due in no small part to Business Iceland, the public-private entity in charge of bundling the country’s core offering into recognizable brands for specific audiences.

PÉTUR Þ. ÓSKARSSON
CEO of Business Iceland

In the ongoing transformation of Iceland into an innovation powerhouse capable of punching well above its weight, Islandsstofa – Business Iceland, plays a central role. CEO Pétur Þ. Óskarsson shares the roadmap for where Iceland is headed next.

A public-private partnership established to improve the competitiveness of Iceland’s companies internationally and stimulate exports, the organization has specific goals that include marketing the country as a tourism destination, helping promote Icelandic culture abroad, and attracting foreign direct investment (FDI).

It also helps Icelandic companies looking to enter foreign markets with competence-building programs, trade fairs, and press trips in cooperation with Iceland’s diplomatic and chambers of commerce abroad. As far as the international reach of the domestic economy is concerned, its current focus lies on six key sectors: Energy & Green Solutions, Tech and Innovation, Arts and Creative Industries, Seafood Industry, Tourism, and Food and Natural Products. “We work on an industry scale and with individual companies, going to trade shows and events with business delegations, going into the market for a specific time,” Óskarsson explains. “We organize over a hundred such events in a normal year.”

Handling marketing abroad plays an individualized role. For example, in energy and related fields, the Green by Iceland brand is used to market green solutions in foreign markets. Iceland is globally known, but to different degrees, Óskarsson notes. “We have a broader portfolio of foreign direct investments today than we’ve ever had before.”

Another notable project to persuade foreign companies to set up shop here is called Skýsvaktin Science City – a partnership between Business Iceland, the city of Reykjavik and university partners. “As well as the national hospital. The focus on tech is paying off, says Óskarsson. “For the past ten years, we have seen significant growth. Last year it accounted for approximately 15% of export revenue.”

Projects in other key sectors include Creative Iceland, where Business Iceland works with other organizations to promote Icelandic arts and creative industries abroad, and in Fisheries – where the brand Seafood from Iceland is used to promote Icelandic produce. The seafood industry, which during the pandemic lost business worldwide as restaurants closed, has proven its adaptability, according to Óskarsson: “They had to find new customers, new distribution channels, and they showed great resilience, which resulted in our seafood export revenues increasing as well during COVID.”

Iceland’s Ministry of Culture and Business Affairs works with Business Iceland to market and promote the country, with Visit Iceland – the official destination marketing office – a part of Business Iceland brand as well. As the global ‘Icelanded by Iceland’ brand, there is a special agreement in place for the North American market for in-market activations known as ‘Taste of Iceland’, highlighting both Iceland’s culture and food, as well as services and products. “In tourism, that’s where we have the largest budget for marketing and branding Iceland, focusing on reducing seasonality and marketing all areas,” notes Óskarsson.

During the pandemic, the focus was on “keeping the destination alive,” he adds. “The fact that the government gave us funds to keep Iceland as a destination alive within target groups in major markets is one of the reasons we’re seeing a strong rebound.”

Finally, Business Iceland’s role in drumming up FDI looks very different from a few decades ago. “From around 1965 or 1970, nearly all FDI in Iceland was in the form of large industry-scale multiple projects relying on external capital. The focus on tech is paying off, says Óskarsson. “For the past ten years, the type of investment has changed drastically. Now we see smaller investments across different sectors: tourism, biotech, aquaculture, communications, and even retail.”

The incentives that Iceland offers help support for 25% of R&D spending on a project, for example, or 35% in the case of small and medium-sized companies, plus newer incentives for exporting.

Iceland’s mission for expanding its economic base and, consequently, the appeal for foreign investors seems to have found new traction. “We have a broader portfolio of foreign direct investments today than we’ve ever had before,” Óskarsson concludes.

“Open culture fosters creativity and an exchange of ideas”

Pétur Þ. Óskarsson, CEO of Islandsstofa – Business Iceland, explains the factors behind Iceland’s growing attractiveness.

What makes Iceland an ideal location for innovation?

In addition to generous incentives, the country is unique in several ways. It is halfway between Europe and North America, making it an ideal base for transcontinental cooperation. Our workforce is highly educated, with extensive international networks, due to a tradition of studying abroad. A more intangible factor is the mentality. Iceland is one of the world’s most equal societies in terms of gender, and people are progressive in their thinking. This makes for an unconstrained way of thinking, and solving, problems.

What makes Iceland attractive for creative enterprises?

Creativity thrives in an open, engaged society, and our population is very creative across disciplines. Our film industry has blossomed, partly thanks to international projects being filmed here, also benefiting other sectors. We’re a small economy, and niche specialization is a luxury most cannot afford, and people inevitably master several skills and cooperate across disciplines. This open culture fosters creativity and facilitates an exchange of ideas.

Iceland’s leadership role in energy, green solutions and sustainability

The authorities are committed to reducing greenhouse emissions to achieve climate neutrality by 2040, setting Iceland on a path to net negative emissions by 2040. Due to our location within an active volcanic system, Iceland pioneered the application of geothermal for electricity generation and heating – 99% of both comes from renewable sources. There are incredible opportunities in the development of low-temperature geothermal solutions, with potential for worldwide use. This also led to a promising offshore in the form of Ocean Capture, which is a powerful new technology being developed that removes carbon from the air, then pumps it underground to quickly turn to stone.
Nurturing Icelandic ingenuity

What role does digitalization play in your success?

We have used smart digital ways of decreasing systems errors, hugely improving levels of service for customers. We know digital solutions don’t work unless frontline staff are enabled. We have also worked to nurture a culture of service and professionalism. Customers now have a self-service option, logging on and taking care of business themselves. We also use digital to share tailor-made information with them.

Veritas Iceland is national market leader in the importation and distribution of pharmaceuticals and health products. As CEO Hrund Rudolfsdottir explains, the group is far from resting on its laurels.

How would you summarize Veritas?

Veritas is a group of six companies working in the pharmaceutical and health sector, importing and distributing about 60% of all pharmaceuticals entering Iceland. We are proud partners of global brands – we have contacts with around 350 producers – and of course local retailers. We have grown organically and through the acquisition and successful integration of a half dozen companies, while implementing digitalization.

How does Veritas promote sustainability?

We have long implemented best-in-class approaches to corporate governance, how we approach health professionals, and what initiatives we support. Each company has a board with independent members. As a woman, I am committed to equal rights – another long-established focus of the company. On environmental sustainability, we have been deeply engaged as well. Two years ago we published a sustainability report. Sustainability measurements are on our managers’ agendas and form part of our incentives. From their regular employee meetings, our people know sustainability is part of our DNA.

Keeping growth sustainable

Economic travails of the past have taught Iceland a valuable lesson: to have a solid economy you need to foster innovation across a wide range of sectors.

Iceland’s reputation as an emerging champion of innovation and new technologies has been hard earned. The economy, which for much of the 20th century relied heavily on fishing, had diversified into manufacturing and services, with burgeoning sectors such as software and biotech, along with tourism. But the economic slump that followed the default in late 2008 of all three major privately owned commercial banks forced a profound rethink of a model that was marked by over-reliance on financial services.

Now, government policy seeks to foster innovation across industries, to avoid excessive dependence on individual sectors. The aim is to escape what Bloomberg, in a recent feature on this new economic model, labeled Iceland’s ‘Boom-to-Bust Past’.

The creation of a Ministry of Higher Education, Science and Innovation is seen as a milestone on this new road. The young minister who heads it, Áslaug Arna Sigurðardóttir, has made public reference to the need for Iceland to put behind it its roll-over, counter-economic history: not only the 2008 crash but the 1969 recession caused by a sudden disappearance of herring due to overfishing.

More recently, the COVID-19 pandemic, which devastated the important tourism sector, has served as a reminder of the need to keep diversifying, rather than allowing investment in individual industries to crowd out others.

Soon after taking office, Sigurðardóttir also stressed the need to strengthen links between higher education and society, saying in an interview with Fréttablaðið, a student newspaper, that this “encompasses everything, whether it’s the connection with innovation, taking a better advantage of Icelandic ingenuity or research.”

The Reykjavík Science City, a public-private initiative overseen by Business Iceland – itself a public-private partnership – has identified as key sectors Energy & Green Solutions, Innovation, Creative Industries, Tourism, Seafood, and Food & Natural products.

The focus is on three main sectors: blue tech, green tech, and life sciences – all areas in which Icelanders have extensive know-how and experience. More generally, Business Iceland has identified as key sectors Energy & Green Solutions, Innovation, Creative Industries, Tourism, Seafood, and Food & Natural products.

In the field of energy, in particular, Iceland is a recognised global leader in geothermal and hydro and an attractive place to invest in new technologies, thanks to the generous funding for R&D activities, innovation, and marketing.

Companies can claim tax deductions on spending on innovative projects in any field, or – if their taxable income is not large enough, part of the spending can be reimbursed – all if the project meets certain conditions, as certified by Rannis, the Icelandic Centre for Research. Agist Ingólsson, its General Director, says he sees opportunities “everywhere” in Iceland.

Iceland’s top educational institutions, which for much of the 20th century were self-reliant, have opened up to international collaboration, but have a great deal to offer, says Prof Atlí Benediktsson, the Rector and President of the University of Iceland, the country’s oldest and largest such institution.

“We have outstanding researchers who are open minded in their collaboration with other scientists on diverse topics that are very important for the international community,” he says. “And we are very strong in many different fields. Health sciences, engineering, geosciences, geothermal energy, renewable energy, the humanities and social sciences – in each of these disciplines and many others, we bring a lot to the international table.”

Business Iceland has identified as key sectors Energy & Green Solutions, Innovation, Creative Industries, Tourism, Seafood, and Food & Natural products.

Government agencies are playing their part in other ways, with Iceland having risen up the rankings of the European Union’s Government Benchmark (in 2022 below only Malta, Estonia, and Luxembourg). Digital Iceland, a project overseen by the Ministry of Finance and Economic Affairs, has led the transformation, helping institutions make digital services available to their primary means of communication with the public, with a view to providing better service, boosting the country’s competitiveness, and making infrastructure more secure.

Icelanders historically stood out for their ingenuity, and while the tribulations of the past cannot be forgotten, establishing the right macro environment for knowledge creation is very important for Iceland and economic diversity bodes well for the nation’s future.
Research-driven innovation boosts Icelandic business

Under the leadership of Jón Atlí Benediktsson, the largest University in Iceland continues to be a major driver behind some of the country’s most innovative and successful ideas.

By ALISON ROBERTS

Founded in 1911, the Reykjavík-based University of Iceland (UI) is the country’s oldest and largest, but today stands out as a promoter of innovation more than ever.

Its Rector and President, Jón Atlí Benediktsson – a professor of electrical and computer engineering – sees UI’s focus on research as key to its future and that of the country. “We in the sector want to ensure that innovation and strategic advancement are research-driven,” he says. “We see that as a prerequisite to lasting success.”

Icelandic society is always open to collaboration and new ideas, he argues, and the recent creation of a joint Ministry of Higher Education, Science and Innovation signaled “an increased focus” on this on an institutional level. “The minister has already become a spokesperson for innovation, seizing the opportunities of the digital age,” Benediktsson adds. “She has also stressed the importance of financing higher education.”

“We in the higher education sector want to ensure that innovation and strategic advancement are research-driven. We see that as a prerequisite to lasting success.”

Active links with business remain crucial, too. And UI knows a thing or two about that.

“Throughout our history, we have had strong contacts with industry,” the Rector points out. “Some of Iceland’s most important companies are rooted in research at the University. The core ideas behind Marel, an international leader in food processing, originated here in the ’70s, and more recently UI was one of the founding partners of Carbfix, an innovative company that removes CO2 from the atmosphere.”

Since 2004, a fast-growing UI Science Park has been “a cornerstone” of Reykjavík Science City, a public-private partnership aimed at attracting investment and driving value creation. “We’re strengthening our contacts with industry and increasing its focus on innovation based on academic research,” he explains. “We also have incubators and start-ups.”

Among the tenants are deCODE Genetics, a global leader in population genetics (now a subsidiary of California-based Amgen); Alvotech, a biosimilars specialist, currently traded on the U.S. Nasdaq, which is expanding locally; and CCP Games, a video-game developer now based at the Park.

Other business ties are also being strengthened. “In the past, students often worked at companies over summer, but now many work on innovative projects and, in some cases, create their own companies,” Benediktsson highlights of this “fantastic development.”

Internationally, UI seeks to collaborate with the best universities. “We want to give back to the global community,” he says. “We have collaborators all over the world. We need to take advantage of connections with universities via various means including European Union funding, to join in addressing global challenges. But we have excellent partners in the U.S., including the University of Minnesota for forty years now.”

JÓN ATLI BENEDIKTSSON
Rector and President of University of Iceland

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We have been conducting research since 1911

The University of Iceland is a research university which covers all academic disciplines and is ranked among the best in the world. Get ready for an exceptional experience in a forceful university where we prepare people for leading roles in life.
Strong government support for Icelandic innovation

Rannis serves as a one-stop-shop for public funding and support in research, innovation, education, culture and youth activities.

By ALISON ROBERTS
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Rannis, the Icelandic Centre for Research, is tasked with supporting R&D and innovation in the country. Working under the aegis of the government’s Science and Technology Policy Council, Rannis promotes innovative business and international opportunities, as its General Director, Ágúst Ingþórsson, explains.

How would you describe Iceland of 2022? I am privileged to be part of a team that has been transforming Iceland for the last three decades, starting with the negotiations for the European Economic Area (EEA) Agreement. It has made us more international in trade, research and innovation, culture and education, and I see opportunities everywhere.

To take one example, Rannis oversees the Erasmus+ program locally, a huge European mobility initiative under which more than 15% of the population received support at one time or another to study or work abroad. There are more people coming to Iceland, too. In the last seven years, there were around 12,500 outbound and around 23,000 inbound students, staff and volunteers. To put this into perspective, Iceland’s population stands at 375,000.

What role did Rannis play during COVID-19? The government decided to roll out extra funding to be deployed quickly. Companies spending on research and innovation represented the most significant parcel, with Rannis assessing and certifying specific projects. Around 85% of companies that applied received a tax deduction or reimbursement. During COVID, the amount increased to 25% for big companies and 35% for small companies. From 2020 to 2021 overall support doubled and this became the third-most generous support system in the OECD.

How does this align with Rannis’s broader mandate? We have been successful in fostering research, innovation and technology development through direct grants and the tax deduction system. The support system itself was very stable from 2004 to 2010 and then we also introduced the tax aspect, so the overall support increased. New increases followed in 2013 and 2016 saw a significant boost to both basic research and the Technology Development Fund, our early-stage financier of R&D projects and start-ups.

What else about Iceland’s operating environment is conducive to business? The entire innovation ecosystem, which receives support from politicians and the general public. We still have a shortage of people qualified in STEM (science, technology, engineering and mathematics) subjects, but the government is committed to tackling this. If you’re an expert, or an Icelandic who has lived abroad for over a decade, you can get a 25% reduction on income tax for up to three years. We’ve seen a surge in applications for this in the last 18 months.

Who do you want to partner with on an international level? Since 1994, when we entered the EEA, we’ve had access to European Union cooperation programs. We have been quite successful in research, innovation and education programs and this has really supported the science and innovation side and has been particularly good for companies.

We are very involved in European cooperation and that this is the way to go. We clearly get more out than we pay in.

The level of engagement with Europe is very high and we often benefit from being peripheral: we’ve seen as somewhat exotic, and others want to have us in their consortium. European cooperation has been the focus because that comes with money, but we are also committed to Arctic collaboration for geopolitical reasons.

## We have been successful in fostering research, innovation and technology development through direct grants and the tax deduction system.

Most of the Technology Development Fund money is allocated to company grants. We might provide €15,000 for the initial development of a business idea during six to nine months. Then there’s a grant of €100,000 per year for two years for what we call ‘sprouting’, and then additional funds for growth and even more for the sprint. So, most of the funding goes straight to companies, while a portion of the applied research funding is allocated for collaborations between universities and companies. We’ve had 880 applicants which, given the size of Iceland, is a fairly high number. There’s a great amount of competition for each grant with a success rate of around 20%.

What’s the scope of Iceland’s research and development? We proudly support Icelandic films and filmmakers

Rannis - your gateway to Iceland’s research and development community

- Rannis supports research, innovation, education and culture in Iceland by administering national funding and international cooperation
- Rannis supports businesses through the Technology Development Fund and Tax Deduction for Research and Development
- Rannis is a one-stop-shop for international cooperation managing EU’s programmes like Horizon Europe, Digital Europe, Creative Europe, Erasmus+ and LIFE Programme
- Rannis is part of the Enterprise Europe Network that helps small and medium sized companies with international cooperation

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Rannís is part of the Enterprise Europe Network that helps small and medium sized companies with international cooperation.
Iceland is pioneering the application of geothermal energy.

100% of electricity and house-heating needs are met with renewable energy in Iceland.