ICELAND

INVESTMENT CLIMATE STATEMENT

2015

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Executive Summary

Iceland is an island country located in the Atlantic Ocean, near the Arctic Circle. The largest amount of foreign direct investment (FDI) in Iceland comes from the United States. Until recently, the investment has mostly been centered in the aluminum sector, with the Alcoa and Century Aluminum operating plants in Iceland. However, Silicor Materials has just announced plans to construct a new USD 850 million photovoltaic silicon plant.

The booming tourism industry has been noticed by U.S investors, with Boston-based Carpenter & Company announcing that it will manage the construction of the first 5-star hotel in Reykjavik. U.S franchises Denny's and Dunkin Donuts are looking to tap into the one million plus tourists that pour into Iceland every year.

The tourism industry has grown by double digits in each of the last six years. There is a shortage of hotel rooms, with the projected number of tourists to hit 1.5 million in the next three years. There are additional investment opportunities in sectors, which cater to tourists, as well as in the restaurant sector.

The economic environment of Iceland has been characterized by low inflation and a healthy economic growth rate over the last few years (1.3 percent in 2012; 3.6 percent in 2013; and 1.9 percent in 2014). GDP is approaching the same level as it was before the economic meltdown in 2008.

The Icelandic government is reportedly preparing to lift capital controls imposed after the economic collapse in 2008. If these controls are relaxed, this liberalization should help attract further investment to Iceland.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

There is broad recognition within the Icelandic government that foreign direct investment (FDI) will be a key contributor to the country's economic revival after the 2008 financial collapse. Iceland's growing tourism sector is expected to supply ample investment opportunities, but much work remains to identify investment-ready projects. Meanwhile, IT startups seeking investors are burgeoning, and foreign investors have expressed growing interest in Iceland's retail sector. Foreign investment in the fisheries sector however, remains restricted especially when it comes to investing in fishing companies that possess transferable quotas.

As part of its investment promotion strategy, the government operates an agency by the name of Invest in Iceland that facilitates foreign investment by providing information to potential investors.

Other Investment Policy Reviews

Iceland has been a World Trade Organization (WTO) member since 1995. Their last WTO Trade Policy Review was in November of 2012 (www.wto.org/english/tratop_e/tpr_e/tp373_e.htm).

The review notes that exports have exceeded and imports nearly recovered to pre-crisis levels in domestic currency terms. Overall, the structure of trade in goods has not changed significantly, predominantly fish and fish products and aluminum to the European Union (EU) and members of the European Free Trade Association (EFTA). While the authorities have identified certain sectors where they feel that Iceland has a competitive advantage, investor confidence needs to be restored in order to attract investment.

Iceland has not had an Investment Policy Review conducted by U.N Cooperation for Trade and Development (UNCTAD) or the Organization for Economic Cooperation and Development (OECD).

Laws/Regulations of Foreign Direct Investment

The government has stated its desire to attract FDI in certain sectors and has pledged to draft new policies to facilitate such investment. Draft legislation that would address incentives for foreign investors is pending before the parliament. The capital controls imposed in 2008 may remain a hindrance in the eyes of foreign investors; however, the government is reportedly moving towards an official timetable and procedure for their elimination. Although the capital controls do not apply to new investments, they may block investors who invested prior to their implementation from exiting certain investments, and the controls create uncertainty about the capital market for new investments.

Icelandic laws regulating and protecting foreign investments are consistent with Organization for Economic Cooperation and Development (OECD) and European Union (EU) standards. As Iceland is a member of the European Economic Area (EEA), most EU commercial legislation and directives are in effect in Iceland. The major law governing foreign investment is the 1996 Act on Investment by Non-residents in Business Enterprises, which grants national treatment to non-residents of the EEA (including U.S. citizens). The law dictates that foreign ownership of businesses is generally unrestricted, except for limits in the fishing, energy, and aviation sectors. However, there are precedents of such restrictions being circumvented by non-EEA companies that establish holding companies within the EEA. Icelandic law also restricts the ability of non EEA-citizens to own land, but the Ministry of Interior may waive this. Foreigners own currently only 1.33 percent of total registered land in Iceland either fully or partially. The managers and the majority of the board of directors in an Icelandic enterprise must be domiciled in Iceland or another EEA member state, though exemptions from this provision can be granted.

Icelandic courts uphold the sanctity of contracts as a matter of course. Depending on the turnover of the companies in question, the Icelandic Competition Authority is notified of mergers and acquisitions. The Authority may annul mergers or set conditions with the objective of preventing harmful oligopolies and the restriction of competition.

Industrial Promotion

There is significant debate regarding the appropriate types and level of FDI in Iceland, particularly within the energy sector and with regard to job creation and the environmental impact associated with certain projects. The majority of past foreign investment has been in energy-intensive industries, such as aluminum smelting, that take advantage of the country's abundant and cheap renewable energy resources. The current administration has signed both investment agreements and power purchase agreements for a silicon metal factory in Bakki and an investment agreement for an algae factory, as well as for two silicon factories in Sudurnes, the region of the country with the highest unemployment. The current government has also started to address zoning issues that may open new areas for further expansion of electricity production in Iceland. For further resources see www.invest.is/doing-business/incentives/for/fdi.

Limits on Foreign Control

The major law governing foreign investment is the 1996 Act on Investment by Non-residents in Business Enterprises, which grants national treatment to non-residents of the EEA. The law dictates that foreign ownership of businesses is generally unrestricted, except for the limits currently imposed in the fishing, energy, and aviation sectors. Only entities with at least 51 percent Icelandic ownership can hold fishing rights. Non-EEA residents cannot hold hydro- and geothermal power harnessing rights; cannot manufacture or distribute energy; and cannot own more than 49 percent of aviation companies.

Privatization Program

There are no privatization programs in Iceland at the moment.

Screening of FDI

There is no automatic screening process for foreign investors, although bidders in privatization sales may have to go through a pre-qualification process. Potential U.S. bidders in privatization auctions need to follow the process closely, since the procedures are often ad hoc and deadlines can be short.

Competition Law

Competition Law No. 44/2205 is currently in place to promote competition and to prevent unreasonable barriers on economic operations.

Depending on the turnover of the companies in question, the Icelandic Competition Authority is notified of mergers and acquisitions. The Authority may annul mergers or set conditions with the objective of preventing monopolies and limitations on competition.

Investment Trends

The Icelandic Krona (ISK), which depreciated 60 percent against the dollar during the 2008 economic crisis, has been relatively stable since 2009. Capital controls remain in effect for all but new investments, though the current government is reportedly moving towards an official timetable and procedure for their elimination.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	12 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	12 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	19 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 41,160	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

In 2008, the Central Bank of Iceland imposed capital controls to prevent a massive capital outflow following the collapse of the financial sector. The capital controls were intended to be a temporary measure. The 1996 Act on Investment by Non-residents in Business Enterprises states that "non-residents who invest in Icelandic enterprises shall have the right to convert into any currency, for which the Central Bank of Iceland maintains a regular exchange rate, any dividends received or other profits and proceeds from sales of investments." Transactions involving imports and exports of goods and services, travel, interest payments, contractual installment payments and salaries are still permitted. The Central Bank first published its Capital Controls Liberalization Strategy in 2009 and later updated it in 2011. The strategy stated that the controls would be lifted in stages. The first step, permitting the inflow of foreign currency for new investments and the outflow of capital derived from such investments, was implemented in November 2009. For the outflow of this foreign currency to be allowed, the new investments must be registered with the Central Bank. The Central Bank has also held auctions to buy offshore krona in conjunction with an auction that is held to buy foreign currency in exchange for krona. These auctions have been settling close to the offshore rate for the krona.

Remittance Policies

Capital controls established after the 2008 financial collapses are still in effect. The government is reportedly moving towards an official timetable and procedures for their elimination.

All new FDI that comes to Iceland needs to be reported to the Central Bank in order to apply for an exemption from capital controls. Investors can then take their investment, as well as any capital gains resulting from it, and transfer the money out of Iceland when needed.

When a company wants to invest in Iceland, it goes through a local bank to request an exemption from capital controls from the Central Bank. When the investor sells his investment, he is again required to go through a local bank to process the paperwork to transfer his money out of Iceland.

For further information on remittance policies of the Central Bank please see their website http://www.cb.is/the-bank/foreign-exchange/questions-and-answers/investment-in-iceland/

Iceland's Financial Action Task Force (FATF) status is listed as monitored.

3. Expropriation and Compensation

The Constitution of Iceland stipulates that no one may be obliged to surrender their property unless required by the government to serve a public interest, and that such a measure shall be provided for by law and full compensation be paid. A special committee is appointed every five years to review and proclaim the legality of expropriation cases. If the committee proclaims a case to be legal, it will negotiate an amount of compensation with the appropriate parties. If an amount cannot be agreed upon, the committee determines a fair value after hearing the case of all parties.

As far as the U.S. Embassy is aware, the Icelandic government has never expropriated a foreign investment. However, some private investors described actions by the Icelandic government before and during the October 2008 financial crisis (related to the takeover of three major banks) as an expropriation of sorts.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Icelandic civil law system enforces property rights, contractual rights, and the means to protect these rights. The Icelandic court system is independent from the parliament and government. Foreign parties must abide by the same rules as Icelandic parties, and they enjoy the same privileges in court; there is no discrimination against foreign parties in the Icelandic court system. When trade or investment disputes are settled, the settlement is usually remitted in the local currency.

Under the Constitution, the courts may pass sentences only. The courts are generally divided into two classes: the lower courts, where most cases are heard, and the Supreme Court, which hears appeals from the lower courts. There are eight lower courts and one Supreme Court, all hearing public and private cases. The Landsdómur is a special high court or impeachment court established in 1905 with the mandate to handle cases where members of the Cabinet of Iceland are suspected of criminal behavior. The Landsdómur has 15 members — five supreme court justices, a district court president, a constitutional law professor, and eight people chosen by parliament every six years. In 2011, the court assembled for the first time to prosecute a former Prime Minister for alleged gross misconduct in the events leading up to the 2008 financial crisis. The accused was found guilty of not holding regular cabinet meetings during the crisis, but was not convicted of gross misconduct.

Iceland has ratified the major international conventions governing arbitration and the settlement of investment disputes. Iceland accepts binding arbitration of investment disputes.

Economic Surveillance Authorities under the European Free Trade Association (EFTA) agreement have ruled that the emergency laws put in place when the Icelandic banking sector collapsed were legal. The U.S. Embassy is unaware of any other cases of major investment disputes involving foreign investors in Iceland.

Bankruptcy

The Bankruptcy Act of 1991, No. 21 applies to a debtor who is a natural person if the debtor's legal domicile is in Iceland and the debtor is not exempted from the jurisdiction of the courts of Iceland. The provisions of this Act shall, however, be applied to Icelandic nationals not having their legal domicile in Iceland if they are exempted from the jurisdiction of the courts of other states. Where the debtor is a company or an institution, the provisions of this Act on his right to obtain a license of financial reorganization or for composition with creditors, or on bankruptcy, shall only apply if the following conditions are fulfilled:

1. In the case of a registered company, if its registered venue is in Iceland; and,

2. In the case of an unregistered company, if its venue is in Iceland according to its articles or as provided for by law, or in the nature of the matter. The same shall apply, as applicable, to institutions.

Bankruptcy is not criminalized in Iceland. In the case of resolving insolvency, Iceland ranks number 15 out of 189 countries in the World Bank´s Doing Business Report.

Investment Disputes

Since 1966, Iceland has been a member state to the International Centre for the Settlement of Investment Disputes (ICSID convention), as well as a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

International Arbitration

Iceland and the United States signed a Trade and Investment Framework Agreement (TIFA) in January 2009.

Iceland is a member of EFTA and has numerous free trade agreements with countries through that agreement. Iceland also has a free trade agreement with China.

Iceland is a member of the EEA agreement and has through it the legal obligation to adopt EU directives and law concerning the four freedoms of the EU, being free movement of goods, services, persons, and capital. Iceland has, however, been granted temporary exemption from the free movement of capital due to the economic collapse of 2008 and the capital controls put up as a result of that collapse. Work is reportedly underway to remove those controls.

ICSID Convention and New York Convention

Iceland is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention) as well as a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention).

Duration of Dispute Resolution

Embassy is unaware of any current disputes or the time necessary to resolve them.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Iceland has been a member of the World Trade Organization (WTO) since January 1, 1995. U.S. Embassy Reykjavik is not aware of any government measures that are inconsistent with the agreement on Trade-related Investment Measures (TRIMS) requirements.

Investment Incentives

For information on investment incentives offered by the Icelandic government, please see the Invest in Iceland web page where all information can be found in English. See http://www.invest.is/doing-business/incentives-for-fdi/

Research and Development

Subsidiaries of foreign companies are able to participate in subsidized research and development programs, but only to cover costs that are borne in Iceland when it comes to R&D work.
For further information see: http://en.rannis.is

Performance Requirements

Iceland is a member of the EEA, allowing residents from any EEA country to work in Iceland. For residents of third countries, a resident permit is required for anyone staying in Iceland for more than three months. Please see the Icelandic Directory of Immigration web page for further information: http://www.utl.is/index.php/en/

Data Storage

Iceland is interested in expanding its data storage sector. There are no impediments or performance requirements imposed currently on this sector, such as forced localization or demands for access to surveillance. The Invest in Iceland agency has been active in trying to attract data storage companies to locate in Iceland.

6. Right to Private Ownership and Establishment

Foreign entities are free to establish and own any type of business enterprise and engage in all forms of legal remunerative activity other than in fishing, energy, and aviation. Companies established in the EEA, however, are not subject to these limitations in the energy and aviation industries. A permit is required from the Ministry of the Interior, if a foreign citizen outside the EEA wishes to purchase land or real estate in Iceland. Icelandic law treats public and private enterprises with equality when it comes to market access and other business operations. Foreign investors are permitted to participate in the privatization of government-owned businesses, subject to restrictions imposed by the government.

7. Protection of Property Rights

Real Property

No one may acquire the right to own or use real property in Iceland, including fishing and hunting rights, water rights, or other real property rights, whether by free assignation or enforcement measures, marriage, inheritance, or deed of transfer, unless strict Icelandic citizenship and domicile conditions are met. The Minister of Interior may grant exemption from these conditions based on application showing the need of ownership for business activities. The permission of the Minister is not be required in the case of hiring real property for less than three years or when the party involved enjoys rights in Iceland under the rules of the Agreement on the European Economic Area applying to the free movement of persons, the right of establishment, services or movement of capital or corresponding clauses in the Convention establishing the European Free Trade Association.

Intellectual Property Rights

Iceland adheres to key international agreements on property rights (e.g., Paris Union Convention for the Protection of Industrial Property). Trademarks, copyrights, trade secrets and industrial designs are all protected under Icelandic law. As with many other issues, Iceland is following the European lead in protection of property rights and adheres to the European Patent Convention of 1973. In 2005, Iceland signed the Patent Cooperation Treaty (PCT).

As a member of the EEA, Iceland accepts jurisdiction of the EEA Court. Property rights are recognized and protected in the Constitution of Iceland. Secured interests in property are bound by law, and enforced as such, and there is a reliable system which records such security interests. Iceland was not listed in either the Notorious Markets Report or the 2015 Special 301 Report.

The Icelandic Patent Office -- a government agency under supervision of the Ministry of Education, Science and Culture -- handles all patent disputes in Iceland. The legal framework concerning intellectual property rights (IPR) in Iceland is in all respects equivalent to that of other industrialized countries in Europe. Iceland is a World Trade Organization (WTO) member, and Icelandic legislation complies with WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. Iceland does not maintain a database on the number of and seizures of counterfeit goods, but there is a website www.falsanir.is where rights holders, customs officials and other stakeholders can report suspected goods. It is not illegal for individuals to buy and import counterfeit goods for their own consumption, but it is illegal for resale. There has, however, been a recent crackdown on counterfeit goods in public offices.

As an EFTA state and member of the EEA, Iceland has implemented all relevant EU regulations and directives in the field of IPR. Furthermore, Iceland is bound by bilateral EFTA free-trade agreements which include provisions on IPR.

Iceland is a member of the European Patent Organization. Iceland is a member of World Intellectual Property Organization (WIPO) and a party to most WIPO-administered agreements. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Contact at Mission:
Rebecca Owen
Economic Officer
+354-595-2295
OwenRP@state.gov

Website for Embassy's list of lawyers: http://iceland.usembassy.gov/attorney_list.html

8. Transparency of the Regulatory System

Icelandic laws regulating business practices are consistent with those of most OECD member states and are increasingly based on European Union directives as a result of Iceland's EEA membership. Much of Iceland's financial regulatory system was put in place only in the 1990s, thus transparency is occasionally a concern (i.e. in public procurement, and in privatization sales where the process is established by the government on an ad hoc basis). In response to the financial crisis of 2008, the government is working to increase its regulatory role in the financial sector.

The Competition Authority is responsible for the enforcement of anti-monopoly regulations and the promotion of effective competition in business activities. This includes eliminating unreasonable barriers and restrictions on freedom in business operations, preventing monopolies and limitations on competition and facilitating the access of new competitors to the market.

The Consumer Agency holds primary responsibility for market surveillance of business operators, transparency of the markets with respect to safety and consumers' legal rights, and enforcement of legislation concerning protection of consumers' health, legal, and economic rights.

The system as a whole is transparent, although bureaucratic delays can occur. All proposed laws and regulations are published in draft forms for the public record and are open for comment.

The Icelandic Parliament (Althingi) consists of a single chamber of 63 members and a simple majority is required for ordinary bills to become law. All bills that are introduced in the parliament are in draft form. Drafts are open to the public and are published on the parliament's web page. Interested parties can comment on proposed law and regulations.

Iceland has invested in an information portal website that shows many administrative processes available online. Foreign and national investors may find useful information by visiting; http://invest.is

9. Efficient Capital Markets and Portfolio Investment

Iceland currently has capital controls in place, a legacy of the 2008 financial crisis. Generally, foreigners are not big players in the Icelandic capital market, except for those investors or depositors who were blocked from moving their assets in the wake of the 2008 financial crisis. These foreign legacy investors usually invested in short term bonds and securities in Iceland's biggest companies. While the Central Bank and the Icelandic government are reportedly preparing to lift controls, the environment for portfolio investments in Iceland is unclear since capital controls are still in effect.

The estates of the former banks are still under bankruptcy procedures. The Central Bank of Iceland must approve the composition agreements resulting from that process before the creditors can take full possession of the estates. Iceland’s disposition of these estates will have significant impact on how foreign investors regard its investment climate.

The OMX Nordic Exchange operates the market for securities in Iceland and trades various products. Activity has been limited since the crash, but the infrastructure is in place. In 2013, 86 percent of all volume on the OMX exchange in Iceland was in bonds. Daily turnover was around USD 64 million in bonds and USD 9 million in equities.

Money and Banking System, Hostile Takeovers

All companies have access to regular commercial banking services in Iceland, even if it is likely that financing for large-scale investment projects will largely need to come from abroad. The ISK weakened by 10 percent in 2014, mostly due to the strong U.S. dollar, despite record inflows of foreign exchange related to increased tourism. Iceland has been running a positive trade surplus that has helped stabilize the ISK. There is ample demand for foreign currency, but selling large amounts of ISK in a single transaction is difficult. The Central Bank has often intervened in the market since the collapse by buying ISK, and those permitted to sell ISK under the capital controls have been able to do so.

The combined assets of Iceland's four largest banks and seven savings and loan institutions amounted to roughly 1.55 times Iceland’s GDP in 2014. There are also a number of other smaller financial institutions active in Iceland. Tier one capital ratio of the three biggest banks is 25 percent, but 15.1 percent at MP Bank. The suggested Financial Supervisory Authority’s (FME) capital adequacy requirement is 16 percent, but 8 percent is the mandated capital requirement. The four largest banks in Iceland met this requirement by June 2014. At the end of the second quarter 2014, nonperforming loans in the Icelandic banking system were 3.2 percent. Iceland’s large financial institutions were leveraged at 4.5 times assets at the end of the second quarter 2013, a low ratio compared to international banks.

Establishing a bank account in Iceland requires a kennitala, or local identity number, similar to a social security number.

10. Competition from State-Owned Enterprises

Private enterprises are generally allowed to compete with State-owned enterprises (SOEs) under the same terms and conditions in all sectors except energy production and distribution. SOEs are most active in the banking, energy, health and alcohol sectors. In some cases, politicians are on the boards of SOEs.

In the midst of the banking crisis, the state, through the Financial Supervisory Authority (FME), took over Iceland's three largest commercial banks, which collapsed in October 2008, and subsequently took over several savings banks to allow for uninterrupted banking services in the country. In late 2009, the creditors of two of the three largest failed banks acquired the majority of shares in two of the newly re-established commercial banks. This was done in exchange for domestic assets that were transferred from the old failed banks to the new banks. The Icelandic government owns 98 percent of the third re-established commercial bank, Landsbanki, and most of the government's cost associated with recapitalizing the banking system lies within this bank. The government of Iceland has acquired a considerable stake in many companies through its shares in the banks; however, it is the policy of the government not to interfere with internal or day-to-day management decisions of these companies.

In 2009, the state established the Bank Shares Management Company to manage the state-owned shares in financial companies. The Minister of Finance appoints the three board members, who appoint a committee that determines who will represent the state on the boards of financial companies.

While most energy producers are either owned by the state or municipalities, there is free competition in the energy market. In 2008, Sudurnes Energy Company was split up into two separate companies, H.S Orka and H.S Veitur, where one is an energy production company and the other is an energy distribution company. In 2010, Canadian company Magma Energy acquired a 95 percent stake in the energy production company, H.S Orka, through its EEA subsidiary. This resulted in an outcry by the Icelandic public and 20,000 people signed a petition to reverse the deal. With political pressure mounting, Magma Energy sold a 33.4 percent stake to the Icelandic pension funds and currently holds 66.6 percent stake. In 2012, the company received an offer to buy out its stake, but negotiations were unsuccessful.

The universal healthcare system is mainly state-operated, although the U.S. Embassy is aware of plans to build private health tourism facilities in Iceland. Few legal restrictions exist; however, private clinics need an agreement with the Icelandic state, a foreign state, or an insurance company regarding payment for services.

The State Alcohol and Tobacco Company of Iceland (ÁTVR), has exclusive rights for the retail sale of all alcoholic beverages. Importers and wholesale companies are privately run.

OECD Guidelines on Corporate Governance of SOEs

The Icelandic government has not implemented any standard guidance when it comes to corporate governance within SOEs.

The Chamber of Commerce in Iceland, as well as NASDAQ OMX, has issued a set of guidelines that mirror the OECD Guidelines on Corporate Governance. The State Auditor has also given out guidelines, but they are not as comprehensive.

Sometimes when a head of an SOE is appointed or engaged by the Minister with purview over the issues or the subject matter in which the SOE works, the line of command can become blurred between the Minister, the board of the SOE, and the head of the SOE. Often those positions are filled by political appointees and are sometimes held by former politicians.

When it comes to SOEs that operate in a competitive environment, the general guideline from the Icelandic government is that all decisions of the board of the SOE should ensure a level playing field and spur competition in the market.

Sovereign Wealth Funds

Iceland does not have a Sovereign Wealth Fund.

11. Corporate Social Responsibility

In general, there is an awareness of corporate social responsibility among both producers and consumers. The Promote Iceland agency has signed the United Nations' Global Compact and pledges to promote discussion of the subject. In the aftermath of the financial collapse, Iceland's main banks have adopted social charters. Reykjavik University has created a Center for Corporate Social Responsibility. Iceland's Ministry of Foreign Affairs participates in the Nordic Business Outreach effort to direct private sector resources for development purposes.

OECD Guidelines for Multinational Enterprises

Iceland has adhered to the OECD guidelines for Multinational Enterprises since 1976.

12. Political Violence

Iceland experienced political protests stemming from the October 2008 financial crisis. Public protests spurred the government to dissolve and a new coalition to form prior to early elections in spring 2009. In early 2014, frustration among voters dissatisfied with the current government's reluctance to hold a referendum on EU accession led to the most notable protests since the financial collapse. Although sizable, these protests did not lead to any violence. There have been limited cases of politically motivated vandalism of foreign holdings in recent years, directed primarily at the aluminum industry.

13. Corruption

Isolated cases of corruption occur, but are not an obstacle to foreign investment in Iceland. In 2014 Iceland tied for 12th place out of 175 countries in Transparency International's Corruption Perceptions Index Ranking.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

UN Convention against Corruption: Iceland has signed the convention and is in the accession process.

OECD Convention on Combatting Bribery: Iceland is a member of the convention on combatting bribery.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:
Ministry of Interior
Solfholsgata 7, 101 Reykjavik
+354-545-9000
postur@irr.is

14. Bilateral Investment Agreements

The United States does not have a bilateral investment treaty (BIT) nor a Free Trade Agreement with Iceland. Iceland and the United States signed a Trade and Investment Framework Agreement (TIFA) in January 2009.

Iceland is a member of EFTA and has numerous free trade agreements with countries through that agreement, and has a bilateral free trade agreement with China.

Iceland is a member of the EEA agreement and has through it the legal obligation to adopt EU directives and law concerning the four freedoms of the EU, being free movement of goods, services, persons, and capital. Iceland has, however, been granted temporary exemption from the free movement of capital due to the economic collapse of 2008 and the capital controls put up as a result of that collapse. Work is reportedly underway to remove those controls.

Discussions are ongoing to complete a Social Security Totalization Agreement, which would eliminate the need for individuals holding dual citizenship to pay into social security in both countries.

An intergovernmental agreement implementing the Foreign Account Tax Compliance Act (FATCA) in Iceland was signed May 26, 2015.

Bilateral Taxation Treaties

The U.S. and Iceland have a double taxation treaty.

15. OPIC and Other Investment Insurance Programs

There are no current Overseas Private Investment Corporation (OPIC) operations in Iceland, as the per capita income is too high to qualify. Political risk insurance and project financing have traditionally been available on the local and international markets. As a result of the financial crisis in 2008 and the current restructuring of the banking sector, however, project financing may be temporarily limited. Iceland is a member of the Multilateral Investment Guarantee Agency.

16. Labor

The labor force in Iceland consists of just over 191,800 people aged 16 and older and is highly skilled. Until the economic crisis in October 2008, demand for labor exceeded supply. Foreign labor moved to Iceland to fill the majority of unskilled service jobs and semi-skilled construction jobs as the EEA Agreement allows for the free movement of labor within the area. Layoffs followed in the wake of the economic crisis, particularly in the financial and construction sectors, leading some foreign workers to depart. Unemployment in Iceland rose quickly and peaked at 9.1 percent in April 2009. Since then unemployment has consistently decreased, and as of March 2015 unemployment was 3.9 percent.

The labor market is highly unionized, with 80-85 percent of employees belonging to unions. Icelandic labor unions are decentralized and non-political. Contractual wage agreements cover general terms of employment, including a basic minimum wage, but specific terms are usually negotiated on a more job-specific basis. Collective bargaining power, in both the public and the private sectors, rests with individual labor unions. The government has imposed mandatory mediation when strikes have threatened key sectors in the economy such as the fishing industry. Currently, there are 160 wage agreements up for renewal. Ongoing negotiations are generally stalled, with labor unions asking from 20 percent to 50 percent hike in minimum wage while employers are only offering 3.5 percent. Strikes have started with the Association of Academics on a targeted strike with other labor unions to follow early summer. Labor unrest has not been this significant since the 1980s.

The basic legal work week is 40 hours over five days, but some professions have 37.5 – 39.5 hour work weeks, mainly office clerks and sales assistants. Most employees are paid for overtime, or alternatively allowed time off in lieu of paid compensation. Typical shift-work rates are an extra 40 percent on top of the daytime rate and an extra 45 percent if total work hours exceed the definition of full-time employment. On public holidays, there is an extra 40 percent on the daytime rate. A continuous rest period of 11 hours is typically guaranteed during each 24-hour period. In certain circumstances the rest period may be shortened to eight hours.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Under the EEA agreement, free ports or foreign trade zones are not allowed in Iceland.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($B USD)	2014	14.6	2013	15.33	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	2013	250	2013	N/A	http://bea.gov/international/factsheet/factsheet.cfm?Area=312
Host country's FDI in the United States ($M USD, stock positions)	2013	2,422	2011	2,985	http://bea.gov/international/factsheet/factsheet.cfm?Area=312
Total inbound stock of FDI as % host GDP	2013	1.7	2013	N/A	

* Central Bank of Iceland

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	8,944	100%	Total Outward	10,746	100%
Luxembourg	6,205	69%	Holland	3,140	29%
Holland	733	8%	United States	2,422	22%
Switzerland	484	5%	U.K.	1,639	15%
Denmark	354	4%	Sweden	586	5%
United States	250	3%	Norway	312	3%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	10,638	100%	All Countries	5,938	100%	All Countries	4,699	100%
United States	2,437	23%	Luxembourg	1,637	28%	United States	1,365	29%
Luxembourg	1,645	15%	Ireland	1,479	25%	U.K.	857	18%
Ireland	1,495	14%	United States	1,073	18%	Germany	824	18%
U.K.	1,266	12%	U.K.	409	7%	Norway	564	12%
Germany	900	8%	Norway	244	4%	France	443	9%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

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