

“The Environment of Innovation and the Future of Venture capital”

Boston, 9.-10. maí 2016

Ladies and Gentlemen,

Iceland entered into a new era of innovation and entrepreneurship after the turmoil of the 2008 financial crisis. All of a sudden we had a number of highly skilled people out of work, but at the same time several things were lining up in our favour. **Big** wasn't necessary best anymore and **small** became beautiful. We had bruised our egos and we wanted to re-invent ourselves. We were a tech-minded nation and with good technical infrastructure - broadband internet and data carrying mobile networks - we were ready for the “smart-revolution” that was around the corner. The Universities were focusing more on innovation studies and engineering and there was something in the air. So, for creative people the dire situation was in fact an opportunity to become an entrepreneur.

Bill on tax incentives

In recent years the Government has significantly increased its contribution to competitive funds and has presented a bill on tax incentives in this field. The future goal is to enable Iceland to reach the goal of R&D expenditure up to 3% of GDP.

By doing that Iceland would join Finland, Denmark and Sweden as world leaders in this field.

The Icelandic Government has been simplifying the taxation system in Iceland, with the aim to stimulate innovation and to increase the competitiveness of the Icelandic businesses. In this spirit, the Minister of Finance and Economic Affairs has presented a bill to the Parliament on financing and operations of startups and enterprises involved in innovation. The bill includes: Firstly, **tax credits** for individuals investing in such enterprises, secondly an increased share of **R&D related cost** which is subject to tax reduction, thirdly an introduction of **tax-free allowances** to foreign employees under certain conditions and fourthly changes with regard to **tax treatment on options and on floating rate notes**.

The role of the Government is to facilitate – to create the appropriate environment for the innovation industry to thrive. The rest is for the private sector.

Key question is: Why should the authorities place such great emphasis on this industry?

Enterprises which are highly involved in innovation and R&D create valuable jobs, require highly skilled and educated workforce and generate high margins. This is what Iceland should aim for and work towards.

We want to see a continued increase in high-tech and creative companies, which do not depend on Iceland's natural resources and can take on international competition with only brain power and perserverence.

The industry has expanded enormously in few years, and has become the fourth export pillar of our economy – in addition to fish export, power intensive industries and tourism.

It is my strong belief that a continued growth of the innovation and R&D will be a key for Iceland's economy going forward.

Venture Capital in Iceland

The Icelandic State contributes funding to innovative startups through the evergreen *NSA Ventures* [Nýsköpunarsjóður] established in 1997 and the *Technology Development Fund*, which was created in 2004. In addition Research and Development programs of European cooperation have been a solid provider for funds in many important projects.

In addition to a number of incubation centers and fab labs, set up by the Icelandic Innovation Center, an important private-public investment fund, was established in December 2008. Its objective is to invest in early stage growth companies. Since then, several new private-public funds have been established and access to venture capital in Iceland is probably better than ever before.

US venture funding (helps in building the entrepreneurial Eco System in Iceland)

Iceland is a good destination for creative thinking and innovation. It is a good market to test new products. The employees are highly educated and the entrepreneurial spirit is high. It is also a good place to bring your family and raise your children. And since the local market is small our companies have to think big to survive. That is why we say that companies born in Iceland are raised global.

The United States is one of the most important investor in Iceland. US companies are comfortable doing business over there. Icelanders seek education from US universities and bring back knowledge, networks, new ideas and influences. Leading Venture Capital Fund representatives have been in Iceland and offered advice on best practices. The US connection is vibrant.

Let me mention some examples of successful partnerships between Iceland and US:

Success stories

First of all we cannot go through this without pointing at the great examples of *Össur* and *Marel*, two of our flagship companies have grown from being typical Icelandic startups to become leading companies in their respective field worldwide.

Continuing with the US link. Many of Iceland's leading entrepreneurs are educated here in Boston. One example is Mr. Georg Ludvigsson, the founder of *Meniga*, which was recently named one of the top 25 fintech companies in Europe. Founded by ex-bankers Meniga is transforming the way banks and advertisers use transaction data and enables data-driven digital banking.

Mint Solutions is a Medical Technology company, which was recently recognized as the “startup of the year” in Iceland. The three founders met at MIT and Harvard and have hired a number of their former classmates to help them build the business throughout Europe and hopefully in the US in the future.

Let me also mention successful and fast growing companies, founded by Icelandic teams with now crucial funding from the US. These have also benefitted from the participation of seasoned US Venture Capitalists that have helped them to grow their businesses in the US and on the global stage:

Those include *Plain Vanilla*, which is a mobile games company and best known as the studio behind Quiz Up; This is even a game that I play and really enjoy!!

CCP Games, a video game developer and publisher.

Verne Global, a 44-acre data center campus in Keflavik.

And *Unity Technologies*, which is one of the most popular licensed game engines in the world.

Data Market – now an intergrated part of Qlik - is also a well-known “business intelligence” company in Iceland. It is an interesting case of how an innovative startup can succeed internationally and hopefully we will hear more about Data Market from Hjalmar later on.

Economic outlook

Ladies and Gentlemen,

The reconstruction of the Icelandic economy has proceeded more rapidly than expected.

GDP growth exceeded forecasts in 2015, measuring more than 4%, and is expected to be similar this year. If forecasts are borne out, we are now experiencing one of the longest growth episode in recent times.

The economy today is robust and it is more diversified than ever before. We have made good progress in reducing the debt of households, businesses and government. Two examples might be mentioned specifically; Treasury debt is expected to be around 30 percent in 2020 and the net international position of the economy is now at the level of the UK, France and Chile while six years ago it was negative of 120 percent of GDP or at the level of Greece and Cyprus.

The financial system, which collapsed, has risen again, and today we have strong, well-funded financial institutions. Also, the government envisaged that the a gradual removal of capital controls on residents will start in the fall.

US-Iceland Trade & final words

Dear guests,

The US is a long standing and an important trading partner for Iceland. US is among our biggest investors and we are exploring new territories through startups and innovation.

We are going through revolutionary times in new technologies; some go as far as arguing that we have ahead of us something that is amounting to a new industrial revolution.

We **should** to be part of it and I believe we have all the parameters to do so. I sincerely believe that today, Iceland and the US are a perfect match for successful and innovative partnerships in this new world ahead of us.

That will strengthen our economic ties and bring us closer together.

Our mission continues to be to create and foster a robust and a friendly environment, to ensure a level playing field for our enterprises, in the globalized world of trade and to promote our businesses.

We must understand their challenges and opportunities. Authorities must be ready to implement effective and efficient policies to lead the way forward.