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# Overview of foreign investment from Iceland 1998 to 2005

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## ABSTRACT

Foreign investment from Iceland has increased significantly and sharply in recent years. The two categories of foreign investment, foreign portfolio investment and foreign direct investment, are discussed and explained along with an overview of how those investments from Iceland have evolved in recent years.

Historically, Icelandic FDI has largely been made by the large seafood sales and marketing companies, but over the last few years the composition of FDI between industries has been changing. Agriculture and fishing has been rather steady, but there has been a great increase in real estate and business activities along with financial activities and manufacturing.

FDI from Iceland has mainly concentrated on Europe. In recent years Icelandic companies have invested actively in UK, Netherlands and Denmark and taken on some extensive acquisitions in those countries.

In international comparison, FDI from Iceland as a percentage of GDP ranks high. The growth in foreign investment from Iceland since 2004 has been phenomenal, especially since the economy is the smallest within the OECD.

***Keywords:*** *Foreign investment; foreign direct investment; foreign portfolio investment*

## 1 INTRODUCTION

Iceland is a small country and has the smallest economy within the Organisation for Economic Cooperation and Development (OECD). The small size of the Icelandic economy mainly reflects the small size of the population, which reached 300 thousand in the beginning of 2006. Due to the small size of the economy many Icelandic businesses outgrow the domestic market and the only possibility for those companies to reach greater growth is through foreign expansion.

The expansion of Icelandic companies into foreign markets has been a rapid process. Among influences were factors in the domestic environment that came about in the last decade of the 20th century. Membership of the European Economic Area (EEA) opened up new markets to Icelandic companies, strong pension funds provided capital for investments, and the privatization of the banking system made new sources of financing available for companies wishing to expand their operations. But the extraordinarily fast international growth of many Icelandic companies, some of which have reached the position of becoming among leading global players in their markets in a fairly short period of time, has not yet been thoroughly explained. The Institute of Business Research at the University of Iceland launched a research program in October 2006 with the aim of describing the fast international growth of Icelandic companies and analyzing the reasons making it possible. In the summer of 2007, the Institute of Business Research will publish the working paper *Hypothesis about the reasons for the fast international growth of Icelandic companies* by members of the steering group leading the research program. That working paper will shed some light on various factors that may have contributed to the fast

international growth of Icelandic companies, and those factors will be further scrutinized in future studies in relations to the research program.

This paper will not attempt to explain why Icelandic companies have grown fast in recent years. The aim is to give an overview of one factor of the internationalization from Iceland; foreign investment from Iceland.

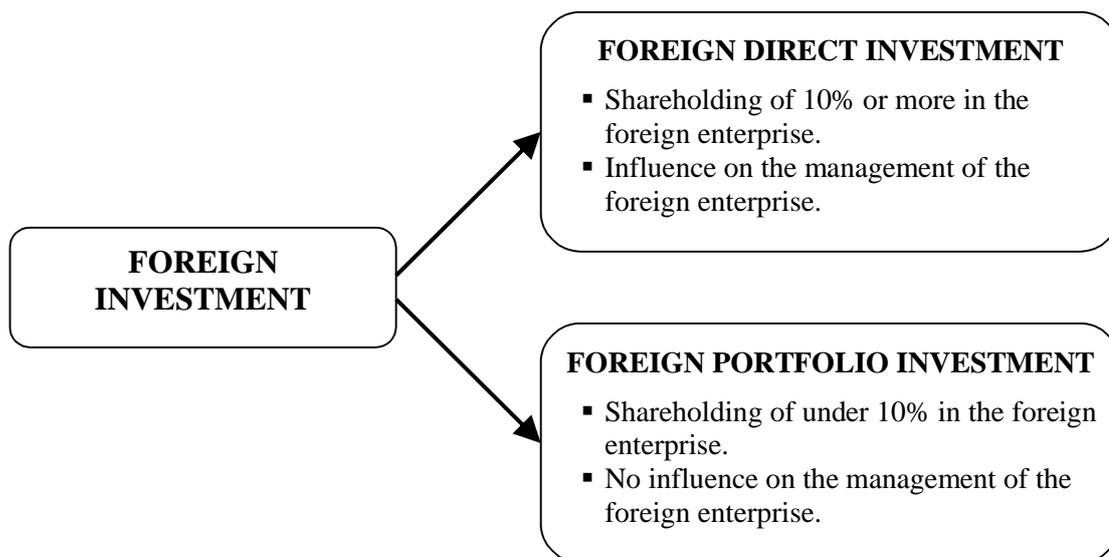
Foreign investment from Iceland has increased significantly and sharply in recent years. This sharp turnover has caught the attention of analysts and media in the international community, especially in Denmark and the UK where Icelandic enterprises have been very active. Even though it is clear to many that the expansion has been aggressive, an overview of the foreign investment from Iceland is needed.

Some public institutions and organizations in Iceland have published works about foreign investment from Iceland, e.g. the Central Bank of Iceland (Arnarson, 2000), the Iceland Chamber of Commerce (2007) and SA – the Confederation of Icelandic Employers (Egilsson, 2007) and books have been published where the subject is discussed (Sigfusson, 2000, 2005). Still, there is not much to be found in the research literature on foreign investments from Iceland.

The paper is structured as follows. In chapter 2 foreign investment will be defined and explained, followed by a discussion about valuation methods of foreign investment in chapter 3. Chapter 4 will focus on foreign investment from Iceland. After a brief overview, foreign direct investment from Iceland will be categorized by industry and by geographical destination. At the end of chapter 4, specific investments by Icelandic companies will be accounted for. In chapter 5 foreign direct investment from Iceland will be compared to other countries. Finally, in chapter 6, some concluding remarks will be given.

## 2 EXPLANATION OF FOREIGN INVESTMENT

Researchers and analysts conventionally classify foreign investment as falling within one of two categories; foreign direct investment or foreign portfolio investment (see figure 1), with each category usually treated separately and independently (Holsapple, Ozawa and Olienyk, 2006).



**Figure 1.** Classification of foreign investment into two categories.

Statistics on foreign investment are based on legal domicile of the investor, irrespective of nationality (Central Bank of Iceland, n.d.a). Thus if a company is owned, for example, by an Icelander with a residency in the UK, who invests in Bulgaria, the investment is classified as an investment from the UK to Bulgaria. Such an investment would not be included in foreign investment statistics regarding Iceland.

The next two chapters will focus on these two categories of foreign investment. First there will be a brief discussion on foreign portfolio investment, following a discussion on foreign direct investment.

## 2.1 FOREIGN PORTFOLIO INVESTMENT

Foreign portfolio investment (FPI) is the category of international investment that covers investment in equity and debt securities, excluding any such instruments that are classified as direct investment or reserve assets (OECD, 2001). The foreign investment shareholding has to be below 10% to be classified as FPI and such trading is recorded at market value at any given time (Central Bank of Iceland, n.d.b).

FPI includes securities, mutual funds, equity capital in mutual funds, equity capital in corporations, bonds and notes, money-market instruments and other investments (Central Bank of Iceland, n.d.b). Basically FPI is investment in an overseas stock market and is an indirect investment, contrary to direct investment. Portfolio investors, with a small minority holding in the investment, exercise very little, if any, control over the asset and thus are typically passive investors (Holsapple et. al., 2006). Many consider portfolio investment more speculative and risky than direct investment projects because investors do not control or manage their investments; they provide capital in exchange for interest, dividends and the hope that share prices will rise (Global Policy Forum, 1997; Grabel, 1999).

## 2.2 FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is considered to be an important driver of economic growth in Iceland, as in other economies (OECD, 2002). The World Trade Organization (1996) defines FDI as follows:

*“Foreign direct investment occurs when an investor based in one country (the home country) acquires an*

*asset in another country (the host country) with the intent to manage the asset.”*

To be considered FDI the investor must own a shareholding of 10% or more in the foreign enterprise. FDI reflects the objective of obtaining a lasting interest in a foreign entity and therefore implies the existence of a long-term relationship between the direct investor and the foreign enterprise (OECD, 1999). By the virtue of the size of his shareholding the investor has influence on the management of the enterprise, but it does not imply that the direct investor has absolute control over the entity (Central Bank of Iceland, n.d.a). Through FDI, companies not only aim to get control of the entity, but also they often aim to get access to resources, increase efficiency and gain access to markets (Arnarson, 2000). Direct investment does not only comprise the initial transactions to establish the FDI relationship between the direct investor and the direct investment enterprise, but also all subsequent capital transaction between them and among affiliated enterprises resident in different economies. In other words, the direct investment relationship extends to certain other enterprises indirectly owned by the direct investor (Patterson, Montenjees, Motala og Cardillo, 2004).

The lasting interest of a FDI activity may involve either creating an entirely new enterprise (greenfield investment) or changing the ownership of existing enterprises through mergers or acquisitions (M&A). Other types of financial transactions between related enterprises, like reinvesting the earnings of the FDI enterprise or other capital transfers, are also defined as FDI (OECD, 2003).

Statistics regarding FDI present both flow and stock. FDI flow is a measure of all transactions, outflow and inflow, in a certain economy. Therefore FDI outflow refers to the flow of capital from one economy

(the home country of direct investor) to another (the host country). The flow is recorded on a net basis and can take three forms:

- Equity capital transaction
- Reinvested earnings
- Intercompany loan transactions

FDI stock on the other hand is a measure of assets netted against liabilities. The stock is recorded on a directional basis, that is, an asset for the economy of the direct investor is a liability for the economy of the direct investment enterprise (Patterson, et. al., 2004). FDI stock can take two forms:

- Equity
- Intercompany loans

Therefore FDI flow and stock are basically two measurements of how much residents in one economy are investing in another. Flow is a measure of all transactions in the balance of payments and stock is a measure of net assets in the international investment position (IIP).

Figures for direct investment are sometimes negative. That can be attributed to partial or total sales of shares in enterprises by residents/non-residents, or to high dividend payments or operating losses by the enterprises. A reduction in claims can also contribute to a negative figure and the reasons for negative figures may vary from one year to the next (Central Bank of Iceland, n.d.a).

### **3 VALUATION METHODS**

In principle, the global sum of FDI outflows should match the global sum of FDI inflows, since the debit of one economy (direct investor) is the credit of another (direct investment enterprise). But there are discrepancies in the global balance of FDI flow because of gaps in

coverage and the use of different definitions and classification systems by the reporting countries (Patterson, et. al., 2004).

Some problems also arise regarding the valuation of the stock. The International Monetary Fund (1993) recommends in the Balance of Payment Manual, Fifth edition (BMP5), that all external financial assets and liabilities recorded in the IIP be measured at current market prices as of the dates involved. That makes market valuation of companies on the stock exchange possible, but difficulties arise with the valuation of wholly owned enterprises.

Another problem is that countries do not compile FDI data in the same manner. Some use book value (e.g. Iceland), others use market value (e.g. Australia), and some countries compile data in both market value and book value (e.g. the US). Increasing number of countries use market value estimates of FDI stocks, but still different approaches are used in deriving these estimates within those countries. The US uses two measures of valuating FDI stocks; the current cost method and the market value method as an alternative to the book value method. The Australians gather data on market value and if a market price is not available, the reporting enterprise is asked to estimate the market value by one of the following methods; a recent transaction price, director's valuation or net asset value. In Singapore and Israel listed companies are valued at market prices but unlisted companies at book value (Patterson, et. al., 2004).

Table 1 lists the pros and cons of data gathering methods of stock using book value and market value.

**Table 1.** Comparison between book value and market value of FDI stock.

	<b>Book value</b>	<b>Market value</b>
<b>Pros</b>	The exact price that was paid for the company's shares and not an estimated figure.	More realistic valuation of the stock. The figure represents what is happening at that time, and therefore the stock of a company increases and decreases in line with the market value of the company.
<b>Cons</b>	Does not represent changes in market value and profit of sales is not accounted for.	The value can be either over estimated or underestimated. Different estimation methods between countries and companies. Constant changes in market value lead to the need for a more frequent valuation.

These differences in data gathering methods decrease the comparability of FDI data between countries. It is like comparing oranges to clementines; they look similar but one is much bigger than the other. For example, the data for the US in 2001 show that the book value of FDI abroad was 60% of the corresponding market value and the book value of FDI in the US was 52% of the market value. In Hong Kong the outward FDI book value was 84% of market value positions in 2001 and the book value of inward FDI stock was 77% of the market value (Patterson, et. al., 2004). As these figures show, there is a significant difference based on the method of measurements.

And yet another problem arises. If the book value from the balance sheets of direct investment enterprises or direct investor is used to determine the value of the stock, and cross-borders M&A are made at prices that exceed the valuations on the books of the direct investment enterprise, a large difference can occur between the financial flows

recorded in the balance of payments and the resultant change in stocks (Patterson, et. al., 2004). The result is that changes in FDI flow in one year do not represent the changes in FDI stock that same year. This gap between book value and market value has been called goodwill.

As can be seen from table 1 and the previous discussion it is difficult to decide which FDI stock valuation method is better and which one represents the real value. The Central Bank of Iceland gathers and reports position data on book value. In Iceland, like in other countries, there has been a debate between organizations which method should be used. Perhaps the best way to solve this problem is to use both methods, that is compile FDI stock data both in book value and in market value like is done e.g. in the US.

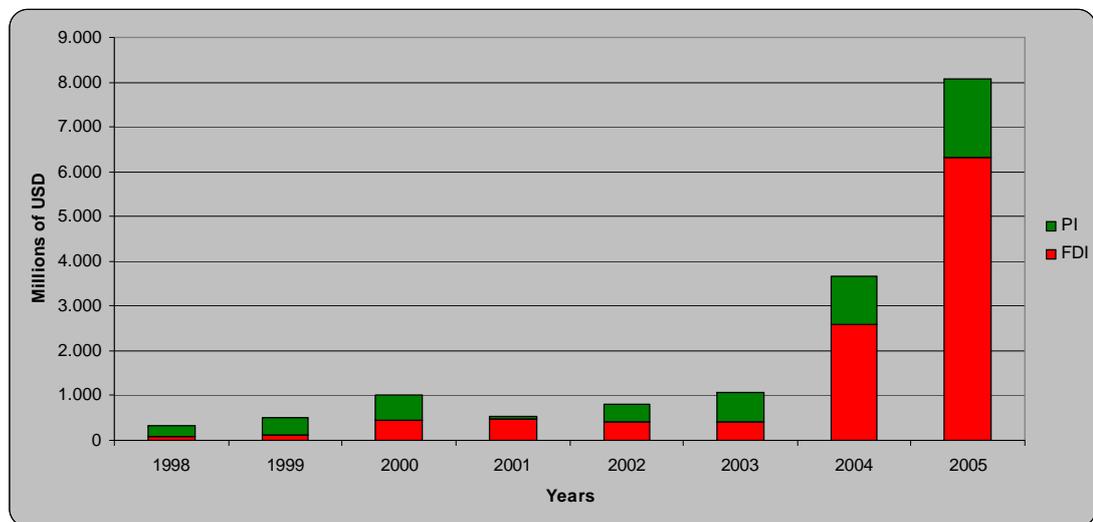
#### **4 FOREIGN INVESTMENT FROM ICELAND**

The data used in the paper are from three databases; the Central Bank of Iceland, the OECD and the United Nations Conference on Trade and Development (UNCTAD). The database of the Central Bank of Iceland provides data regarding FPI and also data regarding how FDI is divided by industry and by geographical destination. The OECD data are used for comparison between FDI from Iceland and other OECD countries. The UNCTAD database was chosen because it offers data from all economies in the world. When work with the data from the databases began, data regarding outward FDI stock from Norway seemed suspiciously high. Therefore the institution Statistics Norway was contacted and asked whether the data were correct or not. An answer came from the institution with corrected data that were considerably lower than the data from the UNCTAD database. The data regarding

outward FDI stock from Norway are therefore not from the UNCTAD database, but from Statistics Norway.

Both OECD and UNCTAD receive their data from the Central Bank of Iceland. The data from the OECD database and the UNCTAD database are given in millions of US dollars, but the data from the Central Bank of Iceland are given in Icelandic kronas. The exchange rate used to convert data from the Central Bank of Iceland into US dollars is USD/ISK = 70.

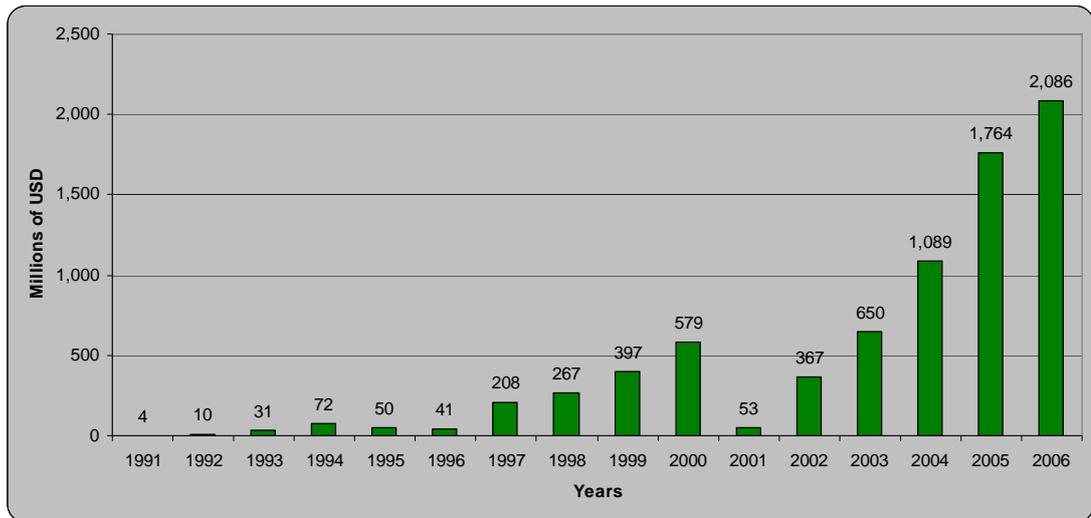
The increase in foreign investment from Iceland has been exceptional in recent years. Figure 2 shows how the two categories of foreign investments have grown since 1998. Even though there has been a significant growth in both categories, FDI has grown much faster than FPI since 2004. It is also important to point out that since 2004, the greatest proportion of FPI has been in corporate equities.



**Figure 2.** FPI and FDI outflow from Iceland.

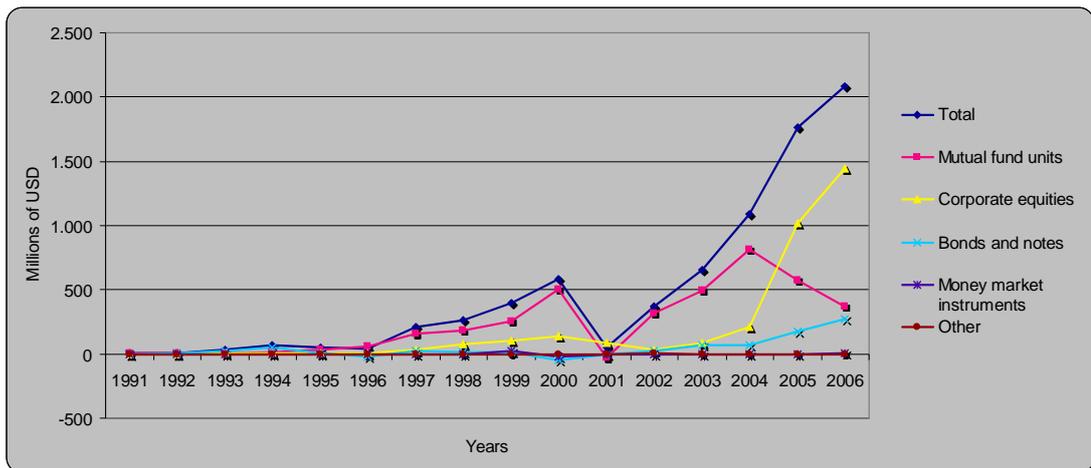
**Source.** Central Bank of Iceland, 2006, 2007.

In the last decade of the 20th century FPI from Iceland was very small. As can be seen from figure 3 it they began to increase in 1997 and has been increasing since then, apart from a setback in 2001.



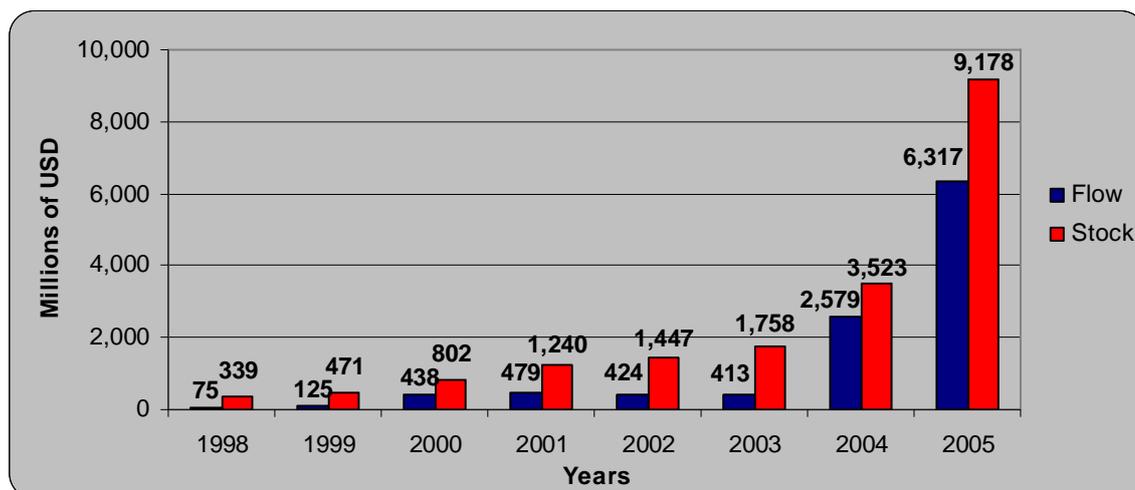
**Figure 3.** FPI from Iceland.  
**Source.** Central Bank of Iceland, 2007.

Figure 4 shows how FPI is divided between categories. For the majority of this period FPI from Iceland has almost entirely been in mutual fund units. The setback in 2001 is explained by a drop in mutual fund units, but that year was characterized by an international recession (Sighvatsson, 2002). In 2004 investments in corporate equities started to increase. Since 2005 the largest part of the total FPI from Iceland has been in corporate equities.



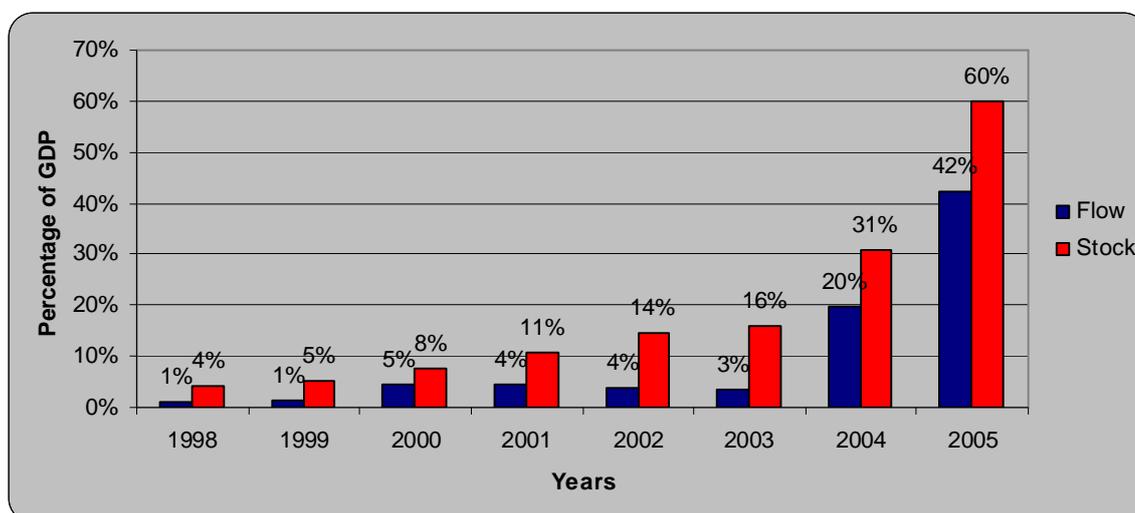
**Figure 4.** FPI from Iceland divided between categories.  
**Source.** Central Bank of Iceland, 2007.

As has been demonstrated, the growth in foreign portfolio investment has been significant and rapid in recent years. But the increase in FDI has been phenomenal. Figure 5 shows the growth in outward FDI flow and stock in millions of USD and figure 6 shows those data as a percentage of GDP. Although data for 2006 are not available yet, it is highly likely that the increase in FDI continues.



**Figure 5.** Flows and stocks of FDI from Iceland 1998 to 2005.

**Source.** Central Bank of Iceland, 2006.



**Figure 6.** Outward FDI from Iceland as a percentage of GDP.

**Source.** UNCTAD, n.d.

To take a closer look at the increase in FDI from Iceland it will first be discussed in relation to investment in each industry and then in relation to geographical destination.

#### 4.1 FDI BY INDUSTRIES

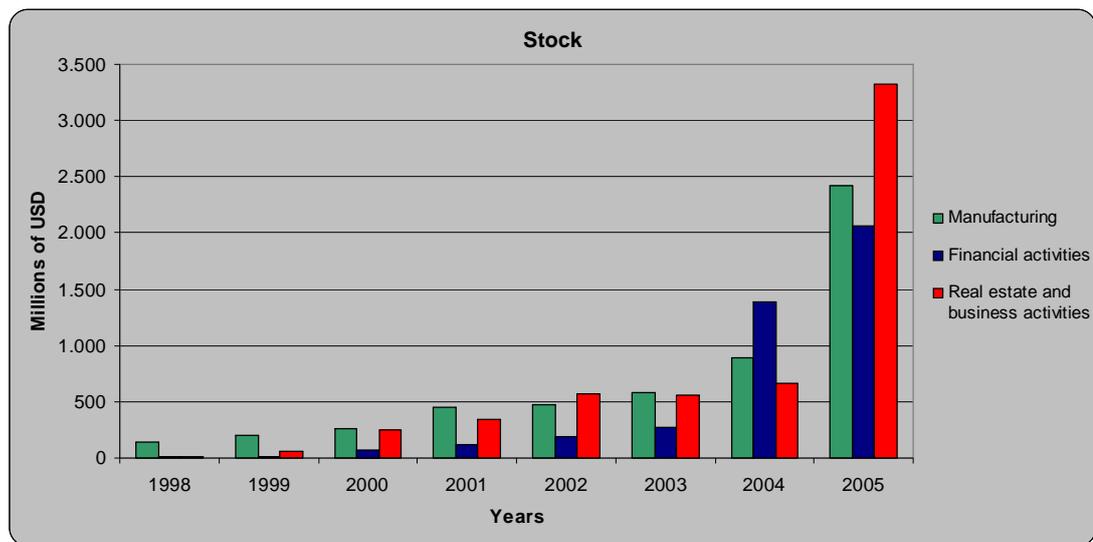
Historically, Icelandic FDI has largely been made by the large seafood sales and marketing companies, but transportation and fisheries companies also made some foreign investments. In addition, Icelandic companies have made small-scale investments in foreign companies linked to the fisheries sector (Arnarson, 2000). Over the past few years the industry composition of FDI has been changing and the expansion has taken place across many industries. In table 2, FDI from Iceland is divided between industries over the period 1998 to 2005.

**Table 2.** FDI flow and stock from Iceland by industries in million USD.

	1998	1999	2000	2001	2002	2003	2004	2005
<b>Agriculture and fishing</b>								
Flow	7	-4	-3	4	-13	-5	7	4
Stock	38	36	48	54	35	24	28	37
<b>Manufacturing</b>								
Flow	28	65	86	166	98	155	395	1,715
Stock	142	202	262	448	469	577	887	2,415
<b>Trade and repairs</b>								
Flow	39	35	-29	189	-6	148	324	282
Stock	97	127	89	202	131	251	435	869
<b>Transport and communication</b>								
Flow	-5	-10	41	-7	-13	-1	60	436
Stock	44	33	77	71	61	66	121	473
<b>Financial activities</b>								
Flow	1	2	80	33	112	83	1,653	1,341
Stock	8	8	74	125	184	278	1,392	2,063
<b>Real estate and business activities</b>								
Flow	4	36	263	94	246	33	141	2,539
Stock	9	65	253	340	567	563	659	3,322
<b>Total</b>								
Flow	75	125	438	479	424	413	2,579	6,317
Stock	339	471	802	1,240	1,447	1,758	3,523	9,178

Source: Central Bank of Iceland, 2006.

As can be seen, FDI in agriculture and fishing has been rather steady over the period compared to other industries and the stock in 2005 is slightly smaller than it was in 1998. The increase has been greatest in real estate and business activities. Financial activities and manufacturing have also increased significantly over the period. Figure 7 shows how the stock in the three fastest growing industries has grown from 1998 to 2005.



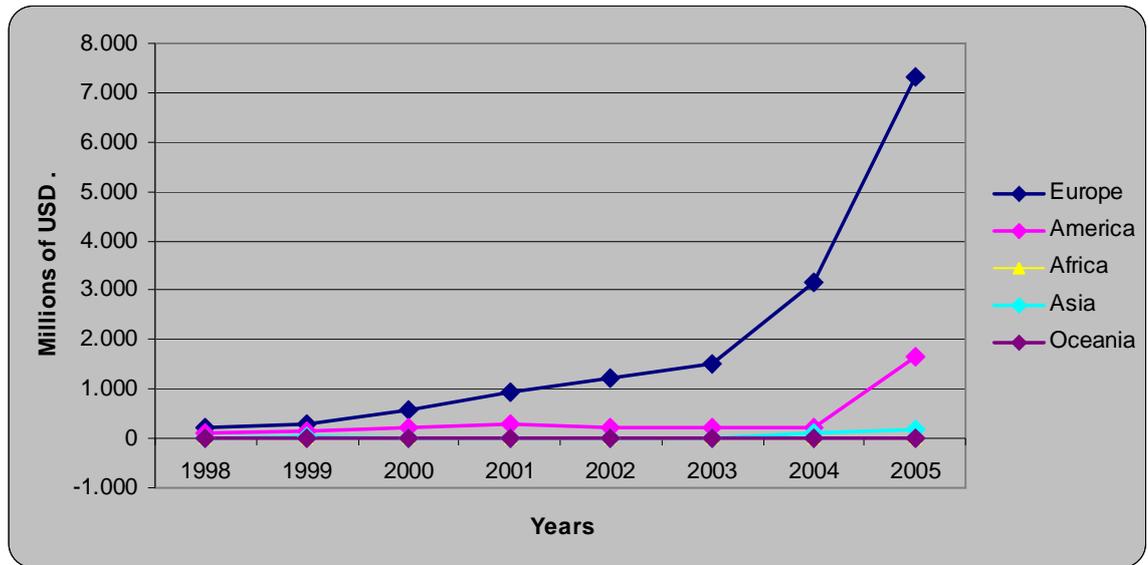
**Figure 7.** The growth of FDI stock in the three fastest growing industries.

**Source.** Central Bank of Iceland, 2006.

As can be seen from figure 7 there was a great increase in FDI stock in financial activities between 2003 and 2004. The stock went from USD 278 million in 2003 to USD 1.392 million in 2004. The explanation is to be found in the fast international growth of Icelandic banks. An overview of the internationalization of specific Icelandic companies will be given in chapter 4.3, but it is worth mentioning in relation to the growth in financial activities in 2004 that in that year the largest company in Iceland, Kaupthing Bank, made one of the biggest acquisitions in Icelandic history.

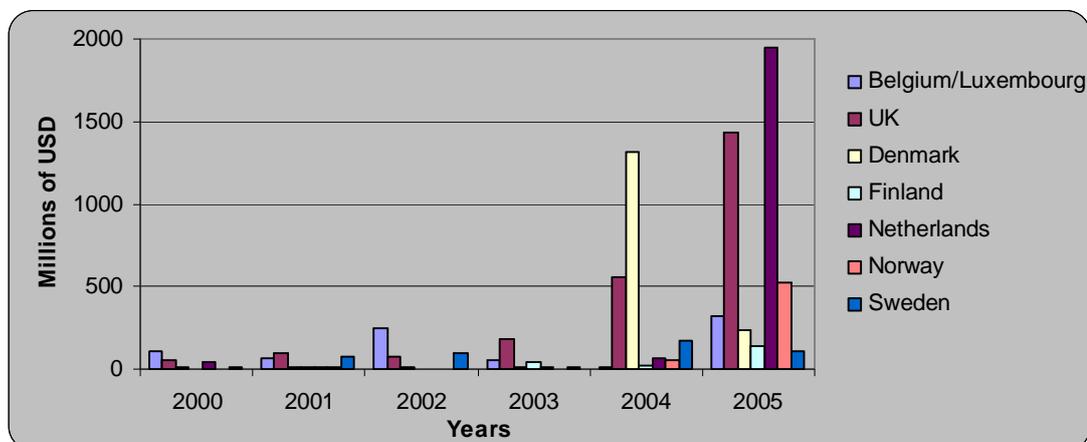
#### 4.2 FDI BY GEOGRAPHICAL DESTINATION

Most of the Icelandic FDI has been in Europe. The increase in FDI in recent years has mainly been due to increased investments in Europe, although investments in America also increased considerably in 2005 (see figure 8).



**Figure 8:** FDI stock from Iceland by continents.  
**Source:** Central Bank of Iceland, 2006.

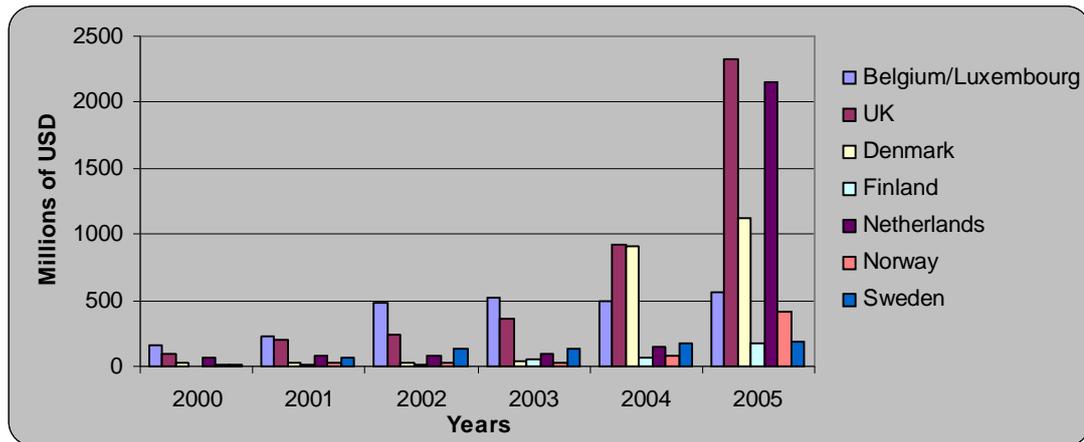
The countries in Europe in which Icelandic companies are investing vary from year to year. Figure 9 shows outflow of FDI to selected European countries from 2000 until 2005.



**Figure 9.** Outflow from Iceland to selected European countries.  
**Source.** Central Bank of Iceland, 2006.

In 2004 large direct investments were made from Iceland to Denmark. That year Kaupthing Bank executed one of the biggest acquisitions in Icelandic history when it acquired all shares in Danish FIH Erhvervsbank A/S. Total consideration was EUR 980 million, which doubled the size of Kaupthing Bank. In 2005 there were extensive direct investments from Iceland to the Netherlands and UK. Among big investments by Icelandic companies in the Netherlands that year was Samskip's largest acquisition ever, when the company acquired Dutch short sea shipping operator Geest North Sea Line BV. The acquisition doubled the gross turnover of the company. Several major investments were carried out in the UK by Icelandic companies in 2005. Among them were Bakkavör's acquisition of a leading British fresh prepared food company, Geest PLC, for GBP 623 million. The acquisition placed Bakkavör Group in a leading position on the UK fresh prepared foods and produce markets. That year Baugur Group made its largest investment at that time when it acquired British retailer Big Food Group along with other investors. Total consideration was GBP 670 million (Iceland Chamber of Commerce, 2007).

Figure 10 demonstrates the significant increase in FDI stock in the UK and the Netherlands in recent years, as well as a considerable increase in Denmark. Icelandic companies have been taking on significant investments in those countries in the past few years, mainly through acquisitions.



**Figure 10.** Stock in selected European countries.

**Source.** Central Bank of Iceland, 2006.

As demonstrated, the FDI outflow from Iceland was significant in 2004 and especially in 2005, both compared to previous years and compared to other economies. The main explanation is the increased internationalization of Icelandic companies, which have been growing very fast in recent years.

#### 4.3 ICELANDIC COMPANIES ACTIVE IN FOREIGN INVESTMENTS

Even though the expansion has taken place across many sectors, a relatively large proportion of Iceland's foreign investments can be attributed to several key players, as mentioned before. In the past few years, Icelandic companies have grown and strengthened their international presence to a great extent. Some of them have grown to become among the international leaders in their fields. They have mainly been growing through acquisitions of foreign companies, which largely explains the great increase in FDI from Iceland in recent years.

In this section the focus will be on 14 Icelandic companies that have been most active in foreign investments in recent years. The companies were chosen for the extent of their investments abroad. In table 3 some of the major foreign investments the companies have

undertaken in the period from 2001 to 2006 are shown. When possible, the amount of the transaction is given, and generally denominated in the local currency of the country where the investment took place. Following table 3, there is a brief introduction for each of the 14 companies.

**Table 3.** Foreign investments of some Icelandic companies that have invested actively in foreign markets in recent years.

<b>Year</b>	<b>Company</b>	<b>Investment</b>
<b>2001</b>		
	Actavis Group	Acquisition of Pharmamed, Malta, for USD 10.5 million.
	Bakkavör Group	Acquisition of Katsouris Fresh Foods Ltd., UK, for GBP 102 million.
	Baugur Group	Purchase of a 20.1% share in Arcadia, UK, for GBP 65 million.
	Baugur Group	Acquisition (along with other investors) of the US grocery retailer Bill's Dollar Stores for USD 60 million.
	Kaupthing Bank	Acquisition of Sofi Financial Service Group, Finland. The consideration consists of 164 million shares in Kaupthing, with additional 60 million shares payable over three years subject to performance.
	Marel	Carnitech A/S, subsidiary of Marel, acquires OL-Tool Production Aps, Denmark, for EUR 1.5 million.
	Marel	Carnitech A/S, subsidiary of Marel, acquires Danish CP Food Machinery A/S for DKK 29.5 million.
<b>2002</b>		
	Actavis Group	Purchase of a 69% share in Zdravlje, Serbia, with an obligation to buy an additional 15% share in the next three years. Actavis pays EUR 5.5 million for the 84% stake.
	Icelandic Group	Acquisition of a 100% share in Fisher Foods, UK, for GBP 5.5 million.
	Kaupthing Bank	Acquisition of a 96.87% of shares in Aragon Holding AB, Sweden, for a consideration of 179.7 million Kaupthing shares.
	Kaupthing Bank	Acquisition of the Swedish bank JP Nordiska.
	Landsbanki	Purchase of the remaining 30% shares in the Heritable Bank, London, completing the acquisition that begun in 2000. Total consideration GBP 25.9 million.

Year	Company	Investment
<b>2003</b>		
	Actavis Group	Acquisition of a 89% stake in Fako for USD 63 million. The remaining 11% acquired in 2006 to complete the purchase.
	Baugur Group	Acquisition of a 60% stake in Oasis Stores, UK, for GBP 157 million.
	Icelandic Group	Acquisition of a 100% share in Neptune Fisheries, USA, for USD 3.5 million.
	Icelandic Group	Acquisition of a 100% share in Ocean, USA, for an undisclosed price.
	Icelandic Group	Acquisition of a 100% share in French Barogel for EUR 2.2 million.
	Kaupthing Bank	Acquisition of a 30.35% share in Norvestia Oyj, Finland. The transaction is financed with the issue of 33.2 million new shares valued at approximately EUR 70 million.
	Landsbanki	Acquisition of Bunadarbanki International SA in Luxembourg. Total consideration EUR 15.3 million.
	Samskip	Acquisition of a 80% shares in Van Dieren Maritime BV, Netherlands. Financial details not disclosed.
	Össur	Acquisition of Linea Ortopedics AB, Sweden, for USD 0.7 million.
	Össur	Acquisition of a 100% shares in Generation II Group Inc, USA, for USD 31 million.
<b>2004</b>		
	Actavis Group	Acquisition of Biovena, Poland. Financial details not disclosed.
	Atorka Group	Acquisition of an 18,1% stake in Low & Bonar.
	Atorka Group	Acquisition of an 9% share in NWF Group, UK. In the following 2 years the stake was increased to 20%.
	Baugur Group	Acquisition (along with other investors) of a 55% share in Goldsmiths, UK, for an undisclosed sum. The market value of the shares was GBP 60 million.
	Baugur Group	Oasis Stores, in which Baugur Group owns a majority stake, acquires Karen Millen, UK, for GBP 120 million.
	Baugur Group	Acquisition of a 42% share in Magasin du Nord, Denmark, for an estimated consideration of DKK 550 million. Other Icelandic investors bought the remaining shares.
	Glitnir	Acquisition of the Norwegian KredittBanken AS for NOK 350 million.
	Glitnir	Acquisition of the Norwegian bank BNbank for NOK 3.3 billion.
	HF Eimskipafélag Íslands	Acquisition of Shannon MRO, Ireland. Financial details not disclosed.
	HF Eimskipafélag Íslands	Acquisition of a 40.5% share in Excel Airways, UK, for GBP 29.9 million.
	HF Eimskipafélag Íslands	Acquisition of a majority stake in CTG AS, Norway. Financial details not disclosed.
	HF Eimskipafélag Íslands	Acquisition of a 100% equity stake in Faroese transport company Faroe Ship for an undisclosed sum.
	Icelandic Group	Acquisition of a 100% share in Cavaghan & Grey, UK, for GBP 12.6 million.
	Icelandic Group	Acquisition of a 100% share in France's Comigro Geneco for EUR 3 million.
	Icelandic Group	Acquisition of a 100% share in UK-based Seachill for GBP 38 million.
	Icelandic Group	Acquisition of a 25% share in Coldwater UK. Total consideration of GBP 6.2 million.
	Kaupthing Bank	Acquisition of all shares in Danish FIH Erhvervsbank A/S. Total consideration of EUR 980 million.
	Marel	Carnitech A/S, subsidiary of Marel, acquires a component of German company Röscherwerke GmbH. Financial details not disclosed.
	Straumur-Burdardas	Acquisition of a 10.3% share in Carnegie, Sweden. Total consideration SEK 600 million.

Year	Company	Investment
<b>2005</b>		
	Actavis Group	Acquisition of the Indian company Lotus Laboratories for EUR 20 million.
	Actavis Group	Acquisition of Amide Pharmaceutical Inc. with an initial gross consideration of USD 500 million in cash and an additional USD 100 million payable over two years subject to performance.
	Actavis Group	Acquisition of Higia AD, Bulgaria. Financial details not disclosed.
	Actavis Group	Acquisition of the human generics business of, Alpharma Inc. Total consideration of USD 810 million.
	Atorka Group	Promens, a subsidiary of Atorka Group, concludes an agreement with Low & Bonar PLC to purchase its plastic division, Bonar Plastics.
	Atorka Group	Acquisition of a 3.8% share in Romag Holding Pls, UK. In 2006 the company increases its share to 13%.
	Bakkavör Group	Acquisition of Geest PLC, UK, for GBP 623 million.
	Bakkavör Group	Acquisition of Hitchen Foods PLC, UK. Total consideration GBP 44 million.
	Baugur Group	Acquisition of a 43% share in Big Food Group, UK. Total consideration GBP 670 million.
	Baugur Group	Acquisition of a 40% share in Jane Norman, UK, for a total consideration of GBP 58.5 million.
	FL Group	Acquisition of a 16.9% share in British low-cost airline easyJet.
	FL Group	Acquisition of Sterling, Denmark, for a consideration of DKK 1.5 billion.
	Glitnir	Acquisition of FactoNor AS for a total consideration of NOK 52.8 million.
	Glitnir	Acquisition of the Norwegian brokerage firm Norse Securities.
	HF Eimskipafélag Íslands	Acquisition of The Really Great Holiday Company, UK, for an undisclosed sum.
	HF Eimskipafélag Íslands	Acquisition of a 19% share in Casino Express, US. Financial details are not disclosed.
	HF Eimskipafélag Íslands	Acquisition of a 70% stake in Technical & Logistics Services Ltd., UK, for an undisclosed sum.
	HF Eimskipafélag Íslands	Acquisition of a 40% share in Daalimpex Beheer B.V., Netherlands. Financial details not disclosed.
	HF Eimskipafélag Íslands	Acquisition of all outstanding shares in CTG.
	Icelandic Group	Acquisition of a 100% share in Ecomsa, Spain, for EUR 4.1 million.
	Icelandic Group	Acquisition of a 97% stake in Chinese Dalian Three Star for a consideration of USD 2.7 million.
	Icelandic Group	Acquisition of a 100% share in Pickenpack, Germany, for a consideration of EUR 68 million.
	Kaupthing Bank	Acquisition of Singer & Friedlander Group, UK, through a wholly owned subsidiary. Total consideration GBP 547 million.
	Landsbanki	Acquisition of Teather & Greenwood, UK, for a consideration of GBP 42.8 million.
	Landsbanki	Acquisition of a 81% share in Kepler Equities SA for a consideration of EUR 81.6 million.
	Landsbanki	Acquisition of a 50% share in Merrion Capital, Ireland, for a consideration of EUR 55.3 million.
	Marel	Carnitech A/S, subsidiary of Marel, acquires Dantech Food PTE, Songapore, for an undisclosed sum.
	Samskip	Acquisition of Geest North Sea Line BV, Netherlands, for an undisclosed sum.
	Samskip	Acquisition of roughly 30% share in Kloosterboer Group, Netherlands, for an undisclosed sum.
	Samskip	Acquisition of Seawheel, UK, for an undisclosed sum.
	Straumur-Burdaras	Acquisition of a 12.3% share in Scribona, Sweden, for SEK 96 million.
	Straumur-Burdaras	Shares in Intrum Justita, Sweden, are increased to 4.5% for an estimated consideration of SEK 160 million.
	Straumur-Burdaras	Shares in Finnair are increased to 10.7% for an estimated consideration of EUR 95 million.
	Össur	Acquisition of Advanced Prosthetics Components, Australia, for a consideration of USD 1.2 million.
	Össur	Acquisition of Innovatie Medical Products Holding Ltd., UK, for USD 18.5 million.
	Össur	Acquisition of all outstanding shares in Royce Medical Holding Inc, for USD 216 million.
	Össur	Acquisition of GBM Medical AB for USD 1.9 million.

Year	Company	Investment
<b>2006</b>		
	Actavis Group	Acquisition of Sindan for a total consideration of EUR 147.5 million.
	Actavis Group	Acquisition of a majority stake in ZiO Zdorovje, Russia, for EUR 47 million.
	Actavis Group	Acquisition of Abrika Pharmaceuticals Inc. for an initial purchase price of EUR 85 million.
	Atorka Group	Acquisition of 23% share in Interbulk Investment, Netherlands.
	Atorka Group	Promens, a subsidiary of Atorka Group, acquires Elkhart Plastics Inc.
	Atorka Group	Acquisition of about 14% shares in Amiad Filtration Systems Ltd.
	Atorka Group	Promens, a subsidiary of Atorka Group, acquires Polimoon ASA, Norway.
	Bakkavör Group	Acquisition of a 40% share in Creative Food, China, for an undisclosed sum.
	Bakkavör Group	Acquisition of New Prome bake, UK, for an undisclosed amount.
	Bakkavör Group	Acquisition of Laurens Patisseries, UK. Total consideration of GBP 130 million.
	Bakkavör Group	Acquisition of the remaining 50% of the issued share capital of Fresh Cook Limited. Consideration price is confidential.
	Bakkavör Group	Acquisition of Rye Valley Patisserie.
	Baugur Group and FL Group	The investment vehicle, Highland Acquisitions Limited, in which Baugur owns 35% stake and FL group owns 13.9% stake, acquires all shares in House of Fraser, UK. Total consideration GBP 351 million.
	FL Group	Acquisition of a 16.4% stake in Royal Unibrew A/S, Denmark, for a total consideration of DKK 540 million.
	FL Group	Acquisition of a 10.1% share in Bang & Olufsen, Denmark, for an estimated consideration of DKK 80 million.
	FL Group	Acquisition of a 10.3% share in Aktiv Kapital, Norway. Estimated consideration NOK 550 million.
	FL Group	Acquisition of a 49% share in Refresco Holding, Netherlands, for a total consideration of EUR 230 million.
	FL Group	Acquisition of a 5.1% stake in French Connection, UK, for an estimated consideration of GBP 10 million.
	FL Group	Acquisition of a 23% share in Finnair.
	FL Group	Acquisition of a 6% stake in AMR Corporation.
	Glitnir	Acquisition of a 50.1% share in UNION Group, Norway.
	Glitnir	Acquisition of Fischer Partners Fondkommission AB, Sweden. Total consideration is SEK 380 million.
	Glitnir	BNbank, Glitnir's subsidiary, acquires 45% of shares in NPØ, Norway.
	HF Eimskipafélag Íslands	Purchase of the entire issued share capital of Star Airlines, France. Financial details not disclosed.
	HF Eimskipafélag Íslands	Acquisition of a 55% share in Innovate Ltd., UK. Financial details not disclosed.
	HF Eimskipafélag Íslands	Acquisition of a 65% share in Containership Oy., Finland. Purchase price is confidential.
	HF Eimskipafélag Íslands	Acquisition of French Tracel Agency Vacances Heliades. Total consideration of EUR 7.7 million.
	HF Eimskipafélag Íslands	Acquisition of Kursiu Linija, Lithuania, for EUR 8 million.
	HF Eimskipafélag Íslands	Acquisition of Paciic Tramper Services Inc., US, for an undisclosed sum.
	HF Eimskipafélag Íslands	Acquisition of all outstanding shares in Atlas Cold Storage Income Trust, ACIT, for a total consideration for CAD 630 million.
	Icelandic Group	Acquisition of a 100% share in Danish Saltur APS for EUR 12.3 million.
	Icelandic Group	Acquisition of a 100% share in French Wimille for EUR 17 million.
	Icelandic Group	Acquisition of a 51% share in Fish Farm, China, for an undisclosed sum.
	Landsbanki	Acquisition of Guernsey-bank for a consideration of GBP 1.2 million.
	Marel	Acquisition of UK-based AEW Thurne and Delford Sortaweigh for GBP 13.55 million.
	Marel	Acquisition of a 100% share in Scanvaeght A/S, Denmark, for a total consideration of EUR 109.2 million.
	Straumur-Burdaras	Acquisition of a 50% share in Stamford Partners, UK. Financial details not disclosed.
	Straumur-Burdaras	Acquisition of a 10.3% share in Pricer, Sweden, for an estimated consideration of SEK 89 million.
	Össur	Acquisition of Innovation Sports Inc., USA, for a total consideration of USD 38.5 million.
	Össur	Acquisition of Gibaud Group, France. Transaction valued at approximately USD 132 million.

**Source.** Iceland Chamber of Commerce, 2007.

**Actavis Group** (then Pharmaco) was founded in 1956. The company is one of the world's leading players in the development, manufacturing and sale of high-quality generic pharmaceuticals. In 1999 the company established an international presence when it acquired the Bulgarian pharmaceuticals manufacturer Balkanpharma along with Amber International Invest (Actavis Group, n.d.). Today Actavis Group is among the five largest companies in the field of high-quality generic pharmaceuticals, operating in about 40 countries. Actavis' growth strategy has been aggressive and fast and the company has been active in foreign investments in recent years.

**Atorka Group** is an investment company which invests in companies that show scope for growth and operational improvements. Atorka seeks out companies with strong management teams and strong cash flow, with an ambition to be the leading players in their field. Atorka provides them with the encouragement, advice and support that they need so they can become global leaders (Atorka Group, n.d.).

**Bakkavör Group** is a leading international food manufacturing company, specializing in fresh prepared foods and production. Two Icelandic brothers founded Bakkavör in 1986, when they were just 22 and 19 years old. Initially the company focused on supplying raw fish to retailers in Iceland but quickly moved into making processed consumer meals for European stores. Today, Bakkavör Group operates 46 factories in 7 countries. The company has grown rapidly in recent years and today is the largest provider of fresh prepared foods and produce in the UK (Bakkavör, n.d.).

**Baugur Group's** history can be traced back to the establishment of an Icelandic grocery retailer, Bónus, in 1989. In 2002 the company

went through organizational restructuring and since then, the company's operations have changed dramatically. Today, Baugur Group is an international investment company focusing on investments within the fields of retail, real estate and media. (Baugur Group, n.d.). The primary emphasis is on influential investments in the Danish and British retail markets, but the company has also been active on the real estate markets in those countries.

**FL Group's** roots go back to 1937 when the airline, Flugfélag Akureyrar, was founded. Until 2005 the focus of the company was in the aviation and tourism industry. In 2005 there was a strategic shift within the company, when it started to focus on investment operations (Iceland Chamber of Commerce, 2007). Today, FL Group is an international investment company, focusing its activities on two area of investments; on one hand private equity and strategic investments and on the other hand capital market activities, short term trading as well as derivative and security trading. The company is most active in investments outside of Iceland, focusing primarily on the Nordic countries and the UK (FL Group, n.d.).

**Glitnir** (then Íslandsbanki-FBA) was formed in May 2000, with the merger of two banks, Íslandsbanki and FBA – The Icelandic Investment Bank. The merger created what was at that time the largest financial group in Iceland and the largest company listed on the Icelandic Stock Exchange. Extensive changes have taken place in the bank's operations in recent years. It has evolved from being an Icelandic bank into an international financial company operating in eight countries, defining Iceland and Norway as its domestic market (Glitnir, n.d.).

**HF Eimskipafélag Íslands** was originally established in 1914 as the first Icelandic shipping company. For decades the company was one of the most important companies in Iceland, both as a shipping company and also as an investor with a heavy presence in other sectors, such as airline and fishing industries (Iceland Chamber of Commerce, 2007). Today, HF Eimskipafélag Íslands, consists of two business divisions; on one hand the aviation services and on the other hand the shipping and logistics divisions. Through the years the company has evolved from being a shipping line in Iceland to a total transportation and logistics company (Eimskip, n.d.).

**Icelandic Group** (then Icelandic Freezing Plants Corporation) was founded in 1942 with the aim to develop and sell marine products manufactured in the freezing plants of its members. In recent years there has been a shift of focus within the company as it has turned its sights to the market for fresh and chilled seafood. The Group constitutes an international network of independent companies, each operating in its own market area in the production and sale of seafood products (Icelandic Group, n.d.). The main purpose of the company's foreign investments is to capitalize on opportunities for synergies and to advance on respective markets (Iceland Chamber of Commerce, 2007).

**Kaupthing Bank hf.**, was founded in 1982 at the dawn of the free capital market in Iceland. It was originally established as a small agency for financial advisory and security brokerage. The bank was the first Icelandic financial institution to launch a company abroad, which was in Luxembourg. Today, Kaupthing Bank is the largest company in Iceland and among the eight largest banks in the Nordic region. The bank is defined as a northern European bank and it operates in ten countries. In recent years Kaupthing has been strengthening its international

operations through acquisitions and the establishment of subsidiaries (Kaupthing Bank, n.d.).

**Landsbanki**, Iceland's oldest full-service commercial bank, opened for business in 1886. Following its privatization process from government ownership in 1998-2003, Landsbanki has expanded rapidly. Building on its strong foundation in Iceland, the bank extended its services into new markets when it acquired the London-based Heritable Bank in 2000. Today Landsbanki and its subsidiaries have offices operating in all major financial centers of Europe, as well as North American representation in New York and Halifax (Landsbanki, n.d.).

**Marel** has a history that goes back to 1977 when two engineers at the University of Iceland began to examine the possibility of developing and manufacturing scales for the effective control of production in fish processing plants. The company was formally founded in 1983. Marel's activities were originally focused on the design and manufacturing of specialized scales and related monitoring equipment, but its R&D focus soon expanded into other areas. The company soon established itself as one of the leading developers and manufacturers of high-tech processing equipment for the food processing industry (Marel, n.d.).

**Ossur** was founded in 1971. In the beginning Ossur's primary operations were the design, manufacturing, sales and distribution of prosthetic products. In the past few years Ossur has evolved from being an ambitious prosthetics company to a major orthopedics business. The company has grown in recent years through successful acquisitions that have complemented the company's organic growth and widened its horizons. Today Ossur employs a staff of 1600 in 14 locations around the world (Ossur, n.d.).

**Samskip** derives from the Federation of Co-operatives, Samband, which started a shipping company, Samband Line, in 1943. Samband Line was a division of Samband, but it was converted to a limited company in 1991 called Samskip hf. After a successful restructuring of the company in 1993, Samskip has experienced constant growth, both internally and through acquisitions. The company has opened over 50 overseas offices and broadened its service portfolio to become an international transport company. Today, Samskip is one of the largest container transport companies in Europe (Samskip, n.d.).

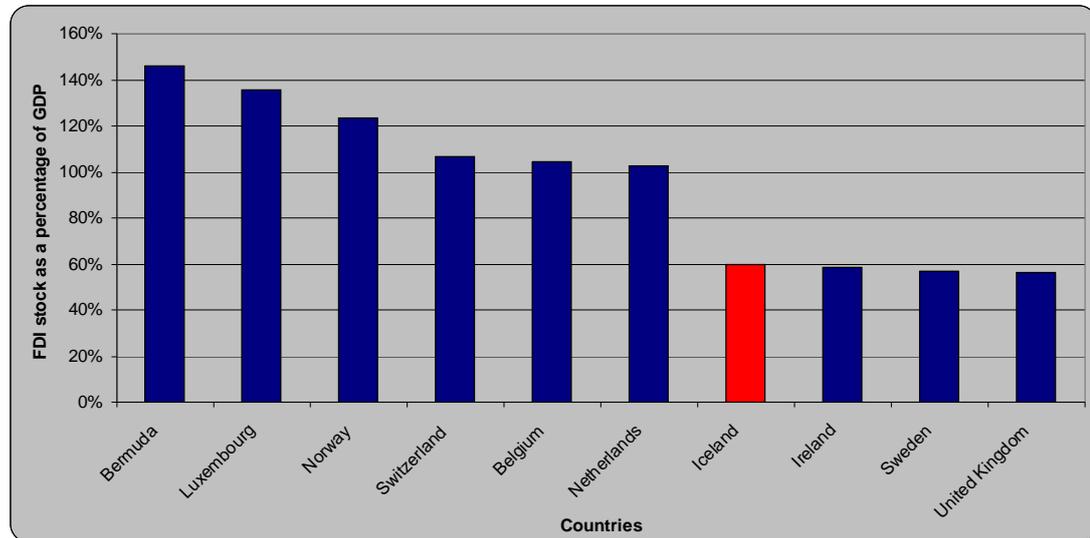
**Straumur-Burdaras** Investment Bank hf. was established in 2005 by the merger of Straumur, the first Icelandic equity fund, and Burdarás, the first Icelandic-owned shipping enterprise. Today, Straumur-Burdaras is the largest investment bank in Iceland. Straumur-Burdaras' strategy revolves around increasing its operational and geographical diversity. The bank's goal is to become a leading Nordic investment bank, offering integrated financial services to small and medium-sized companies in Northern Europe, with a particular focus on the Nordic countries and the UK. In order to achieve geographical diversity, the bank has focused on expanding its operations outside Iceland (Straumur-Burdaras, n.d.).

## **5 COMPARISON WITH OTHER COUNTRIES**

As previous chapters have shown, foreign investment from Iceland has grown extensively in past years, specially from 2004. To find out if this increase has been a trend around the world, a result of more open markets and increased internationalization around the world, it is interesting to compare data regarding investments from Iceland to investments from other countries. The focus of the comparison will be

on FDI and will encompass developed countries as defined by UNCTAD.

Figure 11 shows the 10 countries with the highest outward FDI stock as a percentage of GDP in 2005.

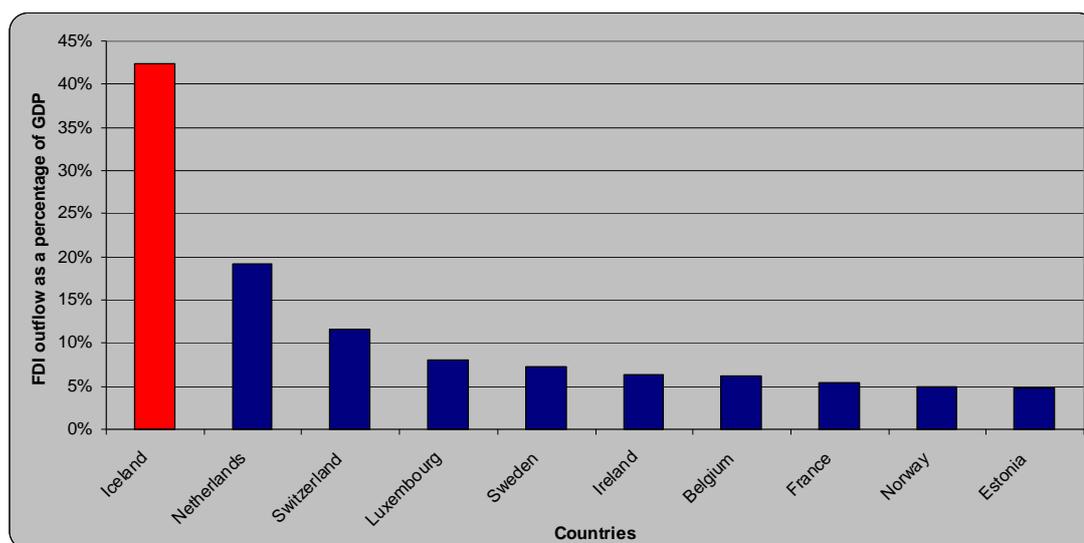


**Figure 11.** Developed countries with the highest outward FDI stock as a percentage of GDP in 2005.

**Source.** UNCTAD, n.d.

As seen in figure 11, Iceland ranked number 7 with an outward stock being 59.94% of GDP in 2005. That is a considerable increase when looking at how Iceland compared to other developed countries in the preceding years. In 2004 Iceland ranked number 16 regarding outward FDI stock as a percentage of GDP, in 2001 the country ranked number 21 and in 1998 Iceland ranked number 25. Iceland has therefore been improving its position in recent years regarding outward FDI stock as a percentage of GDP compared to other developed countries in the world.

Data regarding FDI outflow as a percentage of GDP reveal an even better comparative position for Iceland. Figure 12 shows the 10 countries with the highest FDI outflow as a percentage of GDP in 2005.



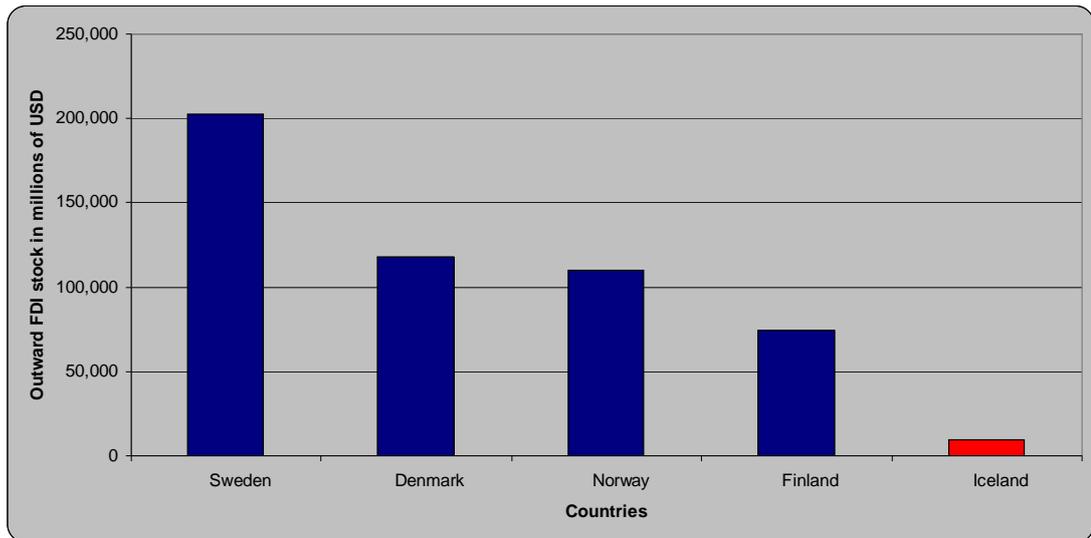
**Figure 12.** Developed countries with the highest FDI outflow as a percentage of GDP in 2005.

**Source.** UNCTAD, n.d.

FDI outflow from Iceland was 42.30% of GDP in 2005, which was considerably higher than from other developed countries. The Netherlands came second with 19.14% and Switzerland came third with 11.60%. Iceland also led the group in 2004, but had previously not been among the top countries regarding FDI outflow as a percentage of GDP. In 2001 the country ranked number 11 and in 1998 Iceland ranked number 21 of the developed countries.

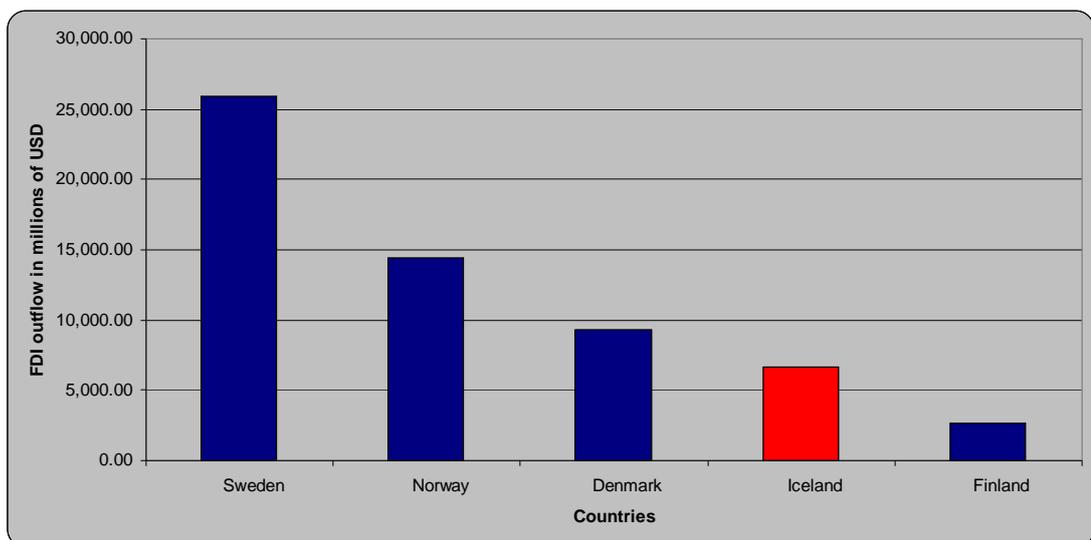
As has been shown, FDI from Iceland has been considerable in international comparison in recent years when measured as a percentage of GDP. But when looking at the size of FDI from Iceland in millions of USD, it is still relatively modest.

Outward FDI stock from Iceland in 2005 was only 0.10% of the outward FDI stock from developed countries and ranked number 24. As figure 13 shows, outward stock from Iceland was still considerably smaller in 2005 than from the other Nordic countries.



**Figure 13.** Outward FDI stock from the Nordic countries in 2005.  
**Source.** UNCTAD, n.d; Statistics Norway, personal communication, June 18, 2007.

The outflow of FDI from Iceland as a proportion of the outflow from all the developed countries in 2005, was considerably larger than the proportion of stock. The outflow from Iceland was 1.04% of the total outflow from the developed countries, which has to be considered relatively good, taking into account the small size of the economy.



**Figure 14.** FDI outflow from the Nordic countries in 2005.  
**Source.** UNCTAD, n.d.

Figure 14 compares the FDI outflow of the Nordic countries in 2005. Investments from Iceland were more than twice the investments from Finland that year, but outflow from the other Nordic countries was greater than from Iceland.

In international comparison, FDI from Iceland as a percentage of GDP ranks high, but the amount of FDI from Iceland is still relatively small. Nevertheless one has to bear in mind that the growth in foreign investment from Iceland since 2004 has been phenomenal, especially since the economy is the smallest within the OECD.

## **6 FINAL REMARKS**

The paper has given a broad overview of foreign investment from Iceland, mainly focusing on the period from 1998 to 2005. An insight has also been given into major investments by several key players in recent years.

The increase in foreign investment from Iceland has been significant in recent years, particularly since 2004. Even though data for 2006 are not available yet, all indications point to a continuing increase. Icelandic companies are constantly growing internationally through acquisitions and other investments abroad.

The paper is a part of the research program *Internationalization of Icelandic companies* established in October 2006 at the Institute of Business Research at the University of Iceland. The aim of the program is to describe the fast internationalization of Icelandic companies and analyze the reasons making it possible. The aim of this paper has been to give an overview of the growth in foreign investment from Iceland in recent years. An attempt has not been made to explain the reasons behind the growth. Nevertheless, the paper shows that further study of foreign

investments from Iceland is warranted. There is reason to analyze and interpret the data in future studies and to explain how and why the increase has been so significant in recent years.

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Foreign direct investment in Iceland and other countries reflects the foreign ownership of production facilities. To be classified as foreign direct investment, the share of the foreign ownership has to be equal to at least 10 percent of the value of the company. The investment could be in manufacturing, services, agriculture, or other sectors. It could have originated as green field investment (building something new), as acquisition (buying an existing company) or joint venture (partnership). You can visit the FDI section of our global economy guide for a discussion of the factors that drive Overview: Iceland has transformed from one of Europe's poorest countries at the start of the 20th century to a prosperous and modern economy. The principal drivers of growth came from successfully exploiting its marine and energy resources. Post WWII growth has been higher than in most other OECD countries but variations in fish catch and export prices caused significant volatility. Context of foreign investment in Iceland : the country's strength, market disadvantages, foreign direct investment (FDI) and figures (FDI influx, stocks, performance, potential, greenfield investments). The bilateral conventions signed by Iceland may be found on the investment policy hub website. Iceland's abundant geothermal and hydropower energy sources have attracted considerable foreign investment in the aluminium sector, boosting economic growth, and raised some interest from high-tech firms looking to establish data centres using cheap green energy. Due to the deep financial crisis that Iceland has faced, several investment projects have been put on hold, and FDI inflows have strongly decreased.